

4 Playing politics

Wednesday, 25 February 1998, dawned as a special day for Kim Dae-jung. During the morning he was formally sworn in as the eighth president of South Korea in an open-air ceremony in front of the National Assembly building at Yoido, Seoul, thereby achieving his life-time ambition. But, by the afternoon, he had already had his first taste of how troublesome that position might be, as the majority opposition party, the GNP, upset his plan to have his alliance partner Kim Jong-pil accepted as prime minister by boycotting the special National Assembly session called to approve the prime ministerial and cabinet appointments.

The two opposition parties, the GNP and the NPP, had allowed the economic reform law package, seen as essential for South Korea's economic survival, to go through the National Assembly the week before the inauguration, but they had also made it very clear that they were not going to be so easy-going in future. NCNP and ULD officials urged the GNP and NPP to return to the National Assembly, using the argument of the need for 'national solidarity' at a time of such economic difficulties and, indeed, proposing a 'year of cooperation' to ride out the economic turmoil; but the GNP, which instead argued for a 'fresh face' as prime minister trying to discomfort the coalition partners from the outset, held out. On 2 March, the GNP did return to the National Assembly, but the voting was disrupted as some members cast blank ballots while others revealed their ballots, prompting the ruling coalition to declare the voting invalid.¹ Losing patience, Kim Dae-jung decided to name Kim Jong-pil as acting prime minister the following day.

Cohabitation Korean-style

In fact, Kim Dae-jung found himself faced with real difficulties with this particularly Korean version of what the French call 'political cohabitation'. In the French context, the term 'cohabitation' is applied to the situation whereby the president and the prime minister come from different political parties. In post-war French history this has occurred only three times, in 1986–88 and 1993–95 when the long-serving socialist president François

Mitterrand had to appoint conservative prime ministers, because their parties had won control of the parliament through national elections, and since 1997, when the current conservative President Jacques Chirac has found the shoe on the other foot, having to deal with a socialist prime minister. Under the 1958 French constitution, France should conduct prime-ministerial government, but the constitution also allowed sufficient provisions for the first president under that new constitution, Charles de Gaulle, to establish certain patterns of intervention, followed more or less faithfully by his successors, such that in practice a division of political responsibilities occurs: the president has certain policy domains, such as foreign policy and national defence, 'reserved' for his/her control, while the prime minister nonetheless has considerable power as far as domestic policy-making is concerned. In practice, the three periods when cohabitation has occurred between political opponents have not been easy ones, though this was most clearly so in the 1986–88 period of Mitterrand and his opposition prime minister Chirac, who were both strong personalities and not above intervening in the other's domain of policy-making. Although the most recent cohabitation since 1997 has been relatively smooth by comparison, it is nonetheless true that cohabitation in France has been often marked by sharp president-versus-prime minister and/or parliamentary tensions and personality clashes.²

Although the South Korean constitution has been modified or amended nine times in the country's history, all the versions have shared at least one characteristic: they have given the South Korean prime minister far less policy-making power in reality than any French counterpart would normally expect. Apart from the brief period of 1960–61, the presidential system has prevailed and the history of South Korea since 1948 has shown that there has remained a very strong concentration of power in the president and his office. As Sung Chul Yang has argued, 'the institutional checks and balances based on the separation of powers do exist, on paper, but the political dynamics favouring the concentration of power in the executive branch, i.e., the president, have constantly overwhelmed the former'.³ Koreans often use the word *daekwon* – literally 'great power' – to describe the president and his office. The prime minister and the cabinet ministers seemed to exist only 'to amplify and clearly communicate presidential preferences to the bureaucracy'.⁴ Under the 1987 constitution, the president appoints the prime minister and the cabinet, but only the prime minister's appointment requires National Assembly approval. In general, the National Assembly's ability to constrain the president has been extremely limited both by design and by practice,⁵ even though, since democratization and the constitutional revisions of 1987, there has been a slight diminution of presidential powers. This has not meant any corresponding real increase in the decision-making powers of the prime minister, however, as Lee Hoi-chang had found out when he tangled with Kim Young-sam over this very point in 1994 (as discussed in Chapter 3).

Kim Dae-jung was to find himself faced with what perhaps can be described, in the Korean context, as a peculiar form of 'double cohabitation': with an unfriendly National Assembly dominated by the opposition parties and with a prime minister who, while nominally his political ally, was ultimately an incompatible one. First, his own party, the NCNP, was only the second largest party in the National Assembly. At the time that Kim took office, in February 1998, the NCNP had only 78 seats. Even after adding on the 43 seats of his coalition partner, the ULD, to make a combined total of 121, Kim still fell well short of a majority in the 299-seat National Assembly. Pushing policy measures through a hostile National Assembly was clearly not going to be easy. Second, he had to deal and cooperate with an ally and prime minister-designate, Kim Jong-pil, with whom he had had significant personal and policy differences in the past. A coalition government was anyway unprecedented in South Korean history; that it should be between two parties – or, more specifically, two leaders – between whom there had been little love lost in the past made things doubly difficult.

Creeping co-option

Under the Korean constitution, new elections for the National Assembly were not due until the spring of the year 2000, so Kim Dae-jung was faced with the prospect of over two years of parliamentary difficulties. Only once before in South Korean history had a president failed to control the National Assembly through his own ruling party. In April 1988, barely two months after Roh had become president, national elections produced an overall majority for the combined opposition parties.⁶ This defeat marked a major setback for the Roh administration, which subsequently laboured under significant difficulties in passing legislation and surviving opposition demands for investigations into irregularities in past administrations. Finally, in January 1990 Roh dramatically reversed the situation and reclaimed a parliamentary majority by persuading the two opposition party leaders Kim Young-sam and Kim Jong-pil and the majority of their elected national assemblymen to join with the DJP in forming an enlarged party, the DLP.⁷

Although some NCNP members believed, correctly as it ultimately turned out, that it might well be possible to tempt over the NPP to join the ruling coalition, that party's small size (only a dozen seats in the National Assembly) would not on its own have been sufficient to create a coalition majority. NCNP and ULD party managers, therefore, concluded that they had little alternative but to try to encourage defectors from the GNP and, by a slow process of attrition, work towards a parliamentary majority.

Party loyalty is not a well-established tradition in South Korea, where politicians tend to move around because of the attraction of certain personalities rather than policies or even principles, and where parties, or,

more specifically, party names, spring into life and then disappear regularly. Han Sung-joo has identified a number of reasons accounting for the weakness and lack of institutionalization of the party system in South Korea. At the risk of over-simplifying Han's detailed analysis, these reasons can be conflated into four key factors, several of which, paradoxically, can be traced back to some extent to pre-division Korean practices: the serious imbalance in power between the bureaucracy and political parties; the limited space available for ideological differentiation; the purges of individual leaders and parties following the frequent changes of regimes and constitutions; and the highly personal and factional nature of politics.⁸ The practice of bureaucratic supremacy, which had become well-developed in traditional and colonized Korea, carried over into the post-division leaders' preference for relying on the bureaucrats (including the military) rather than the more skittish parties. The confrontation with North Korea has undoubtedly provided an ideological straitjacket which allowed political parties little room for policy differentiation, but the preoccupation with ideological orthodoxy also harks back to much earlier Confucian traditions. The many changes in South Korea's constitutions and regimes, after which the new leaders invariably proclaim 'new eras' and purge and emasculate those parties perceived as being in the new opposition, has resulted in little sense of party loyalty amongst either politicians or the public. Factional and personal ties, whether from regional background, school or university association, military graduation class or a shared past experience, are as important a factor in politics as they are in Korean society in general – and the tendency to form factions can be dated back centuries in origin.⁹

The result is that the Korean party system has an unstable and fragile nature and, to use the words of another analyst, Lee Manwoo, the parties 'resemble private organisations ... [for] they are created and dissolved too easily'.¹⁰ Kim Dae-jung himself has been a member of nine different political parties during his political career, almost all of which have been set up and named by him personally. Many of his current supporters have faithfully followed him from party to party, feeling that their political careers are closely tied to the fate of this particular 'political godfather'. Other current supporters, however, appear to be more opportunistic, switching from party to party depending on their assessment of the power potentialities of certain leaders. In this respect, the South Korean factional system has differed from the Japanese political faction system, where at least until the early 1990s it was comparatively unusual for politicians to switch allegiances.

One constant characteristic of the presidential-dominant political party system in South Korea, however, has been a 'proclivity of the politicians to gather around two major parties – one for and the other against the government'.¹¹ This characteristic had certainly been less pronounced during the years after 1987, when new political parties proliferated under

democratization and the increasingly open rivalry between the 'three Kims', creating three, sometimes four, major parties for periods of time. A form of 'presidentialism with a multiple-party system' was created.¹² The period 1990–92, after the creation of the mega-DLP, however, had seemed to be a reversion, albeit brief, back to the earlier two-party dominant pattern. As the events of 1998–99 were to show, when the NPP disappeared and the NCNP and ULD discussed a possible merger, this tendency to revert to a two-party system always seemed potentially inherent during the Kim Dae-jung presidency too, and it was to find more concrete expression with the April 2000 general election.

As Kim's aides tried to lure defectors in the spring and summer of 1998, since the political survival of the GNP was at stake, that party's leadership worked hard to resist the NCNP–ULD blandishments, but the attraction of office, the factional structure of the GNP (reflecting its complex heritage dating back to the DLP of the 1990s and even the DJP of the 1980s), and the lack of a strong party leader hampered their blocking efforts. Cho Soon was re-elected party chairman in April 1998 but he was forced to appoint five vice-presidents who represented the major factions within the party. Later the same month, five GNP national assemblymen defected to the NCNP and another two to the ULD. Party lines generally stayed fairly steady, but as local elections, due to be held in early June 1998, approached, Kim Dae-jung stated more bluntly than at any time previously that he intended to break up the GNP because of its failure to cooperate with his reforms. The results from the June local, mayoral and provincial governorship elections split along fairly predictable regional political lines, but the strongest showing went to the NCNP–ULD coalition.¹³ However, the tables were turned in late July when seven National Assembly by-elections resulted in four victories for the GNP, including one by party president Cho.

This comparative success seems to have encouraged the GNP at least to go back into discussions over normalizing the National Assembly's operations, but further confrontation broke out between the ruling and opposition parties after the ULD's candidate, Park Jyun-kyu, was elected Speaker by a narrow margin. The GNP leaders suspected that some of their members had voted for Park out of fear that their own activities were going to be investigated by government prosecutors. Finally, on 17 August, nearly six months after he was designated to take up the position, Kim Jong-pil was confirmed as prime minister.¹⁴ Before the end of that month, the splinter party, the NPP, which had already broken ranks with the GNP over the prime ministerial vote by giving its support to Kim Jong-pil, had formally been absorbed into the NCNP.¹⁵ The GNP leaders proved unable to halt the flow and more than a dozen members defected over the next couple of weeks. By mid-September 1998, therefore, the two Kims had secured a parliamentary majority with the NCNP and ULD holding respectively 103 and 52 seats, while the GNP had only 138. Cho resigned

as GNP party president to be replaced by the defeated presidential candidate Lee Hoi-chang.¹⁶

With a majority in place at last, Kim Dae-jung had overcome one of his cohabitation problems and he looked forward to being able to introduce various items of legislation either blocked or put on the back-burner during the previous half year.

Politics of revenge

In his inauguration speech, Kim Dae-jung pledged that he would not seek 'political retaliation of any kind' nor would he allow discrimination against or preferential treatment for any region or province.¹⁷ Kim's officials pointed to his action in asking the outgoing President Kim to pardon the two former presidents, Chun and Roh, as evidence of this new spirit of tolerance and reconciliation. However, in practice, after becoming president he found it difficult to resist the temptation to undertake some settling of scores, especially when so many of his supporters were evidently keen to re-balance what they saw as the pervasive inequities of past decades.

The new administration's approach centred on two aspects: one, the steady introduction of and promotion of officials within the government and other leading organizations who were either associated with Kim in the past or who had been born in Cholla province, and, the other, the holding of parliamentary hearings to establish why and how the financial crisis had occurred in 1997.

The first cabinet of Kim's administration, which was finalized in early March 1998, showed the difficulty that he faced in making a complete break from traditional presidential reliance on associates and appointing the truly 'non-partisan cabinet' that he had called for during his presidential election campaign. Twelve out of the seventeen cabinet posts went to politicians from either the NCNP or the ULD. Most of the economic posts went either to the ULD or to people who had been born in the two Chungchong provinces, Kim Jong-pil's home patch. However, posts connected with security and law enforcement matters went to Kim Dae-jung supporters, with Lee Jong-chan, who had headed Kim Dae-jung's transition team, becoming head of the ANSP, and a Cholla-born former general who had turned into a NCNP politician becoming defence minister. Only one minister, Labour Minister Lee Ki-ho, possibly because he was Cholla-born, survived from the outgoing Kim Young-sam administration. In fact, in terms of regional balance, out of the seventeen cabinet members five came from Cholla, five from Kyongsang and five from Chungchong, almost certainly the first time in South Korean political history that such a balance had been achieved. In addition, the new NCNP ministers tended to be comparatively new recruits to the NCNP (from very varied backgrounds) rather than Kim Dae-jung's long-time loyalists, who,

wanting to avoid providing too much ammunition for opposition taunts of nepotism, mainly stayed out of formal office. Nonetheless, whether in or outside formal office, 'new' faces were coming into the policy-making elite with different, more liberal, ideas than many of the 'old' officials who had been re-cycled under successive governments since the early 1980s.

In that context, the most controversial choice was that of former bureaucrat Lee Kyu-sang as Minister of Finance and Economy, for he was widely blamed for creating financial problems for the Roh administration back in 1989 when he had previously been finance minister. Kim Dae-jung, however, probably expected to balance Lee's rather conservative approach to economic policy-making with the more liberal and reformist ideas emanating from Kim Tae-dong, who was appointed as senior economic adviser in the Blue House, and former North Cholla provincial governor You Jong-kuen, who became the president's special adviser.¹⁸

Subsequent months were to see inevitably a slow and gradual process of promotion of lower-level officials with a Cholla province background, but, despite criticisms from the opposition parties, in reality this process was no worse than that carried out by previous administrations on the basis of regional loyalties. Aware that they could be accused of acting as nothing better than 'the kettle calling the pot black', the opposition tended to ease off on their criticisms as the months passed by. However, as will be discussed in more detail in Chapter 5, by late 1998–early 1999 the opposition was returning to the attack on the issue of favouritism, but on a different tack: namely, that in its restructuring demands the government was unfairly penalizing those chaebols whose owners came from Kyongsang province.

Far more conflictual than the regional favouritism issue was the problem of investigating the causes of the 1997 financial crisis. The opposition took a much stronger line on the NCNP–ULD plans to hold hearings, for these raised sensitive issues about whether to call to account not just former officials but even former President Kim Young-sam and whether, if negligence and policy mistakes were to be discovered, any form of punishment should be enacted. Former President Chun had been called before the National Assembly for a hearing in 1988 during his successor Roh's time and he was later prosecuted in 1995. Roh himself had avoided any hearings but was similarly charged in 1995. The GNP strongly resisted any idea that Kim Young-sam personally should be similarly called to account. The Chun and Roh investigations had dealt with legal and constitutional issues revolving around the abuse of power and the failure to uphold the law, but these new hearings were breaking new ground in extending investigations to the policy-making process and the effects of policy decisions.¹⁹

Months of bickering between ruling and opposition parties continued over the format and competence of the proposed parliamentary hearings until finally, on 10 November, Kim Dae-jung met formally for the first time with new GNP head, Lee Hoi-chang, and agreement was reached to

open the hearings in early December 1998. However, the GNP subsequently refused to participate and labelled the hearings a partisan show. Kim Young-sam himself called them a 'witch-hunt'.²⁰ The hearings, which continued until early February 1999, produced some revelations but fell far short of uncovering all the details of the financial crisis, no doubt because some important decision-makers, including former president Kim, refused either to appear or to answer written questions. Kim Young-sam went off hiking in the hills around Seoul on the day that he was due to appear before the hearing. Former Deputy Prime Minister for the Economy Kang and former Senior Presidential Secretary for Economic Affairs Kim seemed to bear the brunt of the parliamentary committee's attacks; indeed, both had actually been arrested earlier in 1998 on charges of neglect and abuse of power. Kang admitted his economic team lacked international financial expertise and were slow to detect signs of an impending crisis in early 1997, but refused to take all the blame, arguing that 'I went into a house on fire as a firefighter, but when I came out I was accused of being an arsonist.'²¹ Although the hearings meandered to a rather inconclusive end, of more immediate significance was the discovery, during the course of the committee's investigations, that the heads of two chaebols, Hanbo and Kia, had made large illegal donations to politicians. Hanbo's founder, Chung Tae-soo, was forced to admit that he had given 15 billion won to help finance Kim Young-sam's 1992 presidential campaign.²²

Administrative reform

Kim Dae-jung and his advisers had been quick to point to the administrative failures of the outgoing Kim Young-sam government as part of the reasons for the economic crisis and to argue for the reform of government. In a narrow sense, this meant reform of the administrative system and practices, but in a broader sense it denoted a reform of the whole political structure (this involved the thorny issue of constitutional change to a parliamentary system, to be discussed later). Regarding the first issue, Kim came into office committed to undertaking 'changes in the administrative environment toward increased openness, diversification, decentralization, and independence'.²³ In practice, this meant trying to create a 'small but efficient government' in terms of both budget and personnel, and trying to break the past collusive links between politicians, bureaucracy and the chaebols.

The first step was to cut down the number of cabinet posts from 21 to 17 by merging several ministries and abolishing the two deputy prime ministerships. A presidential commission on planning and budgets was set up directly under Kim Dae-jung to oversee further reforms. Steps were made to rationalize – that meant reduce by round about 10 per cent – the numbers of civil servants and those people occupying positions in

semi-governmental organizations, public corporations and advisory panels. Some efforts were also made to shake up local government, with a view to delegating more responsibilities from the centre to them. Kim did not have everything his own way, however, as vested interests struggled hard against some of his proposed reforms. He had hoped to create a new Office of Planning and Budget, rather similar to a body which exists in the US government, but Finance Ministry officials and the GNP, still with a parliamentary majority, objected. There was also a tug of war between the NCNP, which naturally wanted to enhance the powers of the president's office, and the ULD, which saw the reform of budget planning as a means to enhance the powers of the prime ministership. As a result this new office was effectively divided in two, with the planning side reporting direct to the president and other functions reporting through the MOFE minister to the prime minister.²⁴

Institutional resistance and the need for Kim Dae-jung to focus on even more troublesome aspects of economic restructuring inevitably meant that after the first two waves of administrative reform measures in 1998, the issue tended to be put on the back-burner. In part, the fact that it remained there was to be a by-product of the various scandals that the Kim administration was to find itself involved in during 1999, as will be discussed below. During 1999, therefore, political reform continued to be a theme which held some resonance with the public, but which in reality did not go much beyond the confines of politicians' speeches – words not actions.

