After a decade of liberal leadership in South Korea that was accompanied by apparent progress in inter-Korean relations, the political winds shifted in 2008 with the election of Grand National Party (GNP) candidate Lee Myung-bak. It was inevitable that this power transition would bring with it new challenges for inter-Korean relations. Lee’s campaign based on “pragmatism” gave the impression that his administration would generally seek to continue engagement with North Korea along the lines of his predecessors while introducing greater conditionality into South Korea’s relations with the North. This policy came to be known during the 2008 South Korean presidential campaign as Lee’s Denuclearization, Opening, 3000 (DNO 3000) policy. This policy promised to make efforts to raise North Korea’s per capita income to $3000 if the North abandoned its nuclear weapons and pursued economic opening to the outside world. Although the North refrained from criticizing Lee himself during the campaign period, the likelihood of difficulty in the relationship following his election was not a surprise given the North’s strident criticisms of the GNP. Further complicating the issue, a second inter-Korean summit between Roh Moo-hyun and Kim Jong Il was held and a new inter-Korean agreement was signed in October of 2008, only a little over two months prior to South Korea’s presidential election. Given Roh’s lame-duck status, the timing of the summit appeared to be intended to lock in and make irreversible the gains that had been made in inter-Korean relations before a new government came to power. Lee Myung-bak’s inauguration was inevitably accompanied by a reevaluation of inter-Korean relations on both sides of the DMZ.

This chapter will examine the precipitous decline and apparent recalibration in the inter-Korean relationship that has accompanied the power transition from Roh Moo-hyun to Lee Myung-bak. It will also consider the role and influence of South Korean domestic politics on inter-Korean relations, the Lee Myung-bak administration’s initial policy approaches toward North Korea, North Korea’s test of the Lee Myung-bak administration and the setbacks accompanying the Keumgang tourism project, the impact of Kim Jong Il’s health situation on the inter-Korean relationship, and the deterioration of relations surrounding the Kaesong Industrial Complex as aspects or stages in the deterioration of the inter-Korean relationship. The chapter will conclude with an assessment of North Korea’s aggressive escalatory acts in the spring of 2009, the

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1 This draft paper has been prepared for a June 25-26 conference on North Korea held at University of British Columbia. The author would like to acknowledge the assistance of The Asia Foundation Center for U.S.-Korea Policy Research Associate See-Won Byun. Comments on this draft are welcome, and may be sent to the author at ssnyder@asiafound-dc.org.
challenge posed by these actions for both the Obama and Lee Myung-bak administrations, and the implications for Pyongyang’s inter-Korean diplomacy.

*Divisions in South Korean domestic politics*

South Korea’s power transition posed a new challenge to continued inter-Korean relations for several reasons. First, the inter-Korean summits since 2000 had been accompanied by a deepening ideological division in South Korea’s domestic politics between progressives and conservatives (widely referred to from 2001 in South Korea as *nam-nam kaldeung*). This division was exacerbated by the manner in which the first summit became a partisan issue in South Korean domestic politics in the context of South Korea’s 2000 National Assembly elections. The failure of the Kim Dae Jung administration to include opposition Grand National Party (GNP) representatives as part of a bipartisan delegation to the summit (or the failure of GNP delegates to join the trip) sowed the seeds for likely difficulties down the road, especially in a context in which power once again would come to the GNP. North Korea’s consistent demonization of the GNP and efforts to exclude GNP representatives from inter-Korean events fed those divisions and created difficult political terrain in the context of a transition in power back to a GNP-led government.

A related problem was that despite two inter-Korean summits, progress in inter-Korean relations had remained primarily in the hands of progressives, with GNP representatives largely excluded from the process. One result is that top GNP leaders felt little “ownership” of improved inter-Korean relations as a policy priority. The single exception has been Park Geun-hye, Lee Myung-bak’s chief rival within the party. Thus, the transition in power in South Korea also meant that it would be necessary for North Korea to build a new relationship with counterparts who had until Lee Myung-bak’s inauguration been strangers to inter-Korean dialogue.

Second, the North’s handling of the transition attempted to define the South Korean political field in its favor. The October 2007 inter-Korean summit had at least two critical aims: 1) to influence the South Korean political field in favor of progressives by showing a sense of progress and momentum in the inter-Korean relationship, 2) to “lock in” economic gains with a progressive government as a defensive measure in the event of a South Korean power transition.

