

# The Bush Administration and the Korean Peninsula

INTERVIEW WITH DR. SUH SANG-MOK

Albert J. Suh

**MOST EXPERTS PREDICT THAT THE NEW BUSH ADMINISTRATION WOULD TOUGHEN ITS POLICY TOWARD NORTH KOREA WITH FIRM PRINCIPLES OF "RECIPROCITY." WHAT COULD BE THE POSITIVE ASPECTS OF THIS, AND PERHAPS THE NEGATIVE ONES?**

For one thing, we don't know exactly what the Bush administration's policy is toward North Korea as of yet. And the South Korean government recently formed some kind of task force, to review U.S. policy toward North Korea. It is too early to presuppose what the Bush policy is going to be. But the general understanding is that the Bush administration is likely to emphasize reciprocity. Experts also emphasize that whatever the U.S. policy is, has to be coordinated closely with the South Korea government. And I think it is very important that South Korea and the U.S. coordinate their policies, in order to be effective in dealing with North Korea. Emphasizing reciprocity can have positive results in the sense that it gives more pressure to North Korea, to do the kinds of things the U.S. and the South Korean government would like them to do. From the U.S. point of view, the main interest is for North Korea to give up the production of their weapons of mass destruction. For the South Koreans, interest lies in the reduction of military tensions along the DMZ, which might entail a reduction of conventional weapons and even troops. And more importantly, we [South Korea] would like to see the North take economic policies very much along the lines of the Chinese. To achieve those two objectives, South Korea and the United States should work closely together.

**HOW DOES THIS CHANGE AFFECT PRESIDENT KIM'S "SUNSHINE POLICY"?**

I actually think the main goal of the "sunshine policy" is to achieve those two objectives: reduction of military tensions and economic reforms by the North Koreans. It's really a question of tactics. Hence, I feel that the direction of Kim's "Sunshine Policy" is ultimately the same as that of the Bush administration. There might be some differ-

ences in style and I hope both governments can work out those differences. Again, what's important is close consultation.

**MANY PEOPLE HAVE CRITICIZED THE SOUTH KOREAN PRESIDENT FOR BEING TOO "SOFT" IN DEALING WITH THE NORTH. DO YOU SEE VALIDITY IN THIS CRITICISM?**

One regret is that neither the South Korean president nor government made much effort in building a national consensus in policies toward North Korea. There is lot of criticism from the conservatives that this incumbent president is too soft. And there are several instances, which can invite criticism to the government. I just hope that President Kim and his administration pay more attention to building the consensus and avoid these sorts of instances.

**WHAT KIND OF INSTANCES?**

Recently, the Head of the Korean Red Cross resigned, because he made some criticism of the North Korean society. Which is very true! [Dr. Suh laughs] The government made him apologize to North Korea before he made the resignation. That kind of measure is ridiculous. The Head of the Red Cross should have his own saying. The fact that North Korea doesn't like what he says cannot be a reason for his resignation. That's just one concrete example.

*PROSPECTS OF ECONOMIC REFORM IN NORTH KOREA*

**WHAT DO YOU MAKE OF NORTH KOREAN LEADER KIM CHONG-IL'S RECENT VISIT TO SHANGHAI?**

Well, everybody is trying to draw positive implications from his visit to Shanghai. He showed a lot of interest in the Chinese experience in economic reform, and he is very impressed with the results. And apparently he told his people, "hey, can you guys do something like this?" [Dr.

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Suh smiles] But one should also keep in mind that, they [the North Korean administration] did not just visit Shanghai, but also Beijing. One of the important purposes in the visit was to consolidate North Korea's common grounds with China, before negotiating with the Bush Administration, you know? Because it's a new administration, as you mentioned, there is some speculation that it might take a tougher stance. And Kim Chong-il wants to consolidate ties with North Korea's closest ally, China.

**SOME EXPERTS STILL CAST DOUBTS ON WHETHER NORTH KOREA WOULD PURSUE THE CHINESE-STYLE ECONOMIC REFORM TO REVIVE ITS ECONOMY. WHAT DO YOU THINK?**

There is an optimistic side as well as a pessimistic side. Both have their individual grounds. The optimistic side points out the fact that North Korea really reached the limit to where it can go in following the present line of economic policies. And Kim Chong-il is not dumb, and he should know this. The pessimistic side, on the other hand, might point out the North Korean trade record. The trade record is not good. One might also argue that if Kim Chong-il opens up, it's good for the economy and good for the people, but may jeopardize the survival of the regime. Liberalization means more contact with the outside world and the people will get more information. They will see their relative position with rest of the world and what's happening in South Korea. But the Chinese experience suggests that the Communist regime can maintain its political status—even consolidate it—while opening up the economy and introducing market principles. Because the present state of the economy is so bad, and many people are starving to death, Kim Chong-il, in the case of a positive result, can say, "I'm the leader who gave economic improvement to the people!" [Dr. Suh smiles] He can use that to consolidate his power base. It's really a question of Kim Chong-il's ability, whether he can maintain his political power base while opening up the economy. And what's important is not to speculate what will happen. But South Korea and U.S. should work together to make North Korea follow the route we'd like North Korea to follow. I'm more in favor of contemplating some positive actions, rather than just engaging in speculations. Nobody can be right. It can go either way.

