

Domestic Coalition of South Korea's Engagement Policy

Sung Chull Kim

Associate Professor, Hiroshima Peace Institute

Prepared for Workshop on
"Prospects for East Asian Nuclear Disarmament"

Hiroshima Peace Institute

Hiroshima, Japan

March 11-12, 2004

1. Introduction

The purpose of this chapter (article) is to demonstrate how a domestic coalition between the government and the business for South Korea's engagement policy to the North emerged in the late 1990s, and how coalition partners have interacted with each other since then. The chapter illustrates interconnectedness between political economy and security issues, by exploring the coalition that shares a policy orientation of internationalization.

Up to today, in understanding of inter-Korean problem, security factors -- either domestically originated or internationally induced -- have been treated as sole independent variables. Both decision-makers and scholars focused on the ways in which the international security environment in East Asia and North and South Korean regimes would decide the inter-Korean relationship. They also investigated the effect of the security situation in the Korean peninsula on economic consequences of two Koreas. Such way of understanding of the Korean problem extended to a deterministic explanation positing that the security relation between the North and the South has determined the economic relations between them.

Such logic, to a certain extent, has a factual ground. The national division, the Korean War, the Cold War, and a half-century confrontation not only separated families and relatives but limited potentials of economic prosperity both in the North and the South. Before the end of 1980s, oppressive regimes in the two Koreas prohibited themselves from moving toward tension alleviation and from having a genuine dialogue. Furthermore, under the tense situation, it was impossible for them to have an economic exchange through which South Korean businessmen

might take an advantage of chief skilled labor and natural resources of the North. In this regard, the unstable security situation constrained the development of inter-Korean relation and particularly economic assistance and cooperation.

There are, however, evidences to refute the logic that tense security situation has simply contained economic relations between two Koreas. In other words, the Korean problem should not be interpreted by the eyes of the security factor alone. Let us look at the aftermath of the South Korea's engagement policy and the inter-Korean summit in June 2000. The historic event paved a way for advance of South Korean enterprises headed by the Hyundai Asan Corporation into the North. Two naval skirmishes on the Northern Limit Line (NLL) that occurred in 1999 and 2002 respectively could not stop the South's engagement policy that favors the economic cooperation between two Koreas and humanitarian assistance to Pyongyang. Such situation in the Korean peninsula is best depicted by the statement: the cruise ship floats for tourism of Mt. Keumgang in the East Sea even when gun smoke soars up in the West Sea. Furthermore, under the perilous situation of North Korea's nuclear development, the trade volume and human exchanges between the North and the South has gradually increased.

This situation shows that despite the lingering danger of conflict in Korean peninsula, South Korean government's policy of engagement with the North and the business strategy for the survival have been in harmony with each other. This harmony represents a domestic coalition between the government and the business for internationalization.¹ This coalition clearly takes a common goal of engagement with the North, in particular, and of internationalization both in economic and security affairs, in general.

The coalition forces not only combine the issues of security and economy together but gradually transform the configuration of relations between two Koreas. Making the issues inseparable, the coalition neither allows one issue to prevail the other, in general, nor permits a security problem to obstruct inter-Korean economic exchanges, in particular.

¹ For the concept of domestic coalition of internationalization, see Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton: Princeton University Press 1998) and Etel Solingen, "Internationalization, Coalitions, and Regional Conflict and Cooperation," in Edward D. Mansfield and Brian M. Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: University of Michigan Press, 2003), pp. 60-59.

This chapter examines particularly the engagement policy, led by the coalition of internationalization centered on Kim Dae-jung administration, as a background of South Korea's attempt to push the six-party talks for the solution of North Korea's nuclear crisis. For this purpose, it will identify the conception of the domestic coalition for internationalization in South Korea. Then it will move to the exemplary case of collusive coalition, i.e., the Hyundai's remittance scandal. Finally, it will conclude with institutionalization of the coalition and its effect on the emergence of the six-party talks.

2. Coalition for Internationalization: Issues and Actors

In the study of international relations, two different traditions have attracted the attention of related audiences. One tradition is an examination of the interplay between politics and the international economic order. Under the umbrella terminology of international political economy, proponents of this approach have mainly discussed economic policies but not the security and peace issue. The other tradition concerns the link between domestic and international factors, standing in opposition to the realist viewpoint that the state is a unitary actor. Those scholars who are affiliated to this tradition have investigated pluralistic dispersion of power in domestic politics and its effect on foreign policy and international relations. The scholars' interests relate either to international security or to international economic cooperation, but not to both of them. Here, it is notable that in the study of international relations, a clear distinction has been made between political economy and international security.

