

South Korea's Reunification Dilemmas

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Inter-Korean relations can be thought of as one long bargaining session over the terms of reunification, in which the South's strategies depend on its perceived bargaining position and on its estimate of the stability of the Northern regime. After developing the analytical framework drawn from the bargaining logic, we analyze the shift in South Korean unification policies from confrontation to peaceful coexistence and the emergence of two competing visions for unification—confederation and absorption. We identify the logical and practical limitations of both confederal and absorptionist strategies and the intrinsic dilemmas that South Korea inevitably faces in pursuing political integration with the North. We conclude that the current South Korean government's unification policy is a move in the direction of an absorptionist strategy, reflecting the considerable barriers to reaching a confederation agreement with Pyongyang.

Key words: absorption, bargaining theory, confederation, inter-Korean relations, unification policy, Vision 3000

Introduction

Even prior to the recent uncertainty surrounding the North Korean regime after the December 2011 transition from Kim Jung Il to Kim Jong Un, inter-Korean relations have remained at an impasse in recent years. The 2008 killing of a South Korean tourist at Mt. Geumgang, the March 2010 sinking of the South Korean warship *Cheonan*, and the November 2010 exchange of artillery fire, marking the first time since the end of the Korean War that a North Korean attack targeted a civilian area, are part of a gradual accumulation of incidents that have underscored a lack of cooperation between the two Koreas.

In contrast, the current South Korean Administration started out its five-year term in early 2008 with a very ambitious North Korea policy aimed at an eventual unification of the two Koreas, called "Vision 3000: Denuclearization and Openness." Originally formulated as a campaign promise to address North Korea's nuclear ambitions, Vision 3000 proposed a grand bargain to Pyongyang: South Korea will help North Korea prepare for reunification by improving its per capita

income to \$3,000 within 10 years if the North first gives up its nuclear weapons program and opens its economy. The architects of Vision 3000 conceived it as a paradigm change in dealing with North Korea, involving a fundamental shift away from the engagement policies previous administrations had tried to use to steer the North on a path to economic openness and eventual reunification (see Kim, 2008; Nam, 2007; Suh, 2008; Yun, 2009).

Why has such an ambitious policy ended with the current impasse in inter-Korean relations? Although a potential reunification is often seen as an end point of the North/South standoff (e.g., Harrison, 2003, who refers in his title to an “endgame”), we argue that bargaining over reunification is *not* a series of negotiations leading up to the adoption, in principle, of a final, one-time agreement. Rather, bargaining between the Northern and Southern regimes is ongoing, and under at least some reunification scenarios will continue even after the adoption of a (hypothetical) agreement. We identify the implications of this broader view of bargaining and derive some key fundamental dilemmas in pursuing an effective strategy for unification.

Vision 3000 is only the most recent example of several different South Korean strategies. Our broader question concerns the factors that determine what strategy for reunification the South’s leaders bring to the table. Assuming that the South Korean regime is intrinsically motivated to reunify the Korean Peninsula, what strategies will it put into place to try to bring reunification about? When will the South pursue reunification by confederation as opposed to absorption? Under what conditions will it prepare an invasion? When will it seek to preserve the status quo, or avoid the question altogether by making unrealistic or insincere proposals?

This article proceeds in four more sections. In the next section, we lay out a bargaining logic of unification strategies. Using the theoretical framework, we analyze in the third and fourth sections why South Korean unification policies shifted from confrontational to peaceful ones and why two competing visions for unification—confederation and absorption—emerged. We continue in the fifth section by identifying the logical and practical limitations of both confederal and absorptionist strategies and the dilemmas that South Korea inevitably faces in pursuing a genuine process of political integration with the North. In the concluding section, we provide some policy implications.

Bargaining Over Unification

Consider two regimes contemplating merging their states into a single unified state. After unification, each country would no longer exist as an independent state; however, the political elites who govern each regime would still be alive (in all but the most extreme scenarios) and would continue to have preferences over how the newly unified state will be governed. They will think of unification not as an end of their existences—an event horizon beyond which they have no further interests—but rather as a significant change in circumstances. A unification agreement that ceded some authority to these elites within, for example, a confederation would still give them a position from which to bargain with their counterparts in the other regime. Since each side’s welfare after unification is at least partly determined by what kind of bargaining leverage it will have after

unification, we therefore focus on how regimes could be expected to think about how they bargain with each other both before and after unification.

From this premise, we derive two critical factors that we expect to influence the approach South Korean governments take on reunification. The first is the extent to which the South's leaders perceive their bargaining position with the North to be relatively strong or relatively weak, and the second is their expectation about the durability of the North's political regime.

By bargaining position, we simply mean the South's expectation about its ability to use threats or promises to induce the North to change its behavior as well as, conversely, the South's ability to resist the North's coercive attempts. In general, a state's bargaining power is most often defined as its outside option: How well could it do in the absence of an agreement with a particular partner? Just as an employee will be in a better bargaining position with an employer if the employee can get a competitive job offer from a rival firm, or if the employee can convincingly show that he or she is not desperate for a job and therefore will not accept a low offer, a state negotiating a security or economic agreement will be in a better position if it can show independence from its potential partner, either because it has other potential partners with whom it can make rival security and economic arrangements or because it is genuinely unmoved by the rewards and punishments its potential partner has to offer in the process of unification bargains.

This is a common way of thinking about bargaining, for example in work by Howard Raiffa (1982) that describes how bargains are shaped by each side's best alternative to a negotiated agreement.¹ A regime (e.g., the North Korean government) that would be relatively better off without cooperation from its counterpart (the Southern regime), meaning one that would be militarily secure and have access to large markets even without collaboration, has a better outside option. Regimes with better outside options are in a better position to demand a more favorable division of benefits, since without a special incentive to continue the process of integration they can more credibly threaten to stop cooperating. That is, they are in a better bargaining position. If a regime's outside option improves over time, it will be in a position to extract a better bargain from its partner. If, on the other hand, its outside options worsen, it will find itself getting a poorer division of benefits over the course of unification bargains. Put simply, bargaining power is a relational concept: Anything that enhances one regime's bargaining power diminishes the other's, and vice versa.