Coping with Kim Jong-pil

The difference of views between the two coalition partners over the proposed Office of Planning and Budget was only the tip of the iceberg as regards the tensions between the two Kims. Kim Dae-jung had had little option but to honour the first part of his political deal with Kim Jong-pil, to install him as prime minister immediately upon his own inauguration, although that plan was frustrated at the very beginning by the GNP's intransigence. But, being an astute and ambitious politician, Kim Dae-jung has preferred to go slowly on the second part of the deal – revising the constitution. Having spent so long fighting to become president, he was naturally unwilling to sign away his powers too quickly. The pace at which constitutional reform should be introduced was set to become one of the points of contention between the two leaders. Although they had seen eye to eye on the interregnum-period measures to secure a way out of the economic crisis, there were at least two other policy areas where disagreements were likely to occur once they had both settled into their posts: how to lessen the pain of the economic reforms as unemployment and popular opposition rose, and what policy to adopt towards North Korea. These latter two aspects will be discussed in more detail in Chapters 5 and 6 respectively.

However, in practice it has been the issue of political reform – of which constitutional reform is the key component – which has most bedevilled personal relations between the two Kims in the ruling coalition and also inter-party relations throughout Kim Dae-jung's period in office. Throughout 1998 and 1999, until Kim Jong-pil finally became completely exasperated and walked away, Kim Dae-jung walked a difficult line of trying to appear to be endorsing his alliance partner's political programme, while at the same time stalling on handing over any substantive power to him.

Constitutional revision in order to introduce some form of parliamentary cabinet system is an old chestnut in South Korean politics, as invariably in the past opposition politicians have seen it as a means of trimming down authoritarian presidential power. South Korea had had only one brief and unsuccessful experience with a prime ministerial-dominant cabinet system, back in 1960–61. Chun had briefly toyed with the idea of introducing the cabinet system as a way for him to stay in power after his seven years' presidential term expired, but the upheavals of 1987 aborted that plan.²⁵ The idea was revived again after the DLP was set up in 1990, for a move towards a cabinet system was one of the commitments contained in the so-called 'secret agreement' between Roh, Kim Young-sam and Kim Jong-pil that set up the party. The DLP leaders seemed to have had in mind a compromise format, largely based on the French dual executive model. But the idea did not develop very far, for although Kim Jong-pil continued to argue for its implementation, Kim Young-sam, no doubt because he began to realize that he would have a very real chance of winning presidential power – and strong presidential powers at that – as the new 'mega-party' DLP's candidate in the anticipated presidential elections two years later, began to go cool on the idea.²⁶

Although Kim Jong-pil continued to argue for the overhaul of the political system throughout the 1990s, Kim Young-sam showed little inclination to move in that direction after he became president. Some revisions to electoral laws were introduced prior to the 1996 National Assembly elections, but no movement was made on constitutional revision. That inaction, in part, accounted for Kim Jong-pil's decision to leave the ruling party in February 1995.²⁷ Kim Dae-jung had opposed the DLP's 1990 proposals because he saw it simply as a way for that party's leaders to maintain themselves in power – for a while he had instead argued for a constitutional revision to create a vice-president, who could take over some responsibilities from the president. However, as the 1997 election approached he was forced to confront the issue again, as it was to become the crux of the NCNP–ULD negotiations for an electoral alliance.

The November 1997 electoral pact between the NCNP and the ULD contained the provision that before the year 2000, when the next parliamentary elections were due, the constitution would be revised to create a more balanced system with greater power for the prime minister.²⁸ Until

August 1998, while Kim Jong-pil was only acting prime minister, there was little serious discussion of implementing this pledge. Even the ULD realized that revitalizing the economy had to have a far higher priority and that the peculiar constitutional position of Kim Jong-pil himself, as acting prime minister, precluded any progress. However, from the summer of 1998, as it became clearer from the trickle of defections that Kim Jong-pil would soon receive his official installation, the ULD representatives began to press harder for action from Kim Dae-jung and the NCNP.

As a gesture in the ULD's favour, after the prime minister's position was regularized constitutionally in August, the NCNP began preliminary discussions with both the ULD and the opposition GNP. Kim Dae-jung had called for concrete proposals on revising legislation on elections and political parties as well as on constitutional change before the end of 1998, but the three main parties seemed to become bogged down in technicalities. Clearly, part of the problem was that the NCNP and ULD could not agree on the exact form of cabinet system – a necessary precondition for a realistic dialogue with the GNP, which held a basically ambivalent attitude about such reform, although its party constitution clearly supported the presidential system. The GNP, naturally, suspected that these constitutional revisions might be designed to prolong its exclusion from power. Moreover, as Lee Hoi-chang consolidated his position as the party's leader from September 1998 – and therefore almost certainly its presidential candidate in the 2002 elections – he became less enamoured of the idea of reducing his potential future office's powers. In addition, a revision of the constitution requires at least two-thirds of the National Assembly members to vote in favour, a requirement which means that the opposition has to be brought on board. At the end of November 1998 the heads of the political reform committees of the three parties met, but they could only reach a general consensus on two points: reducing the overall number of national assemblymen from 299 to 250 and lowering the voting age from 20 to 19 years old.²⁹

The ULD, as the party with the greatest vested interest in constitutional change, continued to try to make the running and by early 1999 the party's draft was beginning to take shape.³⁰ It became clear that the ULD envisaged a German-style system of government, with the president playing a ceremonial role and the prime minister controlling the cabinet and policy-making. The president would be elected to a six-year term by the National Assembly. The electoral system for the National Assembly members would be slightly modified too, to allow one-third of them to be elected by proportional representation, but not with any change to the single-member constituency system for the other seats (this contrasted with the NCNP's initial position of multi-member constituencies and half of the seats elected by proportional representation).

The NCNP, however, continued to stall, arguing that it was necessary to

sort out the economy first before embarking on such politically sensitive measures. So little progress was made in intra-coalition talks during the early months of 1999, however, that ULD members decided to force the pace. They took advantage of the conclusion of an investigation into an opposition GNP assemblyman, Suh Sang-mok. After seven months of investigation, government prosecutors had asked that Suh be arrested on charges of using tax officials to raise funds illegally for Lee Hoi-chang's 1997 electoral campaign. Such action requires approval by the National Assembly itself, but when the crucial vote came in early April, the NCNP-ULD coalition failed to carry the day.³¹ The reason was that about twenty coalition members had crossed party lines; these were almost exclusively ULD members. While some may have felt sympathy with a former colleague from their time together in the DLP, most were believed to have been registering a 'protest vote' against the NCNP's foot-dragging on constitutional reform.

Intra-coalition relations then became even worse, as Kim Dae-jung reshuffled the NCNP leadership after this embarrassing parliamentary failure and the NCNP's new interim leader Kim Young-bae immediately upset the ULD by calling for a merger of the two parties. The ULD members, who saw this as means for the NCNP to absorb the smaller ULD and so obviate the need for any constitutional reform at all, reacted critically. So, on 9 April, Kim Dae-jung and Kim Jong-pil held an emergency meeting to sort out the problem.³² President Kim called on the two coalition parties to have 'self-control' and persuaded Prime Minister Kim that discussion of the constitutional change should be postponed until August 1999 at the earliest. NCNP leader Kim Young-bae apologized for his comment. However, neither his apology nor the hiatus on constitutional reform were satisfactory to the ULD, which continued to grumble about the NCNP behind the scenes.

ULD sensitivities were, indeed, further sharpened by comments made by one of Kim Dae-jung's political aides in late April, that a 'large-scale political realignment to break the political structure distrusted by the people for extreme regionalism and other outdated practices' was necessary.³³ He seemed to be hinting that, rather than merge with the ULD, the NCNP would do better to merge with 'reformist' elements within the GNP. Presidential spokesmen were quick to distance themselves from these comments, describing them as only a personal view, but the public airing of such views no doubt reflected a more intense discussion going on within the NCNP leadership about future policy options.

Scandals for another Kim

Despite having pushed the constitutional revision question on to the back-burner, at least temporarily, Kim Dae-jung found himself unable to relax domestically. Apart from the struggle with the chaebols and the unions, to

be discussed in Chapter 5, he began to find himself in a situation that was ominously reminiscent of Kim Young-sam's later years in office. A series of scandals and incidents began to undermine his popularity with the general public. Echoing the way in which Kim Young-sam, and indeed for that matter even Roh before him, had made much of their 'clean' image on entering office and had stressed their determination to get rid of corruption, so too had Kim Dae-jung. Like them, he had had the public on his side in this endeavour, and had achieved some early successes. But, just as their records had become tarnished by scandals involving political colleagues and even, in the case of Kim Young-sam, his own family (as discussed in Chapter 2), so too was Kim Dae-jung to find that reality interfered with the practice of his ideals.

By the end of his period in office, Kim Young-sam had apologized several times in public for policy and personal failures. Kim Dae-jung had seemed resistant to that kind of approach, but at the end of June 1999 he felt he had no alternative but to apologize publicly for the 'recent incidents' which had tarnished his and his government's reputation.³⁴ During the previous few months, he had indeed had to deal with a number of scandals.

First came a burglary at the home of You Jong-kuen, the Governor of North Cholla province and one of Kim Dae-jung's most trusted economic advisers, in May 1999. The burglar, who was caught by the police, reported that he had found \$100,000 in cash at You's house, an amount which raised questions about why a public official should find it necessary to have such large sums in his personal possession; the implication was that bribery was somehow involved.³⁵

Second came the 'boutique scandal', in which the wives of two ministers were alleged to have acquired expensive dresses in return for trying to influence a court case. The wife of the former Unification Minister Kang In-duck and the wife of the newly appointed Justice Minister and former Prosecutor-General Kim Tae-joung were said to have asked the wife of the Shindongah department store company chairman Choi Soon-young to pay for the dresses, worth millions of won, bought at a company boutique, in return for which they would lobby for Choi to be freed from the embezzlement charges he faced. The two ministerial wives denied the claims, saying it was Choi's wife who had approached them and that they had refused her attempted bribe. Investigations by presidential aides found no evidence of wrong-doing by the two ministerial wives, but public opinion was antagonized at the idea that ministerial wives could afford to go to such expensive shops at a time when the country was still suffering from the after-effects of the financial crisis and everyone else was being encouraged to practise frugality.³⁶

But worse was to come, as a senior prosecutor revealed that the government prosecutor's office had actually encouraged a labour union strike as a way to break the influence of radical unions. The plot had revolved

around forcing the state-run Korean mint to close down one of its minting plants in November 1998, leading to the mint unionists embarking on a strike which was technically illegal. However, before the police were brought in to break up the strike – and so provide a lesson for other unions in public enterprises not to resort to strike action – the strike fizzled out.³⁷ Although not personally implicated, Kim Tae-joung had been prosecutor-general at the time that this plot was laid, and this second count against him was enough to ensure his dismissal after barely two weeks in office. This case was particularly embarrassing to the Kim administration since Kim Dae-jung had always had good relations with the unions, and had indeed relied on their support in his election campaigns. Also, he had already been asking them to accept massive lay-offs and long-term wage freezes as part of the necessary economic restructuring.

Very soon after this, Kim lost another minister; his only female cabinet minister, Son Sook, one of Korea's most famous actresses and the recently appointed environment minister, was seen to be accepting large cash gifts. Accompanying President Kim Dae-jung on a visit to Russia, she gave a theatre performance in Moscow, after which she received on stage in full public view a gift envelope containing \$20,000 from a representative of the FKI. While it is not unusual for Korean actresses to receive such gifts after performances, the amount was considered to be unusually large and also inappropriate for a minister whose departmental responsibilities would involve her with FKI member companies; moreover, on her return to Seoul, Son did not declare the gift to the customs authorities.³⁸ Kim had little option but to dismiss her and replace her with another female minister.

Although Kim Dae-jung no doubt hoped that his public apology at the end of June would be sufficient to dampen controversy, he was to be allowed little respite. In mid-July Lim Chang-yuel, the former economic policy-maker who seems to have earned President Kim's respect for his efforts to deal with the IMF at the height of the financial crisis and had been rewarded by being elected as governor of Kyonggi-do on the NCNP ticket in the June 1999 local elections, was arrested on charges of taking \$83,000 in bribes from a former bank president who was desperate to prevent his bank collapsing back in the spring of 1998. When Lim admitted the charges and returned the money, he was given a light sentence of one year in jail. In fact, within three months he was out of jail and back in his post at the governor's office.³⁹

The opposition charged that the government prosecutors had been unfairly lenient with Lim and through the summer continued to harp on about the succession of scandals, until finally, in September, Kim Dae-jung agreed to set up special investigation panels into the two most serious cases: the 'boutique scandal' and the strike-breaking allegations.

However, the Kim administration found itself once again under fire for corrupt practices in October, when details began to emerge of a draft-dodging scandal, whereby military personnel accepted bribes to allow

young men to escape from having to undertake compulsory military training, usually through 'failing' medical examinations.⁴⁰ Then, in early November, allegations surfaced that the arrest of the president-publisher of the *Joong-ang Ilbo*, a major Seoul daily newspaper often critical of the Kim administration, on grounds of tax evasion was actually a means of harassing the media. Past Korean governments had indeed resorted to threatening to or actually carrying out tax audits on media businesses as a way of reining them in, though in this case the list of charges against the publisher was certainly extensive. The key point at issue, however, was a letter faxed by a senior *Joong-ang Ilbo* reporter living in Beijing to the office of Lee Jong-chan, vice-president of the NCNP and previously Kim Dae-jung's intelligence services head, which was said to set out a formula for controlling the press.⁴¹

While not one of this succession of scandals and controversies on its own was sufficient to bring down the Kim administration, they nonetheless had a significant impact on the political atmosphere.

First, they diminished Kim Dae-jung's stature as a 'clean' reformer. While neither he himself nor his family was implicated in any of the scandals, at the very least they called into question his judgement in appointing certain individuals to positions of responsibility and his lack of supervision in the implementation of his anti-corruption pledges. Second, they irritatingly distracted Kim from concentrating fully on what he saw as the key policy issues: economic recovery and the 'sunshine policy' towards North Korea (see Chapter 6). Third, they were used by the opposition as a means to hamper the ruling coalition's attempts to push through legislation, some of which were important bills aimed at reforming the financial industry and amending tax laws. The special National Assembly session held in early November 1999 was marred by political wrangling, even after the opposition GNP gave up its threatened boycott of the proceedings. Fourth, they upset two sectors that had proved politically useful to and supportive of Kim in the past: the union movement and the media. Finally, they increased public disillusionment with politicians in general: one public opinion poll in the autumn of 1999 showed that around half the people interviewed said that they would not vote for the incumbent, whichever party he or she represented.⁴²

Party manoeuvres

By the autumn of 1999 the parties were beginning to set their targets on the National Assembly elections due in April 2000. This added spice to the bickering amongst the political parties over the various scandals noted above but was also to have a particular impact on the interrelationship between the two constituent parties in the ruling coalition.

The ULD had been aggrieved at the agreement in April 1999 to put off constitutional revision and some members were even more incensed when,

yet again, later in the summer, the issue was shelved at the insistence of Kim Dae-jung and the NCNP. This, in effect, given the run-up to the April 2000 elections, meant that nothing would be undertaken until after those elections at the earliest.

Rumours about the possible merging of the two parties – the NCNP and the ULD – continued to circulate. This became too much for some more conservative members of the ULD, led by a former ULD vice-president Kim Yong-hwan, who began in early November to talk openly about creating a new party. Based on members with links to the geographical areas of central Chungchong and north Kyongsang provinces, his idea was to draw in some former supporters of ex-president Chun Doo Hwan; his platform was the early introduction of the parliamentary cabinet system and, unusually for a political culture dominated by strong personalities, a collective party leadership.⁴³ By early 2000 his group had become the New Korea Party for Hope (NKPH).

The possibilities of an open split within his own party were real enough for Kim Jong-pil, in mid-November, to indicate that he would resign as prime minister in order to return to running the ULD. He changed his mind several times about exactly when to take this action, but finally stepped down on 11 January 2000. His position as prime minister was taken over by his party colleague and ULD president Park Tae-joon. A former general turned industrialist (he had built up and headed the Pohang steel company for years) and politician, 72-year-old Park shared a conservative approach to politics with Kim Jong-pil.⁴⁴ Although Park's deep knowledge of the economy would be helpful to the ruling coalition government's policy-making, he looked set to be in reality a short-lived premier, keeping the seat warm until the April elections. Kim Jong-pil became the honorary president of the ULD. Kim Dae-jung carried out a limited cabinet reshuffle when he installed Park as prime minister, with the most significant move being to bring in the controversial reformist head of the FSC Lee Hun-jai as the new minister in charge of financial and economic policy.

However, the relationship between the two coalition parties remained unsettled. Aware of the mounting opposition within the ULD to being absorbed by the NCNP, both Park and Kim turned resolutely against the idea of the ULD's merger with the NCNP. Finally, therefore, on 24 January, soon after the change of prime minister, Kim Dae-jung went ahead with the revamping of the NCNP into the Millennium Democratic Party (MDP), with himself as the first party president.⁴⁵ Rhee In-je, the NPP's former presidential contender, was made head of the new party's campaign committee for the April National Assembly elections. The party's Korean name included the character for 'new' in front of millenium, but apart from the name, there appeared to be little that was really new about the MDP.

