

Sunrise, Sunset: The Rise and Fall of Inter-Korean Economic Relations

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Key Words: South Korea, North Korea, United States, sunshine policy, economic cooperation

[ABSTRACT]

What explains the dramatic rise and fall of inter-Korean economic relations over the past two decades? The conventional explanation has been differences in the beliefs of political leaders. That is, liberal presidents such as Kim Dae-jung and Roh Moo-hyun pursued engagement policies with a firm belief that growing economic interdependence with North Korea would help it come out of isolation and moderate its foreign policy, while the conservative next two leaders were skeptical. Examining almost two decades of economic cooperation between the two Koreas, this paper asserts that the fate of inter-Korean economic relations has depended not just on the political leaders' beliefs but also on two external forces: Pyongyang's response to engagement efforts from Seoul and support from Washington. Throughout the sunshine period, the two Koreas were able to expand economic ties both in scope and quantity as both Pyongyang and Washington responded favorably to Seoul's sunshine policies. In contrast, economic cooperation shrank in scope and the overall volume of exchange fluctuated during—but not because of—the conservatives' rule in Seoul as Pyongyang rejected Seoul's proposals and instead accelerated its nuclear armament. This study projects poor prospects for Seoul's recent efforts to revive economic cooperation with Pyongyang.

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I. Introduction

What explains the dramatic ups and downs of inter-Korean economic relations over the past two decades? Those relations kicked off at the turn of the twenty-first century under then South Korean President Kim Dae-jung's "sunshine policy" and expanded under the next president, Roh Moo-hyun. For the decade-long sunshine period, South Korean cruise ships set sail to Mount Kumgang in North Korea, carrying tourists, and the two Koreas opened a joint industrial complex in Kaesung (hereafter the KIC). However, economic cooperation between the two Koreas soon lost steam. The next president, conservative Lee Myung-bak, halted all economic projects with North Korea except the industrial complex in response to growing belligerence from Pyongyang. In February 2016, another conservative president, Park Geun-hye, shut down the joint industrial complex, severing the only remaining straw of economic ties between the two Koreas.

The conventional explanation for these ups and downs has been differences in the beliefs of political leaders.¹⁾ That is, liberal presidents such as Kim and Roh pursued engagement policies with a firm belief that growing economic interdependence with North Korea would help it come out of isolation and moderate its foreign policy, while the conservative next two leaders were skeptical. This study puts the conventional wisdom under scrutiny, for two reasons.

1) Jong-seok Lee, *Peace on a Knife's Edge: The Inside Story of Roh Moo-hyun's North Korea Policy*, trans. Se-woong Koo (Stanford, Calif.: The Walter H. Shorenstein Asia-Pacific Research Center, 2017); Chung-in Moon and David I. Steinberg, *Kim Dae-jung Government and Sunshine Policy: Promises and Challenges* (Seoul: Yonsei University Press, 1999); Chung-in Moon, *The Sunshine Policy: In Defense of Engagement as a Path to Peace in Korea* (Seoul: Yonsei University Press, 2012); Key-young Son, *South Korean Engagement Policies and North Korea: Identities, Norms and the Sunshine Policy* (New York: Routledge, 2009).

First, the fact that Kim and Roh pursued economic engagement does not explain why they achieved it. The conventional wisdom begs the question of how the leaders' beliefs, a variable on the individual level, became causally salient instead of other systemic and domestic political variables. The inference that there was economic cooperation just because the two liberal leaders embraced a noble vision is facile, risking confusing a necessary with a sufficient cause. Second, the intuitive conventional account has serious empirical flaws. The overall volume of economic exchanges between the two states was growing even during conservative rule in Seoul, despite some fluctuations. In fact, it peaked during the Park presidency, a few months before the KIC closure. Another empirical problem of the conventional wisdom is related to the ongoing development on the Korean Peninsula. The incumbent president, Moon Jae-in, is known as an heir of the sunshine policy. However, as of September 2020, the two Koreas have shown no sign of resuming economic interactions. What, then, has decided the fate of economic relations between Seoul and Pyongyang?

This paper puts forward two arguments. First, political beliefs certainly made a difference in the rise and fall of inter-Korean economic relations, but not the way the conventional account has suggested. All four presidents pursued engagement. What divided them was their expectations about what North Korea should do. Liberal leaders were definitely more patient, sympathetic, and tolerant with Pyongyang. They believed that economic relations between the two Koreas must go on even with the North's provocations because they would help the North Korean leadership in Pyongyang realize that its external environment is benign and thus that it can eventually lower its guard. In contrast, the conservative leaders believed that Seoul should be ready to cut off economic ties

with the North if Pyongyang behaved unacceptably and should expand the cooperation if Pyongyang behaved positively. Second, in addition to political leaders' beliefs, two external factors must be incorporated into the account: North Korea's response to engagement efforts from Seoul and support from the United States. To set off a virtuous cycle of economic engagement, a target's positive response to an initiator's call is crucial. If one side adopts a 'nice' strategy and both sides follow the rule of reciprocity, cooperation can evolve. The role of a third-party actor matters as well. The literature on conflict management has found that third-party actors have been important in either restraining or intensifying bilateral rivalries. For Korean Peninsula affairs, no state can be as decisive as the United States.

Throughout the Kim Dae-jung and Roh Moo-hyun periods, the two Koreas were able to expand economic ties both in scope and in quantity, as Pyongyang responded favorably to Seoul's sunshine policies and Washington threw its support behind Seoul's initiatives. In contrast, economic cooperation shrank in scope and the overall volume of exchange went up and down during the conservatives' rule in Seoul. Seoul's proposals for the expansion of economic cooperation were contingent on the progress of denuclearization; instead, Pyongyang accelerated its nuclear armament. The outcome was the severance of economic ties between the two Koreas in February 2016 by Ms. Park. It is also noteworthy that Washington has been increasingly critical of business projects pumping cash into Pyongyang since North Korea's fourth nuclear test in 2016. The U.N.-sponsored sanctions against North Korea have become stronger and tighter. They have targeted Kim Jong-un's financial resources enabling his nuclear weapon programs. This external condition forecasts poor prospects for Mr. Moon Jae-in's wish to

restore economic ties between Seoul and Pyongyang.