The exact way bargaining power matters for unification, however, depends on what form unification takes. Unification can happen through force, through absorption, or through confederation.

If unification happens through force, as when one side conquers the other, there is no need to bargain with the other regime since by definition the conquered regime does not have a say in the manner and timing of its elimination. Furthermore, because the losing regime ceases to exist after the conquest, leaving its former elites entirely at the mercy of the victorious regime, the balance of bargaining power after unification is a moot point. As a result, regimes contemplating conquest will be unconcerned with current or future bargaining power *per se*. Territorial divisions that have ended with conquest include, for example,

the restoration of unified control of Sri Lanka following the defeat of the Tamil Tigers in 2009 or the partial reunification of modern Germany in 1867.

Another path to unification is through absorption. Absorption is where one of the regimes dissolves, and the population and territory the old regime controlled pass to the control of the surviving regime. Absorption requires some initial negotiation, but past the point of unification there are no further ongoing negotiations since absorption eliminates the independent existence of one regime, leaving no one left with whom to bargain. Prior to unification, members of the ruling regime in the state that is to be absorbed have an interest in negotiating protections for themselves and their associates, but they will know that after unification they will not be able to enforce, themselves, any assurances they receive—the value of whatever commitments they secure will depend on the credibility of the other regime. The reunification of Germany in 1990 is an example of an absorption, in which a negotiated process led to the peaceful transition of authority to one of the two separated regimes.

Confederal approaches to unification require serious negotiations between two regimes, as they would leave basic elements of the two regimes intact after unification. Confederal agreements are generally asymmetric bargains offered by a relatively powerful state and then either accepted or rejected by a relatively weak partner. Typically, however, confederal agreements include protections for the weaker side, which otherwise might have something to fear from being placed in a subordinate position within a new state—even a federal one—and thereby cut off from external support from old allies. Therefore, a paradoxical nature of confederal approaches is that confederal agreements can diminish the powerful state's leverage in two ways. First, agreements might include some provisions about the division of resources, such as in the form of aid from the powerful to the weak state, which can be appropriated to sustain the fragile regime of the weak state. Second, confederal agreements, once made, may create constraints on the powerful state in that it will be difficult to break the deal even if better circumstances and opportunities become available to the powerful state.

For these reasons, regimes contemplating unification, especially the more powerful or stable regime, consider not only relative bargaining power but also the internal stability of the rival state's political regime. A regime with high internal stability is one that has effective control over its society and does not face a substantial risk of being deposed by an alternate regime or otherwise losing control due to civil conflict. In the absence of a unification agreement, a stable regime is one that is expected to persist. Because it anticipates a long future, it places a high value on its future prosperity and freedom of action. On the other hand, an unstable regime, with a shorter and therefore less valuable future, has less to lose.

Drawing on these insights from bargaining theory, Figure 1 encapsulates our argument. South Korea chooses a strategy for how to go about reunification, if at all, depending on the interaction of two factors: first, along the vertical dimension, the South's view of its own bargaining position with respect to the North, and, second, along the horizontal, the South's belief about the stability of the North Korean regime.

The South's understanding of its bargaining position is critical because it determines how favorable a reunification bargain it would be able to win if it

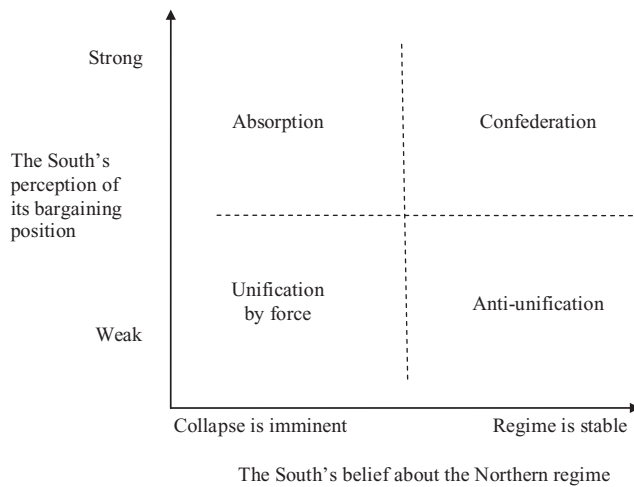


Figure 1. South Korea's unification strategies as a function of perceived bargaining position and belief about the Northern regime

were to pursue one. Southern perceptions of the Northern regime's staying power matter as well, since they influence the value of concessions made or received in the present.

Consider a situation in which the South sees itself as having a strong bargaining position but believes the Northern regime is fundamentally stable, corresponding to the cell in the upper right. Believing the Northern regime will persist anyway, the South's best option is to attempt to negotiate a power-sharing agreement in a confederation. Such an agreement, were the North to accept it, would give Northern elites at least some institutional prerogatives within the merged Korea. For the South, this represents a concession since the Southern regime would accept as legitimate some version of the North's rulers and would therefore lock in a set of policies and institutions that run counter to the South's democratic and liberal values. However, as a practical matter the value of the concession is limited since the North's rulers would be expected to have authority over the North anyway, even without an agreement. From the South's view, confederation would also yield the advantages of at least some degree of political unity while delaying, or at least spreading out, the economic costs of integration.

The situation is different in the upper-left cell, in which the South perceives its bargaining position to be superior to that of the North and in which the South believes the Northern regime to be on the brink of collapse. Because the Northern regime is not expected to last, a confederation that makes concessions to Northern elites and thereby preserves their rule is costly for the South, since in the absence of concessions it would have been rid of the Northern regime entirely. In this case, the South will prefer to pursue unification through absorption, directly incorporating the North's population and territory by using some combination of threats or payments to co-opt the North's leaders. The biggest drawback to absorption, the economic costs of incorporating the North into the Southern regime, is not a deterrent to absorption in this instance since the expected

impending collapse of the North means that the South will have to pay the costs of postcollapse transition anyway.

