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Fine Line

South Korean Aid To North Increases Tensions With U.S.

Seoul, Fearing Collapse, Tries To Keep Neighbor Afloat; Nuclear Situation Heats Up

Pyongyang Cheerleaders Weep

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MA JEONG, South Korea -- Near the barbed-wire fences of the demilitarized zone that slices across this divided peninsula, a widening split between Washington and Seoul over how best to deal with North Korea's nuclear threat is on vivid display.

Trucks -- laden with tons of construction supplies and machinery from the South -- start lining up here early most mornings. They are bound for a giant industrial park under construction across the border, designed to help the North shore up its tottering economy.

One snowy day last month, a South Korean soldier in green camouflage waved the convoy through a military checkpoint. The trucks then snaked under an archway marked "Unification Gate," headed north.

The U.S., focused on preventing nuclear proliferation and disarming North Korea, is looking for ways to ratchet up the economic pressure on Pyongyang. But the South Korean government is busy working to help keep its former enemy in the North afloat with aid and economic-cooperation projects.

After a fratricidal war in the early 1950s, followed by decades of Cold War hostility, South Korea made a sharp turn in the late 1990s, moving to subsidize its erstwhile rival. Now, landmines have been pulled from two parts of the demilitarized zone to allow the reconnection of roads to move goods and even tourists to the North.

Behind Seoul's decision is a basic calculation: A collapse of North Korea, highly militarized and deeply impoverished after nearly 50 years of Stalinist rule, would be simply too expensive, in both economic and political terms. So officials here largely oppose steps that could destabilize Kim Jong Il's regime, which many U.S. policymakers would just as soon see disappear.

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Economic Gap

South Korea is helping to shore up the North's weaker economy:

"Some people seem to look for the North to collapse," said South Korea's president, Roh Moo Hyun, in an apparent reference to U.S. hard-liners during a pointed speech in Los Angeles late last year. But, he said, that "would cause an enormous disaster for the

	NORTH KOREA	SOUTH KOREA
Population	22,522,000	49,925,000
Total gross national income*	\$18.4 bil.	\$606.1 bil.
Per capita GNI	\$818	\$12,646
Exports	\$0.78 bil.	\$193.8 bil.
Imports	\$1.61 bil.	\$178.8 bil.
Power generated	19.6 bill. kwh	322.4 bill. kwh

*A South Korean central-bank measure similar to gross domestic product.
Note: 2003 is most recent year for which numbers are available.
Source: Bank of Korea, the South Korean central bank

people of the South."

The rift between Washington and Seoul has been in the spotlight in the wake of two developments last month. Pyongyang declared that it has nuclear weapons and is withdrawing "indefinitely" from multilateral disarmament talks. And the U.S. made a case to allies that North Korea shipped sensitive nuclear material to Libya several years ago.

After the announcement, Vice President Dick Cheney met South Korea's foreign minister, Ban Ki Moon, and asked him whether, given the North's actions, Seoul should reconsider moving forward with aid plans, say U.S. officials.

South Korean leaders later said it is too soon to know whether North Korea really has nuclear weapons, and that they see no

reason to scale back cooperation. Seoul's new ambassador to Washington suggested "carrots" or "a cube of sugar" be used to entice Pyongyang back to the bargaining table and persuade it to abandon its atomic ambitions.

For some American officials, convinced that Pyongyang will need to be pressured to come back to the six-nation talks, that stance is frustrating. Seoul "is providing a lifeline to the government in the North," says one senior Bush administration official. "As long as they see that lifeline, their incentive to deal on nuclear issues is way down." The talks, which involve China, Russia and Japan in addition to the U.S. and the two Koreas, have been stalled since June.

Experts in the U.S. and South Korea thought the collapse of North Korea was imminent in the mid-1990s, after the demise of the Soviet Union and the death of the country's founder, Kim Il Sung. But the regime proved surprisingly resilient, surviving even a massive famine.

Meanwhile, the situation in South Korea was changing. The economy was walloped by the late-'90s Asian financial crisis, and some officials had grown wary after studying the impact of unification on Germany. In 1998, then-President Kim Dae Jung embarked on a policy of reconciliation and cooperation with the North.

The policy found favor with the Clinton administration, but the Bush administration has been skeptical. U.S. and South Korean diplomats play down the differences. They say they are committed to resolving the nuclear standoff through negotiations. U.S. officials have said that they can accept the cooperation projects already under way. But in light of North Korea's continued intransigence, they oppose any significant expansion by South Korea before Pyongyang abandons its nuclear programs.

Seoul's devotion to engagement -- promoting joint projects and exchanges with the North -- limits Washington's maneuvering room. There are no practical military options. South Korea and China, North Korea's two main economic benefactors, fear a collapse there and are very reluctant to consider economic sanctions.

For Seoul, conflict or a sudden demise of the North poses too great a threat to its 50 million people and its economy, the world's 10th-largest. Government planners say that if order breaks down in the North, more than two million people could flood south, overwhelming social services. The fall could also prompt turmoil in financial and currency markets, inflation and bank runs, government analysts predict.

Initial crisis-management costs alone will be at least \$6.5 billion, according to South Korean government estimates. The longer-range costs of reunification would likely be much higher. Marcus Noland, a Korea expert at the Institute for International Economics in Washington -- who calls the North "the world's largest contingent liability" -- estimates a price tag of about \$600 billion in the first 10 years after a collapse.