This paper starts from theoretical debates about the pacifying effects of economic interdependence on states' foreign relations and notable scholarly works identifying hurdles impeding the growth of inter-Korean economic relations. It then discusses how, in theory, individual political leader's beliefs, positive or negative response from Pyongyang to Seoul's economic engagement and the absence or presence of support for it from Washington should work in tandem to decide the destiny of inter-Korean economic relations. A case study of South Korea-North Korea economic relations from 1998 to 2016 follows. The rich historical narrative presented here reveals the causal significance of the two external variables in determining the fate of the economic relations between the two Koreas, and helps check whether the conventional account stressing individual leaders' beliefs convincingly explains the ups and downs of the economic ties between Seoul and Pyongyang for the past two decades. This historical account is based on in-depth face-to-face and telephone interviews with former high-ranking government officials from the Kim Dae-jung to Park Geun-hye administrations, as well as extensive secondary sources. It also incorporates South Korean presidents' writings before their arrival in office, to examine how their preexisting vision and strategic goals for economic cooperation with the North have played out in their policy toward Pyongyang during their tenure in office. The case study also discusses Mr. Moon Jae-in's efforts to revive engagement with the North and headwinds confronting him.

II. Existing Literature

Whether economic interdependence induces peace has been a bone of contention among scholars of international relations. Liberal scholars have long believed that economic cooperation sets off for states a virtuous cycle leading to greater prosperity and more peaceful relations as economic exchanges enables common interests to emerge.²⁾ In contrast, realists are pessimistic about the pacifying effects of economic interdependence because of concerns about dependence and relative gains.³⁾ The debate between liberals and realists has inspired extensive research investigating the conditions under which economic interdependence fosters better political relations among states. Some scholars assert that it works only among democracies.⁴⁾ Another group argues that economic interdependence fosters peace only among advanced capitalist economies that share a common interest in maintaining stable financial and trade flows and contract-intensive economies backed by effective legal systems.⁵⁾ Still others call for attention to systemic variables such as the existence of regional trade institutions.⁶⁾

The liberal hope that economic interactions would moderate

2) See Bruce Russett and John Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations*(New York: W. W. Norton, 2001).

3) John J. Mearsheimer, *The Tragedy of Great Power Politics*(New York: W. W. Norton, 2001); Kenneth N. Waltz, *Theory of International Politics*(Reading, Mass.: Addison-Wesley, 1979).

4) Christopher F. Gelpi and Joseph M. Grieco, "Democracy, Interdependence, and the Sources of the Liberal Peace," *Journal of Peace Research*, Vol. 45, No. 1 (January 2008), pp. 17-34.

5) Erik Gartzke, "The Capitalist Peace," *American Journal of Political Science*, Vol. 51, No. 1 (January 2007), pp. 166-191; Michael Mousseau, "Market Prosperity, Democratic Consolidation and Democratic Peace," *Journal of Conflict Resolution*, Vol. 44, No. 4 (August 2000), pp. 472-507.

6) Edward D. Mansfield and Jon C. Pevehouse, "Trade Blocs, Trade Flows, and International Conflict," *International Organization*, Vol. 54, No. 4 (Autumn 2000), pp. 775-808.

foreign policies proved naive in inter-Korean relations. Even during the heyday of economic engagement by Seoul, Pyongyang's belligerence persisted. It continued to wage military provocations against Seoul and, ultimately, develop nuclear weapons. The Korean Peninsula also lacks regional trade institutions; and while South Korea is an advanced capitalist democracy, North Korea is far from either status. The peninsula appears to be barren ground for the seed of economic cooperation.

However, the breakdown of inter-Korean economic cooperation in just two decades does not necessarily validate realists' pessimistic view of the pacifying effects of economic interdependence. The Korean Peninsula is certainly the last place on this planet where the Cold War legacy is still lingering. Security concerns are acute between the two Koreas. However, the realist insight does not explain why Mr. Moon Jae-in endeavors to restore inter-Korean economic relations despite the advancement of North Korean nuclear capabilities. This incomplete explanation and the absence in the Korean Peninsula of many conditions necessary for economic interdependence to set off a virtuous cycle direct our attention to other political factors pertinent to inter-Korean relations.

Two fairly recent scholarly works contrast thriving economic relations across the Taiwan Strait with withering ones on the Korean Peninsula. They agree that economic cooperation across the Taiwan Strait is likely to continue to grow while inter-Korean relations are vulnerable to backpedaling. But they disagree about the sources of this variance. Scott Kastner has focused on the causal significance of the economic groups backing political leaders. According to him, leaders must surely consider the extent to which their policy decisions deviate from the interest of the coalitions that back them, else they risk defections.⁷⁾ Specifically, leaders backed by

internationalist economic interests should expect to pay high political costs for pursuing policies detrimental to foreign economic exchange.⁸⁾ By this logic, the future for inter-Korean economic relations is not bright. In North Korea's political structure, hard-line nationalists are unlikely to be tolerant of bilateral economic exchanges with the South, and internationalists' economic interests are marginalized. It should be no surprise that North Korea recurrently stages provocations disrupting commercial interests and walks away from existing foreign economic arrangements.

