
SOUTH KOREA IN 2001

Frustration and Continuing Uncertainty

===== Yong-Chool Ha
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The year 2001 will be recorded as one of frustration and continuing uncertainty in many sectors of Korean society. Heightened expectations that North-South Korean relations would continue to improve after the previous year's historic summit were dampened early in the year with the shift in the United States's North Korea policy orientations under the new Bush administration. Even after much-heralded structural reforms in the business, financial, labor, and public sectors, economic conditions did not substantially improve. With slow economic recovery, stagnant North-South relations, and other policy failures by the ruling New Millennium Democratic Party (NMDP) and the administration, the political situation began to dissolve into mutual bickering, which did little to advance the political democratization process. In international relations, South Korean diplomatic initiatives were beset with serious blunders and confusion.

Inter-Korean Relations

Following the historic summit in June 2000, the Republic of Korea (ROK) National Security Council defined its top priorities as further deepening North-South Korean relations, laying the foundations for an improved peace system on the Korean Peninsula, and maintaining a strong security system. All three goals were in part designed to facilitate a return visit of North Ko-

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rean (DPRK) President Kim Jong Il to Seoul. A working-level military discussion seemed to signal smooth sailing between the two sides.¹

But in February, initial signs of progress in North-South relations took a significant turn for the worse when neither side could reach agreement on the mutual visits of separated family members. Pyongyang then announced it would not participate in the fifth ministerial meeting that had been scheduled on March 13. This came as a surprise to the South and portended new complications in bilateral relations. The reason for the refusal was not clear. It was widely surmised that the North was not satisfied with the U.S. attitude, especially President Bush's expressed distrust of Kim Jong Il.

The sudden change in North Korea's attitude dampened South Korean government and ruling party hopes for a return visit by Kim Jong Il. In May, the North withdrew all of the manpower and equipment intended to reconnect the Kyongui railroad line. Meanwhile, illegal transgressions of the Northern Limited Line sea boundary by North Korean vessels further intensified political debate in the South as to possible secret deals with the North on free passage of North Korean shipping through South Korean territorial waters.²

Despite efforts by the South to resume talks, relations showed no sign of improvement. Meanwhile, the North indicated that it had no intention of interrupting the dialogue. Instead, it would use the August 15 Liberation Day celebration in Pyongyang to mark the first anniversary of the historic summit. The South sent a delegation with diverse political orientations. The occasion was not without a touch of political scandal: the visit of some radical members to Mankyongdae, the birthplace of Kim Il Sung, was widely perceived in the South as a breach of protocol and caused an uproar there.³ The political fallout included the dismissal of Unification Minister Lim Dongwon and ultimately the breakdown of the Kim Dae Jung-Kim Jong Pil (DJP) coalition.

The North's position suddenly changed as Pyongyang proposed resumption of the ministerial level meetings, five months after its decision not to participate in them.⁴ At the September 15–18 meeting in Seoul, the two sides agreed on such issues as a gas pipeline connection, the reconnection of the Kyongui line, effectuation of the four agreements on economic cooperation, and exchanges of Taekwondo demonstration teams.

The two sides agreed to hold another high-level talk to discuss exchanges between separated families and land access to Mount Keumgang, which at present is only accessible by sea. However, since the North appeared more interested in securing revenue from sightseeing at Keumgang than in the issue of land access, the October 5 meeting ended without any tangible agree-

1. *Chosun ilbo* [Chosun daily], February 9, 2001.

2. *Joongang ilbo* [Joongang daily], June 15, 2001.

3. *Dong-a ilbo* [Dong-a daily], August 18, 2001.

