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# SOUTH KOREA IN 2000

## *A Summit and the Search for New Institutional Identity*

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For South Korea, 2000 was a year of discrepancies in achievement between the domestic and international arenas. The historic summit between North and South signaled the beginning of the end of the 50 year-long cold war on the Korean Peninsula. The Republic of Korea (ROK) achieved tangible results in bilateral and multilateral foreign relations to create a favorable environment for inter-Korean relations. Yet, while this great transformation proceeded, South Korea's ongoing corporate and financial reform efforts proceeded with different degrees of urgency and uneven success, causing political and social anxieties about the country's future.

### The Summit and the Development of Inter-Korean Relations

The June 13–15 summit meeting between ROK President Kim Dae Jung (DJ) and North Korean National Defense Commission Chairman Kim Jong Il was more than just a symbol of inter-Korean reconciliation. The two leaders laid a foundation for improving and expanding bilateral relations. Their joint declaration acknowledged the similarities in their unification formulas and included agreements to begin an exchange of family visits as well as build trust based on exchanges in economic and other areas.<sup>1</sup> Further meetings followed between June and December, including four ministerial level talks, discussion between Red Cross representatives on both sides, one round of talks between

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1. *Korea Unification Bulletin*, no. 2, June 2000, p. 1.

defense ministers, two working-level meetings on inter-Korean economic cooperation and the provision of a food loan from South to North, and one working-level military talk. The ministerial level talks produced several important decisions, including the reopening of the South-North Liaison Office at Panmunjom, the commencement of family reunions, the rehabilitation of the Seoul-Shinuiju Railway, and the establishment of working-level talks related to the Red Cross and in military and economic areas.<sup>2</sup>

This wide range of contacts demonstrated that much progress had been made in the areas of economic and social cooperation. From August 15–18 the ROK and the Democratic People's Republic of Korea (DPRK) exchanged delegations of divided families for the first time since September 1985; 100 family members from each side cross-visited the two capitals of Seoul and Pyongyang. Another family reunion occurred November 30–December 1. The agreement reached in the second round of the ministerial talks included the provision of food loans, and so South Korea sent one-quarter of the committed 500,000 tons of rice and corn to the North. A ceremony celebrating the reconnection of the Kyungui Line between Seoul and Shinuiju was held on September 18. Agreements were also reached on the settlement of disputes, a clearance of accounts, avoidance of double taxation, and investment guarantees, all of which confer most-favored-nation status on South Korea.<sup>3</sup>

The ministers' talks on September 25–26 were also historic. In contrast to improved economic and social cooperation, that in military and security areas has not made significant progress, most likely because North Korea put strategic priorities in direct negotiations with the U.S., as developments in DPRK-U.S. relations later in the year suggest. The inter-Korean talks mainly focused on military cooperation in and around the demilitarized zone (DMZ) as part of the plan to reconnect the Kyungui railroad line.

The discrepancy in progress between economic and security issues caused fierce policy debates in South Korea. Conservatives and the opposition party were strongly critical of the government's one-sided policy of giving without receiving as deficient in reciprocity. Conservatives also argued that North Korea's gestures are merely a tactical shift that does not change the DPRK's fundamental aggressive strategies aimed at undermining the South Korean system. For their part, the government and progressive groups argue that by creating a favorable regional and international environment for North Korea and providing support from the South, North Korea will gradually move toward opening up and making changes in its domestic system.

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2. For the details on inter-Korean agreements, see *Historical Materials of South-North Dialogue*, on the World Wide Web at <[http://dialogue.unikorea.go.kr/uw/dispatcher/exp\\_index.html](http://dialogue.unikorea.go.kr/uw/dispatcher/exp_index.html)> [accessed December 5, 2000].

3. *Korea Times*, November 12, 2000.

In general, inter-Korean relations have become interlocked with North Korea's relations with the U.S. and Japan. At the same time, relations on the Peninsula also will be affected by the progress made in revitalizing South Korea's economy, which for the time being at least is going through a period of difficult adjustments owing to deep and extensive restructuring.