The relationship between the MDP and the ULD continued to deteriorate. In part, this was because the ULD had finally understood that there

was to be no constitutional revision in the near future. But the tensions were also aggravated by a radical approach taken by a coalition of civic groups and non-governmental organizations, known as the Citizens Alliance for the 2000 General Election (CAGE), which published a blacklist of 'unqualified' politicians in late January. This reflected a high degree of disillusionment amongst some activists that the rival parties had not carried out their promises to produce clean government and clean politicians. Freedom of information laws and increased access to data through the Internet allowed the activists to search out information on criminal, tax payment and military service records. A total of sixty-six serving politicians (later expanded to eighty-six) were named as being unfit to deserve re-election on grounds of being corrupt, incompetent, anti-reform, draft-dodgers, tax cheats or involved in past military coups. Although some MDP politicians were listed, proportionally the opposition GNP and the coalition partner the ULD suffered to a greater extent. The GNP leadership described the list as 'political terrorism', while Kim Jong-pil, who was one of those named because of his role in the 1961 military coup, angrily denounced what he saw as a 'political conspiracy' behind this movement.⁴⁶ Suspicions certainly were aroused that this citizens' movement had at least the implicit support of Kim Dae-jung and they certainly were able to obtain personal data on candidates that had never been made public on previous occasions. Lawsuits were threatened, but, even though some of the claims remained unsubstantiated, the blacklist tactic received overwhelming public support. A few of those named dropped out, others offered apologies and, in the end, the political parties had little alternative but to promise to consider carefully these lists when selecting candidates for the April elections.

National Assembly elections

Politically, the first months of the year 2000 were undoubtedly dominated by the pending election, required constitutionally to be held before the end of April. Domestic concerns predominated in the campaigning, which began in practice long before the official start. Two issues were the main focus: the economy and political corruption. The MDP clearly expected the first issue to work in its favour, by capitalizing on the resurgence in the economy and the increasingly favourable figures about economic growth, foreign currency reserves, trade balances, etc. which were published during the early months of the year. However, Kim's continuing problems with the chaebols, the financial sector, the labour unions and the income gap raised doubts as to how far he had been successful in fundamentally changing the country's economic structure. The second issue was clearly going to be more damaging to the MDP's chances. For, despite Kim Dae-jung's claims to have started a new clean era, his opponents were eager to point to the fact that the succession of scandals during 1999 did not gel with that

image. They argued that his behaviour – and that of his ruling party – was in fact little different from that of past authoritarian leaders.

As the election date, 13 April, approached the rival parties engaged in the usual rounds of mud-slinging and negative campaigning common to elections in the past. The MDP naturally criticized the GNP for its role in the financial crisis, accusing it of being ‘the party which ruined the nation’.⁴⁷ The GNP responded by playing the nationalist card, calling the MDP ‘the party which sold the nation to foreign investors’ (the planned deal to sell off the huge chaebol, Daewoo, discussed in Chapter 5, was frequently mentioned as an example) and claiming that the cost of the apparent economic recovery was in fact being paid for by a massive increase in the national debt. MDP politicians again brought up the issue of GNP leader Lee’s sons and their alleged military draft-dodging (this issue had first surfaced during the 1997 presidential campaign, as discussed in Chapter 3), and argued that, of all the politicians named on the civic groups’ lists of politicians unfit to stand for office for failing to undertake the legally required military service, by far the largest number were from the GNP. The GNP retorted by accusing Kim Dae-jung of illegally using government funds to support MDP newspaper advertisements.

While the two main parties engaged in outright attacks on each other, the ULD was in a more ambiguous position. The ULD clearly wanted to win sufficient seats to enable it not only to survive but also to exercise a decisive role in forming the next government should the MDP fail to gain a majority by itself. The party did have extensive internal discussions about whether or not to collaborate in election strategy with the MDP, through steps such as fielding jointly backed candidates. The MDP, feeling confident of their situation, were not prepared to make any concessions to the ULD and so the two parties ended up with separate candidates. The ULD received no support for its continued advocacy of a cabinet system, for one senior MDP official argued there was no longer any obligation to honour the 1997 deal as that had been made by the now defunct NCNP, while the MDP’s chief election campaigner, Rhee, bluntly announced his clear objection to introducing such a system.⁴⁸ The ULD, therefore, found itself in the bizarre situation of providing the prime minister, Park, of a coalition government of which it no longer wished to be a part. Indeed, as the campaign proceeded, the ULD found itself increasingly strongly campaigning against the MDP in order to prevent it gaining an absolute majority on its own and thereby eliminating the ULD’s leverage. Nonetheless, Park survived because of a tacit agreement by both parties that he could act as bridge between them should they find that they were to need each other again.

The newest party to contest the elections was the Democratic People’s Party (DPP), which had been founded in January 2000 primarily by disgruntled members of the GNP who had not been selected to stand again. Cho Soon, who had been unhappy with Lee Hoi-chang’s selection

of candidates for the April elections, was coaxed into heading the new party, which campaigned on the idea that neither of the two major parties, the MDP and the GNP, were good for Korea's political future and that it was time for a change. However, the DPP's biggest weakness was that it itself looked like nothing more than a throwback to the past. Not only did it consist almost entirely of ex-politicians, but it was to be tarred with its apparent association behind the scenes with former president Kim Young-sam. The former president had shown signs in the summer of 1999 of trying to re-engage in politics, reforming his old political 'mountaineering club', but he had been warned off by Lee, who felt that it could engender a split in the GNP and would only benefit Kim Dae-jung.⁴⁹ Hence Kim had initially shown little inclination to become involved in the 2000 election campaign until the DPP emerged, but as time went by he began to make a series of personal attacks on Kim Dae-jung, on one occasion accusing him of being 'a despot like the Roman emperor Nero, given his endless lies and dictatorial practices'.⁵⁰ Such a negative campaign approach, however, did nothing to endear him or the DPP to voters.

By far the most controversial development during the campaign was the surprise announcement, only three days before polling, that President Kim Dae-jung would be going to Pyongyang during June to meet North Korean leader Kim Jong-il for the first ever North-South Korean summit. The background to this announcement will be discussed in detail in Chapter 6, but here it should be noted that the MDP, which was well aware that the apparent failure of Kim's 'sunshine policy' had come under criticism during the election campaign, was undoubtedly pleased that it could announce this agreement prior to the election. Buoyed by the announcement, one MDP official, recalling that an armed incident in the De-militarized Zone (DMZ) on the eve of the 1997 presidential election (later revealed as part of the 'Operation North Wind' discussed in Chapter 3) had cut an estimated 3 per cent off Kim's vote, declared that the North Korean factor might now work in Kim's party's favour to the same extent.⁵¹ The MDP argued for the need for strong leadership and a ruling party majority at this time of unprecedented dialogue with the North. The opposition parties, while appreciating the value of talking with the North, were naturally suspicious of the timing of the announcement, suspecting that Kim may have had to make too many concessions, and even given financial inducements, to get the North to agree.

The number of seats contested had been reduced by constitutional amendment from the 299 of the 1996 election to 273, making direct comparison rather invidious. Nonetheless, in the elections both the MDP and the GNP increased their share of the total vote quite significantly. Yet, crucially, the GNP managed to retain its position as the largest party in the National Assembly, with nearly 49 per cent of the vote and an overall gain of 11 seats to reach a total of 133 (after the proportional representation seats were included). However, this number fell just four seats short of

giving the party an overall majority. The MDP increased its number of seats to 115, from 98 on dissolution. The heaviest losses were sustained by the ULD, which dropped from 50 seats to only 17, below the magic number of 20 which is required for a party to have a confirmed role as a floor negotiating group in the National Assembly, and the DPP, which was all but wiped out, falling from 10 to only 2 seats. The NKPH secured only one seat.

The turnout was a record low of 57.2 per cent, which suggested a general apathy and disillusionment with politicians and their petty squabbling. The citizens' alliance CAGE was pleased because around 70 per cent of those candidates it had blacklisted failed to get elected. This reflected at least a measure of bottom-up pressure for political change. A related phenomenon was that the number of younger politicians elected rose significantly, with nearly 5 per cent of those elected still in their thirties and around 24 per cent in their forties, a five-fold increase over the outgoing National Assembly.

Overall, it seems that the impact of economic recovery and the last-minute summit announcement was not as great as the MDP had hoped or the GNP had feared. As an MDP spokesman argued afterwards, the results showed 'once again that the feet of Korean politics are shackled by regionalism'.⁵² Indeed, while the MDP did pick up seats in the more cosmopolitan Seoul area, as always it had the strongest returns in Cholla province, taking 25 out of the 29 seats. The GNP polled strongly in its traditional areas in south-eastern South Korea, where, of the 65 seats available in the two Kyongsang provinces, the GNP won 64, with the one remaining seat going to an independent. The GNP would anyway have polled strongly in this area, but the summit announcement probably only served to convince voters in this predominantly conservative area that Kim Dae-jung was moving in a potentially dangerous direction. Neither the GNP nor the MDP succeeded in winning a single seat in the other's traditional strongholds.

However, the pull of regionalist factors may not have been quite as strong as in the previous decade, because the fight for the two Chungchong provinces showed an interesting variation. Long considered the power base of Kim Jong-pil and the ULD, this area attracted strong competition from Rhee, born in the southern Chungchong province, and the MDP. Of the 24 seats contested in the two Chungchong provinces, the ULD won just 11, while the MDP unexpectedly took 8 and the GNP 4. The overall trend of the election suggested, therefore, that, while regionalism still acted as a powerful factor in voting preferences in south-western and south-eastern areas, in other parts of the country there was a return to the appeal of two large pro- and anti-government parties. After a decade or more of a shifting multi-party system, South Korea could now be on the verge of going back to the more established pattern of two large parties which had existed in practice up until the late 1980s.

The failure to achieve an MDP majority meant that Kim Dae-jung himself found himself almost back to square one. Cohabitation was back on the agenda once again. In the aftermath of the election, Kim Dae-jung promised that he would respect the voters' decision that left him with a minority government and offered to talk with the GNP's Lee. The MDP's Rhee even went so far as to propose making the GNP a 'partner' in the national administration.⁵³ The GNP initially resisted the temptation to gloat and talked about playing the British-style role of a 'loyal opposition'. Kim Dae-jung met with the GNP's Lee on 24 April, in a rare gesture of reconciliation, in which they agreed to cooperate in ensuring the success of the North-South summit, normalizing inter-party relations and creating a joint committee to plot future policy strategies.⁵⁴ However, it soon became clear that in practice both Kim and Lee were concerned to draw a line between the North-South Korean summit issue and domestic political issues. Indeed, within a week it was back to politics as usual, with both sides criticizing each other over revelations of a lobbying scandal involving bribes and sexual favours being deployed in the securing of a contract by a US company for wire-tapping equipment for the military. The events allegedly took place during the Kim Young-sam administration and so involved GNP politicians, but the GNP also claimed that one of the politicians named, a former environment minister, had actually stood in the recent elections as a MDP candidate.⁵⁵

With the tentative reconciliation with the GNP evidently extremely fragile and unlikely to produce results, Kim Dae-jung appreciated that, in reality, if he wished to continue with his reform agenda, he had little option but to begin talks with the few independents elected and with the ULD, the DPP and the NKPH to try to re-secure a parliamentary majority. The expressed need to secure broad domestic support for his summit venture gave Kim the opportunity to talk personally with the leaders of the three smaller opposition parties. While the setbacks for the ULD and DPP implied that the older generation of politicians, in particular the two Kims associated with those two parties, were out of touch with the times in Korea, neither seemed willing to fade away completely. In turn, Kim Dae-jung himself had little alternative but to talk with them or their representatives. So he switched his primary objective from the abortive reconciliation with the GNP to somehow turning back the clock and drawing the ULD into a *de facto* coalition again.

In fact, despite the election results, the ULD's Park Tae-joon had continued in the post of prime minister. But his personal position soon became tenuous as revelations appeared of his involvement in a tax evasion scandal; he had concealed properties worth over 5 billion won by putting them in his son's name and allegedly accepted bribes from subcontractors when he headed the Pohang steel company.⁵⁶ When it became obvious that he would have to resign, Kim Dae-jung was forced to horse-trade with Kim Jong-pil and the ULD again. However, Kim Jong-pil and

the ULD were in a weak bargaining position. Far from having the strong swing vote role that they had envisaged, the ULD leaders found themselves severely weakened by the election results. Parties that fail to form a parliamentary negotiating group have shown a marked tendency in the past to disband or disintegrate; Kim Dae-jung was able to use ULD awareness of that to his advantage.

Finally, in late May, Kim Dae-jung named as prime minister the president of the ULD, Lee Han-dong. Lee can be described as a political opportunist, who served as a judge and prosecutor in the Chun and Roh periods, was interior minister in the Roh government, and became a senior party official in the DLP, the NKP and then the GNP successively, before suddenly defecting to the ULD in February 2000. He had once been one of the 'nine dragons' competing to be the NKP's presidential candidate to succeed Kim Young-sam. Already concerned that Kim Dae-jung might be indeed planning what they described as an 'artificial political realignment', the GNP leaders were, needless to say, scathing about Lee's appointment, and accused Kim of perpetrating a 'national deception' in luring Lee into the government.⁵⁷ The full terms of the de facto renewal of the MDP-ULD alliance have not been made public, but it is likely to have included a promise, once again, to amend the constitution to a parliamentary cabinet one. Already clear is an agreement to alter parliamentary regulations so as to reduce the limit for parties forming a negotiating block from 20 to 10 to help the ULD.

That Kim Dae-jung had done enough to restore his parliamentary majority in practice was made clear when, with the support of four lawmakers from the smaller parties, the MDP candidate was voted in as the National Assembly Speaker at the start of the new session in early June. This undoubtedly strengthened Kim Dae-jung's negotiating hand as he went in to the summit meeting in Pyongyang the following week.

5 The road to economic revival

When Kim Dae-jung's new NCNP-ULD coalition administration took office in 1998, clearly the major task facing it was to bring the economy back into shape. For many Koreans, that was the only priority, and the squabbling within the ruling coalition and between it and the opposition described in the previous chapter only served as an unwelcome distraction from what they considered to be the most urgent business at hand. President Kim faced three interrelated problems in the economic area. The first was to restore normal growth and financial stability in accordance with the dictates of the IMF-imposed programme. The second was to address some of the underlying problems of the economic structure, particularly through corporate restructuring. The third was to enable the workers and unions, who would be severely affected both by the economic downturn and by the subsequent corporate restructuring, to survive.

Kim began his task at a time when the region as a whole was in the third phase of the chronology suggested in Chapter 1, that is, the period when the Asian financial crisis was still spreading and was yet to have its greatest impact on regional economies such as Singapore and Hong Kong, which had survived the initial phases comparatively well. Indeed, those people in the region who had begun to argue that it was the 'Chinese' or ethnic Chinese-dominant economies, such as Taiwan, China, Hong Kong and Singapore, which had proved resilient, whereas non-Chinese economies had fallen by the wayside, were about to have their theories upset. However, the continued downward movement of the broader regional economy and of outsiders' perceptions did nothing to help Kim in his own endeavours to restore international confidence in South Korea.

Immediately after being elected president, in December 1997, Kim Dae-jung had talked about developing democracy and the economy 'in parallel' and creating a 'democratic market economy' to protect the 'common people's interests'.¹ While the precise definition of this concept remained elusive, it undoubtedly implied an attempt to balance government intervention and regulation with market mechanisms in a way that moved away from the strong state model first created by Park Chung-hee back in the 1960s. Kim had developed some of his ideas during his earlier periods

of imprisonment and exile when, according to all accounts, he was a voracious reader, and began to espouse the concept of a 'mass-participatory economy'. The key elements of the vision he had come to advocate by the 1990s were the self-regulation of business activities with minimum interference by the government, the liberalization of the financial system (including independence for the Bank of Korea) and the protection of freedom for legitimate labour movements; he also linked to this vision the creation of genuine and complete democracy.² It has been correctly noted by John Oh that 'Kim, more than any other president of South Korea, has considered economic matters in concrete detail for decades'.³ However, once in power Kim was to find that implementing his ideas for a 'democratic market economy' was to prove considerably more fraught and difficult than he had imagined. Vested interests were to prove formidable obstacles to Kim's efforts at reform.

Post-crisis policy priorities

The IMF programme agreed to by the Kim Young-sam government, and by extension by Kim Dae-jung too, consisted of four broad objectives as far as financial reform and restructuring was concerned:

- to quickly restore stability to the financial system through liquidity support, a blanket guarantee, and closure of unviable institutions;
- to restructure the financial system, by intervening with banks, purchasing non-performing loans, and recapitalization;
- to strengthen the institutional framework by bringing prudential regulations and supervision in line with international best practices;
- to enhance supervisory oversight and eliminate functional and institutional rigidity in the financial system.⁴

The first two months of the new Kim administration were dominated by the need to focus on the first objective – to restore financial stability – so priority was placed on securing foreign currency liquidity in order to alleviate the immediate liquidity crisis. Including those funds disbursed during the interregnum period, by March 1998 the South Korean government had succeeded in inducing a total of \$21.4 billion from the IMF and other international financial institutions such as the World Bank and the Asian Development Bank (ADB). It also made some progress in rolling over short-term external debt of the banking sector, to the tune of \$21.8 billion by the end of March. In April, maturity extensions for loans for small and medium-sized enterprises (SMEs) were negotiated and an agreement was reached with the World Bank for the infusion of \$1 billion specifically to help such companies with raw material imports. As part of its efforts to raise foreign capital, in April, the government was able issue

foreign exchange equalization bonds, which were in fact oversubscribed, worth \$4 billion.⁵

The slump in all types of imports after November 1997 had, in fact, helped to push the current account back into surplus in the early months of 1998. Imports in the first quarter of 1998 fell by 36 per cent compared with the same quarter a year earlier, while exports were able to maintain at least a modicum of growth at 8 per cent. Consequently, by the end of April 1998, Korea's usable foreign exchange reserves had risen to \$30.8 billion (compared to its lowest point of \$3.9 billion in mid-December 1997). The won-dollar exchange rate also began to stabilize around the 1,300–1,400 won to the US dollar range from March 1998, as compared with its lowest point of 2,067 won at the height of the crisis in December 1997.