4. *Ibid.*, September 3, 2001.

ment. The situation worsened when Pyongyang announced cancellations of previously agreed-upon exchanges of separated families and Taekwondo teams. The North justified its decision on the grounds that in the aftermath of the September 11 terrorist attacks on New York and Washington, augmented security measures in the South were not conducive to safe visits by separated family members.⁵

Throughout October, tedious negotiations on the location of a meeting site ended in South Korea yielding to the North's insistence on a meeting at Mount Keumgang. The talks were finally held November 9–13 amid harsh criticism from the South Korean press that the administration lacked principles and discipline in dealing with the North. Despite arduous negotiations, the meeting ended without reaching agreement on the separated families or other major issues.

In contrast with the excitement and high hopes of the previous year, 2001 saw frustration, despair, and expectations left unmet with respect to further improvement in inter-Korean relations. External political factors accounted for some of this stagnation, for example, the timing of President Kim Dae Jung's visit to Washington. Pyongyang expressed annoyance at the Bush administration's standoffish policy direction, its public statements labeling North Korea a producer of biological weapons, and its renewed demands for verification of a halt to the export of missiles and an end to production of weapons of mass destruction.

Domestic political factors likewise conspired to retard progress. The South Korean economy's disappointingly slow recovery has not helped to break the inertia, while the approach of the 2002 presidential election imposes an end-game character on both ROK and DPRK efforts to date: Pyongyang may wait and see which party will be occupying the Blue House after 2002. Lack of tangible progress in inter-Korean relations already has inspired domestic political feuding, which might be turned to Pyongyang's advantage depending on how the election results play out. Such combinations of external and domestic factors suggest that the immediate prospects for improved inter-Korean relations are not promising.⁶

Domestic Politics

Domestic politics during 2001 can be characterized as a continuous struggle between the ruling and opposition parties without progress in institutionalizing the political process, a struggle that in the end contributed to the breakdown of the political coalition between the ruling parties.

5. *Ibid.*, October 13, 2001.

6. *Chosun ilbo*, November 27, 2001.

From the beginning of the year the Kim Dae Jung administration and the NMDP faced serious political challenges. Early ones included the national medical insurance fund crisis and President Kim's visit to Washington. The administration's historic decision to separate medicine from prescription, which it pressed as a high-profile reform, faced serious financial problems. The new policy, intended to reduce drug abuse by having pharmacists dispense medication only if the patients had doctors' prescriptions, was unfortunately based on a poor estimate of available financial resources.⁷ The shortage of funds, projected to reach 4 trillion won (\$4 billion) by the end of the year, created a crisis mood throughout Korean society serious enough to inspire questions concerning the validity of the ruling party's policy directions.

President Kim's Washington visit also turned out to be premature. Though the Bush administration had not yet finalized the details of its evolving North Korean policy, it was clear that its stance would differ radically from that of the Clinton administration, notably in its return to insistence on verification and its reservations about Kim Jong Il. It was also evident that Washington's new hard-line attitude toward North Korea would likely retard progress in inter-Korean relations. Moreover, President Kim was obliged to allay the Bush administration's misgivings about Seoul's own position on National Missile Defense (NMD).

Such signs of friction between the Kim and Bush administrations became targets for criticism by the opposition Grand National Party (GNP), which launched an overall attack on the Kim administration's disappointing economic reforms and its uncompromising attitude derived from the strength of the Kim Dae Jung–Kim Jong Pil coalition. Political parties also revealed significant differences with respect to their approaches to North Korea. Thus, the GNP did not miss a chance to criticize President Kim's "giveaway" policy after his visit to Washington and it was relentless in criticizing the Kim administration's poor handling of the NMD issue and U.S.–ROK relations generally.