## Domestic Politics

After tumultuous discussions about revision of the election law, the general election for the 16th National Assembly was held on April 13 under the new legislation, which reduced the number of seats from 299 to 273. Voter turnout was 57.2%, the lowest in the history of elections for the body. The Grand National Party (GNP) won 39% of the total vote, the Millennium Democratic Party (MDP) won 35.9%, and the United Liberal Democrats (ULD) 9.8%. The results were disappointing for the ruling party in every respect. For the first time in Korean political history, the ruling party failed to secure a majority, the MDP having won only 115 seats (district 96, proportional 19), while the main opposition party won 133 (district 112, proportional 21). The third largest party, Kim Jong-pil's ULD, suffered a shocking setback by winning only 17 seats (district 12, proportional 5), while the hurriedly inaugurated Democratic People's Party won only a miserable two seats and the New Korea Party one.<sup>4</sup> The combined seats of the ULD and the MDP will still be short of a majority. The opposition party's strong showing foretold of uphill battles for the government's attempts to implement various reform policies. Also, the ULD's big loss of seats portended a shaky future for its coalition with the ruling party, for the ULD is unable to form a negotiating group in the Assembly because it requires 20 seats to constitute a quorum.

Thus, the general election had two major consequences for the ruling MDP. First, it produced the *yosoyadae* (minority ruling party) structure, in which the main opposition party has greater parliamentary representation than the ruling party. Second, the ULD was now a weakened coalition partner. These two outcomes set structural constraints for the ruling party. The MDP had some limited success in courting the defection of GNP assembly members while the 15th Assembly was in session. This produced great concern within the GNP over whether the MDP would repeat its use of the tactic in 2000. However, such fears were considerably allayed on April 24 with a summit meeting between the heads of the ruling and opposition party that resulted in an agreement that "politics of mutual survival" would guide policies.

But the ULD situation was a different matter. Since neither party obtained more than half of the seats available, the ULD can cast votes but cannot form

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4. *Chosun ilbo* (Chosun daily), April 4, 2000.

a floor-negotiating group. The ULD urged its ruling coalition partner to revise the law to lower the number of seats required to be able to form a floor group. However, the revision effort faced fierce opposition from the GNP. In the end, the MDP and the ULD endorsed the draft revision in the Assembly's Steering Committee in July.<sup>5</sup> The GNP responded with public protests against it and organized rallies in major cities including such regional strongholds as Pusan and Taegu. The political stalemate ended at the third party leader meeting in October at which the draft was nullified. In the meantime, the coalition between the ULD and the MDP soured.

An additional concern for the GNP is whether the MDP in the face of the former's numerical superiority in the Assembly takes it seriously as a partner in running the country. The April agreement to pursue the politics of mutual survival was taken by the GNP as a symbol of partnership. However, the concept has been challenged so often that it has lost meaning. One challenge has come with respect to political neutrality in the exercise of public power, especially by the prosecutors' office. The suspicion level of the opposition and others has heightened as several controversial cases have arisen, such as the draft scandal and the prosecution of violators of the election laws that came immediately after the April general election.

The April election could be interpreted as a referendum on both DJ's performance in facilitating recovery from the financial crisis and the coalition government between the MDP and the conservative ULD. Issue-based analysis is clouded by the persistent problem of regionalism, especially between the Youngnam (Kyongsang) in the east and Honam (Cholla) in the west. The GNP won 64 seats out of 65 seats in Youngnam, while the MDP won 25 out of 29 seats from Honam (even the four non-committed members elected later joined the MDP).<sup>6</sup> Such regionally based election results make it difficult for the ruling party, government, or pundits to identify social bases for reform policies. The election results also reflected the impact of civic groups who took an active role in discrediting National Assembly candidates they saw as unfit to hold office. Nonetheless, the activities of these groups in rewriting the election law, getting parties to drop their nominations of unfit candidates, and close monitoring of the election process could not shake deeply rooted regionalism.

The political process frequently was interrupted by scandals, unexpected revelations, and unfortunate slips of tongue and derogatory remarks by leaders of both the ruling and opposition parties. Such incidents as the matter of illegal loans made by Hanvit Bank, the attempted arrest of Assemblyman Chung Hyonggeun, revelations of corruption by the Financial Security Over-

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5. *Dong-a ilbo* (Dong-a daily), July 25, 2000.

6. *Ibid.*, April 14, 2000.

seeing Committee, and the remarks of MDP Assemblyman Yoon Chulsang regarding the preparation of a false report on election expenditures limited serious policy debates. Only when issues were politically too important or urgent to ignore could the National Assembly take action.