But the IMF's programme had a downside too – and this has become a target of criticism subsequently – that for a while the IMF medicine actually acted to make the patient even sicker. The key point was the tight quantitative monetary and fiscal performance criteria, which included setting very high money market interest rates. Interest rates rose from 12 per cent just prior to the crisis to 27 per cent by the end of December 1997 and to around 30 per cent by early 1998. The IMF's intention was to dampen inflation, to attract sufficient capital to correct exchange market fragility and to build up the level of usable reserves. It also hoped to deprive the expansion-hungry chaebols of finance. However, uncertain which companies had genuine needs, the commercial banks tended to lend only money to those that they knew (i.e. the top chaebols), which further undermined bank solvency and left many SMEs starved of funds and facing a severe credit shortage. During the first quarter of 1998 around 1.1 trillion won (\$785 million) was extended by commercial banks to highly indebted chaebols in the second rank, mainly because the banks thought that, by keeping them afloat, they could avoid having to reclassify earlier debts as non-performing loans.⁶ SMEs could not afford the interest rates from the banks nor find suitable alternative sources of credit. Overall, there was a marked decline in corporate activity.

The Kim Dae-jung administration was not without differences of views about how to deal with the immediate costs of the IMF programme; in part this reflected the differing philosophies of the various economic advisers and ministers. Even Kim was to admit later that 'the economic team was a bit confused at the outset'.⁷ However, there was broad agreement that the IMF programme would have to be continued with, though views differed over the possibility, and wisdom, of some amelioration of the harsher terms. Both the signs of early stabilization of the currency market and the evidence of the severe difficulties faced by banks and companies were, therefore, highlighted by the Kim administration in its ongoing talks with the IMF. In fact, Korean officials held a series of eight formal meetings with the IMF during 1998 to review progress. Of particular importance, therefore, was the IMF's endorsement of a gradual easing

of the tight monetary policy initially imposed, and of a steady reduction in the high interest rates imposed early in the year.⁸ By the summer the IMF had realized that its high interest rate policy was not working and so allowed the Kim administration to loosen the strings.⁹ In fact, by the end of 1998 market interest rates had fallen below 15 per cent compared with the debilitatingly high rates of around double that level at the beginning of 1998.

The degree of initial success enabled the Kim administration to start on the next phase of economic recovery, namely giving priority to financial and corporate restructuring, to be discussed below. It also enabled Kim to feel more confident about dealing with external partners. From April onwards Kim began to visit overseas, to solicit support for his efforts to restore the economic health of his country. In fact, breaking with the tradition which usually sees South Korean presidents visiting Washington as their first overseas call, Kim's first overseas visit after his inauguration was to attend the Asia-Europe Meeting (ASEM) in London in early April. During his time in London he had bilateral meetings with several European leaders and specifically urged them to send investment missions to Korea. Kim then followed up with a visit in June to Washington, where he and US president Bill Clinton discussed ways to improve their economic relationship; Clinton confirmed that the USA would act as a 'second line of defense' behind the IMF.¹⁰

For the Kim administration, corporate structural reform involved two aspects: first, reform of the financial sector by broadening the autonomy of financial institutions and increasing competition within the industry and, second, restructuring the bloated chaebols in such a way as to increase efficiency and competitiveness and provide greater opportunities for the SMEs to contribute to economic development. Neither task has proved easy.

Fixing the financial sector

In common with the other suffering Asian economies, the new Kim administration faced five main challenges in the financial sector: consolidating the various financial institutions, disposing of non-performing loans, strengthening the internal control systems in the financial institutions, improving financial supervision in general and developing capital markets further.¹¹ The key instrument chosen for carrying out financial restructuring in South Korea – and also more general corporate restructuring – was the Financial Supervisory Commission (FSC), which began work in April 1998 under the leadership of a reform-oriented former bureaucrat-cum-businessman Lee Hun-jai. Duties and responsibilities which had previously been spread amongst several regulatory bodies, including the MOFE, were now concentrated in the hands of the FSC. President Kim and his advisers gave Lee and the FSC virtual *carte blanche* to carry out financial restructuring. The first round of the FSC's drastic restructuring of

the financial sector was completed by October 1998. By then 5 out of South Korea's 25 commercial banks had been ordered to close, while 16 out of 30 merchant banks, 6 out of 34 securities companies and 4 out of 50 insurance companies had had their licences either revoked or suspended.¹² All the surviving commercial banks had surpassed the Bank of International Settlements' required 8 per cent minimum capital adequacy ratios by that time. However, this was not without cost to the government, which was forced to inject 38 trillion won (\$2.7 billion) in order to purchase the ailing banks' non-performing loans and to sustain recapitalization.

The five banks which were closed down in the process of being taken over, at government direction, by five relatively healthy commercial banks in June 1998, were all comparatively small ones. More problematic were the larger banks, some of which ended up effectively being nationalized. The government began what were to become lengthy and convoluted efforts to sell off two of the worst affected, Korea First Bank and Seoul Bank, to international banking corporations, while forcing two others, Hanil and Commercial Bank, to merge into the Hanvit Bank. Neither of the two methods adopted was able to achieve success easily. A majority share in Korea First Bank was finally sold to the American investment firm Newbridge Capital in September 1999 (the Korean government retained a 49 per cent share); this was the first time a foreign investor had taken management control of a Korean commercial bank.¹³ Equally time-consuming negotiations were held for the Anglo-Hong Kong banking group HSBC to take over a 70 per cent share in Seoul Bank, but the deal finally collapsed in August 1999 over the terms for dealing with the accumulated bad debts, and the government was left to start all over again to find a buyer. Then, plans in early 2000 for the Small and Medium-sized Industry Promotion Corporation to take over the bank and turn it into a specialist bank serving its member companies rather than the chaebols fell through. The government was still keen to encourage a foreign buyer and, finally, in April 2000 the German Deutsche Bank was hired as an adviser, with the aim of shaking up its management systems sufficiently to sell it onto an overseas buyer during 2001, a time frame well beyond that originally envisaged by the government.¹⁴ The alternative route of merging the two local banks also had its problems, with the Hanvit Bank, newly created in December 1998, achieving only a marginal increase in deposits and an actual decline in total assets during the year 1999. By mid-2000, the government was beginning to consider the possibility of encouraging a three-way merger of Hanvit with yet another two state-run banks, Cho Hung Bank and Korea Exchange Bank, by providing a number of financial incentives.¹⁵

The financial restructuring process contained several paradoxes. First, despite the avowed intention of the Kim administration to reduce governmental intervention in the financial and economic system, the short-term

effect of the need to resolve the crushing burdens run up by the financial sector was that the government had no alternative but to assume greater control of the financial system. Where it had injected huge amounts of funds, such as in rescuing certain banks (and, as will be discussed later, some chaebols), the medium-term effect was that the government, or to be more precise its bureaucrats, inevitably became reluctant to give up that control. Second, while the commercial banks had studiously refrained from quantitative expansion during 1998–99, there were few signs of a significant qualitative improvement instead. It seemed as if some change had come to the ‘hardware’ side of the financial sector through closures, mergers and acquisitions, but the ‘software’ side of increasing efficiency and competitiveness in management and operations still left much to be desired. Third, whereas mergers have become commonplace in the global financial community in recent years and are generally considered to have created positive synergistic results, in Korea they were – and indeed still are – treated less as an optimal management strategy than as a last resort to avoid complete insolvency. Fourth, the government had hoped that the commercial banks would act as one of the catalysts for corporate restructuring,¹⁶ but, faced with a mountain of non-performing loans, commercial bank managers were reluctant to pull the plug on their indebted corporate clients for fear of making their own balance sheets even worse.

The first major wave of restructuring in the financial sector in mid-1998 certainly was not to be the only one. Indeed, if 1998 was seen as focusing on the banking industry, then 1999 saw something of a subsidiary wave affecting the insurance industry. Again foreign companies, keen to enter the Korean insurance market, were involved in some of the restructuring deals. After failing to secure appropriate bids in two auctions for First Life Insurance, the third-largest life insurer and the one in most financial trouble (finally being declared insolvent with negative assets of \$2.4 billion in August 1999), the FSC opened bidding for five smaller companies. The German insurance company Allianz finally came to an agreement to purchase First Life Insurance in late 1999 and then followed up in early 2000 by becoming the largest shareholder in Hana Bank, the seventh-largest commercial bank, as a means of extending its network in the banking-insurance sectors.¹⁷ Nonetheless, as will be discussed further below, a second round of major restructuring across the financial sector, involving the investment trusts as well as some still under-performing banks, became one of the priorities for the second half of the year 2000.

Challenge to the chaebols

In his writings and speeches earlier in the 1990s, Kim Dae-jung had made it clear that he strongly opposed ‘special favours’ for the chaebols.¹⁸ He reinforced the point during the course of an interview with a German magazine on the eve of his inauguration, when he bluntly stated: ‘the era

of the chaebol is over'.¹⁹ He was soon to discover that this was a rather premature statement. As discussed in Chapter 3, he certainly had tried to bang some heads together before he formally took office. In mid-January 1998 he had met the presidents and chairmen of the largest chaebols and persuaded them to accept certain measures of corporate reform. They agreed to raise corporate transparency, end cross-payment guarantees amongst affiliates, improve financial profiles, strengthen management responsibility and concentrate on a few core sectors.

President Kim's problem was to get these promises translated into reality. He had to adopt a combination of stick and carrot. At first he was prepared to rely on persuasion, the carrot. In mid-February the middle-sized conglomerates in the second rank (i.e. conventionally classified as ranking 6–30 behind the 'big five') submitted restructuring plans. Basically they pledged to dissolve their planning and coordination offices that served under the direct orders of the group chairmen, to eliminate cross-debt guarantees amongst subsidiaries, to produce consolidated financial statements and to introduce outside auditing and outside directorship systems. Most of these chaebols had one or more subsidiaries which were to become involved in 'workout programmes' under which roll-overs in loans and fresh financial assistance were given in return for restructuring in consultation with the creditor banks. By June 1999 the various forms of financial assistance given had reached a total of 335 billion won (\$215 million).²⁰ However, the process was not without teething troubles, not least because the creditor banks, who had previously been 'intimidated' by the sheer size and power of the chaebols, now found themselves playing a new and unaccustomed role. The tendency for both the banks and the ailing chaebols to agree on 'as mild a prescription as possible' to restore economic health was inevitable. This required some informal pressure from behind the scenes by government officials to introduce stronger medicine. Oh Hogen, the Executive Chairman of the Corporate Restructuring Committee, for example, commented on the necessity to 'educate' inexperienced bankers in the techniques of running genuine workout programmes.²¹ Despite the passive resistance, nonetheless, some well-known middle-ranking chaebols' names did disappear in the course of the restructuring process.

Persuasion was less well suited as a tactic with the largest chaebols. Much of 1998 was characterized by strident calls from the administration for the chaebols to reform and by threats of punitive action. The stick became more evident. On one occasion, in October 1998, the government-appointed Fair Trade Commission took action to fine the 'big five' chaebols for violating fair trade regulations by diverting profits illegally into troubled subsidiaries.²² The following month, the Kim administration was able to add pressure from outside, after US president Bill Clinton had expressed his own 'impatience' with the lack of progress in the chaebol

restructuring programme during his talks with Korean leaders, telling the chaebols that it was certainly time for them to begin real restructuring.²³

For the largest chaebols the key issue was to become one of reducing affiliates and concentrating on core industrial sectors. One approach was through the creditor banks, which at the government's suggestion formed a review committee in May 1998 to assess the viability of client firms showing signs of financial weakness. The following month twenty companies affiliated to the top five chaebols were classified as non-viable.²⁴ Credit lines were cut and financial assistance from other affiliates was prohibited, but more than three months later only about half of them had been liquidated.

The 'big five' produced impressive targets, at least in numerical terms, for reducing the overall number of their subsidiaries by the end of 1999: Hyundai down to 32 from 63 in 1997, Samsung to 40 from 65, Daewoo to 10 from 41, LG to 32 from 53 and SK to 22 from 49. Despite these apparently clear commitments, there were substantial differences in the speed with which the various chaebols undertook such restructuring, with Samsung being the most progressive and Hyundai and, in particular, Daewoo being much slower. A few subsidiaries were closed down and some were just merged into sister companies, but others were sold off to foreign companies. With the Kim administration liberalizing the regulations for foreign investment to an extent unknown in South Korea's history, foreign companies eagerly sized up the opportunities. The Swedish car company Volvo bought up Samsung's construction-equipment division, the US electronics company Fairchild acquired Samsung Electronics' power integrated-circuit division and British Telecom became LG Telecom's second-largest shareholder.²⁵

The second approach favoured by the incoming Kim administration was the use of business swaps, or 'Big Deals' as they came to be called. This policy was approved in principle at a meeting between the leaders of the FKI and government officials in July 1998, but the proposals initially put forward by the five largest chaebols were deemed by the government to be insufficiently drastic. It needed more pressure from government officials, indirectly through creditor banks and directly through meetings with individual corporate leaders until, in early September 1998, the 'big five' chaebols formally agreed to undertake swaps and mergers in seven key industries: semi-conductors, rolling stock, aircraft, petrochemicals, power generation, ship engines and oil refining. The automobile and consumer electronics sectors were soon added to make a total of nine industries due for realignment.²⁶ In all these sectors at least three of the large chaebols were involved in some form or other. Table 5.1 gives the details of the main deals envisaged under the initial programme of 'Big Deals' as formulated by the end of 1998, after several months of intense haggling.

However, the reconstruction and consolidation of the key industrial sectors proved to be a far more difficult matter than simply shedding

Table 5.1 Big Deals in progress

	<i>Before Big Deals</i>	<i>After Big Deals</i>
Semi-conductors	<ul style="list-style-type: none"> • Samsung Electronics Co. • Hyundai Electronics Ind. • LG Semicon Co. 	<ul style="list-style-type: none"> • Samsung Electronics Co. • Hyundai and LG merged into one company (Equity share-out to be discussed later)
Petrochemicals	<ul style="list-style-type: none"> • Daisan Complex • Samsung General Chemical Co. • Hyundai Petrochemical Co. 	<ul style="list-style-type: none"> • Samsung and Hyundai merged into one company (introduced foreign capital) • SK, LG may merge into Yoch'on Complex
Aircraft parts	<ul style="list-style-type: none"> • Samsung Aerospace Industries Co. • Daewoo Heavy Industries Co. • Hyundai Space & Aircraft Co. 	<ul style="list-style-type: none"> • Form a new, joint company and introduce foreign capital
Rolling stock	<ul style="list-style-type: none"> • Hyundai Precision & Ind. Co. • Daewoo Heavy Industries Co. • Hanjin Heavy Industries Co. 	
Power-generation equipment	<ul style="list-style-type: none"> • Korea Heavy Industries & Construction Co. (HANJUNG) • Samsung Heavy Industries Co. • Hyundai Heavy Industries Co. 	<ul style="list-style-type: none"> • Unified into one company • HANJUNG takes over Samsung's business
Ship engines	<ul style="list-style-type: none"> • Samsung Heavy Industries Co. • Hyundai Heavy Industries Co. • HANJUNG 	<ul style="list-style-type: none"> • HANJUNG takes over Samsung's business • Two company systems of HANJUNG and Hyundai
Oil refining	<ul style="list-style-type: none"> • Hanwha Energy Co. 	<ul style="list-style-type: none"> • Acquired by Hyundai Oil Co.
Autos	<ul style="list-style-type: none"> • Hyundai Motors, Kia Motors, Daewoo Motors and Samsung Motors 	<ul style="list-style-type: none"> • Daewoo Motors will take over Samsung Motors • Hyundai Motor Co. took over Kia Motor Co.

Source: Lee Jae-Woo, 'Corporate Restructuring in Korea: Experience and Lessons', *Korea Journal*, autumn 1999, p. 252.

subsidiaries, for the prestige, pride and financial resources of the larger chaebols and their owners were closely tied up with their earlier expansion into certain sectors. Some deals were carried out relatively smoothly. For example, in the oil-refining sector, SK's take-over of Ssangyong and Hyundai Oil's of Hanwha Energy were easily achieved. So too was the consolidation of the railway rolling stock manufacturers Hyundai, Daewoo and Hanjin. The formation of a new company, Korea Aerospace Industries (KAI), in the aircraft parts sector between Samsung Aerospace, Daewoo Heavy Industries, and Hyundai Space and Aircraft companies also worked well, at least in its initial conception, but began to come unstuck when the negotiations for the projected strategic alliance with a foreign partner – with Boeing, Lockheed Martin-Aerospatiale and British Aerospace as the rivals for the role – became complicated by a legal dispute between Hyundai and Boeing.

However, other projected 'Big Deals' proved remarkably difficult to consummate. In particular, the projected merger of two of the three giants of the Korean semi-conductor industry, LG Semicon and Hyundai Electronics, and the proposed business deal between Daewoo and Samsung, in which the latter's automobile business would be swapped for the former's consumer electronics business, soon ran into difficulties.²⁷

The problems in the semi-conductor merger arose when LG refused to accept the evaluation by US financial consultants Arthur Little that Hyundai staff would be better equipped to run the new company; LG even filed a suit against the consulting firm. LG argued that it should stay in the semi-conductor business, offering to give up other core businesses if it were to be allowed to keep its affiliate going. It seemed to become a battle of will between the government and the chaebols, as the Kim administration took this as a test case of its resolve to push through restructuring. Finally, in early January 1999, after pressure from creditor banks, threats of financial sanctions and personal intervention by President Kim with the LG group chairman Koo Bon-moo, the LG group gave way and agreed to give up its semi-conductor operations.

Kim Dae-jung also found himself having to intervene in the Daewoo–Samsung dispute, though in this case with less success. Samsung Motors' problem lay with its newly opened but under-utilized state-of-the-art high technology car factory in Pusan, in south-east South Korea. Although Daewoo and Samsung agreed in principle to the swap, the negotiations broke down over the small print of the deal, in particular the valuation of this expensive new car manufacturing plant at a time when the true extent of the Daewoo group's own massive financial debts were becoming increasingly widely known. In July 1999, Samsung group chairman Lee Kun-hee broke off all talks with Daewoo and announced that he would rather put Samsung Motors into court receivership. In return, he would personally contribute 2.8 trillion won of his own money to pay off part of the estimated 4.6 trillion won debt run up by Samsung

Motors. However, it soon became apparent that he proposed to raise his contribution by selling 400 million shares in the Samsung Life Insurance company, after its proposed listing on the Korean stock exchange. Naturally, media and public criticism of this intended windfall profit for chairman Lee arose rapidly. At the same time, since Samsung's plant employed, through related companies, as many as 50,000 people in the Pusan area, local politicians and union leaders lobbied hard for the plant to remain open. With no wish to further alienate an area which traditionally voted for his opponents, Kim Dae-jung felt he had no alternative but to give way to popular sentiment and intervene. He cancelled Samsung Life Insurance's listing permission, but reassured everyone that the car plant would not be scrapped. As Daewoo's own financial problems increasingly came to light and Daewoo Motors itself was shown to be no longer viable, the Kim administration began to consider the possibility that, instead of the deal with Daewoo, there might be opportunities for a deal with foreign investors.

