

In Search of Balance between Inducements and Sanctions: Evaluating the Lee Myung-bak Administration's North Korea Policy

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This paper will ① focus on the context behind the development of the North Korean problem and the limitations of the policy resources that can be effectively utilized, in order to explain the background for the change in North Korea policy under the Lee Myung-bak administration, and ② objectively evaluate the merits and demerits of this policy change. The gist of this paper is as follows. All previous South Korean administrations have strived toward the common goal of encouraging change in North Korea (denuclearization, reform, and liberalization). But the policy measures that the South Korean government could realistically employ were limited to two economic measures, namely inducements and sanctions. These two measures are like two sides of the same coin. Excessive utilization of one inevitably reduces the effectiveness of the other. The previous administration's policy met with difficulties in achieving its goals by leaning too heavily toward economic inducement. Learning from that experience, the Lee Myung-bak administration gave equal weight to use of economic sanctions and reestablished a principle of "compensation for cooperation, sanctions for deviation." Within its structural limitations, the Lee administration has sought to maximize the effectiveness of its policy measures. Because North Korea had become too complacent with the one-sided generosity of the previous administration, it responded to the new policy by engaging in acts of aggression which have perpetuated sanctions. But if sanctions are implemented consistently under transparent principles, then the learning curve will improve while the cost of the North's nuclear and anti-reform policies will rise. This can help incite change within North Korea. By maintaining clear principles, future administrations can double the effectiveness of their North Korea policies by making strategic use of the dual measures of inducement and sanctions. The North Korea policy of the Lee administration is significant in that it established the foundations for this approach.

Key Words: Lee Myung-bak government, North Korea Policy, economic inducement and sanction, policy instruments, policy measures

Introduction

The Lee Myung-bak administration now has less than one year remaining in its term. Of all the policies that have been implemented by the current administration, none has been subjected to as vehement an ideological and political assault as its North Korea policy. But our North Korea policy must not fall victim to wasteful political strife or counterproductive conflict; after all, North Korea policy is an important issue that can decide the future of South Korea and the destiny of the entire Korean population. We must make a calm calculation of our national interest and a fair judgment from the perspective of national governance strategy. By fairly evaluating the merits and demerits of the Lee Myung-bak administration we can plan an effective and successful North Korea policy for the future.

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one-sided generosity of the previous administration, it responded to the new policy by engaging in acts of aggression which have perpetuated sanctions. But if sanctions are implemented consistently under transparent principles, then the learning curve will improve while the cost of the North's nuclear and anti-reform policies will rise. This can help incite change within North Korea. By maintaining clear principles, future administrations can double the effectiveness of their North Korea policies by making strategic use of the dual measures of inducement and sanctions. The North Korea policy of the Lee administration is significant in that it established the foundations for this approach.

The reign of Kim Jong-il stretched across four South Korean administrations: Kim Young Sam, Kim Dae-jung, Roh Moo-hyun, and Lee Myung-bak. During this period, Kim Jong-il "consistently" implemented a military-first, anti-reform, anti-liberalization policy, represented by the incessant development of nuclear weapons.¹ Faced with the danger of regime collapse brought on by the collapse of socialism, North Korea responded not with reforms but with conservative policies such as nuclear armament and the military-first system, and threw all its weight into establishing a hereditary autocracy by which the Kim Il Sung dynasty would continue to rule through the bloodline.² North Korea's pursuit of nuclear weapons runs counter to the international norm of non-proliferation, and is a destabilizing factor that can threaten the military balance between North and South Korea and instantaneously throw off the status quo of East Asia. It has been said that North Korea's "introverted, closed economic system and extreme ethnocentrism" are

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1. This will be discussed in more detail later, but Kim Jong-il repeatedly implemented a policy cycle of "reach agreement—gain aid from the international community—cancel agreements." Despite this circular attitude shift, the North has consistently developed its nuclear and missile programs. Dick K. Nanto and Emma Chanlett-Avery, "North Korea: Economic Leverage and Policy Analysis," CRS Report for Congress R32493 (updated on January 22, 2010).
 2. Concerning the hereditary autocracy system, refer to Jason Brownlee, "Hereditary Succession in Modern Autocracies," *World Politics*, Vol. 59, Issue 4 (July 2007), p. 599.

the fundamental factors that drive its ambition for nuclear weapons.³ In other words, nuclear weapons and anti-reform are two sides of the same coin.⁴

In response to Kim Jong-il's nuclear development and anti-reform policies, successive South Korean governments have followed the same goals in their North Korea policies, namely denuclearization (delaying or suspending North Korea's development of nuclear weapons and missiles), reform and opening, and peace and stability on the Korean peninsula. North Korea's policies of nuclear development and anti-reform work in concert. Correspondingly, in South Korea's North Korea policy the goals of denuclearization of the Korean peninsula and reform and opening of North Korea are inseparable. In other words, South Korea has consistently strived for "change in North Korea's regime and policy direction."

Since the Kim Young Sam administration, the South Korean government pursued an engagement policy based on economic leverage as a means of inciting change in North Korea.⁵ Military intervention or

3. Etel Soligen, *Nuclear Logics: Contrasting Paths in East Asia and the Middle East* (Princeton: Princeton University Press, 2007), pp. 118-140.

4. In dealing with the development of its homegrown internal market, North Korea has shown a circular strategy similar to that of the nuclear negotiation process. This cycle consists of "partial economic improvement measures (e.g., the July 1 measures)—revival of economy—attempt to reestablish state control (e.g., the 2009 currency reform)." This pattern can be seen as the practical application of the "socialist pragmatism" line that ultimately aims to restore the planned distribution economy. For example, the "renomination" policy included in the July 1 measures can be seen as "a necessary and indispensable factor in restoring the seriously damaged centrally planned economy" rather than as a part of marketization. Renomination was concretely implemented through the establishment of the national economic plan, which had been partially reinstated after the July 1 measures, along with the currency reform implemented in 2009. Nicholas Eberstadt, *The North Korean Economy: Between Crisis and Catastrophe* (New Brunswick: Transactions, 2007), p. 302.

5. It has been claimed that the "blockade policy" also contributes to inducing changes in the policies and systems of the target state. There has been much debate between the conservatives and liberals concerning the contribution of the Reagan administration's new Cold War (blockade) policy to the reforms of Gorbachev and the fall of the Soviet Union. Refer to Daniel Deudney and

containment were not considered realistic policy alternatives. That is, viable policy options were limited to either “economic incentives” such as economic support and aid, or “economic coercion” such as economic sanctions. The policy choices available to the South Korean government were limited by the fundamental dilemma of needing to lean toward either one or the other, or some combination of the two. Despite pursuing the same policy goals, different administrations have selected different means of implementing policies. Whereas the previous administration emphasized “economic incentives,” the Lee administration has utilized “economic sanctions” as an important instrument for policy and attempted to strike a balance between the two methods.

The Geneva Agreement, the February 13 Agreement, and the South Korean government’s Sunshine Policy are all based on the strategy of inducing change in North Korea through economic incentives.⁶ But economic incentives have not succeeded in making North Korea comply with the terms of its agreements (the denuclearization process) or embrace reform and opening; thus this strategy appears to have reached its limit. Furthermore, South Korea’s one-sided policy of economic aid has been continuously criticized for having the adverse

G. John Ikenberry, “The International Sources of Soviet Change,” *International Security*, Vol. 16, No. 3 (Winter 1991/1992); Jack Snyder, “International Leverage on Soviet Domestic Change,” *World Politics*, Vol. 42, No. 1 (October 1989). There has also been debate about whether Germany’s unification was a result of a continuous blockade policy or West Germany’s interventionist policy of *ostpolitik*. But regardless of the debates about such blockade policies’ effectiveness in inducing regime change in the target nation, it is not feasible for South Korea alone to maintain a blockade policy against North Korea in the post-Cold War era. The concern over North Korea’s strategy to drive a wedge between the United States and South Korea reflects the uncertainty of the international political order in the post-Cold War era.

6. In February 2007, Six-Party Talks negotiators announced an agreement that would provide economic and diplomatic benefits to North Korea in exchange for a freeze and disablement of the North Korean nuclear facilities mainly located in Yongbyon. See Emma Chanlett-Avery and Mi Ae Taylor, “North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation,” CRS Report for Congress R41259 (May 26, 2010), p. 6.

effect of stabilizing the North Korean regime, allowing it to continue its ceaseless development of nuclear weapons, and hindering cooperation among the international community rather than inducing change within North Korea. An evaluation of these policy failures and the negotiation strategies of North Korea has led to the conclusion that consistent principles must be utilized when wielding these two policy tools. This is the background for the policy shift of the Lee Myung-bak administration.