Parliamentary politics in 2000 were turbulent for several reasons. The GNP's numerical superiority presented a challenge to the ruling party, which had expected to receive a winning majority after its successful resolution of the financial crisis. But the ongoing economic difficulties opened up a wide field of policy differences. It was the lack of an issue-oriented social support base for the political parties that made political process difficult. The best way for a party to differentiate itself from the others was to stake out a clearly drawn position of opposition on a given issue rather than seek compromise. Given the strongly regionally based party systems, the appeal of regional political clout is for its usefulness in making an oppositional stance clear rather than for helping to differentiate a political position. Thus, parliamentary politics becomes more emotionally charged than policy-based.

Korean democracy has not reached a point where compromise is a norm unless the ruling and opposition parties are faced with a truly urgent and pressuring situation. At present, summit meetings between the heads of the parties are the ultimate channel for breakthroughs of political stalemates. The party leaders met three times—in April, June, and October—and each time they agreed to work toward bipartisan cooperation on domestic and inter-Korean relations. In the last meeting, the two leaders agreed to meet once every two months.<sup>7</sup>

### *Leadership Politics and International Relations*

President Kim Dae Jung continued to enjoy broad if variable public support. For the first half of the year, DJ's approval remained at 70%–72%,<sup>8</sup> largely due to his participation in the North-South summit. In fact foreign policy in 2000 was geared mainly toward creating a favorable environment for improvement of inter-Korean relations. DJ visited Europe in March and issued his Berlin Declaration, which reaffirmed his sunshine policy on an international stage. He had several summit meetings with U.S., Chinese, and Japanese leaders aimed at coordinating policies toward North Korea.

In September DJ won the Nobel Peace Prize, a turn of events that close to 90% of the South Korean people welcomed.<sup>9</sup> With his high international visibility, DJ hosted the third Asia-Europe Meeting and participated in the

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7. *Chosun ilbo*, October 9, 2000.

8. *Munhwa ilbo* (Munhwa daily), February 17, 2000; and *JoongAng ilbo* (JoongAng daily), August 12, 2000.

9. *Kukmin ilbo* (Kukmin daily), October 16, 2000.

Asia Pacific Economic Cooperation forum, at which the ROK solicited and received international support for its policy toward North Korea. However, DJ's high visibility at the international level was diluted by serious moral hazards inside his administration such as the aforementioned Hanvit Bank scandal as well as the October revelation that a high-ranking official of the Financial Supervisory Commission was involved in a separate loan scandal. In early October, DJ's job approval rating fell to 47%, a further decline attributable to deteriorating economic conditions and the doctors' strikes.<sup>10</sup>

## The Economic Situation

From a macroeconomic perspective the beguilingly good year of 2000 concealed difficult microeconomic realities. Growth in the gross domestic product was estimated to have reached 9%, compared to 10% in 1999, and the trade surplus reached \$10 billion.<sup>11</sup> Foreign currency reserves increased from \$74 billion at the end of 1999 to \$93.3 billion in November 2000 and inflation was low at 2.9% between January and September.<sup>12</sup> Reflecting the positive changes, the International Monetary Fund (IMF) declared Korea's de facto graduation from the IMF program in August.

However, the strong macroeconomic performance was in sharp contrast to poor microeconomic performance in many sectors. The government had to press uphill restructuring battles in the corporate, financial, labor, and public sectors. It declared the second stage of restructuring to have begun in February. The goal was to complete the reform effort by the end of the year and then shift from quantitative reforms focused on financial viability to ones based on profitability and competitiveness. Reforms would be pursued not by direct intervention of the government but rather through the positive involvement of market participants.<sup>13</sup>

### *Financial Reforms*

The reform package's aim was to make the banking and securities industry more market-oriented. It included a guide for additional mergers and acquisi-

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10. *Kyunghyang shinmun* (Kyunghyang daily), October 6, 2000.

11. Korea Development Institute (KDI), *KDI Kyungjejonmang* (20003/4) (KDI Economic forecast 2000 3/4) (Seoul: KDI, October 20, 2000).