In contrast, if the South believes that its own bargaining position is weak at the moment but that the Northern regime is on the verge of collapse, shown in the lower-left cell, the South faces a dilemma: It will conclude that a crisis is inevitable and imminent, but that it is not in a strong enough position to pursue an absorption. The only way to pursue a unification policy in this case is by force, through military conquest. Any serious attempt to pursue reunification will therefore include preparations for an offensive war.

Finally, if the South's bargaining position is weak and it sees the North's regime as stable, it will have neither the motivation nor the capacity to mount any of the possible strategies for reunification. It will not be in a strong enough position to negotiate a bargain that meets the minimal objective of preserving the character of the Southern regime while exercising any sort of control over the North, and so neither an absorption of the North nor a minimally tolerable confederation agreement will be possible. The stability of the Northern regime creates no urgent need for a conquest, and in any case a conquest would uniquely create high costs of governing and incorporating the North's population and territory. The only remaining option is seeking to prolong the division of the peninsula. Although South Korean governments have never proposed anti-unification policies officially, as it runs counter to the constitution as well as the national aspiration for unification,² anti-unification can be instead pursued as a practical matter either by intentionally raising and sustaining tensions on the peninsula or simply by making implausible proposals that Southern leaders know the North will reject.

Note that the four possible outcomes we seek to explain are not descriptions of how attempts at reunification will end—for that, we need a comprehensive theory of the preferences and strategies of both sides, North and South, and a description of how their strategies interact to produce outcomes. Rather, our goal is to account for the South's unilateral policy toward the North: Given the Southern regime's underlying desire for unification, combined with an interest in preserving its own prerogatives in the South and expanding its influence northward if possible, when will it pursue confederation, absorption, conquest, or the status quo? In the following sections, we evaluate the evidence for our argument that bargaining power and perceptions of Northern stability are the key factors.

South Korean Unification Policies: From Confrontation to Peaceful Coexistence

The theoretical logic of inter-Korean bargaining suggests an interpretation of successive South Korean governments' unification policies since the division of the Korean Peninsula along the 38th parallel. Our view is that South Korean unification policies moved overall from confrontational to peaceful ones, largely reflecting the South's changing bargaining positions with respect to the North. When its bargaining position was perceived as clearly superior to the North, or when the external environments affecting its outside options were much more favorable, South Korea's unification policies have tended to be more engaging than when its bargaining position was weaker or when the external political

landscape was less certain. Southern elites perceived their bargaining position—their military and economic capabilities and outside options vis-à-vis the North—to be weaker than the North's when the South did not recover from the Korean War as fast as the North did. Until the early 1970s, the South's economy was less developed and its outside options were not favorable due to the changing international environment. In these cases, the logical options for the South were either pursuing unification by force or prolonging the division of the Korean Peninsula by intentionally raising military tensions or by making a unification proposal neither realistic nor acceptable to the North.

In the trajectory of South Korean unification policies, the seemingly toughest position was maintained by the first South Korean government led by President Syngman Rhee. He claimed the Republic of Korea to be the only lawful government on the peninsula and proposed that the North hold general elections and be merged with the South. As his proposal was never seriously considered by Pyongyang, Rhee advocated a march to the North for unification. His military approach, in combination with Kim Il Sung's misperception that the North could unify the peninsula by force in a few weeks, led to the Korean War, resulting in five million casualties and ten million Koreans being separated from their families from 1950 to 1953.³

After the Korean War, Rhee kept the aggressive unification policy. Note, however, that this was not because he believed the South was really capable of unification by force and the Northern regime would soon collapse. Instead, Rhee intended to repress political opponents and secure military aid from the United States by raising tensions on the Korean Peninsula. From the beginning, the main purpose of Rhee's march to the North policy was actually perpetuating the division of the peninsula and securing his power in the South (Park, Cho, Lee, Hong, & Kim, 2000, pp. 10–14; Seo, 1995). In this respect, Rhee's unification policy is closer to an anti-unification strategy than to unification by force in Figure 1.

The Southern regime's preference for continuing the division of the peninsula continued even after the collapse of the Syngman Rhee government. In the wake of the rigged elections in March 1960 that triggered the April 19 Student Uprising, the new Chang Myon Administration announced a revised unification policy in August, calling for free general elections in both North and South Korea under United Nations (UN) supervision as a critical step toward unification. In practical terms, it was not fundamentally different from Rhee's policy.

Chang's unification policy did not stem from any changes in the South's bargaining position. The South Korean economy remained less developed than the North's and did not recover from the Korean War as fast as the North's did. Chang's policy was, like Rhee's, motivated by intense domestic debates and became the pivotal issue during his administration. Of the many different unification ideas put forward by various political groups shortly after the student uprising (see Kim, 2000, pp. 36–42), the Chang Administration sided with a conservative plan that advocated postponing unification until the South could achieve economic development. Even within the South, Chang's policy was widely recognized as unrealistic—an implausible proposal the North would never accept (Park et al., 2000, pp. 15–19; Hong, 2002). Therefore, the Chang Myon administration's unification policy can also be classified as belonging to the anti-unification quadrant in Figure 1.

Since the Chang Myon Administration was overthrown by Park Chung Hee's military coup in May 1961, domestic debates on unification within the South halted. The military junta arrested about 2,500 unification movement activists and charged them with pro-North Korean activities (Hong, 2002, p. 1238). After seizing power, Park Chung Hee maintained a strong anticommunist posture to compensate for his lack of political legitimacy by appealing to conservative constituencies. In his statements during the 1960s, Park proclaimed that his administration aimed to recover the lost territory of the North and reunify the peninsula under liberal democracy (see Ji, 2001). But his policy was also based on the view that economic development should be a precondition for any unification process. Thus, Park's unification policy was never at the top of priorities throughout the 1960s.