Contrary to public perception, the two economic policy measures of economic incentives and economic sanctions are not mutually exclusive but rather mutually dependent. They are like two sides of a coin. When demands are met (cooperation) then aid should be given as a reward, and when demands are rejected or agreements are violated (deviation) such behavior will be punished through sanctions. This issue relates to the most basic tenants of economic statecraft.⁷ When a reliable threat of sanctions exists, the opposite party is likely to cooperate. When the threat of punitive military or economic sanctions does not exist or is unreliable, then even if the opposite party agrees to negotiations on the basis of economic incentives there is little possibility that it will faithfully abide by those agreements.⁸ That is, without a probability of sanctions, incentive measures will most likely lead to violations of agreements or renegade behavior.

Breaking the rules of this game by responding to compliance with sanctions and violations with rewards will inevitably lead to policy failure. North Korea's strategy has been to operate a cycle of

7. Baldwin has maintained that the concept of economic sanctions should be expanded beyond simple economic coercion to include economic statecraft, which may seek other objectives in addition to changing the attitude of the target state, such as achieving economic goals, gaining domestic political support, expressing a strong commitment to audiences in third-party states, and punishing bad behavior. David A. Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985), p. 32, pp. 371-372.

8. In this sense, economic sanctions have traditionally been considered a substitute for military intervention. According to Pape, policy-makers have shown great interest in looking for conditions that can "change the attitude of the target nation without resorting to military action." Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security*, Vol. 22, No. 2 (Fall 1997), p. 95.

deviations and provocations in which it breaks with principles and refuses to follow through with agreements, minimizing the effects of sanctions while at the same time receiving economic aid. This behavior has now become a pattern. In response, the Lee administration has endeavored to reestablish the basic principles of the negotiation game (rewards for cooperation, sanctions for violation) with the support of the international community and allies. This effort will be historically evaluated as an important contribution, enabling the subsequent administration to “flexibly” utilize incentives and sanctions and to more effectively pursue the goals of denuclearization and North Korean opening.

This paper is arranged as follows. First, it evaluates economic incentives and sanctions in general terms as means of encouraging change in the target nation, and also looks at the limitations of the policy measures available to the South Korean government. The principles of the Lee Myung-bak administration’s North Korea policy originate from lessons learned about the ineffectiveness and adverse effects of one-sided incentive policies. The Sunshine Policy served as a reverse model for the Lee administration’s North Korea policy. In the second part of this paper, we analyze the limitations of economic incentive policies. We then examine the North Korea policy of the Lee administration in terms of “choice.”

The Limits of North Korea Policy Measures and the Logic of Economic Sanctions

The means of forcing or inducing a change of policy, attitude, or regime (such as reform) in another state have included military interventions, economic incentives, and sanctions. It is very difficult to externally manipulate the policy direction of a sovereign nation. This is especially true in the case of North Korea, whose policies and regime survival strategies, such as nuclear armament programs, anti-reform and anti-liberalization, and military provocation, stem from

the unique characteristics of its regime.⁹ Whatever responsive measures or remedies are applied will face fundamental limitations, and their rate of success tends to be low.¹⁰

How effective are the various policy measures? According to quantitative case studies of the effects of different policy measures,¹¹ direct military intervention or “costly sanctions” tend to exert a relatively large influence in the regime stability of the target state; on the other hand, aid or “cheap and symbolic sanctions” tend not to be very effective.¹² Military intervention seems to be more effective than economic sanctions in changing policies in the target state. According to a study by Wang and Ray, military actions have achieved a success rate of 40% to 70% since the year 1495.¹³ On the other hand, a study

9. Stephen Van Evera, *Causes of War: Power and Roots of Conflict* (Ithaca: Cornell University Press, 1999), p. 2.

10. For this reason, deterrence strategies such as developing an independent nuclear armament, reintroducing American tactical nuclear weapons, and extended deterrence have been discussed as final alternatives, rather than policies to induce changes in North Korean attitudes. If change in North Korea is impossible, then naturally there will be debate on whether deterrence is the best option for South Korea’s survival. It is true that there is growing pessimism about the possibility of North Korea changing its policies, as North Korea relentlessly pursues nuclear weapons.
11. This study focuses on the 160 regimes that have been the targets of regime change policies involving sanctions from 1946 to 1990. Barbara Geddes, “The Effect of Foreign Pressure on the Collapse of Authoritarian Regimes,” paper presented at the Annual Meeting of the American Political Science Association, Boston, 2002.
12. Oechslin of the University of Bern has claimed that when the goal of sanctions is regime change of a dictatorial state, the dictator will actually strengthen oppression of civil society and adopt a defensive strategy, fundamentally blocking any possibility of potential challengers to the regime emerging. As Geddes points out, the original goal of the sanctions can be reached only when the cost of the sanctions becomes sufficiently large. Manuel Oechslin, “Targeting Autocrats: Economic Sanctions and Regime Change,” paper presented at Tiburg University and the NEUDC Conference, Boston, 2011.
13. Kevin Wang and James Lee Ray, “Beginners and Winners: The Fate of Initiators of Interstate Wars Involving Great Powers since 1495,” *International Studies Quarterly*, Vol. 38, No. 1 (March 1994).

by Hufbauer, Schott, Elliot, and Oegg shows that only 70 out of 204 (34%) cases of sanctions can be categorized as successful.¹⁴ Despite having a higher success rate than economic incentives, economic sanctions¹⁵ are often considered to have very “low”¹⁶ effectiveness and have been described as a “notoriously poor tool of statecraft.”¹⁷

Although military intervention is relatively effective in terms of producing tangible results, it is difficult to believe that it has much effect in terms of “costs.” If the “costs” derived from military intervention are larger than the “benefits” of the change in the policy or system of the target nation, then military intervention cannot necessarily be considered the rational “choice.” Excluding exceptional cases where an overwhelming gap in military capabilities allows the target nation to be easily defeated, military actions have rarely been considered effective in terms of minimizing costs and humanitarian damage. When the gap in military capabilities is quite large and the two parties are rational decision-makers, a believable threat of military intervention will likely be enough to convince the target nation to accept the demands of the sanctioning nation. In such cases, mere threats will be sufficient to control the situation without resorting to

14. These pioneering data collection and categorization studies have been quoted frequently by studies on economic sanctions, either on friendly or critical terms. The information is continuously updated. This paper quotes from the 2009 version. Gary Clyde Hufbauer, Jefferey J. Schott, Kimberly Ann Elliot, and Barbara Oegg, *Economic Sanctions Reconsidered*, Third Edition (Washington, DC: Peterson Institute for International Economics, 2009), pp. 158-160.

15. For critical discussions on sanctions, refer to T. Clifton Morgan and Valerie L. Schwebach, “Fools Suffer Gladly: Use of Economic Sanctions in International Crises,” *International Studies Quarterly*, Vol. 41, No. 1 (March 1997); Robert A. Pape, “Why Economic Sanctions Do Not Work?” *International Security*, Vol. 22, No. 2 (Autumn 1997).

16. George Tsebelis, “Are Sanctions Effective? A Game-Theoretic Analysis,” *Journal of Conflict Resolution*, Vol. 34, No. 1 (March 1990), pp. 3-4.

17. Kim Richard Nossal, *Rain Dancing: Sanctions in Canadian and Australian Foreign Policy* (Toronto: Toronto University Press, March 1990), pp. 3-4. Critical perspectives on the Lee Myung-bak administration adopt a similar position. Making one-sided evaluations without comparing viable policy options (in terms of realization and effectiveness) can lead to biased conclusions.

actual military action.¹⁸ Thus, according to the theory, in situations where military action is most likely to be successful, there is less chance of an actual military action taking place.

The potential for taking individual measures is inevitably limited to the international politics and geopolitical context of each case. The case of North Korea's attempt to develop nuclear weapons is a typical example. Before the 1994 Geneva Agreement, the main actors during the first North Korean nuclear crisis were the United States, North Korea, and South Korea. The fall of the Soviet Union and the ideological transformation in China created a military power vacuum which provided an opportunity for the Clinton administration to seriously consider surgical strikes and other military measures as viable options to eliminate North Korea's nuclear programs.

But the possibilities of North Korea engaging in all-out warfare with its powerful arsenal or the Chinese military becoming involved after the surgical strike made the United States hesitate. Even if the U.S.-South Korean alliance emerged victorious from such a conflict, the damage would be incalculable. Even adding in the advantages gained from non-proliferation and the damage that North Korea would suffer, the U.S. inevitably concluded that the losses to itself and its ally, South Korea, would be much greater than the benefits.¹⁹ In addition, North Korean propaganda used the American military sanctions to justify its pursuit of nuclear weapons (to defend its sovereignty and as a deterrent), and this inevitably decreased the effectiveness of threats of military action.²⁰ Even from South Korea's

18. Refer to James D. Fearon, "Rationalist Explanations for War," *International Organization*, Vol. 49, No. 3 (Summer 1995).

19. Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge: Cambridge University Press, 1999), p. 299.

20. Of course, North Korea's claims were a form of deceptive propaganda called "presenting a false sequence of events." The U.S. respected the "denuclearization declaration of the Korean peninsula" between North and South Korea and removed its strategic nuclear weapons from South Korea; the threat of air strikes and other military actions was raised in response to North Korea's nuclear programs.

perspective (during the Kim Young Sam administration), supporting military action at the risk of all-out war was an enormous political burden. Military intervention was in reality not a viable alternative.²¹ For both South Korea and the United States, the situation provided no other option but a mixed policy of “economic incentives” and “economic sanctions.”

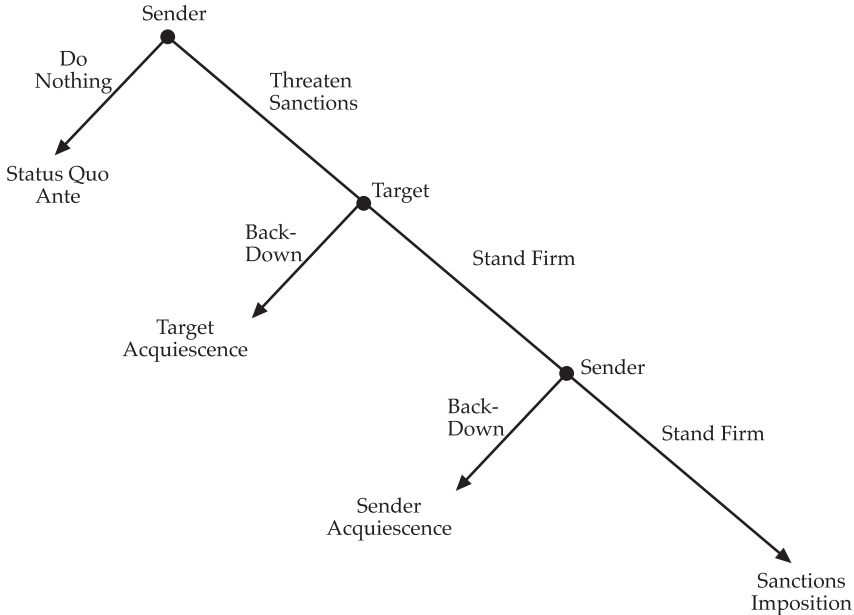
Economic incentives refer to moves aimed at inducing positive change in the policies of enemy states through symbolic political concessions or economic benefits. There are two broad goals of the incentive approach. The “Exchange Model” aims to induce policy changes by providing material benefits (such as bribes) in accordance with the unique policies of the enemy state. The “Catalytic Model” aims to change the basic policy priorities of the target state.²² Offering economic assistance in exchange for a North Korean commitment to denuclearization would be an example of the Exchange Model, while the Sunshine Policy’s attempt to encourage North Korean opening is more typical of the Catalytic Model. It is extremely difficult to change the policies of other nation states through economic assistance alone, and such measures are most effective when combined with military or economic sanctions (including suspension of aid), as suggested by the carrot-and-stick metaphor.

Forcible economic sanctions are defined as actions where “the sanctioning state threatens to undermine economic exchanges between the two states or to actually suspend exchanges if the target state does

21. At least from the U.S.’ perspective, even though the probability of enacting military sanctions is very low, the threat of doing so is still an important option. First, in some cases, diplomatic tactics or military threats can be useful negotiating tools to support economic coercion. Second, in the event of a decisive change in the geopolitical circumstances of Northeast Asia, compromise among the major parties, or decisive changes in the military balance on the Korean peninsula, military sanctions or strategic assaults on North Korean nuclear facilities may be possible or even demanded as a “necessary and inevitable choice.”

22. Miroslav Nincic, “Getting What You Want: Positive Inducements in International Relations,” *International Security*, Vol. 35, No. 1 (Summer 2010).

Figure 1. Model of Economic Sanctions



Source: Daniel W. Drezner, "The Hidden Hand of Economic Coercion," *International Organization*, Vol. 57, No. 3 (Summer 2003), p. 646.

not comply with the demands articulated by the sender state."²³ To limit economic exchanges, measures such as trade regulation, freezing financial assets, postponing aid, and boycotts are often utilized.

Figure 1 is a model of economic sanctions that presumes complete sharing of information (including the "transparent verification" of intentions). If there is a "plausible threat of sanctions," and if the target state of sanctions, as a rational agent, concludes that the disadvantages inflicted by the sanctions are greater than the advantages gained from continuing its existing policies and decides to abandon those policies or simply back down, then the sanctioning state gains the acquiescence of the target state. If the target state concludes that the advantages of adhering to existing policies are greater than the disadvantages inflicted

23. Daniel W. Drezner, *The Sanctions Paradox*, pp. 2-3.

by the sanctions, or decides to test the validity of the sanction threat, then the target state may use the adherence card. In this case, the ball goes to the sanctioning state's court; if the sanctioning state does not relent in its demands, then the sanctions must go forward.

Assuming the hypothetical conditions of rational agents, transparent sharing of information (concerning the intentions and capabilities of the other party), and a highly reliable sense of commitment, in theory it should not be possible to actually impose sanctions. In situations where sanctions are actually effective (where the advantages gained by the target state from adhering to existing policies are greater than the disadvantages of sanctions), there is no actual possibility of economic sanctions being imposed.²⁴ This is because the target state as a rational agent will acquiesce to the sanctioning state and either amend or abandon its existing policies. Also, in cases where sanctions cannot be effective (where the advantages gained by the target state from adhering to existing policies are greater than the disadvantages of sanctions), the possibility of sanctions actually being imposed is very low. This is because the sanctioning state will not impose costly sanctions when it is certain that the target state will adhere to existing policies. Thus, if sanctions are actually imposed (as occurs frequently in the reality of politics), the most likely outcome is a continued stalemate.²⁵ This is because either some or all of the hypothetical conditions stated above are not present in cases where the calculation of interests is uncertain. For this reason, the rate of success for economic sanctions is very low in empirical studies.²⁶

24. Daniel W. Drezner, "The Hidden Hand of Economic Coercion," *International Organization*, Vol. 57, No. 3 (Summer 2003), p. 647.

25. Daniel W. Drezner, *ibid.* As the Drezner model predicts, the Six-Party Talks and the negotiations between North and South Korea are at an impasse. The sanctioning nations and North Korea are all afraid that making concessions in the current situation will weaken their future position at the negotiating table.

26. According to Drezner, the reason why sanctions seem to have a poor success rate is because in situations where sanctions are most effective, simply threatening sanctions can lead to successful mediation or resolution of disputes; on the other hand, most statistical analyses and case studies on sanctions have focused

In order to increase the effectiveness of economic measures in real-world politics, an effective mixture of incentives and sanctions is needed. If the complete theoretical conditions are actually realized, then the success rate of economic measures will rise. In other words, when there is a transparent expression of intentions, highly plausible threats of sanctions and promises of economic aid, and a consistent policy of rewards for cooperation and sanctions for lack of cooperation, then the intended aims will likely be achieved.²⁷ Wrong signals, wrong responses, manipulated intentions or mis-transmission of signals will diminish the effectiveness of policies, making goals more difficult to achieve.

In this section, we list policy measures that can be used to change the attitude of the target state. Military intervention, economic sanctions, and inducement all have limitations in terms of cost and effectiveness. Because of the Korean peninsula's geopolitical and military circumstances, it is difficult for South Korea to select military intervention as a major North Korean policy tool. In reality, South Korea's policy measures are limited to the relatively ineffective economic incentives and sanctions.

As such, instead of engaging in military action, past South Korean administrations have adopted North Korea policies that combine economic incentives and sanctions in concert with the U.S. and the international community.²⁸ But whereas previous administrations pursued biased policies that emphasized economic incentives, the

on cases where sanctions have actually been implemented (in other words, situations where sanctions have a low chance of succeeding and therefore mere threats are insufficient); thus, a "selection bias" has occurred. Daniel W. Drezner, "The Hidden Hand of Economic Coercion."

27. It is often said that economic incentives and sanctions are indivisible; incentives are referred to as positive sanctions and sanctions are referred to as negative sanctions. In this study, the separate terms "incentives" and "sanctions" are used in accordance with convention.
28. It appears that they have learned the same lesson as the Lee Myung-bak administration (i.e., "One should not buy the same horse twice"). As a result, the ROK-U.S. alliance against North Korea has grown even stronger.

Lee Myung-bak administration has focused on a more effective mix of different measures; thus economic sanctions have been included as an important aspect of North Korea policy.