The overall impression during much of 1998 was that the chaebols were dragging their feet, trying to resist complete restructuring by arguing that the costs of creating higher unemployment would be unacceptable and that, over time, market forces would anyway deal with the loss-making units. With unemployment levels still rising, the chaebols thought that they would be able, if not to obtain sympathy, at least to deflect some of the criticism and pressure. In criticizing what he described as 'blind attacks' on the chaebols, Kim Woo-chong, chairman of both Daewoo and the FKI, speaking in November 1998, added another argument against rapid restructuring. He argued that, as in the past, not only were the chaebols essential for the economic strength of the country, but that, if anything, they would be even more valuable in pulling South Korea into the new information age, for 'with respect to the growing importance of knowledge-based and financial industries, the role of the chaebols should not be ignored'.²⁸

During 1998, the Kim Dae-jung administration had focused on talking loudly and critically at the chaebols. Hopeful that the signs at the end of that year that the chaebols were at last genuinely moving towards restructuring reflected a genuine change of heart, the government edged towards a policy of trying to achieve a balance of sticks and carrots to achieve its restructuring objectives. For example, when meeting the top chaebol leaders in June 1999, Minister of Finance and Economy Kang Bong-kyun praised the chaebols for their efforts in the area of ownership and governance structural reforms but told them that they had fallen short of expectations in restoring their financial health and concentrating on core businesses. He tempted them, however, with the prospect that if restructuring were successfully completed within the year, then they would be allowed to branch out into new business lines in the following year.²⁹ The government also tended to compensate the forcibly restructured companies

with some forms of preferential treatment such as tax exemptions and new loans under preferential terms. While some chaebols complained that these tax incentives were insufficient, they nonetheless constituted incentives not available to smaller companies.

As the Kim administration continued to argue with the chaebols and try to push through the 'Big Deal' programme, the political costs also began to rise. Kim found himself being criticized for what the opposition and some chaebol leaders – and, most worryingly for Kim, trade unions at affected companies – perceived as a bias against those chaebols which were based in the Kyongsang region.³⁰ In a sense, since the chaebols had grown up with the help of Kyongsang-born presidents and most of the 'top five' had key manufacturing operations or even headquarters in the region, it was inevitable that any moves against the largest chaebols by the Kim administration would be seen as being 'anti-Kyongsang'. The GNP, with its strong regional base in Kyongsang, naturally tried to exploit such anti-government sentiment. Although previous presidents had generally adopted relatively equitable policies towards the individual chaebols, it was inevitable that there had been some chaebols which were better connected than others to a particular president. For example, Ssangyong had been seen as well-connected to President Roh. Kim Dae-jung had been expected to be harsher on Samsung, which, as discussed in Chapter 3, had had close links to Lee Hoi-chang; in fact, Kim was no harder on it than other chaebols. Indeed, the Samsung leadership, no doubt aware of the company's potential political vulnerability, in order to avoid confrontation with the government actually acted faster in accomplishing management restructuring than some of its rival companies. Taking the example of the group's flagship company, Samsung Electronics, about a third of the employees were sacked, half of its managers were reshuffled, plants were temporarily closed down and marginal businesses were disposed of; in the words of its chief executive, the 'three years of changes were much greater than the changes Samsung Electronics had seen during the previous three decades'.³¹ Although it resented some of the consolidation moves being undertaken by Kim, the chaebol which seemed to benefit most, or at least to be given the greatest benefit of the doubt by the government, was Hyundai. This seemed to be primarily because of that company's founder, Chung Ju-yung, and his close personal involvement in developing contacts with North Korea, which tied in extremely well with Kim's desire to promote his 'sunshine policy' towards the North (see Chapter 6). However, as events in the year 2000 were to show, even Hyundai was not immune to government and market pressures to reform.

It was a measure of Kim Dae-jung's continued frustration with the chaebol restructuring issue that, in his annual Liberation Day speech on 15 August 1999, he specifically branded the chaebols as 'the most problematic element in our economy' and warned them once again that times had

changed, for 'the concentration of economic power in the chaebol is no longer accepted by the market'.³²

'Pour encourager les autres', he chose as a test case, to show his determination, a chaebol which was anyway teetering on the edge of bankruptcy. The following day, he approved decisive action to restructure the Daewoo group, which had remained stubbornly reluctant to trim its subsidiaries and to take serious steps to repay its debts, which were claimed to have reached 57 trillion won (\$47 billion). When the financial crisis hit Korea, Daewoo had been particularly exposed because of the short-term nature of many of its loans (more than half its total borrowing). Although FSC Chairman Lee Hun-jai had bluntly told Daewoo's chairman back in 1997 that 'the world is changing and you have to change too',³³ the political implications of breaking up such a huge chaebol had made the FSC rather reluctant to force the pace. However, by 1999 the group's problems were just too great to ignore. Given the cross-linkages between its subsidiaries, Daewoo's whole group was in danger of crumbling as creditors were forced to call in short-term loans. In July the government had acted to provide a short-term package of financial aid to Daewoo, to enable it to extend some of this short-term debt, but that did not alleviate the crisis at the company. The government's August plan called for Daewoo to be pruned back from 25 to 6 units by the end of 1999; the electronics and securities companies would be sold off, while ship-building and construction would be given independent status in preparation for later sale.³⁴ Domestic Korean creditors entered into a complicated series of discussions and investigations into the group's affairs. By including debts from overseas operations and other financial obligations, in November the auditors finally came up with a total debt of 87 trillion won (\$73 billion), well over the total amount that Korea had sought at the national level for its bail-out by the IMF in late 1997 and equivalent to one-fifth of Korea's GDP.

Aware on investigation that a complete Daewoo collapse would seriously undermine the nascent economic and stock market recovery, the government had actually stalled on revealing the worst. But, in early November 1999, it finally bit the bullet and admitted what everyone already suspected – that Daewoo was insolvent. Founder and group chairman Kim Woo-chong resigned.³⁵ About \$7 billion of the debt, in unsecured loans and bonds, was owed to foreign banks and companies. A war of nerves resulted between Daewoo and its domestic and foreign creditors over how much was owed and by what means it might be recovered. Finally, in January 2000 the way to a final solution to the Daewoo problem was achieved through acceptance in principle by the foreign creditors that they would not be able to regain more than an average of 40 per cent of their outstanding loans, although it took another four months before the precise details of the debt restructuring for the four largest component companies of the Daewoo group could be formally offered to

the foreign creditors. Domestic creditors said that they would form an ad hoc corporation to buy Daewoo's debt, but the implicit understanding was that the government would be prepared to step in if Korean banks suffered a cash crunch as a result.³⁶

Two years on from coming into office, therefore, Kim Dae-jung still found himself troubled by the issue of the chaebols' restructuring. While some progress has been made with medium-sized chaebols, the largest five have proved the most difficult. The 'Big Deal' approach, launched with such a fanfare in 1998 has turned out to be a long and politically sensitive road to travel. As both Lee Jae-woo and Jung Ku-hyun have pointed out, there is a fundamental problem with this approach.³⁷ Primarily, it requires the government to take an active role, at the very least behind the scenes and often through public rhetoric too, in pushing these supposedly 'voluntary' deals through. This may be both non-conducive to economic fairness, through the infringement of the property rights of the participating companies and the creation of monopolistic or duopolistic market concentration, and contradictory to the government's avowed aim to stay out of business more than past collusive administrations had done. The Kim Dae-jung administration's efforts to 'force' restructuring were certainly not the first attempt at industrial rationalization, and he himself referred to previous efforts having failed due to the 'resistance and sabotage' of the chaebols.³⁸ Arguably, such attempts had begun as early as the company rationalization campaign of the late 1960s, less than a decade after the chaebols had first come into existence. Even the concept of encouraging 'core businesses' was not new, as that had been tried, albeit unsuccessfully, in the early 1990s.³⁹ However, for a government such as Kim Dae-jung's, that wanted to pride itself on 'economic democracy', such intervention opened it up to accusations that it was in practice no different from its predecessors.

Joining the jobless

The other serious and even potentially socially destabilizing problem for Kim Dae-jung to deal with was unemployment. This socio-economic issue inevitably brought Kim into conflict with the trade unions, which in general had been key supporters of his own presidential bid. Down-sizing and increasing the flexibility of companies in the name of restructuring inevitably led to harder times for Korean workers. The chaebols and other companies forced to restructure considered that they had only two options open to them: one was to lower wages and economize on benefits and welfare, the other was to resort to layoffs.

As discussed in Chapter 3, the trade unions had reluctantly come to an agreement legalizing layoffs in February 1998 under the auspices of the newly established tripartite labour committee of management, union and government representatives. Public opinion, still shell-shocked by the

whole financial collapse, had tended to support such an agreement in principle.

However, when reality began to bite, in the form of a massive rise in the level of unemployment, neither the unions nor the public were fully prepared. In early February 1998 the Ministry of Labour had forecast that unemployment could reach 5 per cent or about 1.09 million people by the end of that year.⁴⁰ This was to prove a significant underestimate. In reality, the unemployment rate rose sharply from 2.1 per cent in October 1997 to 5.9 per cent at the end of February 1998, reaching a thirty-year high of 7.6 per cent (or 1.65 million people) by the end of July 1998, before levelling off, though that phenomenon was probably due to a decrease in those actively seeking work rather than to an increase in employment opportunities as such. These official figures almost certainly did not reflect the true extent of unemployment, which could easily have been at least another half million higher if those who worked fewer than 18 hours a week or who had temporarily given up looking for work were included. Indeed, the rate began to rise again in the autumn and winter to reach a peak of 8.6 per cent, or 1.78 million people, by February 1999.⁴¹

For Koreans, used to a continually growing economy and unemployment rates of around 2 per cent during most of the 1990s, this sudden sharp rise was devastating. While not as well known for, nor indeed quite as strongly wedded to, the practice of life-time employment as neighbouring Japan (though it should be noted that even in Japan this practice has for a long time applied primarily to the large companies and not to the SMEs), South Korea nonetheless had developed in its post-war economic drive a form of life-time employment. As such Korea shared 'the East Asian employment culture [which] is not used to layoffs'.⁴² Although the post-war Korean management style often seemed to alternate between bullying and coddling, many workers felt a strong degree of loyalty to their companies, especially where there existed *jong* (the Korean word for deep feelings amongst people).⁴³ At the same time, there was no well-established social welfare 'safety net', so that people had tended to rely on family support at times of trouble.

Used to this 'traditional' employment system, for many Koreans the layoffs in the financial sector and amongst the middle-ranking chaebols came as a shock. As the numbers rose the two main labour unions, the more progressive KCTU and the more conservative FKTU, became increasingly disturbed. In their view the sacrifices appeared to be being made only by the workers, while the bosses of the influential chaebols simply remained at the helm. Moreover, in practice, only about a quarter of the displaced workers were eligible for any compensation from the government. Fierce demonstrations held on May Day forced the government to include a new plan for \$6 billion unemployment compensation in the budget.⁴⁴ By July 1998, the two unions were sufficiently disillusioned by the work of the tripartite management-labour-government committee,

which they said had 'degenerated' into 'rubber-stamping government-led restructuring programmes', to take the step of boycotting its meetings and threatening to organize a series of large-scale protest rallies and one-day strikes during that month.⁴⁵ Although the two unions did agree to return to the tripartite committee at the end of July, they remained unconvinced about the utility of its increasingly intermittent operations, and, indeed, early in 1999, the KCTU once again threatened to withdraw from the tripartite committee over the layoffs (although it ultimately withdrew the threat).

The biggest test of the new labour legislation was to come at the traditionally militant Hyundai Motors plant in Ulsan, at which the management tried to establish the principle that layoffs could occur. It had planned to lay off 5,000 workers, but a bitter month-long strike during August 1998 forced the management to back down and introduce only a considerably watered-down version of its original proposal. In the end, only 277 employees (most of them from the staff canteen) were sacked, with another 1,200 given a promise of a return to work after what amounted to 18 months' unpaid leave.⁴⁶

As discussed in Chapter 2, prior to 1987, restrictions on labour activity had been severe, with strikes quickly and often forcibly broken up, but in the aftermath of democratization labour militancy had grown markedly. However, such activity, at least as measured in terms of working days lost, had tailed off during the early and mid-1990s and, despite the intense but brief flurry of activity associated with the Kim Young-sam administration's efforts to introduce new labour legislation in January 1997, remained at a comparatively low level into 1997. However, 1998 saw a resurgence in labour unrest and a total of 1.45 million working days were lost during the year; more than three times the total for the previous year.

Labour relations continued to be difficult through 1999, even though the resurgence in economic growth promised better times. A few companies began to re-employ laid-off workers and, with the creation of some new enterprises, especially in high technology and internet-related fields, unemployment levels began slowly to decrease, falling to 6.2 per cent or 1.35 million people by June 1999 and dropping below the million mark for the first time for two years in November 1999. Of the two umbrella trade unions, the FKTU reverted to its normal low-key approach of legal protest actions but the KCTU continued to be active in demanding better job security for its members. Early in 1999 it tried to organize a 'spring offensive' of a series of rolling strikes in various industrial sectors. The government responded by taking a strong line, warning union workers taking part in illegal strikes that they risked arrest and the sack. At one stage, during a week-long strike in April 1999 by subway workers, the government went so far as to apply for arrest warrants for sixty-six subway union officials, before the union backed down. The KCTU's strike

tactic had only mixed results, especially since the public sector unions refused to join in.⁴⁷

However, the bifurcated union movement was reunited at least temporarily by the revelations in June 1999, discussed in Chapter 4, of the involvement of the government's prosecution service in fomenting a strike at the official mint the previous November, allegedly with the specific aim of allowing the government to show its strength in suppressing an illegal strike as a way of discouraging other public sector unions from striking. Both the FKTU and KCTU held protest marches and rallies and they threatened to call a general strike. Prime Minister Kim Jong-pil had to order a full investigation and offered to resuscitate the dormant tripartite committee as a means of taking the steam out of this mounting labour unrest.⁴⁸

During the second half of 1999, as the economy began to show increasingly strong signs of recovery, the unemployment rate dropped slowly, reaching a post-crisis low of 4.4 per cent in November. The rate rose again slightly in December 1999 and January 2000, but that was explained away by government officials as being due to seasonal factors, namely the severe Korean winter, which always sees construction and agricultural workers laid off temporarily and university students attempting to find winter vacation work. Nonetheless, sensitive to the approaching April 2000 elections, the government wanted to avoid the appearance of doing nothing to help the unemployed. So, in January 2000, it announced a new medium-term plan to reduce unemployment, to create 2 million new jobs and cut the jobless rate to under 3 per cent by the year 2003. In particular, the government proposed creating 700,000 new jobs in the tourism and information technology sectors and encouraging the creation of venture capital companies during that period.⁴⁹

International media depictions of workers fighting their way through clouds of tear-gas notwithstanding, the union movement has not achieved a strong formal position in Korean society. Unionization rates, which reached a peak of 18 per cent in 1989 and thereafter slowly declined to around 13 per cent by the late 1990s, are low by comparison not only with most of the West European states (in Britain unionization rates are around 40 per cent and in Sweden close to 100 per cent) but also with Asian neighbours such as Japan (around 25 per cent) and Taiwan (about 50 per cent).⁵⁰ With the rising number of bankruptcies during 1998 in the textile and other manufacturing sectors which were unionized, the number of union members continued to decline in that year. However, the union movement has had an influence far wider than simple numbers would suggest. Once freed from the shackles of authoritarianism, the unions did prove effective in forcing up wage levels from the late 1980s, not only in those industries in which they are well represented but also, by a demonstration effect, in other industrial sectors. The unions' aspirations for

better working conditions and wages were quite naturally shared by many non-unionized Koreans.

In retrospect, the January 1997 general strike, which admittedly was more about labour regulation than wages per se, proved to have been a high point of union activity in South Korea. Once the financial crisis struck, the unions found themselves and have continued to find themselves in a difficult position. While accepting that economic restructuring, as required by the IMF, was an inevitable process and welcoming attempts by the government to bring the chaebols' management to heel, they were also faced with the reality that the preferred route to achieve these aims involved reducing labour forces. The unions argued for freezing or even reducing wages, and for reducing working hours as viable alternatives to outright dismissal, but they rapidly found themselves losing the argument. Efforts to show resistance, in the summer of 1998 and the spring of 1999, brought only limited success, especially as it became clear that the Kim Dae-jung administration was increasingly prepared to take a tough line to maintain industrial stability and avoid international investors, seen as being so crucial to economic resuscitation, being frightened off by renewed visions of worker militancy. The collapse of Daewoo in mid-1999 also effectively dampened the hopes of unions for wage rises in the newly recovering economic environment. As the deputy minister at the MOFE commented: the myth that 'a big horse [chaebol] cannot die' had in fact been shattered and the unions were in no position to ask for wage increases.⁵¹ But this realization did not lessen the hardship that many ordinary Koreans continued to face in their personal life.

Towards a second 'economic miracle'?