From 1970, however, the Park Chung Hee government became more proactive in dealing with North Korea. On the 25th anniversary of Liberation Day in 1970, Park announced the "Declaration on the Means of Peaceful Unification." It was, for the first time, based on a government-level recognition that two independent political entities exist on the Korean Peninsula (Ministry of Unification, 1996, p. 38). More importantly, the Park Administration signed the July 4th Joint Communiqué with North Korea in 1972—the first inter-Korean agreement since the division of the peninsula. In it, the two Koreas agreed on three principles of unification: independence from foreign interference, peaceful means, and national unity transcending differences in ideology and system. Yet the Joint Communiqué did not serve as a foundation for inter-Korean reconciliation. Instead, it served as propaganda in the North to legitimize the claim that the South should let U.S. forces leave the peninsula according to the independence principle; in the South, it was actively utilized to perpetuate the power of Park Chung Hee, as the Yushin Constitution was introduced to allow Park to be a lifetime president just three months after signing the Joint Communiqué.

Nonetheless, it is questionable why the Park Chung Hee government became more proactive in inter-Korean relations in the 1970s. One obvious factor is the international détente between the United States and the Soviet Union. After the Nixon Doctrine in 1969, the Park Administration faced strong pressure from Washington to open a direct dialogue with Pyongyang and to seek joint admission to the UN (Kim, 1991, p. 30). Another explanation is that proposing an active unification policy was to compensate for the Yushin Constitution's lack of political legitimacy (Ji, 2001, p. 9). In instituting a highly autocratic system, Park Chung Hee sought to appease popular discontent with a peace initiative. In 1974, he declared "Three Principles for Peaceful Unification," which included, first, that North and South Korea should make a nonaggression pact, second, that the two Koreas should build mutual trust and confidence via inter-Korean dialogue and exchanges, and, third, that the two Koreas should hold free general elections to establish a unified government on the peninsula (Koh, 2000, p. 4). Yet Park's unification proposal was nothing more than a symbolic gesture. It was not followed by any substantive efforts to reduce tensions with the North. This pattern of proclaiming a rhetorical unification proposal continued during the Chun Doo Hwan regime that seized power through another military coup in 1979. Concerning popular legitimacy, the Chun Doo Hwan government proposed to the North a reunion of separated family

members and a summit meeting. This attempt to improve inter-Korean relations was followed by announcing a "Formula for National Reconciliation and Democratic Unification" in 1982. But it also lacked details for the specific process of achieving unification.

Our view is that the peace initiative in the 1970s and early 1980s was a rational response to changing external and internal environments. Since South Korea has had twice the population of the North from the beginning of the division, its economy has always been bigger than the North's in absolute size. In terms of per capita income, however, North Korea's economy had been more developed until the early 1970s. In 1960, North Korea's per capita income was \$137, while South Korea's per capita income was \$94. In 1970, the North's per capita income (\$286) was still slightly higher than the South's (\$248). The South's unification policies up until the early 1970s, which essentially called for general elections under UN supervision, were actually unrealistic and based on an awareness of the South's inferiority to the North in terms of economic achievements (Yu, 1988). However, by 1980, the South's per capita income (\$1,589) had become twice that of the North's (\$758). In terms of defense spending, the North had spent more than the South until the early 1970s, but by 1980 this pattern had reversed as well. In 1977, South Korea spent \$1.8 billion on defense, compared to \$1 billion by the North (Cha & Kang, 2005, pp. 48–50). As the developmental state literature has shown (e.g., Kohli, 1994; Woo-Cumings, 1999), the South Korean economy grew at an average rate of 7% a year during the Park Chung Hee Administration. Such high growth rates had been maintained during the Chun Doo Hwan regime as well in the 1980s and led to a rapid increase in economic and defense spending gaps between North and South Korea.⁴

Yet this fundamental transformation of the South's bargaining position against the North did not lead Park Chung Hee and Chun Doo Hwan to offer a credible unification deal to the North. The reasons are twofold. First, the authoritarian leaders utilized unification policies primarily for internal political purposes. The South's improved economic and military capabilities mattered less for formulating an effective unification strategy than for advocating its superiority of political and economic systems over the North's. Second, the South's outside option shrank in the 1970s when the Park regime faced strong pressure from the United States to open a dialogue with Pyongyang. Therefore, although it acknowledged the desirability of peaceful coexistence of the two Koreas, the peace initiative in the 1970s and 1980s was a proposal without much intention to pursue a genuine process of political integration with the North.⁵ Thus, it can also be placed in the lower-right quadrant in Figure 1.

South Korean Unification Policies: Confederation Versus Absorption

A breakthrough in inter-Korean relations was made after the 1987 presidential elections that marked the South's transition to democracy. Roh Tae Woo won the elections, and his administration led a major shift in unification policies from containment and confrontation to engagement and reconciliation. It was also a change from a rhetorical to a substantive unification policy. During the Roh Tae Woo government, the first major proposal, "Declaration for National Self-Esteem,

Unification, and Prosperity," was announced on July 7, 1988. This "July 7 Declaration" proposed to build a national community for unification and coprosperity. It was further specified by his "Unification Formula for the Korean National Community," which turned the South Korean government's unification policy in a new direction. It listed independent, peaceful, and democratic means as the guiding principles for unification. Most importantly, the formula called for a three-stage approach to unification: first, a confidence-building stage that would initiate and expand cooperation between the two Koreas; second, a confederation stage in which two separate states and governments would coexist under the name of one nation; and, third, the establishment of a fully unified government on the Korean Peninsula (Koh, 2000, p. 5).

This three-stage approach marked a turning point not only because it has been a model for the South's unification policies that came later, but also because it actually contributed to remarkable improvements in inter-Korean relations. North and South Korea joined the UN simultaneously in 1991, resolving a long-standing battle for diplomatic recognition, and the two Koreas signed a "Basic Agreement on Reconciliation, Nonaggression, and Exchanges and Cooperation" (hereafter, Basic Agreement) and a "Joint Declaration on the Denuclearization of the Korean Peninsula" in 1992. The Basic Agreement in particular has been the foundation for subsequent inter-Korean relations.