Background to the Policy Transition: Lessons from the Sunshine Policy

Contrary to expectations, the economic incentives of the Sunshine Policy failed to achieve the desired results.²⁹ Not only did they fail to achieve the denuclearization of North Korea, they failed to achieve satisfactory results in terms of reform and opening of North Korea. A critical reflection of the premise of the Sunshine Policy (the premise that increasing exchanges between North and South Korea, especially in terms of economic aid and cooperation, will contribute to the denuclearization, reform, and opening of North Korea and ultimately bring about peaceful integration of the two Koreas in the long term)³⁰ and the problems encountered implementing these policies have been a major influence in establishing the direction of North Korea policy under the Lee Myung-bak administration. This section looks at the preceding North Korea policy which has served as a lesson for the Lee administration in establishing its own policies, specifically the background and the limitations of the Sunshine Policy, and also seeks lessons from this example to give a general evaluation on the effect it has had on the Lee administration in establishing its own

29. In this study, the term “Sunshine Policy” refers to the general policy of economic incentives offered by the Kim Dae-jung and Roh Moo-hyun administrations. Despite partial differences, those two administrations both publically established and implemented North Korea policies based on the same basic premise described in this study. Refer to Kim Jin Ha, “Reevaluation and future tasks for the North Korean economic aid policy,” *Juyo Gukje Munje Bunsuk* [Major International Issues Analysis], No. 2009-42 (Seoul: Institute of Foreign Affairs and National Security), January 2010.

30. For more on Sunshine’s premise, refer to Marcus Noland, *Avoiding the Apocalypse: The Future of the Two Koreas* (Washington, DC: Institute for International Economics, 2000), p. 112.

North Korea policies.

As concerns increased about the adverse effects and excessive costs of military actions, South Korea and the U.S. shifted focus to economic sanctions as an alternative response during the first North Korean nuclear crisis.³¹ In the early and mid-1990s, while the aftermath of the Cold War blockade of North Korea still remained, the volume of economic exchanges North Korea had with South Korea and the U.S. was quite small. Since South Korea and the U.S. had such a narrow influence on the economy of North Korea, there was no way of knowing with certainty the effects of economic measures. The prevailing opinion was that economic pressure and incentives would not be effective against North Korea, which during the Cold War had focused on building its own independent economy based on the principle of self-reliance.

But the increasing vulnerability of the North Korean economy after the fall of the Soviet Union laid a material foundation for effective economic measures.³² In the aftermath of the long experiment of socialism and the fall of the Soviet Union, North Korea showed all the characteristics of a “failed nation”³³ and deteriorated even further.³⁴ Before the fall of the Soviet economic bloc, North Korea had received a steady supply of crude oil and food, which it could not procure by

31. For a brief history on the process of the negotiations on North Korean nuclear weapons, refer to Cho Min and Kim Jin Ha, *Bukheck Ilji* [Chronicle of North Korea’s Nuclear Development] (Seoul: Korea Institute for National Unification, 2009).

32. Refer to Kim Jin Ha, “Reevaluation and future tasks for the North Korean economic aid policy,” *Juyo Gukje Munje Bunsuk* [Major International Issues Analysis], No 2009-42; Dick K. Nanto and Emma Chanlett-Avery, “North Korea: Economic Leverage and Policy Analysis”; Daniel W. Drezner, *The Sanctions Paradox*, pp. 275-304.

33. On the concept and characteristics of a failed state, refer to Robert I. Rotberg, “The Failure and Collapse of Nation-States: Breakdown, Prevention, and Repair,” in Robert I. Rotberg (ed.), *When States Fail: Causes and Consequences* (Princeton: Princeton University Press, 2004), pp. 1-45.

34. Robert S. Litwak, *Regime Change: U.S. Strategy through the Prism of 9/11* (Baltimore: Johns Hopkins University Press, 2007), p. 245.

itself, by engaging in mutually beneficial planned trade with the Soviet Union, China, and other socialist nations based on the principle of mutual support among comrade nations. In reality, after the fall of the Soviet Union, which was responsible for most of the planned aid, North Korea faced a fundamental crisis.³⁵ Most importantly, because of the great famine brought on by the deterioration of the system of supply and demand, the situation reached a point where the foundations of the regime began to shake.³⁶ From this period onwards, food shortages became a constant factor threatening the survival of North Korea’s regime (Refer to Table 1).

Table 1. Current Status of North Korea’s Grain Supply and Demand, 1995-2000
(unit: 10,000 tons)

Year	Demand	Amount produced	Required imports	Actual imports	Shortfall
1995	534	345	189	96.2	92.8
1996	529	369	160	105	55
1997	530	349	181	163	85
1998	495	389	106	111.2	-18.8
1999	504	422	82	107	-25
2000	518	359	159	122.5	36.5

Sources: (1) Demand: Ministry of Unification, Institute for Unification Education, *Understanding North Korea 2009*, p. 144 (Based on the post-crisis reduced ration of 546g daily per person; standard ration amount is 700g); (2) Supply: Korean Statistics Agency (<http://www.kostat.go.kr>, search date on April 18, 2012); and (3) Imports: KOTRA, “North Korea’s trade trends 2008.”

35. After the fall of the Soviet economic bloc, North Korea was faced with a situation where it had no choice but to rely entirely on China for supplies of strategic goods, and China, which was desperate for an infusion of capital to enable its smooth transition to a market economy, switched in 1995 from a non-sanctioned to a sanctioned transaction system of trade with North Korea, thereby increasing the economic difficulties of North Korea. At the time, North Korea’s mistrust of China reached its peak. Kim Jin Ha, “Reevaluation and future tasks for the North Korean economic aid policy,” *Juyo Gukje Munje Bunseok* [Major International Issues Analysis], No. 2009-42 (2010).

36. For the causes and effects of the North Korean famine, refer to Andrew S.

Also, since the mid-1990s when the basic capacity for autonomous revival was depleted and the effects of the fall of the Soviet Union began to show themselves, the North Korean economy deteriorated even further. As seen in Table 2, from 1994 North Korea's GDP began to fall precipitously. By 1996, its GDP reached a nadir at around half of what it was before the crisis (refer to Table 2).³⁷ As the vulnerability³⁸ of North Korea's economy increased significantly, a window of opportunity was opened for South Korea and the U.S. to try to induce North Korea to change its policies.

Table 2. Comparison of the GDP of North Korea and Vietnam, 1975-2000
(Millions 1990 International Geary-Khamis Dollars)

Year	North Korea	Vietnam
1975	44,891	34,130
1976	45,652	39,879
1977	46,379	41,343
1978	47,104	41,622
1979	47,842	41,873
1980	48,621	40,671
1981	49,388	42,103
1982	50,138	45,526
1983	50,905	48,042
1984	51,695	52,355

Natsios, *The Great North Korean Famine: Famine, Politics, and Foreign Policy* (Washington, DC: United States Institute of Peace Press, 2001); Marcus Noland, Sherman Robinson, and Tao Wang, "Famine in North Korea: Causes and Cures," in *Economic Development and Cultural Change*, Vol. 49, No. 4 (July 2001), pp. 741-767.

37. In Table 2, the changing trends of North Korea's GDP are compared with the GDP of Vietnam, which has autonomously pursued economic reform measures since the 1980s. This shows that the fundamental solution to overcoming a crisis is not nuclear weapons or outside aid but autonomous reform and opening.
38. Vulnerability can be measured as the amount of costs that must be paid by an agent (state) when it establishes and implements policies to effectively respond to fluctuating external factors over a given period. Robert O. Kohane and Joseph S. Nye, *Power and Interdependence*, 4th Edition (New York: Longman, 2011), p. 13.

Year	North Korea	Vietnam
1985	52,505	55,481
1986	53,331	57,056
1987	54,172	59,127
1988	55,033	62,685
1989	55,934	65,615
1990	56,874	68,959
1991	57,846	72,963
1992	53,391	79,312
1993	53,552	85,718
1994	39,468	93,292
1995	32,758	102,192
1996	27,091	111,736
1997	25,249	120,845
1998	25,130	127,851
1999	25,310	133,221
2000	25,310	140,548

Source: OECD, *The World Economy: Historical Statistics* (Paris: OECD), 2003, pp. 174-178.