But it's not only a question of money. A regime collapse in Pyongyang could touch off civil war in the North or lead to armed intervention by China. If North Korean hard-liners lash out in a last-gasp effort to survive, it could spark conflict between the North and the allied forces of the U.S. and South Korea. Even without war, it won't be easy for the South to absorb 22.5 million people from one of the world's most regimented, totalitarian societies, experts say.

"If people want to talk about regime change, they need to think about what will come after," says Chae Su Chan, a member of the National Assembly and a former economics professor at Rice University in Houston. "That's why there's a difference between those sitting in Washington and those of us sitting on the edge in South Korea."

The engagement policy has widespread support across the political spectrum in the South. A 2004 poll conducted for the Chicago Council on Foreign Relations found that 81% of South Koreans wanted to stick with the current level of engagement or increase it. Only 19% supported a harder line toward the North. The pollsters surveyed 1,000 South Korean adults. The poll had a margin of error of 3%.

South Koreans view the North as less of a threat now that contacts between the two countries have increased. More than 900,000 southerners have traveled to a tourist area on North Korea's east coast since late 1998. "North Koreans look so poor. It's like South Korea in the 1960s," says 56-year-old Paek Jae Hyun, the chief executive of a chemical company in the South, returning from a recent visit. "We have to help them a lot."

But the Northerners are also seen as alien. In 2003, a group of visiting North Korean cheerleaders caused a stir when they leapt from their bus to rescue pictures of Kim Jong Il getting soaked in the rain. They were teary eyed that images of the country's "great leader" should be subjected to such treatment. North Koreans are taught to revere likenesses of Mr. Kim and his father, and can be punished for disrespecting their pictures. The cheerleaders' devotion appeared so outlandish that it prompted one weekly magazine in Seoul to ask on its cover: "Are we really one people?"

Park Dae Hee has been traveling back and forth to the North several times a month, delivering supplies and supervising construction of a shoe factory at the industrial park being built on the outskirts of the North Korean city of Kaesong. Leaning out his truck window in the snow, Mr. Park says that at first he was scared to go. Now he sees the northerners more as rather prickly little brothers.

"They're proud. They don't want to feel inferior," says Mr. Park. "But it takes three North Koreans to do the work of one South Korean. They're not very efficient." That is one reason, Mr. Park says, that he doesn't think North and South Korea should be rejoined any time soon. "Unification would be very hard. There's such a huge economic gap between the two countries and big differences in political views."

The project Mr. Park is working on is South Korea's most ambitious effort to gradually narrow those disparities. The industrial park is being developed by the South's government-owned Korea Land Corp. and the private Hyundai Asan Corp. Construction began in earnest last year. Two factories are already operating, one of which makes cookware that is on sale in Seoul department stores. An additional 13 are soon to come on line in the pilot phase of the project.

Hyundai Asan originally acquired the land-use rights from North Korea in 2002. It sold some of the rights to Korea Land, which plans to sell more factory plots by June. The first phase of the development is expected to include 300 factories and employ 75,000 North Koreans. Later stages will add many more plants, a golf course and apartments. About 1,800 South Korean companies have applied for spots.

During the project's first nine years, it will inject \$9.6 billion into the North's economy, estimates Hong Soon Jick, an economist at the Hyundai Research Institute in Seoul. Coupled with international trade and aid, that could significantly ease the economic pressure on Kim Jong Il's regime. Mr. Noland of the Institute for International Economics figures that \$1 billion to \$2 billion a year is enough to keep the North on "survival rations."

The park also has invigorated a vocal business lobby pushing for reconciliation as well. Hyundai Asan says it is determined to see its investments in the project pay off. And small- and medium-size companies are eager to build factories there to get access to cheap North Korean labor to keep them competitive with rivals in China.

North Korea complains the South isn't moving fast enough on the project. But at the same time, Pyongyang is still fighting Seoul's influence. North Korean cadres hold nightly meetings with workers at the site, apparently to reinforce ideological teachings, according to a unification ministry official. The unification ministry is the South Korean government agency charged with managing the country's relations with the North.

South Korean officials say the project shows the strategic benefits of economic cooperation. Construction has forced the relocation of some North Korean military forces away from the border. The project also sits astride one of the main invasion routes troops would have to traverse to get to South Korea, a point Unification Minister Chung Dong Young made to Secretary of Defense Donald Rumsfeld during a meeting last August, people familiar with the meeting say.

In the eyes of South Korean policy makers, this is just the beginning. They see engagement as a way of opening the North to the outside world and encouraging it to follow the same reform path as China and Vietnam. This, Seoul hopes, will also lead, eventually, to a political transformation.

Critics of the South Korean approach however, argue that a single-minded focus on engagement blinds the government to the potential benefits of an abrupt end to the dictatorship in Pyongyang. Some experts argue that the costs of a collapse wouldn't be as high as South Korea fears. Private companies would shoulder much of the investment burden, and other countries and international lenders would also pitch in, they say.

The critics also say South Korea isn't doing enough to prepare itself in case Kim Jong Il's regime does fall. Their concern: The very openness and economic change that South Korea is trying to foster could weaken Mr. Kim's grip on power. South Korean officials say they see no signs of significant instability in the North, but they continue to update plans to cope with a sudden collapse.

Responding to recent reports of these contingency plans, the North Korean official press blasted Seoul last week, saying that the South has been waiting for an opportunity to take advantage of the North "with daggers hidden in their belts." The commentary in the party newspaper concluded: "To expect a 'sudden change' in the north is as foolish an act as trying to beat the air."

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