In fact, political economy issue and international security issue are closely related each other empirically. The relationship between them does not simply mean that a change in one issue brings another change in the other. Rather, the relationship is an interactive one in the sense that they move together to a certain direction, avoiding the other direction. More importantly, the *actors* who are involved in the security and economic affairs are not segmented from one another but either identical, or overlapped, or tightly coupled. Whether they are either governmental officials or business leaders, the actors engage in both security and economic relations directly or indirectly. In addition, whether they are physically located in a certain national boundary or not, the influence of actors' behavior reaches to international issues as well as domestic issues. Consequently, whatever their professional occupations may be, actors' individual and group interests lead them to articulate wants and demands on cross-boundary issues to either domestic partners or international partners.

Therefore, regardless of the traditional disciplinary distinction between international security and political economy, they are empirically interpenetrated by the actors who play across issue cleavages. Likewise, the inter-Korean relation cannot be explored by the political and military factors alone. Economic factor also has played an important variable that affects inter-Korean relationship in general and South Korea's policy toward the North in particular.

Who are the actors involved in the security and political economy issues in the case of Korean problem at the end of the 1990s? In examining this, it is useful, at first, to look into two dimensions through the 2×2 matrix. One is a dimension of political economy and security, and the other is on domestic and international levels.

Figure 1. Two dimensions of Korean problem at the end of 1990s

	<i>Political Economy</i>	<i>Security</i>
<i>Domestic</i>	Restructuring of economic sector	Kim Dae-jung's engagement policy
<i>International</i>	Globalization, IMF conditionality	Cold War structure in Korean peninsula

On the political economy, major actors were businessmen and Kim's new administration, and they were linked each other by the restructuring policy and the IMF conditionality. In times of financial crisis in the late 1990s, the conglomerates, so-called Chaebols, and small corporations were under mounting pressures of reforming their management pattern and financial structure. The IMF's stand-by package to save South Korea's draining reserves included a harsh conditionality that drove the business to search own survival strategy by themselves. Even under the intensifying trend of globalization in the mid-1990s, the business was reluctant to change their behavior pattern relying upon the government's favor in securing domestic bank loans and foreign financial sources. On the eve of the financial crisis, their heavy dependence on short-term

loans with high interest rate climaxed, which later strained their necks.² However, under the pressure of conditionality given by IMF, Kim Dae-jung administration launched restructuring policies in those sectors of the private, the public, the labor, and the banking. The policy apparently oriented toward economic internationalization. In particular, the government forged reforming of conglomerates to enhance their viability, on the one hand, and making attempts to attract foreign investors for the creation of new jobs, on the other.³

It is certain that the policy of economic restructuring aimed at *internationalization*. On conglomerates, the government pushed transparent management, and profit-oriented organizational reshuffling, debt curtailing, and mergers and acquisitions. On the public sector, the government implemented such measures as down-sizing of administrative organizations, privatization of major state-owned enterprises, and cutting of pension and retirement benefits. On the labor sector, the Tripartite Commission, newly created for flexibility of the labor market, led a social agreement for mass dismissal of employees. On the banking sector, the restructuring program required commercial banks to increase the ratio of bank's own capital of the Bank of International Settlements (BIS) and to reduce outstanding debts so as to enhance the profitability and safety.⁴ All these measures were in parallel with the general trend of globalization and economic liberalization.

On the security issue, there are three actors: Kim's administration, as a prime mover; South Korean business group and non-governmental humanitarian organizations, as participants; and North Korea, as a passive respondent. As soon as Kim Dae-jung was inaugurated as the president in February 1998, his administration launched the engagement policy, called Sunshine Policy, toward North Korea. This policy adopted the measure of "distinction between politics and

² South Korean conglomerate's mode of getting capital was different from that of Latin American enterprises. The former has largely relied upon loans from domestic or foreign banks, whereas the latter has equity-based financial structures. In addition, the former was distinctive in that the development-oriented government even guaranteed for the conglomerate's introduction of capital from foreign bankers. Therefore, South Korean conglomerates had unique characteristics of having a huge amount of outstanding debt, keeping ownership rights in the hands of the chief executive officers. Marcus Noland, *Avoiding the Apocalypse: The Future of the Two Koreas* (Washington, DC: Institute for International Economics, 2000), p. 215.

³ This new policy orientation contrasted with the nationalist policy preferences right before the financial crisis. On the nationalist policy preference in the mid-1990s, see Chung-in Moon and Dae-Won Ko, "Korea's Perspective on Economic and Security Cooperation in Northeast Asia," in Tsuneo Akaha, ed., *Politics and Economics in Northeast Asia: Nationalism and Regionalism in Contention* (New York: St. Martin's Press, 1999), pp. 178-83.

⁴ Gyoung-won Kim and Soon-woo Kwon, eds., *How Has the Korean Economy Changed in the Five Years of Financial Crisis?* (Seoul: Samsung Economic Research Institute, 2003), in Korean, pp. 248-9.

economy” that certainly intended to economically engage with the North, leaving behind uncertain and unsolved security matters. The engagement policy encouraged the business group to invest in the North with abundant skilled labor and geographical and cultural advantages.