Considering the state of affairs at the time in North Korea, where grave threats of armed and economic sanctions loomed, a method of negotiation using economic incentives as the central theme was a rational choice. The result was the 1994 Agreed Framework and the partial denuclearization of North Korea. Although the Agreed Framework fell apart later due to problems with verification and North Korea’s operation of a secret uranium enrichment program in violation of the agreement, subsequently a multi-party cooperative system was formed via the Six-Party Talks. In this way, China and Russia, which have maintained a significant volume of trade with North Korea (and therefore are capable of applying strong pressure, in theory), were inducted into an East Asian denuclearization regime, making it possible to maintain a cooperative regime for the denuclearization of North Korea with a focus on economic measures.³⁹ It

39. For a summary of the negotiations and conflict between the U.S. and North

is estimated that South Korea provided a total of 3,279,700,000 U.S. dollars in economic aid to North Korea during the Sunshine period. Economic exchange between the two Koreas also rapidly increased. Including commodities trade between North and South Korea, the volume of trade increased from \$287 million in 1995 to \$1,055,000,000 in 2005, while the number of trade items increased from 244 to 775. As a result, the North Korean economy's dependence on South Korea's economic assistance rose tremendously (refer to Table 3). The volume of trade for commissioned processed goods rose from \$4.6 million to \$21 million, while the number of trade items rose from 83 to 243, and the number of companies involved rose from 24 to 136.⁴⁰ Until North Korea's test launching of missiles in 2006⁴¹ caused relations between North Korea and the U.S. to cool considerably, the United States provided approximately \$1.2 billion in relief aid.⁴²

Table 3. North Korea's Dependence on South Korean Aid Relative to GDP
(Unit: current value of US\$ 1 million, %)

Year	1995	1996	1997	1998	1999	2000	2001
GDP	4,849	10,588	10,323	10,273	10,280	10,608	11,022
Aid to North Korea	236.6	12.89	20.05	14.29	28.88	180.99	196.86
Rate	2.23	0.13	0.19	0.14	0.28	1.71	1.79

Korea concerning the nuclear problem up to 2011, refer to Emma Chanlett-Avery, "North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation," CRS Report for Congress R41259 (last updated in June 2011).

40. Kim Jin Ha, "Reevaluation and future tasks for North Korean economic aid policy," *Juyo Gukje Munje Bunsuk* [Major International Issues Analysis]; Ministry of Unification, Institute for Unification Education, *Understanding North Korea 2009*.
41. On the 2006 crisis and its effects, refer to Gilbert Rozman, "The North Korean Nuclear Crisis and U.S. Strategy in Northeast Asia," *Asian Survey*, Vol. 47, No. 4 (July/August 2007), pp. 601-621; Il Soo David Cho and Meredith Jung-En Woo, "North Korea 2006: The Year of Living Dangerously," *Asian Survey*, Vol. 47, No. 1 (January/February 2007), pp. 68-73.
42. Mark E. Manyin and Mary Beth Nikitin, "Foreign Assistance to North Korea," CRS Report for Congress R40095 (last updated in June 2011).

Year	2002	2003	2004	2005	2006	2007	2008
GDP	10,910	11,051	11,168	13,031	13,764	14,375	13,337
Aid to North Korea	278.71	370.84	340.35	636.38	483.83	770.31	209.56
Rate	2.56	3.36	3.05	4.88	3.52	5.36	1.57

Source: Jin Ha Kim, "Reevaluation and future tasks for North Korean economic aid policy," *Juyo Gukje Munje Bunsuk* [Major International Issues Analysis], No 2009-42 (2010), p. 1.

As North Korea's dependence on economic aid increased, the leverage of both South Korea and the U.S. inevitably increased.⁴³ The smaller the economy and the population size of the target state, and the higher the rate of aid and dependency, the greater the leverage of the sanctioning nation will be.⁴⁴ As North Korea deteriorated to an "aid-based state,"⁴⁵ the conditions became more conducive to effective economic measures.

Did this increase in leverage induce changes in North Korea's attitude and encourage it to comply with the agreements? Our conclusion is that the economic incentive measures offered by South Korea and the U.S. had difficulty achieving their ultimate goals.

North Korea breached not only the Agreed Framework but also the February 13 Agreement and relentlessly pursued its nuclear programs. The nuclear missile tests in 2006 nullified all the efforts by South Korea and the international community to denuclearize the Korean peninsula. The economic assistance and aid helped to re-stabilize the

43. Leverage can be defined as the vulnerability of a regime to external pressure; it is a measure of (1) a state's negotiating power with the outside world and (2) the potential influence of punishment by the sanctioning state on the economic soundness or security of a target state. Steven Levitsky and Lucan A. Way, *Competitive Authoritarianism: Hybrid Regimes After the Cold War* (Cambridge: Cambridge University Press, 2010), pp. 40-41. For a classical discussion on the concept of sensitivity and vulnerability to outside shock, refer to Kohane and Nye, *Power and Interdependence*.

44. Levitsky and Way, 2010.

45. Don Oberdorfer, *The Two Koreas: A Contemporary History* (New York: Basic Books, 2001), p. 414.

Kim Jong-il regime after the crisis brought on by the fall of the Soviet Union,⁴⁶ and it was not especially influential in promoting reforms or liberalization measures. If aid is to contribute to development, then the receiving nation must have a sense of ownership of the development process and there must be harmony between the policies of the receiving and giving nations.⁴⁷ If a rogue nation does not implement reforms, then it will inevitably fall into the trap of bad governance, in which it continues to accept aid without any concrete development results.⁴⁸

This also illustrates how aid provided with political motives fails to induce development or improve general welfare in the target state and only contributes to the security of the existing regime and its governing structures, which are the very cause of state failures.⁴⁹ In North Korea's case, the denuclearization negotiations have reached an impasse without achieving the goal of North Korean reform, and have actually had the adverse effect of enabling the North Korean regime to muddle through.⁵⁰

To understand why the Sunshine Policy failed to reach its goal, we need to look at the reasons why, contrary to our theoretical hypotheses (assuming a low probability of economic sanctions actually being

46. Certain critics of the U.S. claim that aid has provided more funds for governance for military rulers and other establishment powers. Manyin and Nikitin, "Foreign Assistance to North Korea," p. 2.

47. At the first High-Level Forum (HLF) of the OECD/DAC in 2003, the Rome Declaration on Harmonization was adopted. This declaration emphasized the importance of harmonization and cooperation between the giving and receiving nations in order to efficiently mobilize available resources and effectively implement aid policies.

48. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford and New York: Oxford University Press, 2007), pp. 108-123.

49. Alberto Alesina and David Dollar, "Who Gives Foreign Aid to Whom and Why?" NBER Working Papers No. 6612 (Cambridge, MA: National Bureau of Economic Research, 1998).

50. On North Korea's strategy of muddling through, refer to Marcus Noland, "Why North Korea Will Muddle Through," *Foreign Affairs*, Vol. 76, No. 4 (July/August 1997).

enforced, under the premise of rational agents and transparent exchange of information), economic measures tend not to have favorable results.⁵¹ Quoting Fearon's logic that settling inter-state conflicts through warfare instead of diplomacy is irrational due to its high costs,⁵² Drezner suggests three factors at work: "① Private information: The dissemination of private information, often related to an incentive to distort or misrepresent the intentions or resolve of the agent; ② Failure of commitment: A condition where one or both parties fail to make a credible commitment to abide by mutually preferable deals; and ③ Indivisibility of disputed issues: A condition where the issues of dispute are indivisible and therefore fundamentally difficult to resolve through negotiations and compromise."⁵³

All of these obstacles have been present during the process of negotiations with North Korea. First, let us consider the factor of distortion of information. North Korea has made efforts to exaggerate its determination to develop nuclear weapons in order to strengthen its negotiating power and give a false impression of its readiness to accept diplomatic compromises. As has been repeatedly verified throughout the past decade of negotiations on North Korea's nuclear problem, North Korea has no intention of eliminating its nuclear programs in exchange for economic assistance or aid. Despite its firm "determination" to develop nuclear weapons, North Korea has always used the denuclearization negotiations as a means of obtaining the resources needed for regime survival and overcoming international isolation.

North Korea had adopted a cyclical repetitive strategy. ① When facing sanctions after deviating from the negotiations, it uses brinkmanship to intensify military tensions via threats of war and provocative actions (nuclear and missile tests, maritime provocations in the Yellow Sea, etc.) in order to exert influence on South Korean public opinion and international politics, prompting calls for a diplomatic compromise. ② It then uses diplomatic tactics and charm offensives to resume negoti-

51. Refer to p. 7 of this paper.

52. Fearon, "Rationalist Explanations for War."

53. Daniel W. Drezner, "The Hidden Hand of Economic Coercion," p. 646.

ations, but uses salami tactics in negotiations—dividing up its demands and steps to denuclearization and addressing them one-by-one in order to maximize the total amount of return benefits that can be gained through the negotiations.⁵⁴ ③ Once the negotiations are concluded, it obtains aid and then nullifies the agreement through some form of unacceptable behavior, returning to step one.⁵⁵ North Korea has distorted its own actual strategic intentions and commitments and utilized the denuclearization negotiation process and promised benefits as a means of maintaining its system. The aid received has been used exclusively to strengthen the military-first political system and the ruling coalition⁵⁶ while the regime has continued to operate its nuclear programs and improve its technology.⁵⁷

On the other hand, despite North Korea's provocations and breaches of agreements, past South Korean administrations have succumbed to wishful thinking and disseminated the false illusion that economic incentives will lead to change in North Korea. This has given the mistaken signal that South Korea's economic assistance will continue to flow even if North Korea makes provocations and breaks agreements. Despite the "stated cause of denuclearization," this policy has given the false impression that South Korea is enabling North Korea to continue practicing brinkmanship and deceptive negotiation strategies. If South Korea continues with economic exchanges and aid even in cases where the threat of sanctions or actual sanctions are clearly needed, then inevitably it will be put in a disadvantageous

54. Minutely divergent issues and procedural knots are sometimes used as excuses for deviating from agreements.

55. Refer to Nanto and Chanlett-Avery, "North Korea: Economic Leverage and Policy Analysis."

56. On large-scale economic aid from the international community and the North Korean regime's ability to survive and overcome crises, refer to Nicholas Eberstadt, "Why Hasn't North Korea Collapsed? Understanding the Recent Past, Thinking About the Future," in Young Whan Kihl and Hong Nack Kim (eds.), *North Korea: The Politics of Regime Survival* (Armonk: M.E. Sharpe, 2007).

