

**COERCION VERSUS ENGAGEMENT:
THE CHEONAN INCIDENT AND
ITS AFTERMATH**

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EAI Background Brief No. 565

Date of Publication: 1 October 2010

Executive Summary

1. The sinking of a Republic of Korea (ROK: South Korea) corvette in the Yellow Sea on March 26, 2010 (hereafter the “Cheonan incident” in following the name of the sunken ship) brought about unprecedented tension in inter-Korean relations.
2. The Cheonan incident, for which a North Korean submarine’s torpedo attack was blamed, became the impetus of ROK and US’ strengthening of the *coercive policy* toward the North through military (ROK-US joint military exercises) and economic (the ROK’s 5.24 measure on inter-Korean economic cooperation and US’ financial sanctions on North Korea) means.
3. The coercive policy, particularly the ROK’s 5.24 measure, is a *double-edged sword*. The sanction has not only produced intolerable costs to the North but also troubled and sacrificed South Korean companies having business with the North.
4. For instance, in the event of a shutdown of the inter-Korean joint project, the Kaesong industrial complex, the annual loss for the North will reach \$49 million in annual wage. The loss to the South is even greater. The DPRK’s seizure or the ROK’s complete withdrawal will translate into a loss of \$1.2 billion of investment in factory facilities and \$2.3 billion yearly in sales.
5. Political fallouts in South Korea, caused by the detaining of Korean residents in Kaesong in the event of its abrupt closure, will be more troubling than the financial loss. It seems that the ROK government has little choice but to allow the Kaesong industrial complex to continue.
6. The Cheonan incident and the ensuing ROK-US coercive policy have defused the significance of the denuclearization issue. The ROK government has set the North Korean admission of, if not apology for, the Cheonan attack as a

precondition for the resumption of the Six-Party Talks. On this, there has been a sharp divide between US-ROK-Japan alignment and China-DPRK-Russia position.

7. It seems unlikely that the ROK and the US will return to engagement with the North soon. And North Korea will continue to find its sanctuary in the Chinese embrace at this important juncture of preparing for the father-to-son power transition. The remaining period of Kim Jong Il's stay in power is perhaps the right time for the denuclearization negotiation.