Chan, Hu, and Sohn, employing two-level theory, show that Seoul's hope for inter-Korean economic cooperation has been constrained by domestic and international settings. According to them, Washington's confrontational approach to Pyongyang during the George W. Bush administration, including the axis of evil speech and the U.S. invasion of Iraq, accelerated Pyongyang's nuclear armament as a deterrent to a similar attack.⁹⁾ North Korea's nuclear program and its first test in 2006 then strengthened its threatening image among South Koreans, while weakening the advocates of conciliatory policies in Seoul.¹⁰⁾

These two studies share poignantly insightful pessimism about the future of economic cooperation between the two Koreas. Still, their explanations of the rise and fall of economic ties between Seoul and Pyongyang remain incomplete. For example, Chan and his colleagues cannot explain why economic cooperation between the two Koreas grew despite George W. Bush's open antagonism against

7) Scott Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*(Stanford, Calif.: Stanford University Press, 2009), p. 22.

8) Ibid., p. 22.

9) Steve Chan, Richard Hu, and Injoo Sohn, "Politics of Détente: Comparing Korea and Taiwan," *The Pacific Review*, Vol. 26, No. 2 (2013), p. 213.

10) Ibid., p. 206.

North Korea's leadership. And Kastner cannot explain why inter-Korean economic relations had good times as well as bad ones. Still, both studies shed light on two important variables potentially determining the fate of inter-Korean economic relations: Pyongyang's response to Seoul's proposals and Washington's influence on the course of engagement. There is good reason to investigate how the two variables interact with South Korean political leaders' beliefs in economic engagement to decide the destiny of Seoul's proposals for economic cooperation with Pyongyang.

III. Argument

The role individual political leaders' beliefs play in international relations should not be overlooked. Personal beliefs held by individual leaders matter, as they provide road maps for decision makers who formulate and implement policy.¹¹⁾ Elizabeth Saunders provides a similar claim. Noting that three U.S. presidents, Dwight D. Eisenhower, John F. Kennedy, and Lyndon B. Johnson, adopted different intervention strategies in the U.S. war in Vietnam, she attributes these different intervention strategies to different beliefs about the origins of threat—beliefs formed long before leaders faced actual crises and even before they took office.¹²⁾

The analyses provide a very useful insight for this study. South Korean political leaders' differing beliefs about the nature of the

11) Daniel L. Byman and Kenneth M. Pollack, "Let Us Now Praise Great Men: Bringing the Stateman Back In," *International Security*, Vol. 25, No. 4 (Spring 2001), pp. 107–146; Judith Goldstein and Robert O. Keohane, *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca, N.Y.: Cornell University Press, 1993).

12) Elizabeth N. Saunders, *Leaders at War: How Presidents Shape Military Interventions* (Ithaca, N.Y.: Cornell University Press, 2011), p. 3.

North Korean regime and what inter-Korean economic cooperation can do to Pyongyang might have shaped different approaches to dealing with North Korea. Liberal presidents were more sympathetic to North Korea than the conservative ones. Therefore, they were more tolerant than the conservative leaders. For liberal leaders, inter-Korean economic cooperation had to go on despite the North's military provocations, as it would help Pyongyang come out of its paranoid worldview and lower its guard in the long run. In contrast, the conservative leaders believed that inter-Korean economic cooperation should not fall into unilateral giving without return. Seoul should be ready to sever economic ties with the North in case of Pyongyang's unacceptable behaviors as well as expand the cooperation in case of Pyongyang's positive behavioral changes.

The importance of reciprocity in promoting cooperation and easing tension among states cannot be overstated.¹³⁾ International politics has no central authority to enforce promises made by states. However, Axelrod and Keohane have proposed that cooperation among states is still possible. Cooperation can get started by even a small cluster of actors who are prepared to reciprocate.¹⁴⁾ To set off a virtuous cycle of economic cooperation, a target's positive response to an initiator's call is crucial. A state can adopt a unilateral rapprochement toward a former enemy in the hope of making its strategic environment less dangerous. If one side takes the initiative and adopts a 'nice' strategy and both sides follow the rule of reciprocity, cooperation can evolve through a tit-for-tat mechanism.¹⁵⁾

13) See Robert Axelrod, *The Evolution of Cooperation*(New York: Basic Books, 1984), pp. 502-528; Robert O. Keohane, "Reciprocity in International Relations," *International Organization*, Vol. 40, No. 1 (Winter 1986), pp. 1-27.

14) Axelrod (1986), p. 173.

15) Matthew Evangelista, "Cooperation Theory and Disarmament Negotiations in the

The implication drawn from the discussion above is straightforward: it takes two to tango. A state seeking to be friend its adversary sends a signal of benign intent through an offer on a matter of mutual interest. If the target state accurately interprets the act of accommodation as a potential peace offering and reciprocates, then the stage has been set for moving towards better relations, while rivalry will continue if the target exploits the sender's intent and fails to respond in kind.¹⁶⁾ On the Korean Peninsula, Seoul's initiative for economic engagement with Pyongyang is heavily dependent on how the North responds to it. Economic ties between the two will expand if Pyongyang unclenches its fist and holds the hand Seoul has extended, while they will shrink if Pyongyang turns away from Seoul's engagement proposal.

Another important variable to be considered is the role of a third party.¹⁷⁾ Mistrust arises when two disputants are uncertain about whether the other side prefers to reciprocate cooperation or exploit it. Then a third party may step in to resolve this problem. Great powers have served as mediators in many international conflicts and crises. For example, the United States has attempted to help mend relations between former enemies such as Egypt versus Israel and India versus Pakistan. Of course, not all international interventions have been successful. However, there is no dispute that third party players have been important in either restraining or intensifying bilateral rivalry.

1950s," *World Politics*, Vol. 42, No. 4 (July 1990), p. 504.

16) Charles A. Kupchan, *How Enemies Become Friends: The Sources of Stable Peace* (Princeton, N.J.: Princeton University Press, 2010), p. 38.

17) Andrew H. Kydd, "When Can Mediators Build Trust?" *American Political Science Review*, Vol. 100, No. 3 (August 2006), pp. 449-462; Stephen John Stedman, "Spoiler Problem in Peace Processes," *International Security*, Vol. 22, No. 2 (Fall 1997), pp. 5-53; Barbara F. Walter, *Committing to Peace: The Successful Settlement of Civil Wars* (Princeton, N.J.: Princeton University Press, 2002).