During the second half of 1998, as its growth remained negative, South Korea was no different from most of the other suffering regional economies that were also trying to hold the line during this fourth phase of the Asian financial crisis. However, in 1999, South Korea became one of the leaders of the regional recovery in the fifth phase, as signs of economic recovery began to show around the region, although in several cases the modest statistical rises in growth rates were helped to look better purely by the poorness of all the comparable indicators in 1998. The first quarter of 1999 showed a 5.4 per cent growth in GDP rate, but it reached double digits for the remaining three-quarters of the year. The particularly sharp rebound in many of the economic indicators for South Korea in the second half of 1999 was reflected above all in the final figures for real GDP growth that year, a massive 10.7 per cent. This was a far cry from the minus 6.7 per cent of the previous year and it was indeed the highest growth rate of any of the Asian Pacific countries in 1999. Other figures tended to support the Kim administration's claims that the economy was on the fast track to recovery. Bolstered by brisk shipments

of semi-conductors, computers and communication equipment, exports rose by 16 per cent and a trade surplus of \$24 billion was recorded (though this was less than the previous year's \$39 billion when imports had collapsed dramatically). Foreign exchange reserves, which had dwindled to less than \$4 billion at the height of the crisis, stood at \$76.8 billion in January and \$84.6 billion in April 2000. Inward foreign investment in 1999 grew to \$15.4 billion, a record high and nearly double the amount in 1998. Prices had been stabilized with the annual inflation rate in 1999 at only 0.8 per cent, well below the 7.5 per cent of the previous year. The emergency loan of \$13.5 billion from the IMF was repaid in full and, on 16 December 1999, the IMF's board of directors announced that Korea had graduated from its emergency bail-out plan.⁵² Indeed, a MOFE promotional video, produced in March 2000, opened by describing the recovery from the financial crisis as the 'second miracle' for the Korean economy, following on its earlier fast growth in the 1970s, 1980s and 1990s, often popularly described as the 'miracle on the Han River'.⁵³

However, this success was not without some blemishes: one a general concern, but also four specific worries. The Bank of Korea and economists at research institutes like the Korea Development Institute (KDI) expressed some concerns that the economy might be in danger of over-heating. The sharp rebound during 1999 tended to give the impression of a 'v'-shaped pattern to key indicators such as GDP growth rate – a sharp downward stroke in 1997–98 and an almost equally steep upward stroke in 1999. Some Korean economists worried that, without restructuring fully completed, companies and individuals might at best become complacent and at worst again over-stretch themselves and push the economy into another downward crash, which in turn would require yet another recovery, so creating a 'w' shape. The MOFE and Kim's closest economic advisers, however, seemed less worried and tried to play down the potentialities of another crash.⁵⁴

More worrying for the pessimists were four specific problems. One was the change in the monthly trade figures in early 2000. The immediate effect of the financial crisis in late 1997 had been to dampen consumption, both by companies and by individuals. Import growth had dropped and imports, after reaching a level of \$144.6 billion in 1997, plunged by 35 per cent to \$93.3 billion in 1998, before recovering by 28 per cent to \$119.8 billion in 1999, on a customs clearance basis. Exports had also suffered, particularly where Korean exporters were unable to buy in necessary components and raw materials for the manufacturing sector in the post-crisis credit crunch, but to nothing like the same extent. Exports registered a small fall of 2 per cent in 1998 to \$132.3 billion but recovered by 9 per cent to \$143.7 billion in 1999. These divergent trends meant that South Korea, after running trade deficits every year during the 1990s, managed to achieve a trade surplus of nearly \$40 billion in 1998 and a slightly reduced surplus of about \$24 billion in 1999. However, as import values

began to rise significantly towards the end of 1999 on the back of recovering domestic demand and rising international oil prices (which effectively tripled during 1999), the trade surplus began to narrow, actually falling into a deficit of \$400 million in the month of January 2000, before edging back into a slight surplus in February.⁵⁵

The second problem was the state of the investment trust companies (ITCs), one part of the financial industry which had not been dealt with as vigorously as other parts, but which particularly came in for punishment from the Daewoo collapse and subsequent workout programme. Their losses stemming from the Daewoo collapse alone were estimated at 2 trillion won. The government tried to clean up their funding situation by injecting 3 trillion won of funds into the two most exposed ITCs, Korea Investment Trust and Daehan Investment Trust, and then planning to split them up, by the sale of Daewoo bonds to the Korea Asset Management Company (KAMCO) and the issuance of collateralized bond obligations. The ITCs have continued to be the weakest link in the financial sector, however, and in May–June 2000 the MOFE had to inject a further 4.9 trillion won to keep the ITCs afloat.⁵⁶

The third problem was the rising level of government debt. This became something of a political football in the months preceding the April elections, as the opposition attacked the government figures as being a gross under-representation of the true situation. Government officials argued that it had tightened up its data compilation processes under the IMF tutelage and that the official figure of total debt of both central and local governments combined, at 108.1 trillion won as of the end of December 1999, was accurate. The opposition claimed that the true figure, if contingent liabilities were included, should be closer to 400 trillion won. Even the government conceded that the debt burden had increased from the 65.6 trillion won at the end of 1997, but argued that, given that its debt ratio to GDP was only 22 per cent, this amount was still manageable and indeed much lower than the average for OECD countries.⁵⁷ Nevertheless, the Kim administration could not avoid being on the defensive on this issue.

The final problem was the emergence of difficulties with the Hyundai group. Since many of the Hyundai units, such as ship-building, cars and electronics, were actually making money, and the liquidity crunch seemed to be confined to only a few companies within the group, in particular in the construction industry, the financial concerns were less serious than with Daewoo. Rather the problem lay with the restructuring of corporate management and a family feud which emerged between elderly founder Chung Ju-yung and two of his sons showed that old practices died hard. After months of resisting government attempts to improve corporate governance, and ignoring new legal requirements about consulting shareholders and even other board members, Chung finally decided to take action and tried to force both his sons to drop out of their managing

positions after they had argued over which one of them should become chairman for the whole group, but the son in charge of Hyundai Motors refused to step down.⁵⁸ Hoping that Chung's gesture would encourage other family-controlled chaebols to take similar steps, the Kim administration welcomed his move to a more professional management but undoubtedly was concerned that the unresolved family feud would only serve to cast doubts on the credibility of the proposed Hyundai restructuring.

While playing up the favourable economic data and playing down the lurking problems in the early months of 2000, the government's response to economic problems was increasingly conditioned by two factors: Kim Dae-jung's personal interest and preoccupation with promoting his 'sunshine policy' towards North Korea, which was to culminate in the dramatic announcement of an unprecedented summit, and the approaching parliamentary elections. This meant that although Kim himself may have been personally less involved in the day-to-day supervision of economic policy-making, senior party officials, concerned about the prospects for the MDP in the forthcoming April 2000 election, did try to intervene more forcibly. For example, interest rates were raised by the Bank of Korea in February 2000 for the first time for two years in order to head off signs of emerging inflation, but MDP and government officials discouraged the Bank of Korea from taking any more steps in that direction before the election.⁵⁹ A more blatant attempt to avoid losing potential votes was the swift reversal of policy on petrol prices in early March. The Deputy Minister of MOFE suggested that the government would not intervene in preventing the recent rises in international oil prices being passed on to domestic petrol and petrochemical companies, but when this was quickly picked up by the media as inevitably implying price rises, MOFE reversed course within a matter of hours and announced that domestic petrol prices would be kept at their existing level by reducing the import duties imposed on petrol and oil products.⁶⁰ By stating that domestic prices would be kept stable regardless of the international price the government was once again reverting to old-style 'interventionist' practices and again raised doubts amongst external observers about the commitment to market reform.

In part because there had been strong resistance from both management and unions in the financial sector – both of which have tended to equate restructuring simply with job loss – to the initial wave of restructuring, and in part because of the sheer size of the financial problems left over from the pre-1997 excesses, a second round of major restructuring across the financial sector has become one of the priorities for the second half of the year 2000. In part that will be stimulated by the example set by the growing foreign involvement in the financial sector. While some businessmen and politicians have complained about the foreign presence, the Korean press has often commented favourably on the 'aggressive business

style' of the Korea First Bank now that it is under US control. In part it will result from the need to finally square all the non-performing loans, which have remained a substantial problem through into the year 2000. In part the process will also be influenced by new technological developments in electronic commerce and e-financing.

6 Dealing with the North

Apart from managing the economic recovery and coping with political cohabitation, the other major problem facing Kim Dae-jung when he took office was how to deal with the South's neighbour, North Korea. The Kim Young-sam administration had had a traumatic time in its relations with the North, reaching a particularly low point during the 1993–94 nuclear weapons crisis, when, as is now known, the situation came close to war, and failing to make any significant progress in the bilateral search for real peace and accommodation on the peninsula. Kim Dae-jung, who had often been criticized for being 'soft' on the North, came into office determined that he should adopt a more open and more consistent policy than his predecessor had done towards the North. His approach, encapsulated in what he called the 'sunshine policy', brought him into conflict not just with the outgoing GNP but at times with his own domestic political ally, Kim Jong-pil, and involved a complicated series of negotiations with external partners, particularly the USA and Japan. It certainly had indirect connections with the politics of economic recovery and, in as much as it became an important issue in the April 2000 elections, was to have a bearing on Kim's own political future.

Conflict and competition on the Korean peninsula

In order to analyse the basis of Kim Dae-jung's new policy and the degree to which it was successful, it is necessary to understand something of the complex situation which has existed on the peninsula since 1945, when the arriving US and Soviet armies divided up the peninsula along the 38th parallel and created the division and the 'Cold War' frontier which still exists today. Through military, economic and political means, North and South Korea have been waging a competitive struggle for prestige, legitimacy and survival for more than five decades. Since the 1980s the balance of advantage had been shifting increasingly in favour of the South, but that had not meant any lessening in the complicated manoeuvring for advantage between the two rivals.

Both sides maintain large military forces, such that the Demilitarized

Zone (DMZ) created after the end of the Korean War in fact has become, if the immediately surrounding areas are included, one of the most heavily militarized borders in the world. Memories of the Korean War play strongly on both sides – for the South the ruthlessly effective North Korean advance to the capital Seoul and beyond at the start of the war, for the North the carpet bombing suffered at the hands of the US/UN forces later in the war and, for both sides, the legacy of divided families and feelings of vulnerability about their capitals ever since.¹ While in quantitative terms the North would appear to be well ahead in the military field, a more qualitative assessment would suggest that the South's more modernized military was superior to the North's, even without the additional factor of the presence of US troops and weaponry on South Korean soil.

The two Koreas have also developed along different political and economic premises. Both created highly centralized political systems, but the faiths underlying them and the forms developed have increasingly diverged.² The North, while initially espousing Marxism-Leninism, gradually established a particular familial form of socialism, which was summed up in the philosophy of *juche* (usually translated as self-reliance) and found expression in a pervasive cult of personality. The founder Kim Il-sung ruled North Korea until his death in July 1994, when he was succeeded by his chosen heir, his son Kim Jong-il. The two Kims, by promoting *juche* in theory but in practice allowing some degree of flexibility, have tried to reconcile two not totally compatible goals – modernizing the Korean economy and society, and maintaining revolutionary and nationalist zeal. In contrast to the apparent political stability and continuity in the North, the South's history, as discussed in more detail in Chapter 1, has been an unstable and traumatic road through civilian and military authoritarianism, interlaced with brief periods of democracy, to people power-induced constitutional democracy from the late 1980s.

The two Koreas both succeeded in transforming backward economies ravaged by war into predominantly industrial ones, but again the systems have increasingly diverged. Although truly comparable economic data is not available, it is likely that the North's heavily statist Soviet-style command economy actually kept it ahead of the South in terms of per capita GDP until the 1970s, but since then, while the newly industrializing South continued to power ahead (at least until 1997), the North began to suffer from the rigidities of central planning.³ Reluctant to embrace the reform approach adopted by its East European allies and by neighbouring China, North Korean growth stuttered and in the 1990s fell into negative growth, industrial stagnation and agricultural shortages, before finally slumping into what has come to be called a 'food crisis' (or 'famine' by the more dramatically inclined foreign media) in the mid-1990s. Accurate statistical data are hard to obtain, but one indication of the economy's hardship is that North Korea announced no state budget details for the

years 1995–97 and when it resumed supplying overall details in 1998, the income and expenditure levels were barely half those of 1994.

Relations between the two Koreas themselves have been insubstantial and intermittent. Official dialogues have been spasmodic and frustrating, characterized by the ‘one step forward, two steps backward’ syndrome. There have been brief dialogues in 1972–73, 1979–80, 1984–86, 1990–92 when an unprecedented series of eight prime ministerial-level talks took place and, at a quasi-official level, in 1998–99. Apart from a joint declaration back in 1972, the most significant breakthrough was the signing of two documents in December 1991.⁴ Under the first, the Agreement on Reconciliation and Non-aggression, the two Koreas guaranteed non-interference and non-aggression and agreed to promote economic and personal exchanges. In the second, the Declaration on a Non-nuclear Korean Peninsula, both sides pledged the peaceful use of nuclear energy, no nuclear weapons and no nuclear reprocessing and uranium enrichment facilities. Although working-level meetings were held during 1992 to try to work out mechanisms for implementing these agreements, progress was not achieved and the talks ran into the ground when the so-called ‘nuclear crisis’ occurred.

From the late 1980s the US and South Korean governments had become suspicious that North Korea might be secretly reprocessing nuclear fuel and even producing nuclear weapons. North Korea prevaricated over opening up its nuclear reactor sites to the International Atomic Energy Agency (IAEA), threatened in the spring of 1993 to withdraw from the Nuclear Non-proliferation Treaty (NPT) and practised brinkmanship coupled with the occasional inflammatory statement (such as threatening to turn Seoul into a ‘sea of fire’) during a long series of negotiations with the USA during 1993–94. Talk of sanctions and even pre-emptive military strikes against the suspect sites hovered over the negotiations, and, at one stage in mid-1994, certainly the situation did come close to war. But a US–North Korean framework agreement was finally signed in October 1994 after the personal intervention of the former US president Jimmy Carter. This agreement provided for international assistance from a newly created consortium for North Korea to build and develop two nuclear power plants and to supply much-needed oil in the interim.⁵ The Korean Energy Development Organization (KEDO), as the international consortium became known, was formally inaugurated in January 1995, with the USA, South Korea and Japan as the three initial members of the ‘board of governors’ or executive committee. A series of further negotiations to fill in the details about the site of the nuclear reactors, their type, design and construction schedule dragged on through 1995–96, but construction of the first reactor did begin with the formal ground-breaking ceremony in August 1997.

The nuclear issue and the complicated diplomacy involving the powers most interested in the solution of this issue, in fact, were to be a major

problem faced by the Kim Young-sam administration from the opening weeks of its term in office. Kim Young-sam, who felt himself less beholden to external supporters including the USA because of his own democratic legitimacy,⁶ wanted to achieve a breakthrough in relations with the North on his own account. In the early months of his administration he returned an imprisoned North Korean war correspondent as a goodwill gesture and spoke of his hopes for a summit meeting. However, the emergence of the nuclear weapons crisis threw him off balance at a very early stage. Although his foreign minister, the well-respected academic Han Sung-joo, wished to pursue a policy of sticks and carrots, the conciliatory approach came under strong domestic criticism – and, indeed, from some within the administration – as the crisis dragged on through into 1994. When the Americans began to edge towards the solution eventually brokered by Carter, Kim Young-sam was accused of being too soft and letting the Americans make the running. In order to defuse domestic opposition he took a harder line, with much more talk about sticks. His most forthright statement in this mode was in his interview with the *New York Times*, in early October 1994, when he argued that the North ‘was on the verge of economic and political crises that could sweep it from power’ and that the USA was being ‘naïve and overly flexible’ in its negotiations with the North.⁷ Yet, a month later, his government announced a relaxation of restrictions on South Korean companies going to undertake business in the North. This in fact became the pattern for most of the Kim Young-sam administration; a kind of zig-zagging in policy-making, in which domestic political concerns – and public mood swings – became paramount. The result was the impression that ‘the government vacillated between cooperation and hostility’.⁸

When Kim Il-sung died, the Kim administration pointedly did not offer condolences (though the Americans did) and showed no enthusiasm for a summit-level meeting with Kim Jong-il, but found itself with little option but to support the US–North Korean framework agreement and to agree to bear most of the costs under the KEDO programme. The Kim administration looked desperately for a silver lining – at least the KEDO programme might be a way of opening up the North – but the negotiations over supplementary agreements to implement the 1994 framework agreement were protracted.⁹ The North turned its back on the South, while trying to maintain a form of dialogue with the USA. To counter this tendency, US president Bill Clinton and Kim Young-sam, at their April 1996 summit meeting, invited North Korea to join with China and their two countries in unprecedented four-power talks.¹⁰ North Korea stalled, but finally agreed to participate; the first four-power meeting (or four-party peace talks as some sources described them) finally took place in December 1997. As the economic crisis began to emerge in the South during 1997, Kim Young-sam no doubt would have liked to achieve some form of breakthrough with the North in order to end his presidency on a

high note, but the North was not willing to play ball, preferring no doubt to wait and see who emerged as the new president rather than deal with the lame duck Kim Young-sam. Even the four-power talks produced little more than agreement to meet again. Kim Young-sam's policies towards the North therefore ended in frustration with very limited progress achieved.

Sunshine policy

The term 'sunshine policy' originated from the Aesop fable in which the sun and wind compete to see which can make a traveller take off his coat; with its warm rays the sun naturally wins. Adapting this analogy to his policy towards North Korea, Kim Dae-jung argued that by providing economic and other benefits to the North it could be induced to change its anti-open door and anti-reform policies and generally become a 'nicer' place because it would recognize that the South was acting out of goodwill and not out of a desire to overthrow it. This policy was not something conceived on the eve of achieving power, but had in fact been mentioned publicly by Kim several years before.¹¹

The foundation of Kim's policy towards the North was not just to adopt this more conciliatory attitude but also to carry it out consistently, even though it came under criticism domestically or appeared ineffective in preventing North Korean transgressions.

Kim Dae-jung followed up his inaugural speech calling for reconciliation by outlining his 'three principles' for policy towards North Korea. First, in order to show that he was not 'going soft' on the North, he made it clear that 'no armed provocation by North Korea will be tolerated'. Second, to try to alleviate the North's fears, he stated that 'a takeover or absorption of North Korea will not be attempted'. Third, in order to reduce hostility and promote understanding, he argued that 'reconciliation and cooperation will be expanded'; in particular he advocated going back to the 1991 North-South agreement and reactivating it.¹²

In terms of strategy, Kim Dae-jung made it clear that he wanted to separate business from politics and, at the end of April 1998, the government announced a series of measures to make it easier for South Korean businessmen to do business with the North. It abolished most restrictions on visits to the North by businessmen, expanded the list of goods allowed to be traded, lifted the ban on moving production facilities to the North and repealed the ceiling limit on investment in the North.¹³ Kim also tried to encourage cultural and humanitarian contacts with the North.