Tax Evasion and the Media

Perhaps the most contentious domestic issue was the administration's decision to investigate allegations of tax evasion by 23 newspapers, including such major dailies as *Chosun ilbo*, *Dong-a ilbo*, and *Joongang ilbo*, and the subsequent arrests of the publishers of the *Chosun* and *Dong-a*. The amount of delinquent taxes was said to have been a staggering 500 billion won (\$380 million). The opposition critique interpreted the tax investigation process as an administration effort to tame the mass media and help win the 2002 presi-

7. *Hankyoreh* [Hankyoreh daily], May 18, 2001.

dential election. The government's position, on the other hand, was that no exceptions could be made with respect to tax obligations. Political and social groups betrayed sharp divisions of opinion when the heads of the three daily newspapers were arrested in June and penalties assessed in the amount of 22 billion won. It appears likely that the court may not rule on the cases until next year.⁸

Policy differences were also sharp on the issue of *chaebol* reform. The ruling party called for special government regulation of the 30 major conglomerates, while the opposition party lined up with the business community in opposing such controls, objecting to measures like imposition of ceilings on investments, the establishment of holding companies, or the prescription of a debt-capital ratio of no more than 200%.

The ruling and opposition parties likewise clashed head-on in their policies toward North Korea. As the implications of the Bush administration's North Korea policies became clear, the UNP became all the more vocal in criticizing the ruling NMDP's policy line as overly generous. However, with an eye on the upcoming presidential election, the opposition party's criticism also suggested a strategic concern that the NMDP might play the North Korea card made possible by Kim Jong Il's earlier state visit. Another Kim visit would put the ruling party and president in a position to monopolize the domestic political agenda, as well as divert people's attention from urgent issues, which would likely contribute ultimately to election victories at both the local and presidential levels.

Amid vigorous bickering with the opposition, the NMDP lost in all three by-elections (two in Seoul and one in Kwangwon province) in October.⁹ Its losses in Seoul were especially damaging since these districts were regarded as party strongholds. In general, GNP victories were seen less as expressions of positive support for the opposition party than as erosion of support for the ruling party and the administration.

These electoral upsets triggered renewed calls for party reform from various political groups within the ruling NMDP. Reformist pressure was particularly strong among younger party members. They demanded elimination of informal political manipulations by the Tonggyodong group (a pro-Kim Dae Jung clique), along with large-scale personnel reshuffling to refurbish the party's tattered image.¹⁰

Pressured from inside and outside his own party, President Kim announced a surprising early resignation on November 7 as NMDP leader and pledged to concentrate on improving economic and social conditions and work for fair

8. *Dong-a ilbo*, August 17, 2001.

9. *Chosun ilbo*, October 26, 2001.

10. *Ibid.*, October 30–31, November 1, 2001.

management of the next presidential election, free from the bias of partisan loyalties.¹¹ This sudden move took the opposition party by surprise. Though welcoming the president's move, UNP members also expressed suspicion of his political motives.

Another significant political development was the debacle within the DJP coalition. It began with the ULDP's demand for the dismissal of Unification Minister Lim, widely regarded as the architect of Kim Dae Jung's Sunshine Policy, over Lim's alleged bungling in sending the group of South Koreans who participated in the DPRK's Liberation Day event. During their visit to the North, some South Korean participants flouted previously made agreements, attending events in Pyongyang that were widely considered inappropriate by South Koreans¹² in addition to the aforementioned visit to Mankyongdae. ULDP president Kim Jong Pil publicly but unsuccessfully called for Lim's voluntary resignation. The upshot was that both the GNP and the ULDP voted to recommend Lim's dismissal. It was only natural that this political showdown led to a breakdown of the NMDP-ULDP coalition. Speculation was rife concerning the political motivations of the ULDP's decision to withdraw. But the main reason for their move clearly was the perceived need for the ULDP to arrest further erosion of its party identity in the face of the 2002 elections.