The Sunshine Policy, at a glance, seems to have sought an independent national unity between the two Koreas, whereas the policy, in reality, has fostered *internationalization* of North Korea problem. At the Joint Declaration of the summit between Kim Dae-jung and Kim Jong-il in June 2000, independent solution of Korean issue was emphasized. A common effort to move toward reunification of Korea, following common elements of North and South Korean unification models, was also included in the declaration. In this regard, some watchers observed that the declaration was a reflection of Pyongyang's longtime insistence on the exclusion of foreign forces, meaning the withdrawal of American military presence. Such interpretation does not comprehend a real implication of the summit, especially from Seoul's perspective. Through the summit, South Korea intended to lessen the tension on Korean peninsula, but neither to reject American military presence nor to weaken the security alliance. Only one month after the summit, South Korean president Kim Dae-jung told that the American military forces based on the alliance between the two countries is and will be crucial, even after the Korean unification, for the peace in Korean peninsula.⁵ That is, Kim and his administration's endeavor for the summit in particular and the engagement policy in general aimed at peaceful coexistence with the North as a primary goal. They believed that the summit could gear down the cost of confrontation between the two Korea, particularly in times of economic restructuring.

In fact, the government made strenuous efforts to dismantle the deep-rooted Cold War culture of anti-communism and confrontation in the South Korean society. Furthermore, South Korea attempted to induce the North to the international community. With diplomatic supports from Seoul, Pyongyang could open normalized relations with Western countries in the early 2000s.⁶

⁵ *Donga Ilbo*, July 10, 2000. Kim's statement of the necessity of American forces even after unification aimed at the alleviation of criticisms from the opposition party. However, this statement could not erase the opposition's skepticism on Kim's lenience toward Pyongyang on the issue of American military presence.

⁶ Taking the opportunity of Seoul's engagement policy, North Korea opened normalized relations with the following western countries: Italy (January 4, 2000), Australia (May 8, 2000), Philippine (July 12, 2000), United Kingdom (December 12, 2000), Netherlands (January 15, 2001), Belgium (January 23, 2001), Canada (February 6, 2001), Spain (February 7, 2001), Germany (March 1, 2001), Luxemburg (March 5, 2001), Greece (March 8, 2001), Brazil (March 9, 2001), New Zealand (March 26, 2001), Kuwait (April 6, 2001), Bahrain (May 23, 2001), Turkey (June 27, 2001), and European Union (May 14, 2001). Yonhap News, *North Korea Yearbook 2003* (Seoul: Yonhap News, 2002), in Korean, p. 424.

Such a change enabled North Korea to secure continuous humanitarian aids from international and South Korean non-governmental organizations.

By the actors who were involved in political economy and security issues, both were interconnected with one another. The government and the business in South Korea, for different reasons, followed the value of internationalization. This was an apparent *domestic coalition* in sharing a policy orientation of tension reduction and co-existence in security terms as well as of opening and liberalization in economic meanings. There is no question that the government was the prime mover. Kim's newly launched administration openly presented an idea that the sunshine would disarm the militant North Korea, and in turn, this would guarantee economic well-being of North and South Korea. Because of a widespread perception that any serious military conflict in the Korean peninsula would have foreign investors withdraw their money from Seoul, not only the government but the business group more keenly acknowledged importance of peaceful coexistence with North Korea than ever before. In this respect, they commonly accepted the conception of "buying peace with economy" or "investment in the peace."

The coalition first appeared in a rudimentary fashion, a collusive coalition, under the Kim Dae-jung's rule. The collusive coalition is represented by the scandal of Hyundai Asan Corporation's remittance to a bank account of a North Korean trading company. In general, however, the coalition between the government and the business flourished under Kim's rule. Furthermore, it has been maintained in the new administration of Rho Mu-hyun as well.

Notably, the deepening of the South's engagement with the North seems to be in conflict with George W. Bush administration's hard-line policy. In a sense, Rho administration's tilting too far to the North is attributable to the American hard-line posture to the North, as well as to Rho's ideological predisposition. However, this does not mean the weakening of domestic coalition for internationalization. The coalition partners still share the common cause of tension decrease and economic prosperity on the Korean peninsula. A policy preference of this coalition is the maintenance of engagement with the North, playing an active role for avoiding a conflict between the United States and North Korea. In this respect, South Korea supports China's mediation and the tripartite talks among US, China, and North Korea in April 2003, which later evolved to the six-party talks.