For Korean Peninsula affairs, China and the United States have been the two most important outside actors. Beijing has constantly supported international efforts to build economic ties with Pyongyang. China has engaged with North Korea economically in the hope of encouraging its partner to follow in the steps of its own economic reforms and modernization.¹⁸⁾ It has welcomed any economic help toward its impoverished neighbor. In contrast, Washington has oscillated between support for and opposition to Seoul's economic engagement plans. What the United States does with South Korea's North Korean policy is certainly a key variable deciding the fate of inter-Korean economic relations.

The discussion above suggests that the destiny of economic cooperation between the two Koreas depends on what political leaders in Seoul expect from economic relations with Pyongyang and whether both Pyongyang and Washington respond favorably to Seoul's proposal for inter-Korean economic cooperation. Kim Dae-jung and Roh Moo-hyun saw economic cooperation with North Korea as necessary to ease tension on the peninsula by moderating its belligerence and ushering it into the world economy. Economic engagement had to go on even without concrete reciprocal measures from North Korea to ease tension. It was imperative to assure North Korean leaders that their external environment was benign. The two liberal presidents' common beliefs drove them to stay with economic engagement despite sporadic military provocations from North Korea. In contrast, both Lee Myung-bak and Park Geun-hye saw inter-Korean economic relations as an instrument to induce North Korea's behavioral changes in military affairs. They believed that the engagement should proceed in a reciprocal manner. Inter-Korean

18) Tat Yan Kong, "China's Engagement-oriented Strategy towards North Korea: Achievements and Limitations," *The Pacific Review*, Vol. 31, No. 1 (2018), pp. 76-95.

economic cooperation could be expanded if Pyongyang made meaningful progress toward denuclearization or waged no military provocations. It could decline otherwise, as the two leaders would lose hope for the strategic utility of economic inducement.

It is noteworthy that the difference in the beliefs of political leaders was a variable, not the variable, making inter-Korean economic relations materialize, expand, shrink, or even end. How Pyongyang responded to South Korea's engagement policy mattered as well. Inter-Korean economic cooperation would get momentum when Pyongyang accepted the hand Seoul extended. Moderate behaviors from Pyongyang perceived as reciprocal to Seoul's goodwill would provide a tailwind for engagement supporters, while its belligerence would narrow Seoul's latitude of action. Finally, whether Washington supported Seoul's engagement was also crucial. Given dense economic interdependence and asymmetric security relations, Seoul's North Korean policy had to be under constant consultation with Washington. Seoul's room for action would broaden with Washington's support while it would narrow with Washington's opposition.

IV. Case Studies

1. Sunrise: The Start and Expansion of Inter-Korean Economic Cooperation

As President Kim Dae-jung assumed the presidency of South Korea in February 1998, he carried out his own vision of peaceful coexistence and phased unification between the two Koreas. His peace initiative has been better known as the sunshine policy,

deriving its name from Aesop's fable in which sun and wind competed to strip off a gentleman's coat (he took off the coat in response to warm sunshine rather than strong wind). President Kim firmly believed that in order to reduce tension on the peninsula and induce behavioral changes in the North, the first task should be to convince the regime that its external environment was benign.

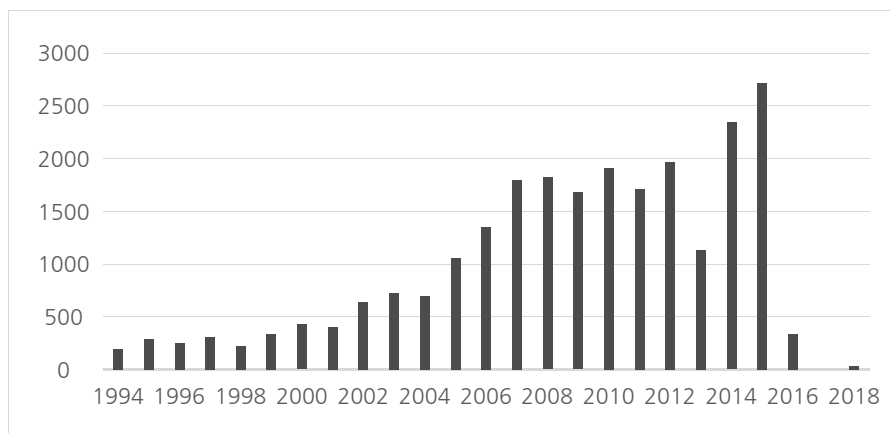
The beginning of the sunshine policy was humble. In April 1998, Pyongyang rejected Seoul's proposal to send 200,000 tons of fertilizers in return for Pyongyang's agreement to discuss the issue of reuniting separated families. At the beginning, it interpreted the sunshine policy as an insidious scheme to "undress the North in all aspects of politics, economy, and military affairs." Furthermore, North Korea tested Mr. Kim's pacifist ideals in multiple cases. It infiltrated a submarine into the East Sea in June 1998; it tested a long-range missile in August 1998; and its navy clashed with a South Korean vessel in the Yellow Sea in June 1999. Despite such military provocations, President Kim remained steadfast in pursuing a warm relationship with Pyongyang.

His tenacious pursuit of the sunshine policy began to bear fruit by late 1998. Hyundai Asan, an affiliate of the South Korean conglomerate Hyundai, obtained from Pyongyang permission to develop a tourist resort at Mount Kumgang. The tour project was touted as the first tangible outcome of Mr. Kim's new North Korean policy. Later, he held a summit in June 2000 with North Korean leader Kim Jong-il, the first summit between the two Koreas in history; a few hundred families separated since the 1953 Korean War cease-fire united; North and South Korean governments agreed to create an industrial complex with South Korean capital and a North Korean workforce in Kaesong just a few miles north of the demarcation line. The next president of South Korea, Roh Moo-hyun,

inherited the spirit of Kim's sunshine policy and expanded economic ties with Pyongyang. The KIC opened in December 2004 and began to churn out a wide range of products. Roh also held an inter-Korean summit and signed the Peace Declaration of October 4, 2007.