Consequently, the ULDP lost its independent floor unit status as the four ex-NMDP members withdrew from the ULDP, leaving it with only 15 National Assembly members. On the other hand, the number of GNP members rose to 136 through the addition of three seats accruing from the October by-election, while the ruling NMDP retained 118 members. The GNP became a majority party in the Assembly. The party's new power revealed itself in its attempts to reverse a law that reduced the retirement age of teachers to 62 and impeach Attorney General Shim Seungnam for his alleged yielding to political pressure to evade investigations of various scandals.¹³ The GNP's ultimate decision was not to pass the extension of the retirement age.¹⁴ At the end of November, the Board of Audit and Inspection reported that 76.15 trillion won (\$5.67 billion) had been diverted from government bailout funds intended to rescue troubled companies and financial institutions. The opposition party demanded a new full investigation by the National Assembly.¹⁵

As suggested by the reduction of the number of summit meetings between party presidents from four in 2000 to two in 2001, South Korean politics in 2001 was as contentious as ever without many signs of compromise. Perhaps

11. *Hankyoreh*, November 8, 2001.

12. *Chosun ilbo*, August 17, 2001.

13. *Ibid.*, November 22, 2001.

14. *Dong-a ilbo*, December 3, 2001.

15. *Ibid.*, December 1, 2001.

because ruling, opposition, and splinter parties alike calculated their political moves in premature anticipation of the 2002 presidential election, they spent more time exchanging mutual recriminations, exacerbating the ever-recurring corruption scandals, and hurling unfounded personal attacks than they did attending to the pressing business of further institutionalizing the democratization process and resolving economic problems. The GNP seemed more interested in exposing the NMDP's alleged policy failures, while the latter began to show signs of internal divisiveness among its prospective contenders for presidential candidacy. With the sitting president having resigned as party leader, it remains to be seen whether the NMDP can avoid disastrous factional disintegration or putting forth multiple presidential candidates.

Reaction against this unpalatable mud-slinging was intense. Much of the public viewed the National Assembly as essentially useless, a notion bolstered when the Assembly passed an anti-money-laundering law that made it difficult to investigate political funds by forbidding direct investigation by the Financial Intelligence Unit. The law instead stipulates that political funds suspected of involvement in money laundering must be first reported to the Election Management Committee. It is unsurprising, therefore, that neither major party won overwhelming support from the electorate.¹⁶

Foreign Relations

South Korea continued to make diplomatic efforts to promote an international environment conducive to improved North-South Korean relations. In February, Russian President Vladimir Putin visited Seoul with the goal of enhancing Russia's role on the Korean Peninsula, while South Korea worked to secure Russian support in realizing Kim Jong Il's planned visit to Seoul.¹⁷ The summit was the first international meeting of the year and could have ended without much trouble. But problems arose with the joint Russian-Korean communiqué, which stated that the 1972 anti-ballistic missile (ABM) treaty was the foundation for strategic stability, reduction of nuclear weapons, and nonproliferation.¹⁸ South Korea's reasoning was that this standpoint merely followed established international practice. But the joint communiqué came at a sensitive time. Russia was strongly opposed to the United States's missile defense initiative and Bush administration displeasure with Seoul made it necessary for President Kim to explain the joint communiqué during his Washington visit the next month.¹⁹ Kim Dae Jung's less-than-successful visit thus portended problems for progress in inter-Korean rela-

16. *Joongang ilbo*, September 4, 2001.

17. *Chosun ilbo*, February 28, 2001.

18. *Ibid.*, February 28, 2001.

19. *Dong-a ilbo*, March 8, 2001.

tions and his perceived lack of diplomatic skill prompted sharp criticism from many quarters in Seoul.

The Kim administration's diplomatic ordeals did not end there. South Korean-Japanese relations had seemed to be developing successfully since the 1998 agreement on Korean-Japanese partnership. But in April 2001, the Japanese Ministry of Education approved a new history textbook that Korean officials claimed contained at least 35 distortions of historical facts and interpretations.²⁰ Japan's response to the strong protests of the South Korean government was considered unsatisfactory and the Korean side responded with an interruption of cultural exchanges, including some that had only recently been initiated, and opposition to Japan's inclusion as a permanent member of the U.N. Security Council.²¹