Why did the Roh Tae Woo government pursue such an engaged unification policy? Two factors stand out to account for the South's strengthening bargaining position, which imply, conversely, shrinking outside options for the North. First, the disintegration of the communist bloc in general, and German unification in particular, influenced the direction of unification policy in South Korea. Roh Tae Woo's overarching foreign policy was called *Nordpolitik*.⁶ While seeking to normalize relations with the Soviet Union and China, *Nordpolitik* was carefully implemented under several principles. One of them was to refrain from any actions that would isolate Pyongyang from the international community. Another principle was to pursue political and nonpolitical exchanges simultaneously. The most notable principle was to link *Nordpolitik* closely to the peaceful unification of the Korean Peninsula. That is, *Nordpolitik* was designed as a tool for pursuing the ultimate goal of unification by capitalizing on the breakdown of the Cold War structure (Kim, 1991; Yu, 1988).

Second, the South Korean economy had far outperformed the North Korean economy throughout the 1980s. The economic boom of the Seoul Olympic Games helped the South Korean economy grow at a nearly 10% annual rate from 1986 to 1991, while the North Korean economy had grown only at 4%, on average, during the same time period. By 1990, therefore, the South's economy had become 11 times bigger than the North's in absolute size, and its per capita income was more than five times higher than the North's (Kwon, 2008, p. 133). In terms of defense spending, South Korea spent about \$10 billion in 1990, as compared to only \$4 billion by North Korea (Cha & Kang, 2005, pp. 48–50). Moreover, the economic subsidy and military aid from the Soviet Union and China to North Korea decreased substantially as the Cold War came to a close. It is thus clear that the South's military and economic power became far superior to the North's by the time the Roh Tae Woo Administration formulated its unification policy. This strengthened bargaining position was clearly perceived by the architect of

Nordpolitik (Park, 2005, pp. 23–25).⁷ We can thus put Roh's unification policy in the upper-right quadrant in Figure 1.

However, the considerable progress on inter-Korean relations halted after the first North Korean nuclear crisis starting in 1993 and the sudden death of Kim Il Sung in 1994. During the 1992 presidential elections, Kim Young Sam pledged to follow Roh's unification policy and to promote the establishment of a North-South confederation, but inter-Korean relations had been turbulent during his five-year term. In 1994, the Clinton Administration threatened air strikes on the North Korean nuclear facility in Yongbyon but relented when, under former President Carter's mediation, the two sides agreed to a summit between the leaders of the two Koreas. The summit, scheduled for July 25–27, 1994, was called off when Kim Il Sung died two weeks before the meeting. The death of Kim Il Sung combined with an economic disaster and famine to create an extremely high degree of uncertainty on the Korean Peninsula, leading the Kim Young Sam Administration to wait and see whether the North would be able to sustain its regime without Kim Il Sung. Based on its expectation of the instability of the Northern regime, therefore, the South's unification policy during the Kim Young Sam Administration moved in the direction of the absorptionist strategy.⁸

Yet the North's deteriorated internal conditions did not result in an abrupt regime collapse. Leadership succession to Kim Jong Il was successfully completed by the end of the three-year mourning period in 1997, without any substantive political reforms. The dire economic situation eased, albeit only slightly, as food aid from the international community increased substantially from 1996 (Haggard & Noland, 2007, p. 128). North Korean GDP also began to grow positively from 1999 after it had shrunk by more than 25% from 1990 to 1998 (Kwon, 2008, p. 133). Accordingly, the Kim Dae Jung Administration formulated its North Korea policy based on the assessment that North Korea would be unlikely to collapse in the near future (Hong, 1999; Noland, 1997). His North Korea initiative was called the Sunshine Policy and intended to induce voluntary opening through unconditional economic engagement. In particular, to take into account North Korea's concern, Kim Dae Jung made it clear that the South would not pursue any scenario, or contingency plan, for unification by absorption (Moon, 2000, p. 6).

In this respect, the Kim Dae Jung Administration clearly moved the South's unification policy back to a confederal strategy. There are also three distinctive features in the Sunshine Policy, compared to previous unification policies. First, its main policy tool to promote reconciliation was establishing a variety of ties between the two Koreas through government and nongovernment projects and exchanges. As a result of pursuing such an engagement policy, inter-Korean personnel exchanges had increased 22 times during the Kim Dae Jung Administration.⁹ The Hyundai Group began the Mt. Geumgang tourism project in 1998 and by 2002 had generated a total of a half million tourists to the North Korean territory (Ministry of Unification, 2005, p. 69). The Mt. Geumgang project also laid a foundation for further projects, such as the reconnection of railroads and highways across the 38th parallel and the establishment of the Gaesung Industrial Complex in the North. Another important outcome was the first summit between the leaders of the two Koreas in June 2000. The historic summit produced the June 15 Joint Declaration, which includes five-point agreements on the overall direction of unification.¹⁰

Second, the Kim Dae Jung Administration pursued economic cooperation, regardless of the level of political tension on the peninsula. This separation of economics from politics was intended to protect the expanded economic ties from the volatility of inter-Korean politics, thereby making the reconciliation process irreversible. Two naval clashes that erupted in the western maritime border during the Kim Dae Jung Administration illustrate the robustness of the strategy of cooperation. The first, in June 1999, was the first armed clash between North and South Korean regular armies since the Korean War. The second incident occurred in June 2002 and caused six casualties to the South Korean navy.¹¹ These incidents heightened military tensions on the peninsula but did not affect the rapidly increasing inter-Korean trade and personnel exchanges.