Although North Korea had made its antipathy to the GNP well known, the DPRK media was careful not to criticize Lee Myung-bak directly during the election campaign. This restraint was notable, although the decision to hold an inter-Korean summit with Roh Moo-hyun so close to the end of his term gave the impression that North Korea was trying to influence the South Korean election. In particular, the second summit promoted vague but expansive promises of continued economic cooperation, giving the impression that South Korea’s new administration would be obligated to continue generous economic assistance to the North.

The DPRK’s careful restraint in criticizing Lee Myung-bak during the political campaign left the door open to continuity in the inter-Korean relationship. Through these measures, DPRK authorities appear to have felt that they would be able to manipulate the South Korean domestic political environment sufficiently to ensure that the North would still be able to gain the desired
economic and political benefits. They may have been surprised when this turned out not to be the case. A rumor surfaced in the spring of 2009 that Choe Sung-chol, the party official responsible for the second inter-Korean summit and representative of the Asia-Pacific Peace Committee, may have been executed for misinterpreting South Korean politics. This rumor further suggests that North Korea’s grand political strategy toward the South in 2007 had failed.

The Lee Myung-bak Administration’s North Korea Policy

During the transition period following Lee Myung-bak’s election in early 2008, the North put out feelers for an invitation to Lee’s inauguration, a symbolic gesture that might have signaled continuity in the inter-Korean relationship and would have provided an early opportunity for dialogue. There was also talk of South Korea sending a special envoy to the North during this period, but no such effort materialized. Lee Myung-bak himself referred to progressive administrations as the “lost decade” and referred to the Basic Agreement as the primary foundation for inter-Korean relations during the transition period prior to his inauguration, indirectly calling into question the validity of the two summit declarations as a basis for proceeding in the relationship. In addition, the North Koreans observed the fallout from the recommendation of the presidential transition committee to abolish the Ministry of Unification and the efforts to marginalize the ministry as a factor in policy making under the new administration.

But the most important change that resulted from the leadership transition is that Lee Myung-bak no longer treats inter-Korean relations as a priority or gives it privileged status to override other issues or be treated as exceptional, as was the case with his predecessors Kim Dae-jung and Roh Moo-hyun. Lee Myung-bak’s relative disinterest in and low prioritization of improved inter-Korean relations under his administration had several important effects. First, the Lee Myung-bak administration’s low prioritization of the importance of North Korea led to frustration and irritation with South Korea on the North Korean side, especially since this meant that it was more difficult for the North to receive economic benefits from South Korea. As a result, initial North Korean gestures designed to test Lee’s willingness to continue the relationship on the same terms as in the past were not reciprocated.

Second, the diminishing of North Korea as a policy priority for the South meant that in light of the lack of interest and attention on the part of the president himself, others in his administration filled the vacuum and defined his policy more harshly than he himself might have intended. For instance, the North interpreted some initial public statements by senior defense and unification ministry officials under Lee Myung-bak negatively (explored in greater detail below), but these statements reportedly did not necessarily represent considered policy positions of the Lee Myung-bak administration. Lee Myung-bak’s relative disinterest in inter-Korean relations appears to have spawned a contest for control of policy toward the North between “pragmatists” and “neo-conservatives” within the administration. During an initial period of adjustment under career foreign ministry bureaucrat Kim Ha-joong, who had served as Kim Dae Jung’s national security advisor, the Ministry of Unification was progressively weakened and subordinated to the foreign ministry in the foreign policy formation process.
Third, when troubles arose in the inter-Korean relationship, difficulties were harder to overcome since the Blue House was less likely to weigh in to safeguard the relationship against negative consequences of specific actions as had been the case under progressive administrations. For instance, the Blue House had little room to act in response to the shooting of a South Korean housewife at Mount Keumgang, so there was no way to resume the project absent an joint investigation of the incident. Moreover, relationships had not yet been built between North Korean authorities and the new leadership in the Lee Myung-bak administration that could be used to conciliate following such an incident, which provided a big shock to South Korean public expectations for North Korea. This made inter-Korean communication more difficult and contributed to the downward spiral in inter-Korean relations.

Fourth, the North sought a relationship in which the accomplishments of prior administrations, especially at the inter-Korean summits held with Kim Dae-jung and Roh Moo-hyun, would be affirmed, but Lee Myung-bak was reluctant to offer an a priori blanket validation of the results of those summits as a basis for continuing the relationship. The North continued to assert the relevance of the inter-Korean summit declarations as the foundation for inter-Korean relations and accused the Lee administration of trying to destroy cooperation that had been established under the prior South Korean progressive administrations. In response, Lee Myung-bak cautiously asserted a willingness to pursue inter-Korean dialogue to discuss the respective interpretations of the inter-Korean summit declarations.