During the sunshine period of 1998~2007, inter-Korean economic exchange displayed exponential growth in both quantity and quality. The volume of exchange grew by a factor of more than eight, as <Figure 1> below shows. After the KIC began to operate, its production output increased by a factor of more than twelve until 2007, from 1.4 million USD to 18.5 million USD, and the number of North Korean workers multiplied by four during the same time span. Humanitarian aid also expanded as <Figure 2> indicates below. Governmental and civilian aid from the South to the North increased more than tenfold over the Kim and Roh administrations.

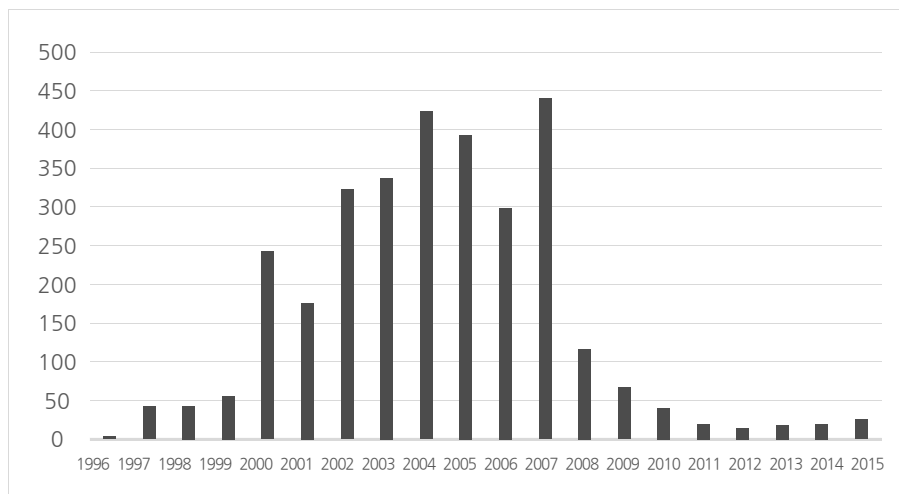
<Figure 1> Amount of Inter-Korean trade, 1994~2018



Amount Unit: Million USD

Source: Ministry of Unification, Republic of Korea, "Amount of Inter-Korean Trade," <https://unikorea.go.kr/unikorea/business/statistics/> (Accessed November 20, 2019)

<Figure 2> Humanitarian Aid to North Korea from South Korea



Unit Amount: Billion KRW

Source: Ministry of Unification, Republic of Korea, "Humanitarian Aid to North Korea," <https://unikorea.go.kr/unikorea/business/statistics/> (Accessed November 20, 2019)

What made all this possible? The conventional wisdom attributes the growth of inter-Korean economic relations to the longstanding personal faith of both Kim Dae-jung and Roh Moo-hyun in the need to offer North Korea economic incentives and induce the pacifying effects of economic cooperation. For example, Kim Dae-jung had proposed increased economic exchanges as an essential element of his three principles of peace on the Korean Peninsula long before his arrival in office. According to him, political, economic, social, cultural, and humanitarian interactions restore common national identity, and increased economic exchanges promote common interests.¹⁹⁾ The sunshine policy during his presidency can be seen as an embodiment of his longtime conviction. Mr. Roh Moo-hyun was on the same page. His writings after his retirement from the

19) Kim Dae-jung, *Building Peace and Democracy: Kim Dae-jung's Philosophy and Dialogue* (New York, N.Y.: Korean Independent Monitor, 1987), p. 232.

presidency consistently testify that the primary goal of Roh's North Korean policy was building peace and pursuing common prosperity between the two Koreas.²⁰⁾

But there were other factors contributing to the expansion of economic interactions during the Kim and Roh period: Pyongyang's receptiveness and Washington's support. Granted, at first Pyongyang balked. Then it discovered the benefits of economic cooperation with South Korea. The joint economic projects seemed to be a risk-free way to open up to the outside world to earn hard currency.²¹⁾ They allowed Pyongyang to extract benefits from Seoul essentially on its own terms. For example, the wages that South Korean companies paid for the workforce in the Kaesong Industrial Complex went to the North Korean government, which in turn paid individual laborers. Under this arrangement, the North Korean government had more than 100 million USD in foreign credits annually.²²⁾ The same mechanism was applied to the tourist project at Mount Kumgang. In return for the exclusive rights to the tour project, Hyundai was obliged to pay 942 million USD to the North in monthly installments over a span of six years and three months.²³⁾ Given the shortage of foreign credit due to limited access to foreign markets and the absence of revenue sources as a result of economic stagnation, getting involved in such profitable economic activities with few conditions attached was a no-brainer for North Korea.

But also, the sunshine policy enjoyed support from Washington.

20) See Roh Moo-hyun, *Sönggong-gwa Chwajöl* (Seoul: Hakkoje, 2009), pp. 210-220.

21) Congressional Research Service, "South Korea: Sunshine Policy and Its Political Context," *CRS Report for Congress* (2001), p. 19.

22) Yong-pyo Hong, "Interview with Sindonga: Taewha? Pukhaek Kodohwa Sigan Pöröjul Ppun" [in Korean], *Sindonga*, April 2016, <https://shindonga.donga.com/3/all/13/531992/2> (Accessed June 28, 2019).

23) Congressional Research Service (2001), p. 18.