57. On the progress of North Korea's nuclear programs and technological advancement, refer to Mary Beth Nikitin, "North Korea's Nuclear Weapons: Technical Issues," CRS Report for Congress RL34256 (January 2011).

negotiating position. Because of the tendency to favor economic assistance, South Korea has repeatedly made the mistake of sending signals that encourage North Korea's policy-makers to underestimate the South Korean government's determination to achieve denuclearization. This has led to a strange phenomenon in which expansion of economic exchanges has become an end in itself, rather than a means to an end.⁵⁸

As the volume of economic aid and exchanges increased without objective verification of the results, this came to be erroneously seen as progress in inter-Korean relations, and a unified consensus on sanctions could not be reached within the political sphere of South Korea. From North Korea's perspective, as an interested spectator, the signal it received was that South Korea's participation in sanctions was merely "symbolic." North Korea then began in earnest to undermine South Korea's participation in international sanctions by actively promoting ethnic solidarity and dividing public opinion within South Korea.

Second, we have failed to clearly demonstrate a public and reliable commitment to see that inter-Korean agreements are observed. China and the other six-party members have made similar mistakes. As noted above, North Korea has intentionally shirked its responsibility to implement compromise agreements. Because of North Korea's repeated deviance, South Korea and the other six-party members could not be certain that North Korea would commit to the "denuclearization" negotiations in a trustworthy manner and implement agreements in a transparent and verifiable way.⁵⁹

On the other hand, by repeatedly conducting nuclear and missile tests and deviating from agreements, North Korea has always clearly

58. This is a mirage that emerged as the Sunshine Policy's basic assumption—that exchanges would bring about change—turned into a "political belief." A rational policy-maker should reevaluate basic assumptions when policies based on those assumptions achieve poor results.

59. The belief that the North Korean authorities would operate transparently and fairly, not only in denuclearization negotiations but also in implementing various types of humanitarian aid, has also been severely damaged.

expressed through its actions that it will not give up its goal of nuclear weapons in exchange for economic incentives. North Korea's commitment to its nuclear programs has been repeatedly verified. As will be noted later, because of the difficulties in cooperating on a policy level, the states of the Six-Party Talks have repeatedly failed to demonstrate an effective and firm commitment to sanctions and to consistently implement these sanctions when needed, whereas North Korea has convincingly expressed its nuclear ambitions. Thus the potential negotiating power of the sanctioning nations has been weakened. Even if the Six-Party member states repeatedly expressed their commitment to sanctions, North Korea would find it difficult to see this as a reliable and effective expression of a genuine threat. As the Six-Party members have been unable to prevent North Korea from engaging in provocations and deviance, the unstable sanctions situation has continued. North Korea has continued to develop its nuclear arsenal while committing intentional provocations and stoking tensions in order to break through the sanctions impasse. North Korea has applied pressure on the sanctioning states, increasing their pessimism and fatigue so that they feel forced to choose the easy way out by giving another aid package to North Korea.

The effectiveness of international leverage increases when it is in accordance with the sanctioning states' policy goals; when this is not the case, leverage tends to be less effective.⁶⁰ It is not easy for the multiple states involved to curb their own selfish national interests and cooperate with the leading state (the U.S.).⁶¹ Especially during the Sunshine Policy period, the discord displayed by the South Korean government played a role in damaging confidence in the threat of

60. Levitsky and Way, 2010, p. 41.

61. For the same reason Drezner claims that, unlike conventional wisdom, multi-lateral sanctions with multiple agents (states, etc.) are actually less effective and costlier than one-party sanctions, and questions the habits of American policy-makers and their tendency to form multilateral sanctions. Daniel W. Drezner, "Bargaining, Enforcement, and Multilateral Sanctions: When Is Cooperation Counterproductive?" *International Organization*, Vol. 54, No. 1 (Winter 2000).

sanctions.⁶² The lack of harmony between South Korea and the U.S. concerning policy cooperation did not just diminish the reliability of the sanctions threat. The potential for conflict between the two allies rose to the surface and shook the very foundations of American commitments to South Korean defense. Confidence in extended deterrence was also shaken, giving North Korea extra motivation to develop nuclear weapons.

Conflict between the U.S. and China over strategic interests concerning North Korea's denuclearization may be inevitable. China seems to prioritize the stability of the North Korean regime and maintain the status quo on the Korean peninsula rather than denuclearization.⁶³ This is why the U.S. and China find it so difficult to cooperate in implementing sanctions.⁶⁴ The South Korean government, especially the Roh Moo-hyun administration, claimed its neutrality by describing itself as a balancer of Northeast Asia, but regardless of the justness of this goal, this endangered the cooperative system between South Korea and the U.S. and made it difficult for the U.S. and China to compromise and negotiate, ultimately damaging confidence in the sanctions against North Korea through the international cooperation regime. At least, it gave North Korea the impression that China and South Korea will not actively participate in the sanctions.

62. One researcher has pointed out that the Sunshine Policy can be considered "unconditional engagement," and a factor that causes difficulties in the South Korea-U.S. alliance. Mark E. Manyin, Emma Chanlett-Avery, Mary Beth Nikitin, and Mi Ae Taylor, "U.S.-South Korea Relations," CRS Report for Congress R41481 (December 2010), p. 7.

63. For China's prioritization of its strategic goals within Northeast Asia, refer to Lee Ji Yong, "The security status on the Korean peninsula since the Chinese-U.S. summit," *Juyo Gukje Munje Bunsuk* [Major International Issues Analysis] (Seoul: Institute of Foreign Affairs and National Security), March 2011; Kim Jin Ha, "Prospects of Resuming the Six-Party Talks and Analysis of North Korea's Negotiations Strategy with South Korea: With an Emphasis on Changes in Political Circumstances since the Chinese-U.S. Summit," *KDI Bukhan Kyeongje Review* [KDI Review of the North Korean Economy] (May 2011).

64. It may be only a slight exaggeration to say that China has contributed to diminishing the effectiveness of sanctions through its role as a "dark knight" fighting against hegemony. Levitsky and Way, 2010, p. 41.

Third, the indivisibility of disputed issues diminished the effectiveness of the economic measures. At least subjectively, the major power players within North Korea seem to think that nuclear weapons are indivisible from regime security. Although North Korea engages in the denuclearization negotiations for the sake of procuring resources necessary for regime survival, without a security guarantee to protect the Kim family' hereditary regime, North Korea is unlikely to agree to the principle of the denuclearization negotiations. Until North Korea recognizes that it must reform for the sake of its own survival, it is highly unlikely to approach the denuclearization negotiations with any sincerity.

For these reasons, economic measures are no longer effective. Even though incentives and sanctions are like two sides of the same coin, the administrations before Lee Myung-bak focused exclusively on incentive measures which ended up nullifying the effects of the economic incentive measures.⁶⁵ Because of this, the opportunities that arose from the weakening of North Korea's economy could not be effectively utilized. The lessons learned from the Sunshine Policy and negotiations with North Korea provided important guidelines for the Lee Myung-bak administration in developing its North Korea policy direction.