3. "Collusive" Coalition between Government and Hyundai

In August 2003, the scandal of remittance to North Korea by Hyundai Asan (hereafter remittance scandal) was revealed to the public by the independent counsel's investigation team, which was composed to probe an alleged collusion between Kim Dae-jung administration and the Hyundai in arranging the summit talk with Kim Jong-il in June 2000 by paying money. According to the investigation result, \$450 million in cash and \$50 million in goods and services, with the name of economic cooperation funds, were sent to North Korea by the Hyundai right before the historic inter-Korean summit.⁷ The independent counsel concluded that the cash remittance was closely linked to the summit talk. In addition, the independent counsel found that the government arranged for the Hyundai to get illegal loans from the state-run Korean Development Bank and took measures to help the Hyundai to covertly remit the cash to a North Korean bank account.⁸

This remittance scandal exemplified the *collusive coalition* for internationalization between the government and the business in South Korea. It was a *collusion* in that the business paid a kickback to North Korea as well as South Korean political figures in order to obtain monopoly rights in businesses in the North, such projects as Mt. Kumgang tourism and the Kaesong special industrial zone. Under the given tense situation between two Koreas, the Hyundai considered the summit talk an effective means to open the path to its entrepreneurial advance to the North. It was similar to the old collusion between politics and business in South Korea under authoritarian rule in the development stage on the ground that the government provided business conglomerates in need of mobilizing capital with favoritism on bank loans. Remarkably, the conglomerates expanded their working capital not through the stock market but by the commercial banks and foreign banks, either contributing the national economy or giving kickbacks to politicians. South Korean developmental government was a facilitator of the loans for the conglomerates. The remittance scandal was a new version of collusion, which occurred in the midst of governmental initiation to develop the relationship with Pyongyang.

Meanwhile, the remittance scandal was a coalition for internationalization, formed between the government and the business. Let us look at the government side at first. Kim Dae-jung

⁷ The former chairman of Hyundai Asan, Chung Mong-Hun, who killed himself by a psychological burden of the scandal, was quoted as telling the independent counsel that South and North Korea agreed that the Hyundai would pay \$400 million to North Korea and the government pay \$100 in May 2000 when Seoul and Pyongyang negotiated the first inter-Korean summit. However, the Hyundai took all burdens including the amount that was supposed to be paid by the government.

⁸ *Korea Times*, August 4, 2003.

administration initiated an actual engagement policy toward Pyongyang for the first time since the end of the Korean War, reflecting his life-long philosophy and theory of national unification. The engagement policy, called Sunshine policy, was different from previous policy that had been based on the Cold War policy orientation. The policy has pursued peaceful coexistence with the North, even though there was resistance from conservative forces in domestic political arena.

In the study of international studies, one of the frequently quoted indicators that reflect the peace-prone policy is a trend of military expenditure. Figure 1 shows a comparison between the period of Kim Dae-jung administration between 1998 and 2002 and that of previous Kim Young-sam administration between 1993 and 1997. South Korean case shows a fluctuating trend with a sink at the end of the 1990s, which contrasts with a stable increasing trend of Japanese case and a rapid soaring Chinese case.

Table 1. Military expenditures in East Asian countries, 1993-2002

	(million US dollars)									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
S.K.*	10,998	11,310	11,897	12,539	12,842	12,398	12,061	12,801	13,079	13,533
Japan	43,753	43,958	44,398	45,293	45,510	45,394	45,479	45,793	46,259	46,727
China	14,200	13,500	13,900	15,300	15,500	17,800	20,700	23,000	26,300	31,100

*The South Korean case does not include expenditures on military pensions, arms imports, or paramilitary forces.

Source: Stockholm International Institute of Peace Research, *SIPRI Yearbook 2003* (Oxford: Oxford University Press, 2003), pp. 348-9.

A benchmarking measure of South Korea's engagement policy was the "differentiation between politics and economy" in dealing with North Korea affairs. With this measure, Seoul government allowed South Korean businessmen to make adventurous advancement toward the North, including expansion in the processing trade of manufacturing products and exploration of direct investment and trade. Given this situation, the Hyundai, i.e., the most adventurous conglomerate in South Korea, which could have not expanded its business under the previous administration because of a political repression, became a coalition partner of the new government's engagement policy toward North Korea.

It is remarkable that the South Korean government's Sunshine Policy was in accordance with an internationalizing economic policy that pursues opening to foreign investment and enhancing transparency of the economic system. That is, there is a clear link for internationalization between the security policy, particularly the North Korea policy, and the economic policy. Compared to

the engagement policy initiated by the administration, the origin of neo-liberal economic policy was attributable to the financial crisis in 1997.⁹ When it received IMF package loans in order to overcome the crisis, South Korea could not but accept conditionality of the restructuring of four sectors: banking, labor, private, and public sectors. In a sense, the forced restructuring actually empowered the government's drive to eradicate old dreadful practices in Korean economy -- such as bank's favoritism in loans to the big conglomerates; loss of competitiveness owing to the high labor cost; family management and excessive expansion of the conglomerates; and wastes and exaggerations in the management of the state-owned enterprises. The government launched the restructuring under the slogan of the simultaneous development of "democracy and market economy."¹⁰ This slogan represents the neo-liberal approach whereby the state neither play a leading role of protecting enterprises, nor of providing a "from-cradle-to-heaven" welfare system, nor of assuring job security of public servants.