12. Data from KDI, Center for Economic Information, on the World Wide Web at <<http://epic.kdi.re.kr/home/english/index.html>> [accessed December 5, 2000]; and Bank of Korea, Research Department, *Recent Development in the Korean Economy* (Seoul: Bank of Korea, November 14, 2000), p. 17.

13. For the detail of the reform package issued on February 9, see Government of the ROK, Ministry of Finance and Economy (MOFE), *Second Stage Reforms in the Four Sectors*, on the World Wide Web at <[http://www.mofe.go.kr/cgi-pub/content.cgi?code=e\\_fp&no=186](http://www.mofe.go.kr/cgi-pub/content.cgi?code=e_fp&no=186)> [accessed December 5, 2000].

tions among domestic commercial banks and other secondary banking institutions. The government also proposed establishing bank holding companies that would regularize the size of local banks and called for an improvement in transparency by recommending to banks that they name additional external supervisors within their corporate structures.

### *Corporate Restructuring*

Conglomerates and affiliates with bank loans surpassing 250 billion won, as well as those individual firms with debts of 50 billion, were placed under government monitoring to encourage changes in their credit and financial status. More than 3,000 such firms came under the monitoring of the Financial Supervisory Service with the help of financial institutions in the first half of 2000.

During the first six months of the year, reforms progressed at a snail's pace due to the general election and some signs of recovery. Beginning with the second half of the year, the Korean Stock Price Index (KOSPI) fell from the 800 to 500 range, a clear sign of economic downturn. Compared to the first quarter of 2000, when production increased by 23.4% over the previous year, in September it decreased by 15.1%. First-quarter investment increased 57.3% compared to the same period of the previous year, while in September it increased only 18.9% as consumption drastically chilled. Construction also decreased in September by 18.4% compared to the same month of the previous year.<sup>14</sup>

The government was blamed for losing momentum in its reforms. With the protracted sale of Daewoo Motors, the decline of semiconductor prices, and the abrupt oil price hikes later in the year, the government pledged to expedite restructuring. The sense of urgency for early completion of reforms was expressed in the government's October 13 announcement of 12 policy goals on accelerating the process. At the same time, the market became more unstable due to the failure of international deals involving the insolvent Daewoo Motors and Hanbo Steel groups against the backdrop of sagging overseas stock markets along with the other aforementioned semiconductor and oil price problems.<sup>15</sup> The measures reflected the government's belief that prior assessments of the ongoing turmoil to be a mere speed bump on the road to economic normalization were unrealistic. The sense of urgency came in the effort to complete corporate and financial restructuring ahead of the

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14. *Hangukkyungje* (Hanguk economic daily), November 14, 2000.

15. Government of the ROK, MOFE, *Twelve Core Tasks for the Acceleration of Restructuring*, on the World Wide Web at <[http://www.mofe.go.kr/cgi-pub/content.cgi?code=e\\_fp&n=33](http://www.mofe.go.kr/cgi-pub/content.cgi?code=e_fp&n=33)> [accessed December 5, 2000].

originally scheduled February 2001 date. Labor and public sector reform schedules remained unaffected.

Financial reform measures included injecting public funds into non-viable banks contingent on positive evaluations of their self-rescue plans. Corporate reforms included earlier-than-scheduled exits of non-viable firms from the market and the implementation of preventive monitoring systems that would help ensure that the remaining corporations had sound capital structures. Of 287 heavily indebted companies and 10 others already under bank control for second-round restructuring, 102 were judged viable and will receive additional funding. Another 135 were declared normal with no need for additional support. Ten companies were declared nonviable while 50 companies were scheduled for liquidation, court receivership, sell-off, or merger.<sup>16</sup> Among the 30 already deemed bankrupt were the Daewoo Group and Dongah Construction, causing concern that the second exit measures excluded such large chaebols and affiliates as Hyundai Construction and Ssangyong Cement.

The Financial Security Commission approved normalization plans for the Korea Exchange and Chohung Bank, while the Hanvit, Peace, Kwangju, Cheju and Kyongnam Banks are to be put under one holding company in 2001.<sup>17</sup> The anticipated immediate benefits of the financial and corporate reforms were hard to come by as the won precipitously depreciated. The stock markets plunged, with the KOSPI index hovering at around 510. Exits of companies also increased the burden on the financial sector. Corporate restructuring is expected to bring about higher unemployment, especially with the public sector reforms launched in December. This in turn will lower consumption levels. On the positive side, two agreements were reached after a long political battle in the National Assembly, one to approve the use of 40 trillion won in public funds for financial restructuring and the other on the passage of a bill privatizing the Korean Electric Power Corporation (KEPCO). Daewoo Motors and KEPCO reached agreements with their workers on their respective restructuring plans.