Fifth, many analysts interpreted the deterioration in inter-Korean relations as evidence that North Korea had decided to pursue a tongmi bongnam policy (to be explored in greater detail below), through which the North focused on negotiations with the United States while marginalizing South Korea. On balance, these conditions were sufficient to bring about a serious downturn in inter-Korean relations in the first phase of the Lee Myung-bak administration.

Sixth, the Lee Myung-bak administration attempted to respond to a growing South Korean public desire/demand to introduce conditionality or some form of limited reciprocity into the relationship. Lee Myung-bak’s DNO3000 proposal marked the starting point for his effort to introduce conditional reciprocity into the inter-Korean relationship. The proposal contrasted with the focus on engagement and unconditional economic assistance that formed the foundations of Kim Dae-jung’s Sunshine Policy and Roh Moo-hyun’s Peace and Prosperity Policy toward North Korea. The proposal itself was designed to have elements that could attract support from both Korean conservatives and progressives, but several factors discussed below made the proposal difficult to implement in the early stages of the Lee administration.

**North Korean testing of new South Korean leadership**

Lee Myung-bak’s DNO 3000 campaign proposal was in practice an initial failure, in part due to North Korea’s efforts to test the Lee Myung-bak administration and to show who has the upper hand in the relationship. But the new policy also veered off track as a result of indiscipline and misunderstanding of the Lee Myung-bak policy on inter-Korean relations by newly-established senior officials in his administration.
Early statements by the new administration provided the immediate pretext for North Korea to go public with its criticisms of Lee Myung-bak and the new administration. The first was a statement by unification minister Kim Ha-joong in his first policy briefing to the president on March 26 in which he said that “the speed and scope of as well as ways to push for any development in inter-Korea relations will be decided according to progress in the North Korean nuclear issue.” That statement was followed by a North Korean announcement that South Korean officials would no longer be allowed to stay at the Kaesong Industrial Complex.

The second was a statement by the Chairman of the Joint Chiefs of Staff Kim Tae-young at a March parliamentary hearing in which he stated that there were contingency plans for responding to a possible nuclear weapons strike by North Korea, telling lawmakers, “we would identify possible locations of nuclear weapons and make a precise attack in advance.” These statements provided a pretext and possibly confirmation for North Korea’s decision to take a publicly adversarial role toward the Lee administration’s policy, choosing to interpret it as confrontational and contrary to the spirit of the past inter-Korean agreements. In effect, North Korea was rejecting Lee Myung-bak’s bid for conditional engagement, perhaps betting that the South Korean public would eventually put pressure on the Lee Myung-bak administration to soften its policy toward North Korea or that the South would find renewed tensions with the North costly enough to recalibrate its policies and continue to offer a down payment in return for peaceful coexistence.

The Lee administration’s handling of humanitarian aid to North Korea in its initial phase further contributed to the deterioration in relations. North Korea analyzed the Lee administration’s handling of the issue as a means by which to further test the intentions of South Korea’s new government. Although the DNO 3000 policy did not link provision of humanitarian aid to progress in denuclearization, the new administration hesitated to fully separate humanitarian aid provision in its handling of the issue. The situation was complicated by apparent shortages in North Korea and reports that a renewed famine might possibly be developing. South Korean NGO advocates of continued food assistance to the North raised their voices, but struggled to gain attention of the South Korean public given the inordinate focus on the controversy in May and June of 2008 over health concerns surrounding the re-opening of the Korean market to U.S. beef.

Meanwhile, South Korean officials struggled to show in their first actions toward North Korea that their approach would be different from that of progressive administrations. Ultimately, the ROK government made available 50,000 tons of corn to North Korea that had been approved in the waning days of the Roh administration on the condition that North Korea issue a request for assistance to South Korea. In addition, a debate ensued over whether to provide 300,000 tons of fertilizer and 500,000 tons of grain that had become a regular part of South Korea’s foreign assistance budget to the North. Both of these possible contributions from South Korea were also subject to the requirement that North Korea request assistance, but the requirement that the North ask for assistance was precisely the type of precondition the North could never accept, given its implications for the nature and balance of the inter-Korean relationship. North Korea’s response

2 “Minister vows to raise nuclear issue in inter-Korean dialogue,” Yonhap, March 26, 2008.
3 Kim Min-seok and Jung Ha-won, “North’s nukes on attack radar: New military chief says plans exist for possible pre-emptive strike,” JoongAng Ilbo, March 27, 2008.
put the South Korean government into a situation where it would symbolically be seen as backing down on its own principles of conditionality if it gave food to North Korea without obtaining at least a request for assistance in return, but would be perceived as uncaring and inhumane if it chose not to respond to an emerging humanitarian crisis in North Korea.