Bill Clinton wrote in his memoir, “I supported Kim Dae-jung’s outreach to North Korea so long as it was clear that neither of us would allow the proliferation of missiles, nuclear weapons, or other weapons of mass destruction.”²⁴⁾ The next George W. Bush administration was originally reluctant to pick up North Korean policy where the former administration left off.²⁵⁾ President Bush himself had little trust in North Korean leadership. He also believed that the previous administration had offered concessions to North Korea in return for a pledge to abandon its nuclear weapon programs, but to no avail. Nonetheless, throughout his tenure, Washington never vetoed Seoul’s adherence to the sunshine policy. For example, after a review of the Clinton administration’s North Korean policy, Colin Powell, Secretary of State during the Bush administration’s first term, made it clear that the United States would continue to engage North Korea.

2. Sunset: The Decline and End of Inter-Korean Economic Cooperation

Lee Myung-bak ended a decade-long rule by liberal presidents in South Korea. Lee and the people around him shared a belief that North Korean policy under the previous Kim and Roh administrations was flawed in many ways. His writing before his presidential campaign reveals his critiques against the sunshine policy: engagement spoiled North Korea by giving unilaterally without reciprocation and the former administrations had not paid enough attention to the problem of a nuclear North Korea.²⁶⁾ Lee’s

24) Bill Clinton, *My Life*(New York: Alfred A. Knopf, 2004), p. 828.

25) George W. Bush, *Decision Points*(New York: Crown Publishers, 2010), p. 422.

26) Lee Myung-bak, *Lee Myung-bak’s Hündülliji Annün Yakso*(Seoul: Random House Korea, 2007), p. 151.

administration set correcting these flaws as its top priority. However, it is noteworthy that Mr. Lee did not bid farewell to economic engagement with the North. On the contrary, he pledged that Seoul would continue the joint economic projects with Pyongyang.²⁷⁾ What he wanted to discard was unprincipled unilateral giving from Seoul. He believed that North Korean policy should be designed and implemented to induce meaningful changes from North Korea. In other words, existing or future economic cooperation between the two should serve the goal of denuclearization and volitional reforms of North Korea. The outcome of his philosophy was the policy labeled “Vision 3000: Denuclearization and Openness.” The initiative, also known as “De-nuke, Open 3,000,” pledged that South Korea would help North Korea achieve a per capita income of 3,000 USD within 10 years in exchange for North Korea’s denuclearization.²⁸⁾ A comprehensive assistance package, covering the economy, education, finance, and infrastructure, would follow Pyongyang’s voluntary denuclearization, and Seoul would help Pyongyang transform into an export-driven economy and get access to foreign investment.

North Korea responded to this initiative with a series of hostilities throughout Lee’s five-year tenure. To name a few, North Korea conducted two nuclear tests, one in May 2009 and another in February 2013; launched a torpedo attack against the South Korean naval vessel *Cheonan* in March 2010; and bombarded Yeonpyong Island in November 2010. Proponents of engagement have claimed that military provocations in 2010 around the Yellow Sea and other belligerent acts should be understood as an expression of Pyongyang’s sense of betrayal and disappointment that no hope

27) Ibid., p. 167.

28) Lee Myung-bak, *Taetongryŏng-ŭi Shigan 2008–2013* (Seoul: RH Korea, 2015), p. 304.

existed for improvement in economic and political relationships between the two Koreas under conservative presidents.²⁹⁾ The end of the sunshine rendered the status quo unbearable. For Pyongyang, there was no remaining option but to go back to its former stance.

Nevertheless, the Lee administration was still committed to engagement. The volume of inter-Korean trade throughout the first two years of the Lee presidency was larger than that at any point during the sunshine decade. It was the scope of economic interactions that shrank throughout President Lee's tenure. For example, Lee suspended Mount Kumgang tours after a female tourist was shot dead by a North Korean soldier and in 2011, after the sinking of the *Cheonan*, imposed a ban on new investment in the KIC and inter-Korean trade, known as the May 24 measures. But these were all retaliatory measures against Pyongyang's provocations.

Another proof that the Lee administration stayed on the course of engagement is that it left the industrial complex in Kaesong still operating. According to a high-ranking official involved in North Korean affairs, President Lee was very close to shutting it down in response to the *Cheonan* attack, but he changed his mind at the last minute before the announcement of the May 24 measures. Why? The reason was that the administration recognized the importance of keeping in hand some leverage to both reward and punish North Korea's behavior in the future.³⁰⁾ President Lee wrote in his memoir, "we should not put all eggs in one basket."³¹⁾ The outcome was the restoration of economic interaction in 2012 above the level of 2010.

Why, then, did his new approach to North Korea end up

29) See Keun-shik Kim, *Taepuk P'oyong Ch ōngch'aek- ūi Chinhwa-rŭl Wihayŏ*(Seoul, Korea: Hanwul Academy, 2011).

30) Author's interview with a high-ranking official of the Lee Myung-bak government, June 18, 2018.

31) Lee (2015), p. 323.

fluctuating, with ups and downs in economic relations? His new North Korea policy enjoyed full support from both the outgoing Bush administration and the incoming Obama administration. It was Pyongyang that rejected Seoul's new approach. Critics of Lee's North Korean policy contend that "De-nuke, Open 3,000" was unrealistic from the beginning and that Pyongyang's rejection should not be a surprise. North Korea has never considered South Korea its counterpart in the nuclear weapons issue. Moreover, it did not consider 3,000 USD close to an adequate incentive when weighed against its regime security and the cost it had paid to advance the program.³²⁾ But a more fundamental reason for the rejection lay in North Korea's domestic politics—specifically, in the precarious power transition from Kim Jong-il to his son Kim Jong-un. Kim Jong-il suffered a stroke in 2008. From then on, the leadership succession became the most urgent issue inside Pyongyang. Kim Jong-il's third son, Kim Jong-un, rose to be the heir by fall 2010. But Kim Jong-un was too young and inexperienced. He did not have much apprenticeship time for running a country confronting many chronic economic problems, including energy shortage and starvation. The failure of currency reform in 2009 had aggravated economic hardship and people's complaints. Domestic political instability increases the incentive to promote domestic cohesion by inciting foreign crisis. This explains a series of militaristic provocations and the assertiveness of North Korea since 2009.³³⁾ The ups and downs of inter-Korean economic cooperation during Lee's five-year rule had less to do with Lee than with Kim Jong-un.