There was a logic of political economy here. That is, without keeping the development drive, Kim's administration could not maintain a relatively stable political support. Right after the financial crisis in 1997, massive jobless people poured out into the street because of the bankruptcy of big conglomerates and small enterprises that could not survive a high interest rate enforced by the IMF conditionality. According to data of Korea National Statistical Office, the unemployment rate skyrocketed right after the financial crisis. The relatively low rate of 2.0% in 1996 and 2.6% in 1997 rapidly rose to 7.0% in 1998 and 6.3% in 1999.¹¹ For this reason, the economic recovery that might guarantee the creation of new jobs became an important agenda of the newly launching administration. Given this situation, the administration stressed the significance of the security and peace, in general, and tension reduction in Korean peninsula, in particular. Without a development of the relationship with Pyongyang, Seoul may not revitalize the economy. The country's credit-rating would depend upon political stability as well as economic conditions. The rate would be seriously damaged in case of any minor conflict between the two Koreas, and then the government could not restore a momentum of economic growth that has continued for almost four decades. In other words, the government's internationalization

⁹ Kim Dae-jung's ideology was originally a populist one. In his book, *Mass Participatory Economy* in 1971, Kim showed a critical view on conglomerates, proposing an idea how to restrict the concentration of wealth in their hands. His alternative approach was mass ownership and mass participation in the management.

¹⁰ *Donga Ilbo*, December 20, 1997.

¹¹ The highest unemployment rate in the past decade recorded 8.5% at the first quarter in 1999. It seems that effects of impact of the financial crisis and the launch of restructuring policy appeared one year later. See www.nso.go.kr/cgi-bin/sws_888.cgi. February 26, 2004.

economic approach, whether it is either adaptive or forced one, was interconnected to the engagement policy toward North Korea.

A question follows here. Why the Hyundai, not other conglomerate, became the main partner to the government for the collusive coalition, particularly in the engagement with the North? This question is legitimate, since all conglomerates had experienced the collusion with previous administrations and faced similar pressure of a forced adaptation under the IMF conditionality. A key to this question lies in that the collusive coalition aimed at searching chances of virgin markets in North Korea specifically.

At the individual level, personal motivation and regional origin of the founder of Hyundai was important. The late Honorary Chairman, Chung Ju-young, was born in Tongchon of Kwangwon Province, located in the just northern side of border, in November 1915. When he visited hometown in 1989 for the first time, this adventurous entrepreneur surveyed business opportunities as well as reunion with his separated relatives. He presented to North Korean authorities a blueprint of the development of Mt. Kumgang tourism, which was the first and ambitious offer to Pyongyang made by South Korean businessman. Chung's business adventure was realized as Kim Dae-jung took the presidential office in February 1998 and implemented the engagement policy that was in parallel with the restructuring of economic sectors oriented toward internationalization of the economic system.

At the corporate level, the Hyundai had a relatively less severe debt burden than other conglomerates. Under the harsh pressure of restructuring, most businesses attempted to down-size departments and teams so as to lessen management and labor costs. An important criterion for the down-sizing was profitability. After the Daewoo conglomerate opened a business tie with the North in the first half of the 1990s,¹² many other conglomerates and small corporations gradually dipped their feet in the North in order to secure markets and industrial bases in the unforeseeable future rather than to have a tangible results in a short term. Facing with the financial crisis in

¹² The first inter-Korean economic tie embarked with the chance that Kim Woo-jung, Chairman of Daewoo Corporation, visited North Korean leader Kim Il Sung in 1992. The Daewoo and North Korea's Samchonri finally established a joint venture company named Minjok Sanyeop in Nampo, the gateway harbor of Pyongyang, in 1996. Between 1992 and 1996, the Daewoo has dominated the inter-Korean economic relations, both in transactions and information. The other South Korean conglomerates gathered information leaked from Daewoo's North Korea channel. See, Jhong-keun Lee, "A study on the Structure and Prospects of the Inter-Korea Processing Trade" (M.A. Thesis of the Graduate School of North Korean Studies, Kyungnam University, in December 2002), in Korean, pp. 29-32.

general and the debt problem in particular, however, most of them had to minimize the size of the teams for inter-Korean businesses because of low profitability, maintaining the minimal function, like information collection, and the operation of the existing processing trade.¹³ In the midst of critical situation, the Hyundai, with relatively free from debt pressure, took a different path for an adventurous expansion in North Korea, particularly realization of the tourism project at Mt. Kumgang that the company had dreamed for a decade.