The DPRK further tested the mettle of the Lee Myung-bak administration in its handling of the July 11, 2008, shooting of a South Korean female tourist who had crossed outside the boundary of the Mount Keumgang tourism zone and was killed by a North Korean soldier. The incident occurred on the same day that Lee Myung-bak gave an address to the National Assembly in which he attempted to set the parameters for renewed inter-Korean dialogue, pledging a willingness to discuss the meaning of the two inter-Korean summit agreements as a subject of inter-Korean dialogue. Notably, Lee decided to go ahead with his effort to strike a conciliatory tone and offer to renew dialogue despite learning of the incident only hours prior to the speech. The incident led to the closing of Mount Keumgang to South Korean tourists pending a resolution of the incident, with Hyundai Asan caught in the middle. The incident also set off a debate over how to respond and what the conditions should be for resuming the tourist project. North Korea returned the body and offered its own version of events leading to the shooting, but declined to allow a joint investigation with South Korean authorities.

A potential opportunity to reverse this situation appeared to present itself when North Korea proposed military dialogue with South Korean counterparts at the DMZ in October of 2008. But it turned out that the purpose of the dialogue was not to reopen discussion about Mount Keumgang but rather to pose a new test for the Lee Myung-bak administration over whether the ROK government would be willing to take action to prevent citizen groups from launching balloons containing propaganda fliers. North Korea argued that these efforts by citizen groups were in contravention of the agreement from the first inter-Korean summit in June of 2000 that both sides would stop utilizing propaganda against each other along the DMZ. North Korea raised the stakes by threatening to close down the border with South Korea, including stopping the overland crossings necessary to run the Kaesong Industrial Zone. Many South Koreans thought that the North might be making an empty threat, given that Kaesong had developed into a significant money-maker for the North Koreans, who received millions of dollars in payments each month for North Korean labor contributions and South Korean private sector access to the site.

The cycle of deterioration in inter-Korean relations has stimulated a variety of public responses in South Korea. In response to the shooting of a South Korean housewife at Mount Keumgang, negative public opinion reached its peak in the summer and fall of 2008. Although public opinion prompted Seoul to suspend civic group visits to the North, South Korea began allowing liberal civic groups to resume their trips to the North two months after the shooting incident, a decision which some analysts to suggest that “Seoul has no leverage in resolving the nuclear crisis due to worsening ties with North Korea.” During the first anniversary of the October 2007 inter-Korean summit, some expressed concern that the Lee administration appeared to be abandoning summit commitments in face of public opinion that remained largely negative.

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5 “Anniversary of inter-Korean summit “marred by suspicion, doubt,” Yonhap, October 4, 2008
The negative cycle in inter-Korean relations initially appeared to put pressure on the Lee Myung-bak administration to seek ways of reaching out to North Korea and keeping dialogue alive without sacrificing its core principles. The ROK Government allocated funding to resume grain and fertilizer shipments to North Korea in the budget for shipments to occur in the spring of 2009. Another face-saving possibility in the absence of a request from the North was to consider supplying the assistance via the UN World Food Programme, which had already requested funding from South Korea to support its overall aid effort to the North. But with North Korea’s suspension of food assistance and expulsion of all food aid workers in the spring of 2009, even the possibility of indirect food assistance via the UN WFP became impossible.

**Kim Jong Il’s health crisis and its impact on inter-Korean relations**

Amidst a precipitous downturn in inter-Korean relations, periodic rumors of Kim Jong Il’s poor health drew special attention in the context of his absence from celebrations marking the 60th anniversary of the founding of the DPRK on September 9th and similar celebrations of the founding of the Korean Workers’ Party on October 10th. Although there have been previous rounds of speculation regarding problems with Kim Jong Il’s health, these rumors took on renewed significance as American and South Korean intelligence agencies confirmed suspicions that Kim Jong Il had suffered a stroke in early-mid August. Rumors of recovery in September and October were followed by rumors of a relapse in November, despite desperate North Korean media efforts to quell international speculation by releasing just the right types of pictures that would satisfy external demands. This effort on the part of the regime’s top propagandists is even more notable for the fact that external media reports now appear to have the capacity to influence internal opinion within North Korea, or at least that North Korean officials worry about such influence sufficiently to try to rebut reports about the Dear Leader’s health directly with counter-reports from the Korea Central News Agency.