Another conservative politician, Park Geun-hye, came to power

32) Moon (2012), p. 120.

33) Dong Sun Lee, "Causes of North Korean Belligerence," *Australian Journal of International Affairs*, Vol. 66, No 2 (April 2012), pp. 107–108.

in 2013. Her North Korean policy was labelled as a “Korean Peninsula Trust-Building Process” and known as *trustpolitik*. A guiding principle of her North Korean policy is well described in her 2011 article in *Foreign Affairs*. Her policy started from a realistic analysis that hostility was lingering and trust was missing in the relations between Seoul and Pyongyang. Therefore, the starting point should be building trust between the two. North Korea must keep its agreements made with South Korea and the international community to establish trust, and there must be assured consequences for actions taken.³⁴⁾ North Korea’s military provocation must not be forgiven, but its steps toward genuine reconciliation would be matched.³⁵⁾ In short, her road map was that the South and the North should build up trust first by starting cooperation in small things; create an atmosphere for denuclearization; and then advance economic cooperation further with the resolution of nuclear issues.

However, North Korea greeted her proposal with a series of military provocations. Indeed, her first three years in office were full of escalation of tension by Pyongyang. First, on February 12, 2013, two weeks before her inauguration, North Korea conducted its third nuclear test. Second, in spring 2013, North Korea closed the Kaesong Industrial Complex for three months, refusing to send workers to the complex. Third, it launched multiple missile tests—not just short- and intermediate-range but long-range missiles.

Until 2015, President Park pursued engagement. Inter-Korean trade increased, and South Korea provided humanitarian aid through international organizations. What ended President Park’s engagement was North Korea’s fourth nuclear test in early 2016,

34) Park Geun-hye, “A New Kind of Korea: Building Trust between Seoul and Pyongyang,” *Foreign Affairs*, Vol. 90, No. 5 (September/October 2011), p. 14.

35) *Ibid.*, p. 16.

followed by the ICBM test. In response, President Park cut off all economic exchanges with North Korea. She declared a shutdown of the KIC and a halt to all types of humanitarian aid going to North Korea. What explains her decision?

Ms. Park's messages to South Koreans and my own interviews with both high- and mid-ranking officials in the Blue House and the government involved in the decision-making point to two reasons for her bold decision to close the KIC. First, President Park abandoned her hope for North Korea's voluntary denuclearization. Actually, the leadership in Seoul was optimistic about Pyongyang's exercising restraints in nuclear and missile tests through the second half of 2015. For the period, positive signs were looming: a series of high-level talks between the two were held, and there was a reunion of separated families. A high-level official recalled, "the leadership in the Blue House believed that the moment for easing tension had finally arrived."³⁶ However, it turned out to be a false conjecture. It became obvious that Pyongyang's determination to be a nuclear power was irreversible. The two tests were clear signs that North Korea had no intention of giving up nuclear weapons. The patience of the Park administration ran out.

Second, the security implications of the nuclear and missile tests in early 2016 were staggering. A nuclear North Korea with short-, mid-, and long-range missiles is a grave threat to the security of South Korea. Short-range missiles have already targeted the entire South. And North Korea's capability to strike American bases in the western Pacific or the American mainland with ICBMs carrying nuclear warheads may undermine the U.S. resolve and capability to take part in armed conflict between the two Koreas, a dreadful scenario that

36) Author's interview with a high-ranking official of the Park Geun-hye government, September 19, 2019.

puts South Korea's survival in jeopardy.³⁷⁾ Aware of these security implications, President Park described the nuclear test of January 2016 as "a grave threat not only to South Korea's security but also to its existence and future."³⁸⁾

Once North Korea's nuclear aspiration and its grave security implications were confirmed, President Park could not stay with the course of engagement. She needed to step up to call on a new kind of international response to North Korea's provocations. Within the Park government a consensus formed that Seoul should respond to Pyongyang's provocation with unwavering firmness, since the nuclear test fundamentally changed the security environment across Northeast Asia and the nature of North Korean nuclear capabilities. Earlier, China and Russia, skeptical about forming international sanctions that would tighten cash inflow to North Korea, had pointed to the KIC's continued operation.³⁹⁾ To silence the skepticism, Park had to close the KIC.

In President Park's State Affairs Address to the National Assembly on February 16 (equivalent to the State of the Union Address in the United States), she asserted that cutting off economic relations with the North was a desperate measure to block the flow of foreign currencies into the North in order to "prevent it from upgrading its nuclear and missile capabilities."⁴⁰⁾ Revenue generated from economic exchanges with the South, she said, had flowed to the leadership of the North Korean Workers' Party, which oversees nuclear and missile development, without any trickle-down effect

37) Il Park, Ji-young Park, and Kang Choi, *Pukhaekchindan-kwa Taeŭng*(Seoul, Korea: Asan Institute for Policy Studies, 2016), pp. 73-77.

38) Park Geun-hye, "President's Press Conference at Chōngwadae," January 13, 2016.

39) Author's interview with a senior diplomat of the Park Geun-hye government, December 18, 2019.

40) Park Geun-hye, "President's Address to the National Assembly," February 16, 2016.

improving the general well-being of the public. International actors were designing stronger sanctions to cut off North Korea's access to foreign credits in order to frustrate its weapons programs. South Korea would be the primary victim of North Korea's nuclear weapons and missiles. "As the party with the most at stake," Park argued, "it is only right for the South to use every means to make the North give up its nuclear ambitions."

Seoul paid a price for shutting down the KIC. The Park administration had to raise funds and help businesses embroiled in unexpected losses as a result of the closure. That is, Ms. Park's decision to close down the KIC in early spring was a delivery of costly signals to both Pyongyang and the world. To Pyongyang, President Park conveyed her anger and disappointment. To the world, she called for stronger action, showing Seoul's determination to incur any cost to stop nuclear threats from North Korea.