Third, Kim Dae Jung's three-stage unification formula set the formation of a Korean confederation as the first step, a federation the second step, and a complete unification establishing a unitary state the final step. One particular difference between Kim Dae Jung's three-stage formula and Roh Tae Woo's National Community formula is how trust and confidence can be effectively built between the two Koreas.¹² While the National Community formula set the confidence-building stage as the first, separate, step to unification, Kim Dae Jung conceived confederation as a political entity effective for confidence building, rather than an outcome that can be realized only after achieving a sufficient level of trust. Put differently, the underlying objective of Kim Dae Jung's three-stage unification formula was to realize a de facto unification under a Korean confederation. This conceptual shift about confederation led to an acknowledgment in the 2000 summit that there are common elements in the South's proposal for a confederation and the North's proposal for a loose form of federation as a unification formula.¹³

The Sunshine Policy was expanded during the Roh Moo-hyun Administration. Despite heightened tensions since the second North Korean nuclear crisis starting from October 2002, Roh Moo-hyun's Peace and Prosperity Policy continued to promote economic cooperation and high-level talks. From 2003 to 2007, inter-Korean trade (\$5.7 billion) and personnel exchanges (392,100) increased approximately three times and 10 times, respectively, higher than during the previous administration. And more than 1.2 million South Korean tourists visited Mt. Geumgang during the Roh Moo-hyun Administration.¹⁴ His sustained efforts at reconciliation resulted in the second summit in Pyongyang in October 2007. At the second summit, the leaders of the two Koreas agreed on eight points that specify the ways in which both Koreas can carry out the June 15 Joint Declaration.¹⁵

However, these spectacularly improved inter-Korean relations proved easily reversible following a leadership turnover in the South. As a leading presidential candidate, Lee Myung-bak proposed Vision 3000 in a February 2007 press conference and reaffirmed it in his inaugural speech in 2008:

As already stipulated in my initiative for denuclearization and opening up North Korea to achieve US\$3,000 in per capita income, once North Korea abandons its nuclear program and chooses the path to openness, we can expect to see a new horizon in inter-Korean cooperation. Along with the international community, we will provide assistance so that we can raise the per capita income of North Korea to \$3,000 within 10 years. That, I believe, will both benefit our brethren in the North as well as be the way to advance unification. (*The Hankyoreh*, 2008)

The initiative was formulated by a group of scholars who shared the view that the Sunshine Policy failed to induce North Korea to embark on structural economic reforms despite a tremendous amount of economic aid.¹⁶ Behind this assessment, there was also strong suspicion that the South's economic aid had been appropriated by the North to develop its nuclear weapons. Thus, Vision 3000 rejects any kind of unconditional engagement policy and puts denuclearization at the top of its priorities. Proponents of the new strategy believed unconditional economic aid to be counterproductive for the resolution of the North Korean nuclear problems.¹⁷ Even in carrying out inter-Korean economic cooperation projects not directly related to the nuclear issue, Vision 3000 stipulates that North Korea should first become a credible partner by abandoning its nuclear ambition. That is, it sets denuclearization as a precondition for any development of inter-Korean relations and is intended to send a clear message that the new administration will no longer accept the North's "gives a little but takes a lot" strategy (Kim, 2008, p. 2).

As a result of this policy shift, while the total amount of inter-Korean trade had been growing at an annual average rate of 24.3% from 2003 to 2007, it stopped growing in 2008. Government-level dialogue took place only six times in 2008 in contrast to 55 times in 2007. Even humanitarian aid has decreased by 73.6% since Lee Myung-bak came to power.¹⁸ Growing tensions between the two Koreas contributed to the suspension of Mt. Geumgang tourism since the shooting of a South Korean tourist by a North Korean soldier in July 2008. In November 2008, North Korea announced a strict limit on overland passage between North and South Korea; since then, inter-Korean trade and personnel exchanges have further decreased. Moreover, the North conducted its second nuclear test in May 2009, leading to tougher UN Security Council sanctions (see Nikitin, Manyin, Chanlett-Avery, Nanto, & Nicksch, 2009). Since then, it has become more difficult to make a breakthrough in inter-Korean relations, let alone any progress on unification bargains.

South Korea's Dilemma in Unification Strategies

Since the division of the peninsula, South Korean unification policies have evolved from confrontational to peaceful ones. In particular, two competing ideas of unification, confederation and absorption, emerged together and have coexisted since the South began to perceive its bargaining power to be clearly superior to the North's. Figure 2 shows how successive South Korean governments' unification policies can be classified in our analytical framework.

In understanding the four types of strategies we have laid out and their correspondence to the actual unification policies that South Korean governments have pursued, it should be noted that the South faces intrinsic dilemmas in making a strategically effective unification policy. The first dilemma is that inter-Korean negotiations based on the present bargaining position affect the future bargaining position of each side. Indeed, many of the unification policies South Korean administrations have proposed do not envision the completion of a bargain with the North as a one-time event that would end the need for continued inter-Korean negotiations. The July 7 Declaration, the Formula for the Korean National Community, and the Sunshine Policy all see unification as a process, in

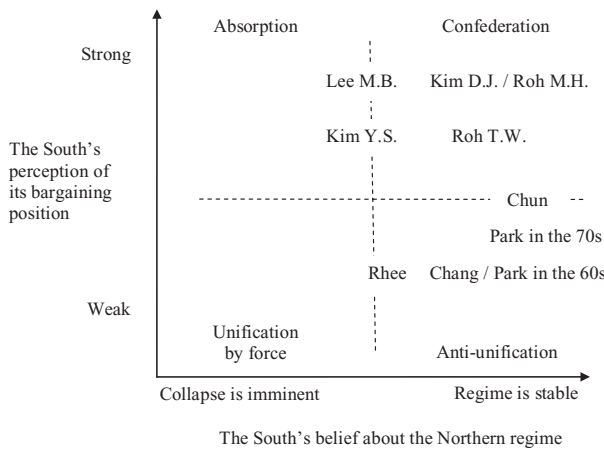


Figure 2. South Korea's unification policies

which an early set of agreements lay the groundwork for further negotiations to come. Since leaders of both Koreas understand that the shape of later negotiations will depend partly on the bargaining power each side has at that stage, each side has an interest in using the early rounds of negotiations to enhance its future bargaining position. This is also why Southern proposals have often included some demands that would weaken the Northern regime internally, reduce its ability to rely on other communist states or China, and renounce some of its military assets, just as the North has called for an end to the U.S.-South Korea alliance as a precondition for unification bargains. Our conception of inter-Korean relations as a forum of ongoing bargaining effectively captures this dilemma the South faces in its attempts to induce the North to join a negotiated path toward unification.