But the significance of the impact of reports about Kim Jong Il’s health cuts both ways. Every indication that North Korean officials are worried about the vulnerability of the regime to external influence or are positioning themselves as best they can to manage some form of political succession in case of Kim Jong Il’s demise carries with it reverberations for South Korean policy that in turn may further stoke difficulties in inter-Korean relations. When one considers North Korea’s potential vulnerability, the decision by DPRK authorities to protest leaflets by South Korean NGOs that attempt to spread the word inside North Korea about Kim Jong Il’s health situation or North Korean attempts to curtail the number of South Korean workers at the Kaesong Industrial Zone are primarily defensive actions related to the uncertainty of North Korea’s domestic situation rather than an attempt to test or challenge a new South Korean administration. Nonetheless, the response of the Lee administration might play a potentially critical role in both shaping prospects for inter-Korean relations during the next phase and possibly in shaping the future of North Korea as well.

For this reason, rumors related to Kim Jong Il’s health appear to have had the effect in South Korea of intensifying the domestic policy debate over the Lee Myung-bak administration’s policies toward North Korea. While progressive groups and North Korea-focused NGOs continue to argue for humanitarian engagement of the North both to prevent a humanitarian
catastrophe and to prevent further deterioration in inter-Korean relations, the debate over Kim Jong Il’s health appeared to split South Korean conservatives into two groups: one group sought to step up pressure on North Korea in anticipation that Kim Jong Il’s passing will also mean an opportunity for the passing of the North Korean system and that preparations for Korean reunification should be the South Korea’s highest strategic objective; the second group was primarily concerned with managing to maintain some form of inter-Korean relationship as a defensive measure unless and until reunification is finally clearly in sight. The second group advocated a more pragmatic approach to humanitarian aid and the priority of stabilization of North Korea’s situation, while the first group worried that such an approach would sell short the potential opportunity to finally achieve Korean unification. Differences between conservatives reverberated over the potential respective role of China and the United States in a North Korean contingency and are relevant to U.S.-ROK coordination efforts under the Obama administration.

**Kaesong Industrial Complex: Pressure Point or Breaking Point for Inter-Korean Relations?**

Operations at the Kaesong Industrial Complex became a flashpoint for rising inter-Korean tensions from November of 2008. An unusual tour of Kaesong by North Korean military authorities at that time suggested the possibility of a shift in DPRK policies regarding the complex. North Korea has increasingly squeezed Kaesong since early 2008, kicking out ROK government officials in March, cutting the number of South Korean workers authorized to visit the complex, and threatening retaliation through Kaesong in response to South Korean leaflet campaigns. Pyongyang’s suspension of DMZ crossings into the industrial zone has hurt factory production. Hyundai Asan, which runs the Kaesong and Mt. Geumgang tourism projects in North Korea, has been hit particularly hard.

Further complicating the situation is the detention of a South Korean worker in March 2009, an issue which has been categorized by ROK Unification Minister Hyun In-taek as a “fundamental issue” to the future of Kaesong. Although Pyongyang proposed the first Kaesong-related talks in April, squabbling over the agenda took most of the day. Finally, a 22-minute meeting took place at which the North Korean delegation refused to discuss the detainee issue while demanding wage increases and contract revisions. Pyongyang has subsequently declared all contracts void and vowed to revise them on their own terms and has unilaterally proposed a new financial structure for South Korea-based companies operating in the zone in which North Korea is demanding land-use fees from next year and a four-fold wage hike for North Korean workers from $75/day to $220/day. These rates undermine Kaesong’s competitiveness on labor costs and are increasingly threatening the viability of South Korean operations in Kaesong, with several companies moving to curtail operations or shut them down completely.

Although the Ministry of Unification refuses to consider shutting down the industrial park, the Lee government appears to be left with little leverage over the North. South Korean analysts question whether Seoul should continue to implement inter-Korean cooperation projects given the uncertainty of the North’s reform and opening, arguing that the detainee and entire Kaesong

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6 “South Korean minister urges North to respond to proposal for talks on Kaesong,” May 21, 2009.