### *Labor and Public Sector Reforms*

Labor sector reform showed mixed results. On the one hand, the tripartite presidential panel for labor, capital, and government reached an agreement on reducing working hours from 44 to 40 per week commencing in 2001. However, an increase in the number of the unemployed and the creation of harsher labor conditions as a result of financial and corporate restructuring produced intense resistance from labor. Consequently, the tripartite panel's work was

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16. *Hanguk ilbo* (Hanguk daily), November 3, 2000.

17. *Ibid.*, November 8, 2000.

frequently interrupted throughout the year. The number of labor disputes reflected the situation: as of November, the 225 labor disputes had already surpassed the 198 cases of 1999.<sup>18</sup> The labor situation is likely to become even more intense as corporate restructuring proceeds. The unemployment rate was expected to top 4%,<sup>19</sup> especially as restructuring in the public sector began in earnest in December 2000. Labor-government relations will likely be beset by serious confrontations.

Public sector reforms have been slow though the government has set February 2001 as the target for completion. Real achievements to date included the completion of privatization of Pohang Iron and Steel Company and some reduction in the number of employees in public corporations. Although reform efforts began in December with the KEPCO action, actual implementation will only begin in 2001.

It is clear that economic restructuring has faced repetitive patterns of slow progress and partial retreats, reflecting the complexity of the challenges faced by government. There exists a basic consensus on the imperative for change in Korean society; however, a bipartisan political structure, the false hopes produced by temporary signs of economic recovery, and resistance from various social groups have impeded the restructuring process. This portends a slow and painful road to be traveled ahead for Korea.

### *Social Conditions*

The general mood of Korean society in 2000 could be characterized as a sense of crisis amid deep uncertainty about the future. Confronted for the first time with a cyclical economic crisis, most people never expected it to continue for as long as it has. Short-term recoveries and the ensuing sense of relief alternating with new crises have left people emotionally shaken. Organized collective interest groups have become increasingly vocal. The transformation of the society has been based on a complex combination of regionalism and class issues mixed with a heavy inflow of Western institutions and ideas that has rendered Koreans with a sense of uncertain and problematic institutional identities.

On the positive side, the deepening economic crisis provided an impetus to develop unprecedented social welfare programs. Perhaps the most significant change was the introduction in October of a law guaranteeing a minimum living standard. Other measures in 2000 included the expansion of industrial accident compensation insurance to all types of workplaces and an increase in the number of public pension recipients. Also, after a prolonged controversy

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18. *Munhwa ilbo*, November 7, 2000.

19. *Chosun ilbo*, November 13, 2000.

an agreement was reached in November on adopting a medical reform package that would separate the prescription and dispensing of drugs.

Finally, 2000 saw the active movement of civic organizations to get involved in the political process. Politically concerned citizens formed the Civic Alliance for the 2000 General Elections and were successful in forcing lawmakers to rewrite election laws. The Alliance also launched campaigns to discredit unfit National Assembly candidates by revealing their names and misbehaviors. Though the campaigns could not purge regionalism from the election, they marked the first time in Korean history that civic organizations have actively inspired voters to be conscious of their voting behavior.

## Conclusion

The inter-Korean summit was the biggest event for South Korea in the year 2000. It was truly historical in itself, but more than that the summit was important. How South Korea will manage and coordinate inter-Korea relations and regional dynamics surrounding the Peninsula remains a serious challenge for the future.

In contrast, the domestic economic and political situations remained in search of new institutional identities. Economic restructuring efforts continued with simultaneous progress and retreat. The political process suffered from entrenched regionalism, rendering it unfit to meet the challenges of inter-Korean relations and domestic economic and social changes. And the excitement of the summit was overshadowed by anxiety from the volatile economic situation caused by the severe restructuring efforts underway. In this sense, 2000 was a year in which Koreans deeply felt the presence of a gap between the progress being made in inter-Korean relations and the continuing uncertain economic reality.