Matters were made worse by Prime Minister Koizumi Junichiro's decision to visit the Yasukuni Shrine, where Japanese war criminals are honored. Koizumi's October visit to Seoul was approved only with reluctance, amid strong domestic criticism, and was designed largely to try to patch up deteriorating bilateral relations.²²

Korean-Chinese relations could also have been better. Seoul's Ministry of Diplomacy and Trade provoked nationwide anger against its clumsy handling of the issue of Korean nationals abroad. It turned out that the ministry was not aware early enough of the execution by Chinese authorities of a Korean citizen convicted of drug dealing.²³ The incident led to serious attacks on the ministry's competence to cope with complex international affairs in the post-Cold War era.

Among Kim Dae Jung's other diplomatic efforts was his December tour of England, Norway, Hungary, and the European Union Parliament. The month before, at the November ASEAN Plus 3 summit, Kim had proposed discussions on establishing East Asian summit conferences, an East Asian free-trade zone, and an East Asian forum. Korea's proposal for economic ministerial meetings between China, Korea, and Japan was favorably received at the summit meeting among the heads of the three countries.²⁴ But overall, the administration in 2001 revealed its diplomatic unskillfulness, especially with its overemphasis on North-South relations, which led to blunders, half-successes, and outright failures.

20. *Chosun ilbo*, April 4, 2001.

21. *Dong-a ilbo*, April 13, 2001.

22. *Ibid.*, October 16, 2001.

23. *Ibid.*, November 3, 2001.

24. *Ibid.*, November 6, 2001.

The Economy

Economic developments in 2001 unfolded with much frustration of expectations, both of the administration and the public. The government predicted a faster recovery in the early part of the year after earlier macro-institutional reform efforts ended in February. However, the general trend of a declining world economy—particularly a stalling American economy—and the impact of the September 11 terrorist attacks led to an overall slowdown in growth of the gross national product (GNP), as seen in shrinking semiconductor exports and drastic overall declines in exports. The administration had predicted 5% GNP growth for the year, but was forced to adjust its forecast downward to 4% or lower. Actual growth for the first half was 3.2% and was projected to be lower for the second half: 0.9% for the third quarter and 1.6% for the fourth quarter, amounting to an annual growth rate of 2.2%. While exports were slow, domestic consumption led the growth trend, especially in service sector.²⁵

Investment decreased for the first and second quarters at $\uparrow 7.9\%$ and $\uparrow 0.8\%$, respectively, compared to the previous year. It decreased during the months of July and August by $\uparrow 14.7\%$ compared to the same period in 2000. Consequently, industrial production showed a slow growth rate of 5.0% in the first quarter compared to the same period during the previous year; for the second quarter it grew by 1.6%, and during July and August it began to show negative growth rates of $\uparrow 5.6\%$ and $\uparrow 4.7\%$, respectively, compared to the previous months. The decrease in industrial production was led by the semiconductor and information technology (IT) industries. Semiconductor production decreased by $\uparrow 1.6\%$ during the second quarter, $\uparrow 15\%$ in July, and by $\uparrow 11.6\%$ in August compared to the previous months. IT industry production showed negative growth throughout the year until August.²⁶

Although the first quarter showed a 2.1% growth in exports compared with the previous year, exports decreased precipitously during the second and third quarters, by $\uparrow 11.5\%$ and $\uparrow 19.3\%$, respectively, and for August and September by $\uparrow 20.1\%$ and $\uparrow 17.0\%$. Decreases in IT-related product and semiconductor exports led the negative growth. Semiconductor exports fell by $\uparrow 10.2\%$ for the first quarter, $\uparrow 42.8\%$ for the second, and $\uparrow 63.7\%$ for the third, while computer exports showed $\uparrow 13.2\%$, $\uparrow 25.7\%$, and $\uparrow 32.9\%$ for the same quarters. As a result, South Korea recorded in August for the first time a current-account deficit.²⁷ However, due to declines in imports, it maintained a trade surplus of \$7.1 billion at the end of August.²⁸ The level of foreign

25. *KDI Kyungjejonmang, 2001 3/4* [Korea Development Institute Economic Forecast, 2001 3/4] (Seoul: KDI, 2001), p. 90.