Although, in parallel with these initiatives, Kim tried to re-open the inter-governmental dialogue, the implication of his strong emphasis on private sector contacts was that they 'would be encouraged regardless of what occurred in the governmental track'.¹⁴ As Kim was to find out, even though the improved business contacts were by no means easy to achieve,

getting the inter-governmental dialogue re-started was to prove even more frustrating.

Hyundai's hopes

One of the ironies of Kim Dae-jung's attempts to bring the chaebols under control (discussed in Chapter 5), was that one of the largest chaebols, Hyundai, was to become one of the key instruments of his own 'sunshine policy'. Hyundai's past development and direction had owed much to the efforts of its energetic and often controversial founder Chung Ju-yung. Born in Kangwon province in North Korea, Chung in later life admitted that he felt a personal debt to the North in the sense that as a young man he had stolen his parents' cattle from their farm and used the proceeds to flee southwards and set up his first business, which in due course expanded into the massive Hyundai group. He was the chairman of the Hyundai group from 1971 to 1987, after which he became the honorary chairman; even though first his younger brother and then his sons took over much of the day-to-day business, he remained actively involved in the major decision-making. As a businessman he enjoyed considerable success, but his first venture directly into the political world, in 1992, when he founded a political party, won election to the National Assembly and achieved a poor third place in the presidential elections of that year, was short-lived and not long-lasting in its impact.¹⁵ He went back to business, but suffered under Kim Young-sam's anti-corruption campaign through being implicated in Roh's slush funds.

The advent of Kim Dae-jung, however, presented new opportunities for him and his group. In advancing a number of initiatives to utilize the newly found freedom in contacts with the North under the 'sunshine policy', Chung seems to have had three objectives. One was a purely commercial interest, a belief that the potentiality of cooperation with the North could help to revive the fortunes of the Hyundai group, which, like the other Korean companies, was suffering under the financial crisis. A second one can be described as strategic in the sense that he no doubt hoped that by so closely cooperating with the Kim administration's policy moves on North Korea his chaebol might be spared some of the harsh restrictions and tight deadlines imposed on other chaebols under the restructuring programme. Finally, he hoped to settle his own conscience about the North.

Chung was not one to go for half measures. On the morning of 16 June he became the first civilian to cross the DMZ at Panmunjom since the end of the Korean War. A few moments later a fleet of fifty trucks carrying a total of 500 head of cattle began crossing over. He met senior North Korean officials (though, to his disappointment, not Kim Jong-il) and concluded a number of agreements for tourist development in the Mt Kumgang area near to the eastern sea coast, and for projects such as a car

manufacturing plant, ship scrapping, oil exploration and telecommunications development.¹⁶ Further talks on the implementation of these projects were not helped by the discovery of a North Korean spy submarine off the east coast of South Korea a week later, and by the North Korean launch of a missile at the end of August. However, another delivery of 500 cattle and another visit to Pyongyang by Chung in October, when he did finally manage to meet Kim Jong-il, put the tourism project back on course.

Finally, after several technical delays, the first project began in mid-November 1998 when a cruise ship carried just over 1,400 South Korean tourists to the small North Korean harbour of Chanjon, from where the tourists went to visit Mt Kumgang. Although a few South Koreans, apparently journalists and government officials who were accused of holding 'unfavourable attitudes', were rejected by the North Korean authorities, a second cruise trip followed soon after, before the winter weather curtailed operations. The tourists were kept in carefully controlled groups and were allowed no real contact with 'ordinary' North Koreans, but, nonetheless, their visits did represent a notable step forward in contacts with the North.¹⁷ They also proved financially beneficial to the North, which is expected to receive around US \$940 million by 2005 in return, but these payments are yet another financial drain on the Hyundai group.

Although there was a hiccup in June 1999, when one female South Korean tourist was arrested and held for several days by the North Koreans on the grounds of being a spy, a charge which she vehemently denied, the tourist visits continued at regular intervals during 1999. By early April 2000, a total of around 210,000 South Koreans had visited Mt Kumgang.¹⁸

More purely commercial contacts between North and South have proved less successful. Undoubtedly jealous of Hyundai's inside track, a number of other chaebols also tried to initiate projects with the North. But, although some agreements were made on processing goods manufacturing, primarily textiles, food and footwear, both Hyundai and its rivals have had mixed results in the implementation of these projects. Hyundai has been upset that the large-scale export zone which it planned to build in the North close to the DMZ and southern ports has been switched, at North Korean insistence, to a more remote area close to the North's border with China. North-South trade remains low-level, having fluctuated between \$200 and \$300 million per year since 1994. After dropping down in 1998, undoubtedly in part due to the financial difficulties that South Korean companies were suffering from, it rose again in 1999 to \$333 million, although that total includes components and supplies being provided to the KEDO project. Whereas these amounts are important for the North, making the South its third largest trading partner after China and Japan, they represent about 0.1 per cent of South Korea's total international trade. Nonetheless, however low-key such trade and economic cooperation might be initially, to Kim Dae-jung the prospect that

expanding business with the North could act as yet another means for South Korea to escape from its economic problems was undoubtedly a factor in his thinking.

The North's diplomatic offensive

Kim Jong-il had inherited from his father a state that was diplomatically isolated, with few friends except for China and even relations with Beijing were not as cordial as they had been in the past. It was also a state in a serious economic condition. As the economic situation continued to deteriorate in the second half of the 1990s, the North had begun to employ the 'food card' as judiciously and as effectively as it had used the 'nuclear card' in the early 1990s.

The North's centrally planned economic system, which proved beneficial in the early decades of post-Korean War development, has become afflicted by structural rigidities which prevent it from adapting to changes in the global economy and to the collapse of its important trading partner and significant aid supplier – the Soviet Union. Despite its much-vaunted self-sufficiency (*juche*), North Korea has long needed external sources of oil, but these supplies became more uncertain (even from China) during the first half of the 1990s. Additionally, crop failures caused by structural inefficiencies in the agricultural system, compounded by natural disasters,¹⁹ resulted in the North becoming heavily dependent on food aid from outside.

Given the shortfalls in the annual harvests from the early 1990s and the limitations on Chinese food supplies, by the mid-1990s the North had no option but to call for assistance from international food agencies and non-governmental organizations. According to information that these agencies have been able to obtain, in part from their own on-the-ground activities inside North Korea, it is clear that the domestic food production situation has continued to prove dire and that some parts of the country are suffering from malnutrition and possibly even famine. External estimates of those who have died due to starvation vary from 200,000 to 2 million, but international aid agencies do have clear evidence of child malnutrition.²⁰ Nonetheless, during the late 1990s the North proved adroit at bargaining for some food aid by promising to adhere to various agreements on nuclear/military matters and by carefully projecting its appeals for humanitarian assistance by stressing natural disasters.

However, although external aid undoubtedly helped prevent the food supply system from collapsing completely, it did not bring any real diplomatic advantage to the North. Therefore, in late 1999 the North adopted a new strategy, which might be described as a 'diplomatic offensive' or the 'recognition card'. It decided to capitalize on the conclusion of a wide-ranging review of US policy – and, by extension, Japanese and South Korean policies – towards the North which had been conducted by

William Perry, the former US defence secretary. Perry's report in October 1999 proposed a step-by-step process of engagement and reconciliation.²¹ As far as can be determined from those parts of the Perry Report which have been made public (part has been kept classified), the first stage would involve North Korea stopping all missile test-firings while the USA would relax its economic sanctions; in practice this had been agreed and implemented a month before the publication of the Perry Report. The second, mid-term stage envisaged the North forswearing the development of all weapons of mass destruction in return for economic assistance, and suspension of all remaining US sanctions. The final stage would involve conventional weapon disarmament negotiations and the creation of a genuine peace regime on the peninsula.

During the six months following the Perry Report's publication, therefore, North Korea continued intermittent discussions with the USA, re-started normalization negotiations with Japan for the first time for seven years, signed a new friendship treaty with Russia, sent its foreign minister to China, negotiated diplomatic recognition from Italy (the first of the original Group of Seven powers to so do) and began low-level dialogues with several other European, Australasian and South-East Asian states. Finally, early in April 2000, it agreed to host the inter-Korean summit. The individual dynamics of the relationships with the USA, Japan, Russia and China will be discussed in more detail hereafter, but it is necessary to consider here the underpinnings of this change of strategy by North Korea.

The economic situation of the North can be considered to be the major factor prompting the North's moves to improve relations with various external powers. Despite the international food aid that probably helped to avert mass starvation in 1998 and 1999, the continued deprivation and the running down of the economy began to make a real impact on everyday life. There is no solid evidence of unrest, but the leadership certainly was well aware of the deprivations of the general population. For example, the January 2000 New Year's Day joint editorial of the three major party and military newspapers admitted that 'economic conditions remain difficult' and advocated 'radical improvements' in agricultural methods, light industry and the power and coal-mining sectors.²² In February 2000 the official news agency, KCNA, was more blunt about the impact of difficulties with energy supplies: 'never before in the history of Korea has there been such a power shortage as today ... this is adversely affecting overall economic life'.²³ In terms of obtaining necessary food aid, the North's new strategy implied moving away from utilizing international aid agencies, who intrusively demanded access to the worst-affected parts of the country, to instead seeking government-to-government economic assistance, which might be obtainable with less stringent monitoring requirements. By appearing to act as a more 'normal' state willing to engage in responsible diplomatic dialogue, the North expected to be able

to induce policy change amongst its external interlocutors. But this does not mean that the North has changed its fundamental belief in protecting its own system from debilitating external influence.

Three and a half powers

The most important external power is a country that had barely been involved in Korean affairs at all until the end of the Second World War, the USA. A close ally of the South, with 37,000 of its troops still located on South Korean soil, the USA had virtually no contact at all with the North until the nuclear crisis of the early 1990s. From the US perspective, North Korea has been a 'terrorist' regime which not only has threatened South Korea directly and Japan indirectly, but, through its missile and suspected nuclear weapons programmes, has also undermined US weapons non-proliferation objectives on a global scale. From the North's viewpoint, the USA is of course the sole superpower, whose influence over the South is pervasive and whose armed forces, still deployed on South Korean soil, represent a major obstacle to reunification; for these reasons the USA has become the external power with which the North most wants to interact.²⁴

Since the time of the nuclear crisis, however, the USA has found itself heavily involved in a series of negotiations with the North, over the 1994 framework agreement and its implementation, over other aspects of the North's nuclear programme, over missile development and export, and over missing-in-action soldiers from the Korean War era. These talks have had a pronounced on-off character, with the North bargaining for food aid and for more formalized diplomatic links in return for allowing inspections of specific facilities (such as a large underground construction site at Kumchang-ri, which US inspectors visited in May 1999) or freezing its missile programme.²⁵ Progress has been tortuous. Paradoxically, if food aid and energy-related supplies through KEDO are considered, the USA's largest aid programme to an Asian country is in fact to the only one with which it has no diplomatic relations, North Korea.

China had of course developed close ties with its communist neighbour, North Korea, from the time that it intervened to save it during the Korean War. However, interested in maintaining a peaceful balance on the peninsula and increasingly benefiting from its expanding economic links with the South, China switched in the early 1990s from strong ideological support for the North to a more balanced approach, recognizing the reality of the two Koreas.²⁶ While steadily building up its economic ties with the South during the second half of the 1990s, China tried to encourage the North to adopt the Chinese model of economic reform as a means of resuscitating its economy. Although it reduced grain and oil supplies to the North because of its own internal needs, China remained prepared, when it came to the crunch, to provide food aid when it felt that that was unavoidable in order to prevent a complete economic collapse in

the North. Hungry refugees began to escape across the border into China, raising the prospect of extremely destabilizing outflows should the food situation inside the North deteriorate even further. South Korea, in the meantime, has become a major economic partner for China, with bilateral flows of trade, technology and investment that dwarf Sino-North Korean economic links.²⁷ There were also subtle but nonetheless unmistakable signs in the mid- to late 1990s of China tilting politically slightly more in the South Korean direction, with regular exchanges of senior politicians, including presidents and prime ministers, and even visits by senior military officials. Moreover, the Chinese were certainly unhappy with the North Korean missile test in August 1998 of a new Taepodong missile which flew over Japanese territory and landed in the Japan Sea. The net result was to galvanize the Japanese, who had previously been undecided, into joining the US-led theatre missile defence (TMD) programme,²⁸ and to raise the prospect that a successfully developed TMD programme might ultimately be expanded to include Taiwan as well. The Chinese subsequently proved more receptive to South Korean requests for them to do more to halt the North's missile programme.

However, by mid-1999, it seems that the North was becoming increasingly aware that there was little to be gained from antagonizing the Chinese any further, especially when it still needed Chinese food aid so badly. At the same time, the Chinese were probably calculating that they could not afford to lose all influence in the North and that it might be time to make a gesture or two in its direction; the Chinese also saw the utility of a more proactive approach to Korean affairs as a bargaining chip in the far more important but invariably fluctuating Sino-American relationship. Both sides therefore edged towards improving their relations. In June 1999 Kim Yong-nam, the 'number two' in the North by virtue of his position as president of the Supreme People's Assembly presidium, led a large delegation to Beijing and received 150,000 tonnes of food aid for his pains, but also a lecture about the urgency of economic development.²⁹ Rumours began to circulate about a long-awaited visit to China by Kim Jong-il sometime in the year 2000 and, in early March 2000, Kim made the symbolic gesture of appearing at a Chinese Embassy reception in Pyongyang, something he had never previously done. Visits by the respective foreign ministers were exchanged, in October 1999 and March 2000, and, to the chagrin of the South, in January 2000 China handed back to the North a group of refugees who had fled from the North into Russia from where they had been deported to China.³⁰ Sino-North Korean relations were still far from being back to the friendlier mood of the Kim Il-sung era, but at least this series of moves represented a degree of improvement from which the North could draw solace. As will be discussed later in this chapter, however, the most dramatic step was Kim Jong-il's 'secret' visit to Beijing in May.

For both the Japanese and the Koreans, whether living in the North or

the South, the past has a strong influence on how the present is perceived. Memories of the harsh Japanese colonial period act as an emotional backdrop to Japan's involvement in contemporary Korean affairs. It took twenty years after the end of the Second World War for Japan to establish diplomatic relations with South Korea and it still has not recognized the North.³¹ Deep economic links have been established between Japan and South Korea, but issues such as trade imbalances, tariffs and market access restrictions, aid and technology transfer have often become politicized. Anxieties about Japan's future military role and its tentative links with the North have often made the South Koreans feel disgruntled and suspicious. Even under Japan's well-known policy of separating politics from economics, it has had little success in developing any kind of relationship with the North. Although some politicians friendly to the North – usually from the opposition Japan Socialist Party (JSP) but also including a few from the ruling Liberal Democratic Party (LDP) – tried to act as a pipeline between Japan and North Korea, the results were not substantial and often served only to exacerbate Japan–South Korea tensions.³²

However, the Kim Dae-jung administration has altered the dynamics of the Japan–South Korea relationship in two ways. First, he has translated some of the oft-repeated rhetoric of improving the bilateral relationship into reality. By progressively lifting the bans on many items of Japanese popular culture and also on certain Japanese manufactured goods, as well as by using the opportunity of his visit to Japan in October 1998 to show a willingness to put aside the habit of continually referring to the legacies of the past and to think more about the future potentialities, Kim has adopted a more positive view of Japan than many of his immediate predecessors. His approach was reciprocated by the Japanese, who proved willing to give him a form of written apology on his visit, a concession which was not accorded to the more abrasive Chinese president Jiang Zemin on his visit to Japan one month later.³³ Second, as a logical extension of his 'sunshine policy', Kim has not only expressed no reservations about Japan developing closer links with North Korea but has even positively welcomed such a tendency. President Roh, back in July 1988, had announced a policy in which he expressed support for any improvement in the North's relations with countries friendly to the South,³⁴ but in practice the South Koreans had continued to watch with extreme caution any Japanese moves in the North's direction. Kim adopted a much more relaxed approach. Not that there was much change immediately after Kim took up office. Japan–North Korean normalization negotiations, which had begun in 1990, had been on hold since 1992 as a result of disputes over a number of issues, including the fate of a dozen or so Japanese who, according to the Japanese police, had been abducted by the North's agents.³⁵ Official Japanese views only hardened as a result of the missile test in August 1998, when a North Korean missile flew over Japanese territory and landed in the Pacific, and the brief incursion of some North

Korean spy ships into Japanese territorial waters in March 1999, during which Japanese coastguard ships for the first time in the post-war era had to open fire.³⁶ In fact, while Perry was trying to coordinate relations between the USA, South Korea and Japan in the months before completing his report, it was invariably the Japanese who adopted the most hard-nosed approach.

However, the North Korean commitment to suspend missile test launches as part of the Perry initiative gave some room for manoeuvre. After several postponements, in December 1999 former JSP prime minister Murayama Tomiichi led an all-party delegation to the North, the Red Cross associations of both sides began to meet and, finally, after Japan had agreed to drop sanctions and resume food aid and the North had agreed to at least search for any possible Japanese 'abductees', full-blown governmental-level negotiations began in early April 2000, the first time for more than seven years.

That leaves the one major power that has lost its status, or at least a large part of it, in Korean affairs. The Soviet Union used to be a strong ally of the North, but after 1991 the new Russia's political and economic links with the North all but disappeared.³⁷ In the late 1990s, Russia, which resented being counted out as a player on the Korean peninsula and excluded from arrangements such as the four-power talks, began to reactivate some of its old links with the North. In February 2000, a revised version of the old, lapsed Soviet–North Korean friendship treaty, minus the obligation for military support, was signed when the Russian foreign minister, Igor Ivanov, visited Pyongyang, the first such visit for a decade. Although both sides found common ground in criticizing the US-led TMD programme, this revised treaty does not presage either a return to a close alliance or a revival of the old pre-1991 Sino–Soviet rivalry for influence in the North. It is doubtful whether the North has any real expectation of extensive Russian assistance and it has been happy enough just to register another diplomatic credit. The economically straitened Russia may have difficulties repaying its debts to the South (mainly for loans extended at the time of mutual recognition in 1990), but it appreciates which of the two Koreas is the one it is most important to court.³⁸ Russian moves towards the North appear to have more to do with salvaging wounded pride and are unlikely to be expanded to the extent that they would damage the far more important commercial and technological links developed with the South. Although Kim Dae-jung has been more sensitive than his predecessor to Russian concerns, and indeed did visit Russia in May 1999, the South, like the North, shows little sign that it considers the new Russia to have regained its past status as a major player on the Korean peninsula.