Evaluation of the Lee Myung-bak Administration

The Lee Myung-bak administration's North Korea policy has continuously endeavored to correct the problems brought about by Sunshine's one-sided economic assistance, while at the same time addressing many issues that had previously been neglected, such as the improvement of human rights in North Korea and discussion of unification. The policies of the previous administrations provide opportunities for reflection. The current policy does not fundamentally differ from those of the past in terms of the main goals of denuclearization and

65. Manyin, Chanlett-Avery; Nikitin, and Taylor, 2010.

reform/opening of North Korea or the means of achieving those goals, i.e., economic incentives and sanctions. The policy measures available are fundamentally limited. But the Lee administration has endeavored to use all available economic measures, that is, to find the most effective combination of incentives and sanctions, in order to transform this "very weak means of governance" into a more powerful means of "forceful persuasion" and "coercive diplomacy."⁶⁶

In this section we evaluate the North Korea policies of the Lee administration using the Feron-Drezner evaluation framework quoted earlier.⁶⁷ First, the Lee Myung-bak administration has clearly stated its goal of the denuclearization, reform and opening of North Korea and has firmly committed to following through with this goal, taking measures to prevent the spread of erroneous private information or misunderstandings among North Korea, the U.S., and other sanctioning states concerning the goals and commitment of the South Korean government. The "Denuclearization-Reform-3000" proposal merits special attention in that it clearly presented South Korea's policy goals toward North Korea. The goals of denuclearization and opening were presented clearly through the "3000" proposal, and the benefits that North Korea would receive if it accepted those terms were also clearly expressed with no possibility for misunderstanding. Although North Korea's flat refusal made it impossible to achieve the stated

66. Coercive diplomacy is described as the "diplomatic effort to convince a hostile counterpart to cease or withdraw certain behaviors," and it often uses threats (such as the promise of economic sanctions) as important policy tools, but it is mostly used as a defensive mechanism to end crisis situations initiated by the counterpart. This concept is in contrast to aggression, where one side's intentions are forced upon another (Compellence: for example, armed provocations or assaults by North Korea, nuclear or missile tests, or the threat of nuclear weapons) by creating a threatening situation through provocations and use of armed force, and is a type of diplomatic strategy which uses forceful persuasion to make the counterpart "cease preemptive provocation and acts of aggression." Quoted from Alexander L. George, *Forceful Persuasion: Coercive Diplomacy as an Alternative to War* (Washington, DC: United States Institute of Peace Press, 1991), p. 5.

67. Feron, "Rationalist Explanations for War"; Drezner, "The Hidden Hand of Economic Coercion."

goals, the outcome of the proposal made it clear that North Korea was committed to developing nuclear weapons and resisting reform, and had the additional benefit of preventing distorted information and misunderstandings from spreading.

The Lee administration also brought forward a unification proposal and achieved a paradigm shift from management of division to preparation for unification,⁶⁸ while clarifying the long-term goals of South Korea to the South Korean public and the other relevant states. While North Korea's noncompliance and repeated deviance from international norms pushed the international community into a corner in its efforts to denuclearize and stabilize the Korean peninsula, this provided an opportunity to convince relevant states and the international community of the viability of peaceful South Korea-led unification as an alternative to denuclearization negotiations. This built the foundations for future unification diplomacy. The spread of this perception was a coercive factor that gave North Korea no choice but to engage more sincerely in the denuclearization negotiations.

Second, the Lee Myung-bak administration, following a policy direction of "principled" response, has endeavored to present a clear position and a highly reliable commitment to the negotiation and implementation of North Korean denuclearization. When conflicts have arisen due to North Korea's military provocations, violation of agreements, and other devious actions, the Lee administration has clearly demonstrated South Korea's firm commitment through its actions by applying sanctions either on its own or with international cooperation. In order to stop North Korea from using its usual deceptive strategy and escape the vicious cycle of provocation-negotiation-agreement-deviation, the Lee administration has firmly applied sanctions. The purpose of this has been to demonstrate that there will no longer be rewards for bad behavior. This clearly demonstrated to North Korea that rewards will be given only when it cooperates and

68. To this end, the current administration had publicly mentioned a unification tax and brought up for discussion a bill to open a "unification account" within the Inter-Korean Cooperation Fund.

abides with agreements, while provocations and violations will be met with sanctions. The rules of this game were repeatedly laid down before North Korea in an effort to reestablish the rules of negotiation.

The South Korean government has proclaimed its firm and clear determination to achieve North Korean denuclearization and acted as a leading figure in international cooperative regimes such as the Six-Party Talks. More importantly, the Lee administration successfully restored policy cooperation between South Korea and the U.S. and devised and implemented joint responsive measures based on mutual trust in the face of pressure from North Korea. It was able to send a covert but firm warning to North Korea on the consequences of provocations against South Korea and deviation from agreements. It applied significant pressure on North Korea by restoring the South Korea-U.S. alliance and reconfirming U.S. defense commitments, while using U.S. pressure as leverage to encourage China and Russia to establish a more effective joint stance against North Korea.

The 42nd Security Consultative Meeting in 2010 adopted the "Strategic Alliance 2015 Proposal" and the Guidelines for U.S.-ROK Defense Cooperation, raising the South Korea-U.S. military alliance to the level of a comprehensive strategic alliance. At this meeting the parties agreed to establish an Extended Deterrence Policy Committee, which was actually established in 2011. This committee devised the "Guidelines for U.S.-ROK Defense Cooperation."⁶⁹ Reinforcing these guidelines has decreased the utility of North Korea's nuclear weapons and has also provided important disincentives for their nuclear program by creating additional costs. North Korea's pursuit of nuclear weapons resulted in stronger U.S.-ROK defense cooperation, a kind of alternative form of sanctions. This was made possible by the Lee administration's firm expression of commitment and the restoration of the South Korea-U.S. alliance.

Using the Korean peninsula's geopolitical position as a gateway to China as collateral, North Korea latched on to China's desire to

69. Park Jae Jeok, "Evaluation of the Lee Myung-bak Administration's Unification Diplomacy toward the U.S.," unpublished paper (Seoul: KINU), April 2012.

maintain the status quo and stability in Northeast Asia and its strategic national interests and tried to divide the alliance against North Korea to overcome its international isolation. In order to disrupt the establishment of a close alliance between the U.S. and China, as well as between China and South Korea, North Korea committed military provocations such as the Yeonpyeong Island shelling to increase the unpredictability of the political situation on the Korean peninsula and fracture the strategic relationship between the U.S. and China. Creating U.S.-China frictions through the assaults on the Cheonan and Yeonpyeong Island proved to be a very effective short-term strategy for North Korea. It also disrupted South Korea's unification diplomacy with China⁷⁰ and limited China's diplomatic flexibility. But the Lee administration's strict adherence to its principles and the restoration of the South Korea-U.S. alliance increased the cost of China's protection of North Korea and the diplomatic and military burden of maintaining the status quo in Northeast Asia, presenting an opportunity for China to become more cooperative in the international cooperation regime against North Korea (for example, by accepting UN Security Council Resolution 1874 sanctioning North Korea).⁷¹

As the sanctions against North Korea by the three states continued, North Korea's economic reliance on China increased.⁷² Naturally, voices of concern have arisen in response to this. There are concerns North Korea may be absorbed into China's economy, negatively affecting prospects for Korean unification. As seen in Table 4, recent trade between North Korea and China is continuously increasing.

70. Lee Ki-Hyun, "Evaluation of the Lee Myung-bak Administration's China Unification Policy," unpublished paper (Seoul: KINU), April 2012.

71. When North Korea broke its Leap Day agreement with the U.S. and conducted a missile launch, China displayed a more cooperative attitude than before in accepting the demands of South Korea and the U.S. to apply pressure on North Korea. The strengthened U.S.-South Korea alliance and South Korea's clear expression of its commitment are now producing results.

72. For recent developments in North Korea-China relations, refer to Dick K. Nanto and Mark E. Manyin, "China-North Korea Relations," CRS Report for Congress R41043 (last updated on December 28, 2010).

Table 4. Trade between North Korea and China

(Unit: 1 million US dollars)

Year	Chinese Imports	Chinese Exports	Total Amount
1995	63.609	486.037	549.646
1996	68.638	497.014	565.652
1997	121.610	534.411	656.021
1998	51.089	356.661	407.750
1999	41.722	328.634	370.356
2000	37.214	450.839	488.053
2001	166.797	570.660	737.457
2002	270.863	467.309	738.172
2003	395.546	627.995	1,023.541
2004	582.193	794.525	1,376.718
2005	496.511	1,084.723	1,581.234
2006	467.718	1,231.886	1,699.604
2007	581.521	1,392.453	1,973.974
2008	754.045	2,033.233	2,787.278
2009	793.026	1,887.741	2,680.767

Source: Dick K. Nanto and Mark E. Manyin, "China-North Korea Relations," p. 15.

Also, China is expanding its direct investment in North Korea's mines and ports and is also known to be actively involved in development and infrastructure enterprises such as the Hwanggeumpyong development project.

But we must avoid judging this as simply a short-term phenomenon or viewing it through an ethnocentric lens. North Korea has in the past attempted to maintain regime stability by encouraging competitive support from both China and the Soviet Union, using equal distance diplomacy to benefit from the conflict between the two states. North Korea has tried to replicate this dynamic within the framework of the Six-Party Talks. It has incited conflict and competition between the U.S. and China, as well as between China and South Korea, in order to maintain its own autonomous policies (namely, the anti-reform and military-first policies), while at the same time obtaining resources for regime survival from both parties. By "diversifying

its sources of income," North Korea has been able to offset its dependence and minimize the influence of China.⁷³ The North has encouraged the disintegration of the international cooperation regime and focused its efforts on maintaining its anti-reform stance and independence.