The Hyundai's comparatively low debt pressure at the moment of financial crisis may be attributed to the political repression given by previous Kim Young-sam administration between 1993 and 1997. The political landscape at the beginning of the 1990s was seemingly a battle between old politicians and empowered businessmen, even though the collusion still existed behind the battle. One of the sources of empowerment was the conglomerates' ownership over the non-banking financial institutions in the 1980s – e.g., insurances, securities, and short term finance companies. As they came to have their own financial sources, they were less relied upon domestic banks and the government's assistance.¹⁴ The battle between politics and business culminated when Hyundai's involvement in politics in 1992. At the nationwide election of the National Assembly in March, the new Hyundai-sponsored party, the Unification National Party, made a surprising political status, 17% of the votes and 10% seats.¹⁵ Furthermore, Hyundai's Honorary Chairman, Chung, ran but lost the presidential election in December, whereby Kim Young-sam took power. With the aborted political journey, Chung as a businessman wasted the campaign money. Also Hyundai as a conglomerate lost the chance of entrepreneurial expansion under Kim's presidential rule between 1993 and 1997.

Other conglomerates competing with the Hyundai gradually expanded from manufacturing industry to unconventional industries such as financing and importing, by introducing not only domestic loans but short-term foreign capitals in short-term bases with a high interest rate. In contrast, the Hyundai just kept a calm status in the business circle, under cold eyes of Kim's administration. There was no new business expansion during the period, with a single exception

¹³ Interviews with Jhong-keun Lee (Senior manager of North Korea Team, LG International Co.) and Yeon Chul Kim (Research Assistant Professor, Asiatic Research Center, Korea University) on February 2, 2004.

¹⁴ On the empowerment of the conglomerates, see Eun Mee Kim, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960-1990* (Albany: State University of New York Press, 1997), pp. 194-200.

¹⁵ Stephan Haggard and Chung-in Moon, "The State, Politics, and Economic Development in Postwar South Korea," in Hagen Koo, ed., *State and Society in Contemporary Korea* (Ithaca: Cornell University Press, 1993), p. 92.

of the establishment of an aerospace technology corporation. Even this was a separation from the Hyundai Precision Machinery whose origin dated back to the 1970s.¹⁶ In this regard, for the Hyundai, the end of Kim Young-sam's rule was a chance of jumping into a new field, being contrasted to competitors' case.

Another related question regarding the Hyundai's partnership in the internationalization coalition follows. What did the Hyundai aim at, in detail, through arranging the inter-Korean summit in 2000 by paying tremendous amount of cash? What was Hyundai's stake for being a coalition partner to the government? An important goal was to predominate over entrepreneurial chances in the North before other competitors move forward. The Hyundai pursued the development of industrial bases in the North, particularly the long-term monopoly of land usage rights. The Hyundai had concrete targets: Mt. Kumgang tourism project and Kaesong special industrial zone. First, the tourism project started even before the 2000 summit. Taking advantage of the Honorary Chairman Chung's meeting with North Korean leader Kim Jong-il, the Hyundai could take a decisive step for the tourism project. The Hyundai and Pyongyang accorded, in October 1998, on the "Agreement on Mt. Kumgang Tourism Industry," based on which the Hyundai started the operation of cruise ships on the East Sea in November. Second, the Kaesong industrial site project had a momentum in August 2000, i.e., right after the inter-Korean summit. Chung Mong-hun, Chairman of Hyundai Asan, met Kim Jong-il and announced Kaesong area a special economic zone on which the company has a development right for 50 years. Since the Kaesong project involves the development of various types of infrastructure -- including electricity, telecommunication, water, road, housing, and leisure facilities, its scale reaches to 66 million square meters that needs a huge amount of investment by both conglomerates and small corporations in the long run.

It is noteworthy that Hyundai's business engagement in the North was followed by the legalization of the projects in the North and economic assistance in the South. In November 2002, the Supreme People's Assembly in Pyongyang passed two laws that specifically indicated two regions, that is, Mt. Kumgang and Kaesong. Even though the legalization took place three years after the first move of the Hyundai, it implied a significant meaning of legally guaranteeing independent management by South Korean business alone. Before the adoption of two laws, there had been general laws that noted foreigner's direct investment and joint ventures. By the laws on

¹⁶ Dae-yong Jung, *Entrepreneurship of Asan Chung Ju-young* (Seoul: Samyoungsa, 2001), in Korean, pp. 216-7.

Mt. Kumgang and Kaesong areas, however, Pyongyang for the first time came to acknowledge the potential of South Korean company's independent management, not joint venture but direct investment, in legal terms.

Whereas the Mt. Kumgang project has been conducted by the Hyundai's initiative, the Kaesong project is being carried out by both Korea Land Corporation and Hyundai. Whatever the case may be, the two projects are either partly subsidized by the government or consortiumed by the state-owned enterprise. In this respect, the internationalization coalition between the government and the business becomes solid, if not same as a collusive coalition that appeared in 2000.