Second, both confederal and absorptionist strategies entail practical limitations. Given that the critical difference between the two competing strategies is the underlying assumption of whether or not North Korea would be able to maintain its regime and remain as a bargaining partner in future rounds of negotiations, a confederal approach is preferable when the South believes that the Northern regime is not going to collapse in the near future. However, a confederal deal would be likely to diminish the South's leverage in future rounds of unification bargains, as the North would almost certainly demand some level of economic investment as the price of integration, and an agreement with the North that includes economic aid for the North's industrial development might have the effect of staving off a regime collapse.

Although North Korea's collapse would impose an enormous one-time cost on the South, it would have the virtue, from the South's perspective, of eliminating a partner whose preferences must be taken into account in a gradual process of unification. In addition, a confederal agreement on economic and political integration would tie the hands of future South Korean administrations, not only making it more difficult to walk away from the bargaining table but also giving the North a new source of institutional leverage. Any negotiated unification

agreement with Pyongyang will also have to include provisions for the continued authority of the remnants of the North's ruling elites. These concessions are unlikely to be politically sustainable in the South given the normative importance of democratic constitutionalism there, and they may not be credible in any case given the unlikelihood that future Korean polities would vote to uphold them.

Therefore, if South Korean leaders believe the North is on the verge of collapse, they will be less inclined to make a substantial concession that can prolong the Northern regime. A more appealing strategy, from the South's vantage point, would be to facilitate the collapse of North Korea and prepare for its absorption into the South Korean political system. Unsurprisingly, then, support in the South for policy proposals calling for the hastening of North Korea's collapse has been highest following events that implied the vulnerability of the Northern regime: first, when the Cold War came to a close and the two Germanys were reunified; second, after the death of Kim Il Sung and during the North's great famine in the 1990s; and, third, when Kim Jong Il disappeared from public events following his failing health in 2008 (Bolton & Eberstadt, 2008; Eberstadt, 1990, 1997, 1999; House, 1991, 1997).

However, the absorptionist strategy inevitably requires an unpredictable level of economic and security costs. First, it will generate a high level of military tension along the 38th parallel because if the South openly pursues unification by absorption, it would be rational for the North to launch a military attack before it gets too weak to prevent absorption. Second, South Korean elites learned from the German experience how high unification costs would be. Concerning economic costs, two important issues are whether the South Korean economy is robust enough to absorb the North after a sudden collapse, as West Germany did,¹⁹ and whether South Korean people are willing to take on such burdens. Depending on the definition of what constitutes unification costs, the economic costs of Korean unification are estimated between \$400 billion and \$3.6 trillion (Wolf, 2006, p. 686). The highest estimate is about three times South Korea's current GDP. Moreover, a much higher unification cost is expected in the Korean case than in the German case given the larger economic gap between the two Koreas; whereas East Germany's GDP was about 10% of West Germany's in 1989, North Korea's GDP is currently estimated to be only less than 3% of the South's.²⁰ More importantly, as the two Koreas have become very heterogeneous in many other respects as well, one in four people in South Korea no longer supports actively pursuing unification (Chung, 2010). For these reasons, an absorptionist strategy was never openly acknowledged in South Korea, even though the stated approach implies an absorptionist premise.

Vision 3000 is a further move in the direction of the absorptionist strategy. The primary reason is that, in addition to the widening economic gap between the two Koreas, the architects of Vision 3000 seem to believe that the North Korean regime is not stable enough to sustain in the long run. They emphasize that given the collapse of communism around the world, the North's transformation into an open political economic system is historically inevitable (Suh, 2008). President Lee has also mentioned repeatedly that unification would come overnight and the South should be prepared for the sudden event (Kim, 2011). But the Lee Myung-bak Administration could not pursue unification by absorption openly because of the practical limitations discussed above. Instead, it set a

high precondition, denuclearization, for inter-Korean talks aimed at a confederal path toward unification. This precondition is not likely to be satisfied because the North's nuclear program is the only tool for increasing its bargaining leverage.²¹ There is also no specific plan, aside from the long-run promises of economic aid, regarding how the South will induce the North to give up its nuclear ambition.²² Therefore, denuclearization has actually served as a critical barrier to making any meaningful progress on inter-Korean negotiations. The Lee Myung-bak Administration seems willing to wait until Pyongyang spontaneously abandons its nuclear ambition or until a regime crisis occurs unexpectedly in the North.²³ These are the underlying reasons for the current impasse in inter-Korean relations, precisely reflecting the dilemma the South has faced in pursuing an effective unification strategy. Since both confederal and absorptionist strategies entail inherent and practical difficulties in pursuing a genuine process of political integration, the outcome of unification policies has always been the maintenance of the status quo with only subtle differences, such as whether it was intended or unintended.

Conclusion

Since the South Korean political and economic system proved to be far more effective than the North's, its unification strategies shifted from confrontation to peaceful coexistence, and the two competing ideas—confederation and absorption—have attracted Southern elites with the respective strengths in their visions for unification. Our article has attempted to provide the logical foundation of the two strategies.²⁴ The theoretical framework employed in this article suggests that South Korea's strategic calculations about what it has to gain or lose by making a confederal deal with the current regime in the North depend on its expectations about what the North's future position will be, absent a deal. Two critical factors in accounting for the South's expectation concerning the North's future position are its perceived bargaining position and its estimate of the stability of the Northern regime, with the latter playing a pivotal role in policy shifts of successive South Korean administrations since the collapse of the communist bloc.