3. Sunrise Again? Moon Jae-in's Dream to Restore Economic Ties with the North

President Moon Jae-in, who came to office in May 2017, has portrayed himself as an heir of the sunshine policy. Multiple writings he published before he held power testify that the basic philosophy of his North Korean policy is squarely aligned with that of Kim Dae-jung and Roh Moo-hyun.⁴¹⁾ Throughout his campaign, he pledged to revive the sunshine policy. Since being elected, he has vowed to restore economic cooperation with the North.

Since early 2018, Kim Jong-un has answered Moon's call for détente and showed refreshed interest in resuming inter-Korean

41) See Moon Jae-in, *Moon Jae-inŭi Him, Sarami Mŏnjŏda*(Seoul, Korea: Purple Cow, 2012), p. 85.

economic relations. Kim and Moon have met four times so far, including three summits in 2018 alone. The ease of tension culminated in Mr. Moon's visit to Pyongyang in September 2018 and the joint declaration by Kim and Moon. In the declaration, they agreed to normalize the KIC and the Mount Kumgang tourism project.⁴²⁾ But, as of summer 2020, there was little sign of the reactivation—because now, the United States is reluctant to support it. The Trump administration has opposed economic interaction between Seoul and Pyongyang without meaningful steps forward toward denuclearization by North Korea. Trump has been adamant in keeping tight and strictly enforcing international sanctions designed to cut the flow of cash into North Korea. Secretary of State Mike Pompeo and Harry Harris, the U.S. Ambassador to South Korea, have repeatedly stressed in unison that sanctions against North Korea will be in place until Pyongyang makes significant progress in denuclearization and that the improvement in inter-Korean relations should keep pace with the denuclearization of North Korea.⁴³⁾ Given this context, the restoration of inter-Korean economic ties appears to be remote.

42) The National Committee on North Korea(NCNK), "Pyongyang Joint Declaration of September 2018," <https://www.ncnk.org/node/1633> (Accessed October 15, 2019).

43) *New York Times*, "Pompeo Hails Talks with North Korea but Says Sanctions Must Continue," September 27, 2018, <https://www.nytimes.com/2018/09/27/world/asia/mike-pompeo-north-korea.html> (Accessed December 28, 2019); Harry Harris, "Keynote Address: Lasting Peace?- Prospects for Peace on the Korean Peninsula and the State of the ROK-U.S. Alliance 65 Years after the Armistice Agreement," (The Asan Institute-Wilson Center Conference, Seoul, October 17, 2018) <http://en.asaninst.org/contents/lasting-peace-prospects-for-peace-on-the-korean-peninsula-and-the-state-of-the-rok-u-s-alliance-65-years-after-the-armistice-agreement-2/> (Accessed December 28, 2019).

V. Conclusion

This study challenges the conventional account that the fate of inter-Korean economic relations has depended solely on individual political leaders' ideology. Two liberal and two conservative presidents in Seoul all agreed that engagement with the North was necessary. The difference was not whether Seoul should pursue engagement but what Seoul should receive in return. Furthermore, the conventional account neglects two external factors: Pyongyang's receptiveness to Seoul's economic engagement overture and Washington's support for it.

For Kim Dae-jung and Roh Moo-hyun, inter-Korean economic cooperation was possible not simply because they believed in the importance of economic ties with the North. Pyongyang responded favorably to Seoul's engagement policy and Washington also supported it. In contrast, during the conservatives' rule, economic relations with the North fluctuated and eventually came to an end as Pyongyang rejected their proposals.

This study presents quite a somber prospect for the North Korean policy of the incumbent president, Mr. Moon Jae-in. Certainly, he is pursuing economic engagement with Pyongyang. After a series of summits with Kim Jong-un, he has portrayed himself as a mediator between North Korea and the world. He has called for easing sanctions on Pyongyang and emphasized the benefits of resuming economic relations between the two Koreas, starting from the reopening of the KIC and the Mount Kumgang tour. However, a formidable challenge lies ahead: the lack of U.S. support for easing international sanctions against North Korean weapon programs. Despite three historic summits with Kim Jong-un, President Trump consistently has asserted that the United States will continue to

implement sanctions against North Korea maximally and will encourage all countries around the world to do the same. Furthermore, in the name of a secondary boycott, Washington has been willing to apply punishments against individuals and business entities that have evaded sanctions against North Korea. Any attempt of Seoul to restart economic projects with Pyongyang without Washington's support may invite the secondary boycott and jeopardize South Korea's economy. This is a risk Mr. Moon is unlikely to take.

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[국문초록]

남북경제협력의 부침

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남북경제협력의 부침에 대한 지금까지의 주된 설명은 정치지도자들의 신념이었다. 진보대통령들은 남북경제협력이 북한 지도부의 외부 환경에 대한 왜곡된 인식을 바꾸고 북한 외교정책을 순화시킬 수 있다는 확고한 신념이 있었기에 북한의 도발에도 불구하고 꾸준히 경제관계를 유지하려한 반면, 보수 정권의 경우 남북경제협력의 필요성에 대해 안보적 관점의 이유로 회의적이었다는 것이다. 본 논문은 정치지도자의 신념이 중요한 변수이긴 하지만 남북경제협력의 부침을 설명하는 유일한 변수는 아니라고 지적한다. 1998년부터 2016년까지의 남북경제협력을 살펴보면 본 논문은 정치지도자의 신념뿐 아니라 북한이 남한으로부터의 경제협력제안에 긍정적으로 반응하였는지 그리고 미국이 남한의 대북경제협력에 대해 우호적이었는지 역시 매우 중요한 변수였다고 주장한다. 또한, 문재인 정부의 대북경제협력 복원 노력에 대해 비관적 전망을 내놓는다.

주제어: 한국, 북한, 미국, 포용정책, 경제협력

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