4. Institutionalizing of Coalition: Demands and Information Flow

Despite American hard-line policy toward Pyongyang, the power transition in South Korea, and another nuclear crisis of North Korea, South Korea's engagement policy and the domestic coalition for this policy has been continued and, to some extent, institutionalized. In particular, new president Roh Mu-hyun, who inaugurated in February 2002, proclaimed the launch of "Peace and Prosperity Policy" whose basic principle followed that of the Sunshine Policy. New administration's engagement policy has seemingly pursued both goals of security and economic prosperity and a distinct status of Korea in East Asia context.

In security and peace affairs, Roh, compared to the previous administration, has attempted to keep a distance to the American unilateralist approach on the issue of Korean peninsula, searching a variety in accounting the challenging problem of North Korea's nuclear weapon development. This is apparently distinctive from the traditional national strategy based on US-Korea military alliance. Insofar as the American military presence in South Korea and military alliance between the two countries remain in tact, American influence in the security affairs continues to be strong. For this reason, Roh's administration has consistently attempted to rule out any possibility of military conflict, voicing the need of "peaceful solution" on North Korea's nuclear crisis.

In the economic affairs, Roh's administration has shown two different performances. He has envisioned a hub role of South Korea in economic transactions in East Asia. Unlike this envisaging the economic future, the management style in dealing with economic affairs, particularly labor disputes, was against the vision. The government frequently intervened in the process of adjustment of wages and working conditions. As a consequence, the labor, particularly

in the manufacturing and transportation sectors, restored their job security and wage increase to a certain extent, which were considered as a taboo in the previous administration under economic restructuring. Meanwhile, there has been no collusive coalition partner, like Hyundai, for the incumbent administration. This is so not only because of Roh's strong intention of reforming the corruption and collusion between politicians and businessmen, but also because of a high political risk of involving in collusion with the business in the issue of North Korea after the revelation of Hyundai's remittance scandal.

In general, by the Peace and Prosperity Policy and the economic reform measure, the general trend of internationalization that embarked sincerely in Kim Dae-jung's administration has been continued. In particular, through the continuously open dialogue channels, the engagement policy toward North Korea has been able to persistent even under the severely tense situation of nuclear crisis. Furthermore, by these trends in security and economic affairs, the domestic coalition for the engagement with the North has been strengthened to some extent.

Table 2. Trend of inter-Korean trade volume

											(million US dollars)	
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		
187	195	287	252	308	222	333	425	403	641	724		

Source: www.unikorea.go.kr. February 27, 2004.

Table 3. Trend of inter-Korean visits

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total	24	12	536	146	1,015	3,317	5,661	7,986	8,742	13,877	16,303
S to N	18	12	536	146	1,015	3,317	5,599	7,280	8,551	12,825	15,280
N to S	6	0	0	0	0	0	62	706	191	1,052	1,023

Source: www.unikorea.go.kr. February 27, 2004.

As economic transactions gradually expand in volume, and visitors of both Koreas increase in number (see Table 2 and 3), South Korean business group becomes more acquainted with the situation in the North and gets more interested in the northern adventure than ever before. Moreover, the development project of Kaesong special industrial zone has successfully induced attraction from small corporations. According to a survey analysis conducted by the Federation of Korean Industries in July 2003, 41.7% of 171 responding companies show their intention to open business in North Korea, provided the environment of economic relations improves. In particular, respondents from trade (75.0%), information technology (73.3%), and transportation (62.5%)

demonstrate relatively high interests in the business in North Korea.¹⁷ It is remarkable that these interests have been followed by business circle's demands to the government for the better business opportunities.

What are major *demands* of the business group to the government? It is, above all, to secure North Korea's full pledge to permit their free entrepreneurial activities and to guarantee of their rights on their assets invested in the North. It is well known that North Korea lacks infrastructure that is an essential condition to attract foreign and South Korean investment. It is a problem that needs a long period of time in fulfilling the demands of the investors. This is why South Korean business has focused on the processing trade. The processing trade in labor-intensive manufacturing industry is the only sector that may have economic relations with Pyongyang without such infrastructure. South Korean processing corporations provide northern partners with all the necessities such as plants, samples, raw materials, and transportation. The North provides the labor only. In order to extend the business in North Korea, therefore, the most urgent issue is inter-Korean agreements on market principles in the economic relations and North Korea's commitment to the agreements.

In addition, businessmen have concerned about more support from the South Korean government for their capital mobilization. This is particularly important for the small corporations because unlike to the big conglomerates with a capacity of capital mobilization, they need governmental funds that are practically not available now, if not theoretically impossible, owing to the lingering business risks in the North.