The road to the summit

The North's diplomatic offensive seemed to exclude the South. During 1999 Kim Dae-jung had found it a frustrating experience trying to get an official dialogue going. In February 1999 the North had proposed that 'high-level political talks' be reconvened, but laid down preconditions, such as abolition of the South's National Security Law, which meant that the preliminary negotiations barely started. Eventually, in June vice-ministerial level talks were held, with the South's intention being to bargain an exchange of visits for separated families against supplies of fertilizer to the North. The talks stalled in the aftermath of a naval clash in the Yellow Sea, below what the United Nations Command and the South Koreans call the Northern Limit Line (NLL) – an extension out to sea of the land demarcation border. Whether desperately seeking crabs and fish or deliberately designed to test the limits of South Korean patience, the North's fishing boats, accompanied by small naval craft, crossed the NLL. When the South's navy tried to push them back, one northern torpedo boat was sunk in the confrontation. This incident marked the worst naval conflict since the Korean War.³⁹ Kim warned that his policy of engagement did not include tolerance of aggressive behaviour, but the net result was to scupper any tentative hopes of North–South talks.

It was at times such as the June 1999 naval clashes that Kim Dae-jung found his policy towards the North coming under domestic criticism not just from the opposition party, the GNP, but even from members of his own coalition partners, the ULD. In private Kim Jong-pil voiced his concerns to Kim Dae-jung, although in public he was always careful not to show outright dissent from the 'sunshine policy', emphasizing only that it was necessary to be prepared for any eventuality. However, other senior ULD members were less restrained. One ULD senior policy-maker, Chung Woo-taik, for example, bluntly stated that he disagreed with certain aspects of the 'sunshine policy': 'I have the feeling that the more we give, the less we get or the less the North Koreans are willing to talk.'⁴⁰ While the criticisms of Kim Jong-pil and the ULD did not deter Kim Dae-jung from his policy, they did provide yet another issue on which he and his NCNP colleagues had to spend time massaging ULD egos in order to keep the coalition together during 1998–99.

The year 2000, however, was to bring dramatic change to North–South relations. Three days before the National Assembly elections in April the Kim Dae-jung administration surprised the South Korean public by announcing that agreement had been reached by emissaries from both sides on a historic North–South summit meeting to be held in Pyongyang on 12–14 June 2000. Although a very select few knew that some behind-the-scenes contacts had been taking place in China and elsewhere over the previous months, the announcement came as a shock to most Koreans.

Well aware that constitutionally he would have to call elections in April 2000 (and no doubt expecting the opposition to raise the lack of achievement

on the 'sunshine policy' as an election issue), and also noting the North Korean attempts to improve relations with a range of countries in the post-Perry Report period, Kim Dae-jung had evidently decided to raise the tempo of his efforts for possible North-South dialogue in the early months of the year 2000. When he launched the MDP in January 2000, Kim had indeed spoken of his desire to realize a summit meeting after the April elections.⁴¹ This was amplified into the idea of creating a North-South 'economic community'. Koreans inevitably have taken and continue to take a special interest in the case of German reunification, the dynamics behind its achievement and its results. Kim Dae-jung's tour of Western Europe in early March 2000, therefore, took on special symbolic significance when he visited the refurbished and re-designated German capital city of Berlin. In a major speech there on 9 March, he reiterated his willingness to enter into government-to-government dialogue and spoke in more detail about his desire to help the North's economic reconstruction through collaborating in social infrastructure projects and agricultural reform.⁴² Although the North Korean media criticized his speech as containing nothing new, its government made contact with the South through Panmunjom and secret North-South talks actually began a week later in Shanghai.⁴³ Culture and tourism minister Park Jie-won was the South's special envoy; Song Ho-gyong, the vice-chairman of the Asia-Pacific Peace Committee, represented the North. Using various spurious reasons to explain his repeated absence from his usual office, Park travelled secretly three times to China, before agreement was finally reached at a meeting in a Beijing hotel on 8 April.

Apart from the designation of 12-14 June as the dates for Kim Dae-jung to visit Pyongyang, the text of the agreement included only one important article, namely that the discussions would be based on the three principles of the July 1972 North-South joint communiqué, that is, self-reliance, peace and grand national unity. By reverting to this declaration, rather than the 1991 joint declaration, the South was making a marginal concession to the North's position. The texts, announced the same day, 10 April, by both North and South, contained only one significant difference in language. The South Korean version stated that Kim had been invited to Pyongyang by the National Defence Commission Chairman Kim Jong-il (technically there is no 'president' in North Korea, as, since the constitutional revision of September 1998, the dead Kim Il-sung has occupied the post of 'state president in perpetuity'), whereas the North's version states that the summit was taking place at the 'request' of Kim Dae-jung. Asked about this difference in wording, the chief negotiator Park said that the two versions were in line with precedents of 'mutual convenience'.⁴⁴ According to Russian sources, who had had contact with the North Koreans, the South had first proposed a neutral place for meeting, such as Panmunjom or a third country such as China, but the North Koreans, no

doubt keen to draw on the symbolism of being the host and also wishing to control arrangements, insisted on Pyongyang.⁴⁵

While not explicitly covered by the agreement, Kim Dae-jung did agree that South Korea would provide some food aid prior to the summit as a gesture of goodwill. The shipping of 200,000 tons of fertilizer and food aid began in May 2000. Domestic critics claimed that money was also changing hands, but no concrete evidence has yet appeared to support these allegations.⁴⁶

Why was Kim Dae-jung so intent on a summit meeting? First, and most importantly, was the desire to ensure credibility and kudos for his 'sunshine policy'. After a frustrating two years, a summit would be taken as a sign of real progress. While the conclusion of the agreement depended equally on the North's own willingness, the timing of its public announcement clearly had much to do with the election campaign. Recalling the manner in which the North Korean-related 'North Wind incident' had been introduced during the 1997 presidential election campaign to the detriment of Kim Dae-jung, an MDP official was quick to express the belief that this announcement would work to his party's advantage, especially in picking up votes in those provinces where many people originally from the northern part of the peninsula had settled.⁴⁷ The opposition inevitably denounced the move as an election ploy. Yet, as discussed in Chapter 4, primarily because of the strong influence of entrenched regional voting loyalties, in fact the announcement did not make as significant an electoral impact as Kim had evidently hoped.

In addition, two other factors were probably at play in Kim's mind. One was that since the coalition with the ULD had effectively broken down anyway, even though the ULD still supplied the prime minister, there was little to be lost by taking this step which was out of tune with the ULD's far more suspicious attitude towards the North. The ULD's leader Kim Jong-pil, reflecting his conservative views and his former intelligence background, had always been reluctant to endorse fully Kim's 'sunshine policy', even from the early days of their coalition government, and it came as little surprise when ULD officials joined the GNP in questioning the possibility of financial back-handers to ensure the summit agreement.⁴⁸ The other factor was that the visible signs of economic recovery were easing, at least to a certain degree, Kim Dae-jung's concerns about domestic economic restructuring and this enabled him to have both the time to devote to his policy towards the North in a more focused manner and, potentially, the financial resources which might need to be made available to promote economic cooperation with the North.

If domestic, in particular electoral, dynamics were the key determining factor on the southern side, what was motivating the northern side to agree? Both internal and international factors could have been at work. First, the state of the North Korean economy and the shortage of food. By the end of the hard Korean winter, North Korean food supplies would

have been dwindling and, with the degree of 'aid fatigue' amongst international donors mounting, and even the withdrawal of some international aid agencies, the North almost certainly had a significant shortfall which needed urgent replenishment.⁴⁹

Second, the North may have calculated that the South might be the only place willing to provide that aid promptly, since neither the USA nor Japan seemed eager enough. Negotiations with the USA had become difficult during the early months of 2000 over the terms for the visit by a senior North Korean official to the USA, with the US side refusing to accede to the demand that North Korea be removed from the US list of 'terrorist' states. In fact, after the announcement of the summit, US–North Korean relations if anything became even more difficult, with the US side hinting that sanctions, softened the previous autumn, might have to be reinstated after evidence of renewed missile exports to Iran were discovered; and, on 1 May, the annual State Department report on global terrorism again listed the North as a terrorist state.⁵⁰ The presidential election looming in the USA was likely to distract interest from Korean affairs and even President Clinton, no doubt on the look-out for some diplomatic triumphs to cement his place in history, was showing far more interest in Middle Eastern affairs. So the prospects of an early breakthrough in US–North Korean relations appeared increasingly dim.

The first round of Foreign Ministry official talks with the Japanese in early April in Pyongyang also suggested that Japan would not be an easy touch, with again the prospect of protracted negotiations before any agreement that might bring economic aid to the North. The North pushed for settling the legacies of the past (a shorthand for financial compensation) and establishment of diplomatic relations within the year, but the Japanese wanted to deal with outstanding issues such as the kidnappings and missile development prior to establishing relations. The negotiators barely went beyond agreeing to meet again at the end of May in Tokyo;⁵¹ this meeting was subsequently to be postponed until after the Pyongyang summit.

Neither had any of the other countries with which the North had begun talks showed any particular inclination to be generous aid providers. For example, although the Italian Foreign Minister, Lamberto Dini, visited Pyongyang in late March to celebrate the establishment of diplomatic relations, he had concentrated on trying to encourage the North Koreans to open up and reform their economy.⁵² Apart from an agreement to continue limited humanitarian aid, he brought virtually nothing with him as a 'gift' to the North Koreans.

Given the conciliatory tone of Kim Dae-jung's Berlin declaration, well aware of his domestic political needs and knowing that the fast recovery in the South's economy during 1999 from the depths of the financial crisis made giving aid more feasible, the North calculated that a deal could best be done with the South. This represents a tactical rather than a strategic change.

Calls for a summit or high-level meetings have long been part of the Korean scene, acting, at least up until the 1990s, as yet another example of the propensity of both Koreas to indulge in making proposals that they knew the other side would reject. Only once before had there been any real prospect of actually holding a summit meeting. In 1994, as part of his efforts to broker a solution to the nuclear weapons crisis, former US president Jimmy Carter secured agreement for a North–South summit to be held in Pyongyang in July that year. However, before the preparations could be finalized, Kim Il-sung died – and with him died any immediate prospect of a summit.⁵³ The history of North–South relations is littered with the debris of proposed meetings which were aborted because of bickering over apparently minor logistical and procedural details. The run-up period to the June 2000 summit also contained a series of complicated preliminary negotiations at the working level over the logistical and security arrangements, as well as over issues such as titles to be used and the type of communiqué or final statement to be issued.

How were the external powers involved in this summit proposal? All the four major powers have given broadly welcoming comments to the proposed summit. China would have exerted some influence, no doubt during the heightened Sino–North Korean contacts in the early months of 2000, to persuade the North to accept the South's proposal, and, of course, it acted as the site for the secret contacts prior to the April agreement. Nonetheless, as Kim Dae-jung explained to his cabinet immediately after the announcement, while external partners had been helpful, the aspect which gave him the greatest pride was that the summit agreement 'was achieved independently by ourselves', the Koreans.⁵⁴ In this respect, Kim was harking back to the traditional Korean view that unification was a matter for Koreans themselves to solve. Significantly, the two previous breakthroughs in North–South relations in 1972 and 1991 had occurred when the two sides felt that they should try to regain the initiative at a time when international relations were in a state of flux and their own fate looked likely to be discussed and determined by external powers. On this occasion, however, there has been no major international shift to parallel the Sino–American *rapprochement* or the end of the Cold War, which respectively were in the background of two earlier North–South agreements. Precisely because this time, externally, there is a lack of such an obvious mood of flux, the situation augers well for a inter-Korean dialogue where neither side is busy looking over its shoulder at what is happening amongst the major powers.

Nonetheless, both sides looked to boost their diplomatic positions prior to the actual summit by demonstrating their close links with their traditional supporters. The first surprise was Kim Jong-il's three-day visit to Beijing at the end of May, when he met all the senior Chinese leaders including President Jiang. Apart from expressing their support for the summit initiative and giving him the almost obligatory food aid hand-out,

the Chinese did also try to get across the message, which they had tried to pass on several times in the past to North Korean representatives, that it was possible to open up the economy without necessarily disturbing political order; Kim was taken to see the Legend company's computer factory as an example of what the future might hold if the North could embrace some liberalizing tendencies.⁵⁵ Then, Kim Dae-jung found that he was able to take advantage of the state memorial service for former Japanese prime minister Obuchi the following week, to making a flying visit to Tokyo, where he was able to arrange bilateral meetings with both the new Japanese Prime Minister Mori Yoshiro and with US President Clinton, who was also attending the memorial.⁵⁶ Finally, Kim Jong-il tried to trump that by announcing that Vladimir Putin, the new Russian president, had agreed to visit Pyongyang in July on his way from Beijing to Japan for the G-8 Economic Summit; this would be the first visit to Pyongyang by a Russian president, and, indeed, none of his Soviet predecessors had been either.⁵⁷

Summit euphoria

The month of May saw intensive exchanges between officials of the two Koreas on issues of protocol, security, communications, media coverage and size of delegations. It was agreed that, to avoid unnecessary friction, national flags, national anthems and national markings would not be used.⁵⁸ Neither would Kim Dae-jung be asked to pay homage to the giant statue of Kim Il-sung in the centre of Pyongyang, to which foreign visitors are invariably taken.

The North Koreans asked for one day's delay in Kim Dae-jung's arrival in Pyongyang, citing logistical and security concerns, but probably more due to a desire to psychologically unbalance the South's side, who briefly wondered whether the summit would indeed be aborted at the last moment. Finally, on the morning of Tuesday 13 June Kim Dae-jung flew into Pyongyang's Sunan airport, to find himself, unexpectedly, being greeted on the tarmac by Kim Jong-il himself. Although they talked together for only 27 minutes on that first day and Kim Jong-il did not attend that evening's banquet, they had a much longer negotiating session on the second afternoon, after a morning session involving Kim Dae-jung and Kim Yong-nam, the ceremonial head of state. At the end of the day the two leaders signed the five-point Joint Declaration. Kim Jong-il accompanied Kim Dae-jung back to the airport the following day and they embraced each other before parting.⁵⁹

The full text of the Joint Declaration is included in Appendix II, but the key points covered the reuniting of families split by the Korean War, economic cooperation, the promotion of social-cultural exchanges, and even inter-governmental discussions on reunification. Without fixing a date, Kim Jong-il agreed to visit Seoul. It was a good summit for Kim

Dae-jung, who could convincingly argue that his policy was paying off, since there now seemed real prospects of dialogue and progress towards reconciliation, but undoubtedly it was an even better summit for Kim Jong-il. The northern Kim made his first real appearances before South Korean and by extension the international media; this enabled him, as he joked with Kim Dae-jung, to be 'helped ... out of seclusion'. As the host and therefore able to run the show and the agenda to his satisfaction, Kim Jong-il appeared confident, relaxed and articulate.⁶⁰ At his main negotiating session with Kim Dae-jung, he had shown a good grasp of detail and argument.

The successful summit meeting was inevitably greeted with euphoria in the South,⁶¹ but the record of past North-South interactions means that caution in interpreting the results is required. This is actually the third 'breakthrough' in North-South relations, following the 1972 and 1991 agreements, neither of which were implemented; follow-up discussions had broken down in acrimony within a year or so in both cases. This time, however, the Joint Declaration has been signed by both leaders, so there is much more political credibility on the line. Nonetheless, the declaration is much vaguer than the more detailed 1991 accords and so there could be scope for differing interpretations in the subsequent follow-up talks. Moreover, although sensitive issues such as the presence of US troops in South Korea, the North Korean nuclear and missile development programmes, and even the creation of a new peace mechanism on the peninsula were raised in the talks, there was not sufficient meeting of minds for them to be included in the text. They will remain issues which will be difficult to resolve, as indeed will the differences in approach to the conceptualization of the reunification process, despite the efforts in the Joint Declaration to search for common ground.

How will the summit impact on the two Koreas' international relationships? From the North's perspective, by participating in the summit – and in North-South dialogue – it has gained further credibility in the international community and so it encourages other states around the world also to develop better relations with it. The USA soon followed up by lifting certain sanctions on economic intercourse with the North and dropping the category of 'rogue state' to describe regimes such as North Korea. In certain specific cases, the North will probably try to use the South's agreement to give food aid and economic cooperation as leverage to obtain similar benefits in other negotiations. For example, Japanese Foreign Ministry officials are already concerned that one effect of the North-South deal would be to tempt the North to ask for greater amounts of compensation during its continuing normalization negotiations with Japan. Given that the South already has diplomatic relations with all the major states in the world and is involved in major international organizations, it has gained little additional diplomatic advantage from this summit. Nonetheless, indirectly it can help to enhance the international image of

the South, which suffered from such a battering due to its spectacular economic collapse in 1997. Needless to say, it has also done no harm to Kim Dae-jung's personal image overseas as a doughty fighter for democracy and now for peace.

In the short run, the relationships between the two Koreas and the four interested powers will not change substantially. More positive will be the impact on the North's relations with other countries around the world and on its attempts to join regional bodies such as the ASEAN Regional Forum (this was agreed by ARF members soon afterwards and North Korea did attend the July 2000 meeting). In the medium term, however, the US and Japanese governments would certainly move to normalize relations with the North; these steps will not come immediately, but they would certainly come sooner if the North-South dialogue continues after the June summit. Despite the rhetoric which is already beginning to be employed, this summit will not result in early reunification. However, the fact that the two Kims did actually meet was significant in itself and it was thus a step along the road to reconciliation. Stability on the peninsula is undoubtedly of real importance to the four major external powers and to friends and neighbours in the Asian Pacific region and the wider global system. The process of eventual reunification and the political nature of the united Korea may be more problematic to the external powers, but for the moment they cannot but welcome any signs of a wider opening of the door of the North. Such an opening will slowly and inevitably bring change to that society. By taking the first step, Kim Dae-jung may yet earn his place in history not solely for his lengthy struggle for democracy but also for enabling a ray of sunshine to pierce the clouds that so often cover the peninsula.