North Korea's strategy has been partially successful in that the U.S., China, and South Korea have all provided a considerate amount of aid to North Korea but have failed to gain a corresponding amount of influence.⁷⁴ All these states have pursued the common goal of denuclearization and reform of North Korea, but have fallen into the trap of competition and the pursuit of national interests, ultimately providing North Korea with greater autonomy rather than applying pressure to it.

In the long run, North Korea's excessive dependence on China will diminish its autonomy, and China will be able to utilize its superior position to pressure North Korea into denuclearization and reforms. North Korean denuclearization and reform/opening will benefit China's national interests as well. North Korean reform will greatly reduce the cost of maintaining the North Korean regime and the status quo in Northeast Asia. North Korea mistrusts South Korea more than it mistrusts China. Thus it may be more advantageous for South Korea to approach North Korea indirectly through China. It can also attempt to work in regions outside the "mosquito net" through joint investment projects with the Chinese government and other investors. North Korea's increasing dependence on China may not necessarily have an adverse effect on South Korea's goals of denuclearization, reform and unification. A pragmatic approach might even be necessary to maximize the opportunities for active unification diplomacy with China.

Third, the Lee administration has made considerable efforts to correct North Korea's skewed perception that nuclear weapons

73. Robert Kaplan, "Attacks That May Signal a Pyongyang Implosion," *Financial Times*, November 23, 2010, <http://www.ft.com/cms/s/0/6fcf5c14-0d3e-11e0-82ff-00144feabdc0.html#axzz18xGbjgry>.

74. It must be remembered that the previous administration gave generous aid yet lost its leadership role, allowing North Korea to take the lead instead.

equate to regime preservation. This subjective perception originates from the characteristics of the regime and is therefore extremely difficult to alter from the outside. But through the Denuclearization-Opening-3000 and Grand Bargain initiatives, the Lee Myung-bak administration has encouraged North Korea to distinguish between the pursuit of nuclear weapons and regime survival. These initiatives offered strong economic incentives in an attempt to convince North Korea that reform and opening could also promote regime survival. In the same context, the Lee administration repeatedly declared its respect and commitment to the February 13 Agreement, through which the members of the Six-Party Talks offer security guarantees to North Korea in return for denuclearization. It is up to North Korea to make the final decision. South Korea can only provide motivation through committed offers of aid and guarantees, while increasing the costs of continued hard-line policies via sanctions, thus giving North Korea the opportunity to change.

The Lee Myung-bak administration has compensated for the problems associated with the Sunshine Policy and focused on maximizing the effects of economic incentives and sanctions. North Korea is currently ignoring the lessons provided by the policy transition of the Lee administration and resisting demands by South Korea and the international community to abide by the rules. It is unable to break from its old habit of receiving rewards without fulfilling its end of the bargain. It is testing South Korea's resolve with armed provocations and trying desperately to revert back to the past situation. It is too much to expect it to adjust rapidly to such a steep learning curve. The Lee administration has adhered to the basic principle of "rewards for compliance, sanctions for deviance" even when challenged by North Korea's opposition and provocations.

Policies are ultimately "choices." The selection of a policy tool is not based solely on practicality. In the reality of politics, policies can only be chosen within a given range of options.⁷⁵ The Lee Myung-bak

75. David A. Baldwin, "The Sanctions Debate and the Logic of Choice," *International Security*, Vol. 24, No. 3 (Winter 1999-2000), pp. 80-107.

administration has focused on the option of sanctions, which had been neglected before, and sought a mutually complementary relationship between sanctions and incentive measures. In order to induce change in the target state, positive inducements and reassurances must be reliably provided, but there must also be a convincing threat of punishments such as sanctions.⁷⁶ In other words, the Lee administration had never been swayed by the need to produce immediate tangible results, but has rather focused on establishing the rules of the game from a broader perspective. The efforts of the Lee administration must be seen as the establishment of a steady foundation for our future North Korea policy.

Conclusion

The North Korea policy of the Lee administration cannot be free from the constraints of policy measures. In reality, it is extremely difficult to induce change in North Korea within a single term of office. Also, in the process of implementing policies and building a relationship with North Korea, we have exposed strategic weaknesses. The Lee administration did make progress in improving North Korean human rights, supporting democratization efforts, promoting of unification diplomacy, and procuring military deterrence, but many tasks still remain. Among these, there are two points of contention that the succeeding administration must tackle.

First, we need to devise a “smart sanctions” package which “minimizes the suffering of the North Korean civilians and maximizes the punishment for noncompliance of the dictatorship of the target state.”⁷⁷ We need to distinguish between the North Korean elites who are responsible for the nuclear programs and anti-reform policies and the civilians who are the victims of those policies, so that sanctions can

76. Alexander L. George, *Forceful Persuasion*, p. 11.

77. Daniel W. Drezner, “How Smart Are Smart Sanctions?” *International Studies Review*, Vol. 5, No. 1 (March 2003), p. 107.

afflict the regime in a subtler and more discerning manner. As Oechslin points out,⁷⁸ a dictatorial regime resists sanctions by passing on the damages caused by them to the populace, thereby redirecting hostilities toward the sanctioning state and maintaining regime solidarity. It is commendable that, when imposing sanctions, the Lee administration endeavored first of all to block sources of cash, which could be easily funnelled into nuclear development by the North Korean elite; however, the administration has been rather weak in terms of providing humanitarian aid to minimize the suffering of North Korean civilians.⁷⁹ We must devise creative solutions that minimize the possibility of resource diversion and gain the trust of the North Korean people. This will help lay the foundations for unification.

Second, we need to develop reliable and practical economic incentives to propose to North Korea. We cannot stress enough the complementary relationship between economic incentives and sanctions. Thanks to the Lee Myung-bak administration's principled North Korea policy, by now North Korea must have begun to realize that whenever it commits a provocation or deviates from an agreement, sanctions will inevitably follow. On the other hand, we also need to make North Korea realize that when it cooperates and abides by the agreements, it will be rewarded appropriately. In addition to the direct pain caused by sanctions, there must be other costs involved so that North Korea will hesitate before committing uncooperative or deviant behavior. The "Denuclearization-Reform-3000" proposal was effective in exposing North Korea's determination to develop nuclear weapons and resist reform, but it was unrealistic to expect that North Korea, which abhors reform and opening, would accept such practical alternatives. Once the current sanctions situation has been positively resolved, future economic sanctions will need to have a more "long-term" focus, aiming for incremental development and implementation by stages. Not only

78. Refer to footnote 11.

79. Although the Lee administration has made efforts to provide humanitarian aid such as medicine, vaccines, and emergency food during the imposition of sanctions, these were not sufficient to give the North Korean public an impression of South Korea's influence.

will this reassure North Korea, it offers the prospect of more long-term, structural and formal benefits to be gained from cooperation. The costs of deviation from agreements can also be presented in a more long-term and structured way. It is necessary to establish the structural conditions to encourage North Korea to consider the long-term harm caused by its actions and to refrain from provocative and deviant acts.⁸⁰

But it is clear that these solutions must be devised in coordination with the North Korea policy of the Lee administration. When the rules of the game are firmly established such that “cooperation leads to rewards, and deviation leads to sanctions,” smart sanctions and effective aid can have an impact. A policy that leans too heavily to one side will weaken our leverage against North Korea and make the goals of denuclearization and opening much more difficult to achieve.

North Korea’s refusal to cooperate and extremely conservative stance are perpetuating the sanctions. Political censure and criticism of the North is on the rise within South Korea as well. Essentially, sanctions represent a battle of wills. With the sanctions in effect, a war of nerves is currently testing South Korea’s patience. But from a rational perspective, continued sanctions increase the total costs of pursuing nuclear weapons and resisting reform, ultimately contributing to improving North Korea’s learning curve. Once the presidential election season begins, debate about our North Korea policy may become a stage for political strife and ideological conflict. At this point, we need the impartial wisdom to coolly and objectively evaluate the merits and demerits of the current policy, transcending political leanings and ideologies and working constructively to develop new ideas.

A simple change in government cannot dramatically increase the available policy resources. It would be difficult for any government to find a solution other than the effective use of economic incentives

80. It is virtually impossible for the current administration to develop more effective incentive measures due to North Korea’s opposition and the current impasse.

and sanctions. Under these conditions, the current administration has made efforts to maximize the effectiveness of the given policy measures and to establish principles for negotiation that will remain valid regardless of changes in administration. There will inevitably be changes in operational strategies, but a fundamental sense of policy continuity must be guaranteed. Only by establishing principles and changing North Korea's attitude toward negotiations can future administrations effectively combine economic incentives and sanctions to formulate a practical North Korea policy.

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