The business group transmits the demands to the government through various *channels*. First of all, the demands are transmitted to Ministry of Unification in the process of proposing business plans, getting approvals of the plans, and reporting of the contacts with North Korean partners. Officials of the ministry not only listen to the corporations' experiences and progresses but also acquire information regarding obstacles and difficulties. They take into account the demands in future negotiations with Pyongyang. Secondly, some private business associations and non-governmental organizations often produce direct and organized demands to extend legal devices for the investment in the North.¹⁸ Meetings and forums, sponsored or organized by Korea Trade-

¹⁷ Sun-bom Kwon, "Inter-Korean Economic Relations of Major Industries in 2003: Situation and Tasks" (CEO Report on Current Issue, Federation of Korean Industries, August 2003), in Korean, p. 6.

¹⁸ The most recent umbrella organization is the Council of Private Economic Cooperation between South and North Korea, which was established in November 2003.

Investment Promotion Agency (KOTRA) and Korea International Trade Association (KITA), provide prospective corporations with a chance of airing their wants and demands to the government.¹⁹

To put into effect of the “four economic agreements” between two Koreas in August 2003 reflects the government's accommodation of the demands, either directly or indirectly produced by the business circles, to forge Pyongyang's pledge and commitment. The four economic agreements comprehend some general regulations that may apply to the countries with normalized economic relations -- investment guarantee, elimination of double taxation, mediation of trade disputes, and netting settlement. They constitute basic principles to protect investments in the North; however, they need detailed rules and regulations in order to be implemented.

Here it is noteworthy that the sources of pressing the government to achieve these agreements were withinputs²⁰ in the sense that the input derived from internal government officials' understanding of the necessity of them since December 1991. The Basic Agreement between the North and the South, accorded in the 1991, was a well-documented agreement but further needed details on the matters of economic cooperation. For this reason, South Korean delegates in the process of the negotiation in 2003 pushed the four economic agreements that may lessen the fear of risk-taking and ease capital mobilization for the business advancement to the North. It is said that the officials could not consult or release the regarding information to the business, so as to avoid the backfire of the diverging domestic forces and of sensational media coverage.

Meanwhile, it is certain that the South Korean business, particularly small corporations, is cautiously watching progresses in the follow-up talks of the four economic agreements. Through various channels, the small corporations have expressed their wants and knowledge. Their behavior constitutes dual meanings: one is to produce demands, and the other is to provide the government with information. Whatever the way of expressing their interests may be, the coalition between the government and the business is not a one-directional but interactive move in its characteristics.

5. Conclusion

¹⁹ Interview with Myong-Han Dong (Senior Manager of Inter-Korean Economic Cooperation Team, Small Business Corporation) on February 3, 2004.

²⁰ On the concept of withinputs, see David Easton, *A Framework for Political Analysis* (Chicago: University of Chicago Press, 1965), p. 114.

In examining South Korea's engagement policy toward the North since late 1990s, two interactive relations have been accounted. One is an interaction crossing the issues of political economy and security: restructuring economy and tension reduction in Korean peninsula. The other interactive relation is between the international and the domestic: IMF's harsh conditionality of restructuring economy and domestic response to the pressure. Of many foreign policies of South Korea, the engagement policy has been located in the core of the crisscrossing interactive relations.

The engagement policy is an exemplary case of internationalization in the sense that it has pursued a solution of the Korean problem by a peaceful means in the context of international cooperation. For this reason, the engagement policy has been able to induce supports from international community, both in governmental and non-governmental levels. A visible consequence was a series of normalizations between North Korea and western countries in the early 2000s. Furthermore, the engagement policy has had a practical linkage with the neo-liberal approach of economic restructuring and opening. In the process of implementing the policy, the government not simply envisioned common prosperity of two Koreas but also proceeded with a realistic concern of reducing the business risk and of upgrading the credit-rating given by Standard & Poors and Moody's. This is so because the inter-Korean relationship is one of the significant factors to be counted for the credit assessment and the likelihood of investment.

The engagement policy has been empowered by the coalition between the government and the business, even though it was initiated by the new president Kim Dae-jung in the peculiar situation of an inescapable international economic pressure. The coalition first appeared in a rudimentary fashion, as appeared in the Hyundai's remittance scandal. As time passes, the coalition has been sophisticated in terms of channeling demands and information. To the business side, the various channels are employed for the articulation of their demands, both in straight and circuitous ways, to the government. To the governmental side, the Ministry of Unification has been a nodal point of the channeling: accommodating demands and converting them into agreements with the North at the negotiation tables.

It is noteworthy that the coalition seems to be continuous for the time being, and that principles of the engagement policy, based on the coalition, would persist. As far as such trend is maintained, South Korea's approach in dealing with North Korea's nuclear crisis would rely on

multilateralism in which China plays a significant role of mediating different interests, even if the US-Korea military alliance remains as a cohesive bond in coping with potential threats from the North.