This analytical framework led us to identify the fundamental dilemmas in South Korea's unification strategies. First of all, as inter-Korean relations are ongoing bargaining, not a one-shot deal, any agreement for unification will affect the future bargaining positions of both Koreas. It is thus intrinsically difficult to embark on a genuine process of integrating the two different political systems. Second, both confederal and absorptionist strategies have logical and practical limitations. The architects of Vision 3000 might be well aware of these dilemmas and sought for a paradigm shift in dealing with Pyongyang. But the shift to Vision 3000 can also be explained well with reference to changes in estimating the durability of the Northern regime. Therefore, Vision 3000 is neither a radical departure nor a paradigm shift, compared to previous unification policies. It reflects, rather than solves, South Korea's dilemmas in pursuing an effective unification strategy.

The pattern of shifting South Korean approaches to unification also suggests a further conclusion: To the extent that the South is constantly calibrating its

approach to the North as the bargaining environment between the two sides changes and the leadership turnover occurs every five years, it is unlikely that changes in South Korea's unification policy will, by themselves, do much to change the underlying likelihood of a comprehensive political settlement with the North. Changes in the South's position in a more conciliatory direction, as the Northern regime's stability improves, are likely to be accompanied by a hardening of North Korea's demands, for the same reason, and vice versa. If policy changes follow from the environment, rather than a mutual compromise between the two parties, then "progress" on Korean unification is quite implausible. After all, none of the South Korean policies in recent decades have addressed these fundamental unification dilemmas. The South has faced and will continue to face the dilemmas in envisioning unification with the North. Therefore, a critical step toward a genuine process of unification would be establishing a democratic consensus first among South Korean people, which will not be affected by future leadership turnover, with regard to the extent to which the South can bear the costs of upholding inter-Korean bargains for unification.²⁵ Otherwise, making a credible unification deal with the North is simply illusory.

Notes

¹See also Gehlbach (2006) and Hirschman (1970).

²Article 4 of the constitution reads, "The Republic of Korea shall seek unification and shall formulate and carry out a policy of peaceful unification based on the principles of freedom and democracy" (<http://english.ccourt.go.kr/home/english/welcome/republic.jsp>).

³See Cumings (2005, chapter 5).

⁴The North Korean economy had grown only at 1.8%, on average, from 1972 to 1979 (calculated from Fearon & Laitin's 2003 gross domestic product [GDP] per capita data).

⁵See Park et al. (2000, pp. 19–32).

⁶The idea of Nordpolitik first appeared in 1983 during the Chun Doo Hwan regime but had a limited aim at the time: preventing another Korean War by normalizing relations with the Soviet Union and China. But as it was also intended to isolate Pyongyang diplomatically, it generated suspicion in the North (Kim, 1991, pp. 37–38).

⁷Park Chul-un also mentioned that he believed a sudden collapse of the Northern regime would not be desirable when he formulated the Roh administration's unification policy (personal communication, June 14, 2010).

⁸For the Kim Young Sam administration's expectation that the Northern regime would collapse anytime soon, see Harrison (2003, pp. 96–99) and Kim (2006, pp. 302–307).

⁹For example, the number of visitors who traveled across the 38th parallel was 39,593 from 1998 to 2002, compared to 1,733 from 1993 to 1997 (Ministry of Unification, 2005, p. 50).

¹⁰For the full text of the June 15 Joint Declaration, see Ministry of Unification (2005, pp. 143–144).

¹¹North Korean casualties in the two naval clashes were approximately 60 (Park, 2002).

¹²Kim Dae Jung did not officially replace the "National Community" formula with his three-stage formula because the second step, federation, is politically controversial in the South, as it sounds similar to North Korea's "Koryo Ryunbangje" proposal (*ryunbang* in Korean means "federation" in English).

¹³This was the most hotly debated issue among South Korean intellectuals and policy makers after the summit.

¹⁴It is calculated from the inter-Korean relations data on the South Korean Ministry of Unification Web page (<http://www.unikorea.go.kr/http://www.unikorea.go.kr/>).

¹⁵For the full text of the agreement, see http://www.koreaherald.co.kr/archives/result_contents.asp.

¹⁶See Kim (2008), Nam (2007), Suh (2008), and Yun (2009).

¹⁷See Kahler and Kastner (2006) and Woo (2003) for an analysis of the limitations of Seoul's unconditional economic engagement policy toward Pyongyang.

¹⁸It is calculated from the inter-Korean relations data (<http://www.unikorea.go.kr/http://www.unikorea.go.kr/>).

¹⁹West Germany's GDP was 7.5 times higher than South Korea's when the two Germanys were reunified. This is one of the reasons why South Korean elites thought the South was not ready to absorb the North in the early 1990s (Cho, 1992).

²⁰It is calculated from the CIA World Factbook 2010 data (<https://www.cia.gov/library/publications/the-world-factbook/>).

²¹The architects of Vision 3000 are well aware of the potential that the North's nuclear weapons would affect the structure of inter-Korean bargains significantly. However implausible it is, therefore, they consider the precondition to be essential ("Interview With In-Taek Hyun," 2010; Sung-han Kim, personal communication, July 7, 2010).

²²In terms of practicality, it is also highly questionable whether the North Korean economy can really grow at 15 to 20% per year for 10 consecutive years to achieve \$3,000 per capita income, even if the South poured its resources into the North as Vision 3000 promises.

²³The agreement reached between the United States and North Korea on February 29, 2012, appears to intend to lay the groundwork for the denuclearization of the North led by the new leader, Kim Jong Un. But it was limited in scope, and in any case, South Korea was not a party to the agreement (Nuland, 2012).

²⁴Our analytical framework is applicable to the North's unification policy as well, which has proposed a federation of the two Koreas since the 1970s. This call for the establishment of a Korean federation is implausible and not acceptable to the South for many reasons. Therefore, it is essentially an anti-unification strategy, in our view, that intends to prolong the division of the peninsula, while reflecting the North's weakening bargaining position since the 1970s. Yet a more specific analysis requires a more systematic application of our theoretical framework to the evolution of the North's unification policies, which is beyond the scope of this article.

²⁵See Lee (2011) for the problems in inter-Korean relations resulting from the lack of democratic consensus, or even frequent clashes between overly politicized partisan perspectives, in the South regarding how to deal with the North for eventual unification.

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