**HOW MIGHT NORTH KOREA'S CONDITIONS DIFFER FROM CHINA'S?**

At the present time? North Korea's economy is in a miserable shape. It's a more controlled economy, more closed society than any other Communist country in the world. This is a great difference. One positive aspect [of future possibility for reform] is that the planned economic system is virtually destroyed. The state cannot supply the basic

necessities to the people. So many people have to get those these through the black market. The ration system is mostly broken down, and that is why many people are starving to death. So there isn't much left in the planned economy. Ironically enough, this can be a positive factor. In Russia, when they were trying to introduce the market system, it didn't function initially, and neither did the planned system, so they had complete chaos. But in the case of North Korea, they have chaos anyway! By introducing the market system, they cannot lose.

**THE NORTH HAS SEEMINGLY QUICKENED ITS EFFORTS TO IMPROVE RELATIONS WITH WESTERN NATIONS, PARTICULARLY EU MEMBERS INCLUDING GREAT BRITAIN AND BELGIUM. WHAT DO YOU MAKE OF THE NORTH'S IMPROVING RELATIONS WITH NATIONS OTHER THAN THE U.S.?**

I think there have been major changes in diplomatic initiatives. As you said, they opened up diplomatic relationships with many countries, which is quite different. Kim Chong-il is going to China, and it is reported that he may also go to Russia. And having that kind of diplomatic relationship is good in my opinion. North Korea will have more contacts, and will then get some kind of indirect pressures to open up. I think this is a very positive sign that they have changed their diplomatic policies.

*FUTURE FOR SOUTH KOREA?*

**SINCE THE SECOND HALF OF 2000, SOUTH KOREA HAS, AGAIN, BEGUN TO FACE MANY DIFFICULTIES DUE TO UNCONTROLLABLE OVERSEAS FACTORS AND UNCERTAINTIES THROUGHOUT THE DOMESTIC ECONOMY. HOW DO YOU VIEW THE RECENT ECONOMIC REFORM PROGRAMS? DO YOU FEEL THEY ARE EFFECTIVE?**

We had that financial and corporate reform program for the last three years. Initially, it was very successful, and it was more ambitious than any of the other programs instituted in countries dealing with similar experiences in the financial crisis. So I think that's why we [South Korea] had such rapid recovery. But unfortunately, as you remember, we had a General Election in April of last year. And because the recovery was fast, and also partly because the current regime wanted to show the people that it has fixed all the problems, it stopped implementing the restructuring program for six to eight months before the General Election. Many of the reform efforts were incomplete. That's why after the elections, starting this summer, we are beginning to have some problems. So the government has to formulate a second round of reform. They recently asked for 40 trillion won to the National Assembly, for that pur-

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pose. And the economic team says they are going to finish by early February this year. And they have money, so I think the “immediate problems” will be resolved. But we still have longer-term problems. One is a paradigm problem in economic management. We have a long history of government-managed economy paradigms. And clearly, that cannot be effective in a globalized world. That paradigm has to be changed to a market-driven economy, which has to start from the independent financial center. But the financial banks and non-bank financial institutions are now so dependent on the government, particularly after the financial restructuring, because there has been so much government money put there. The government virtually owns many of the financial institutions. Even other financial institutions depend on government funds, so how do we make them independent and efficient? That’s really the issue.

The other issue is that we’ve been losing comparative positions—particularly, vis-à-vis, China. In terms of technology, we cannot compete with Japan or the U.S., and in terms of the cost of labor, we cannot compete with developing China. The emergence of China and its collaboration with the overseas Chinese, including Hong Kong . . . just very tough to compete against. They have both the efficient financial markets and overseas marketing capabilities, but also a production base [in China] based on very low wages. And that’s the challenge.

That’s the way I look at North Korea. If North Korea goes on with its economic reform path, and if it can eliminate some of its political problems, then it may even be the solution even for the South Korean economy. For instance, the South Korean companies, which are suffering from high wages and strong labor unions can invest in North Korea, and take advantage of their fairly good quality of labor at low prices. This may create a new momentum to the South Korean economy.

#### **HOW DO YOU SEE KOREA’S FUTURE IN OPENING UP ITS DOMESTIC MARKET AND PROVIDING A FAVORABLE ENVIRONMENT TO FOREIGN INVESTMENT?**

After the last three years of economic reform, particularly under the IMF programs, South Korea opened up many markets. It opened equity markets and bond markets com-

pletely. Real estate markets for foreigners and areas of foreign direct investment were opened as well. In some companies, especially the good ones (e.g. Samsung Electronics, Pohang Steel), foreigners, as a group, are the largest shareholders. Hence, I think we have eliminated many obstacles, and the response has been very good.

#### **WHAT ABOUT REGIONAL COOPERATION WITH CHINA, JAPAN, AND ASEAN MEMBER COUNTRIES?**

Recently, they are talking about forming a free trading area, with Japan and ASEAN countries. I think this is a very good idea. Korea is one of the few countries that do not have any free trade agreement with anybody. So we can have a free trade agreement with ASEAN countries, Japan, and Australia, even New Zealand. And it can also go to the United States. I look forward to these free trade discussions occurring in the regime.

#### **WITH THE CURRENT ECONOMIC CRISIS IN SOUTH KOREA, HOW WOULD THIS AFFECT FUTURE COOPERATION WITH NORTH KOREA?**

In the short-run, there will definitely be an adverse effect, for South Korea will have less money for economic aid. Public support for giving too much economic aid to North Korea will diminish. But there is another side. I don’t think giving excessive aid is good to North Korea anyway.

What North Korea needs is change toward a more favorable environment for South Korean investment. If they make efforts in that direction and South Korean companies go to North Korea to make profits, it will be good for both nations. Thus, the current economic hardship has a short-term negative implication, but in the longer-term perspective, it can be a blessing.

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*Dr. Suh Sang-Mok is a former member of the Korean National Assembly, and visiting fellow at the Hoover Institution at Stanford University. The interview is from January 31, 2001.*

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