26. *Ibid.*, p. 2.

27. *Ibid.*, p. 18.

28. *Ibid.*, p. 22.

currency reserves remained at \$100 billion as of September. The foreign debt stood at \$164.6 billion at the end of August, 40% of which was in short-term debt.²⁹

Restructuring

At the end of February the government officially announced the end of the institutional foundation for its major reforms of the business, finance, labor, and public sectors. Thereafter, reform efforts were to be carried out by market processes on a constant basis without governmental intervention. The overall assessment was that the reform efforts were half-successful. While institutional changes had been made to establish reform systems in enterprise, labor, and finance, further economic progress would depend upon how well each individual economic unit could apply market principles in its everyday operations.³⁰

General Motors' decision to take over Daewoo, the merger of the Koogmin and Juteak banks, and the bailout of the ailing Hyundai through a debt-equity swap solved three serious problems. Still, solutions have not yet been found for the problem of the many debt-ridden and otherwise financially unhealthy business groups.

Though the labor market remained unstable in 2001, it could have been more so without the absorption of some of the labor force by the domestic service sector, which led domestic economic growth. The unemployment rate was high but steady for the first three quarters (4.8%, 3.5%, and 3.3%, respectively). But behind this facade of stability, the number of part-time workers grew and youth unemployment, especially among college graduates, became more serious, reaching 5.7%.³¹

Social Aspects

Korean society continues to adjust to the uncertainty of marketization. The public showed signs of anger and frustration with bureaucrats and politicians for their neglect of people's concerns and their involvement in recurring financial scandals that distorted the market. Also, policy failures in medicine and education created confusion and disappointment with the administration and the ruling party. Public protests, notably by farmers, erupted in anticipation of the domestic impact that adoption of the new round of the WTO would have. Kim Dae Jung's popularity continued to fall—from 31.5% in January to 23.8% in May—but began to show a slight increase in July at

29. *Ibid.*, p. 25.

30. For details on reforms in the four areas, see *Dong-a ilbo*, March 2, 2001.

31. *Hankyoreh*, November 12, 2001.

28.1%.³² Some social issues drew attention in the year of 2001. Distrust of the government's educational policy shot up when many high school students who took the annual national aptitude test complained that it was too difficult. A maternity protection law was passed³³ and a Civil Rights Commission began work. In labor relations, an easy compromise was reached with management that granted approval of payment for labor union officials in return for postponement of permission for multiple unions. The previous year's preliminary agreement for a five-day work week was subjected to much detailed discussion that did not result in a final agreement on its implementation.

Concluding Remarks

The year 2001 was unsettling for South Korea. The South Korean public gradually began to adapt itself to new rules and institutions. With the end of systemic legal and institutional reforms, much of Korean society entered spontaneously operating market systems in various fields. Yet, the political system seemed unable to provide a leading role in ameliorating social anxiety and public frustration and disappointment remained high.

Throughout 2001, Korean politics evolved with an eye to the next presidential election. How the upcoming election will affect political groupings, party structure, and policy lines remains to be seen. What is also unclear is how much politics will move ahead, overcoming its entrenched, regionally based structure. Despite the historic 2000 summit, inter-Korean relations showed little real progress, with measurable fallout in terms of public frustration and unfavorable consequences for the administration. It is likely that Korea will become more dependent upon U.S. global strategies in the post-September 11 international environment, which has already shown signs of affecting U.S.-North Korean relations and will no doubt affect North-South Korean relations as well. All in all, the year 2001 in Korea was one of frustration and lagging political change.

32. *Korea Daily News*, July 5, 2001.

33. *Dong-a ilbo*, July 19, 2001.