

The Prematurity of Inter-Korean Economic Cooperation

김일혁

Kim Il-Hyeok

한국외국어대학교

Hankuk University of Foreign Studies

한국외국어대학교 '통일리더십' 동아리

HUFS 'Reunification Leadership' Club

0. Introduction

Recently, unlike the past, inter-Korean relations are becoming more amicable. With the inter-Korean Summit on April 27th as a starting point, South Korea has been focused on moving towards the connection of railways and roads as well as inter-Korean economic cooperation. Additionally, it has become the United States' main agenda to use the denuclearization of North Korea as a basis to recognize the North Korean regime and allow it to function as a normal state. However, upon looking at the

history of North Korea's diplomacy and the current inter-Korean relations as well as the relations between the US and North Korea, the key question lies with whether North Korea will denuclearize. While Chairman Kim Jong-un promised to denuclearize during the talks with President Trump, there have been no implementations. In fact, all Chairman Kim has managed to do is strike a nerve. With all this in consideration, the following will explore whether economic cooperation between the two Koreas is possible and what should be prioritized

before inter-Korean economic cooperation in the instance that the crucial point of the US-DPRK Summit, denuclearization, is not implemented.

1. Understanding North and South Korea

While North Korea was established as a socialist economic system and experienced many difficulties since the 1990's; it has also, in the midst of the economic sanctions enforced by the international community, been able to overcome its food crisis and somewhat normalize industrial productions.

Expanding trade and economic cooperation with China has been a major advantage. While the number of private merchants has increased due to the flourishing of consumer goods in North Korea, additionally, cooperative ownership of production and sales has been made possible and the so-called '*donju*'s play a crucial financial role in society. Of course, it is difficult to say that this is phenomenon is conventional and more empirical

verification is needed. The social economy is still not yet conventional in either the market economy or the socialist economy.

2. The History of Inter-Korean Trade and Economic Cooperation

The economic relationship between North and South Korea has a short history of approximately 25 years, beginning around 1990 and ending with the closing of the Kaeseong Industrial Complex in early 2016. The institutional enactment of economic cooperation between the two Koreas began with the 'Law Governing the North-South Exchange and Cooperation' which was passed in August 1990 by the South Korean government that allowed civilians to partake in inter-Korean trade. At the time, the Roh Tae-woo administration was pro-active in improving South Korea's relations with the North and alongside its policies also held high-level inter-Korean talks. Consequently, in December 1991, the 'Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation between South

and North Korea' was enacted. Following this, in regards to the inter-Korean economic relations, the term 'commerce' was used instead of 'trade' - the term which is usually used for relations with other foreign countries. The Ministry of Unification then included all resources needed for the trading of goods, consigned processing, humanitarian aid, economic cooperation projects between South and North Korea as 'commerce.'

Among the economic cooperation projects are the Kaesong Industrial Complex project, the Mt. Geumgang tourism project, the Light Industry Project (mineral and light industry raw material exchange in 1997-98), and investment projects in other areas. Other investment projects include more than \$70 million of investments in over 50 companies in the areas of sewing, automobile assembly, marine transportation, fish processing, electronics, communication, software development, advertising and tourism in Pyongyang and Nampo. Inter-Korean trade, which reached the level of

\$ 1.8 billion during the Roh Moo-hyun administration, was eventually banned by the Lee Myung-bak administration in 2010 through the 'May 24' sanctions which prevented consigned processing, trade and investment projects. Despite, this the Kaesong Industrial Complex continued to develop and reached \$2.7 billion by 2015.

As such, aside from humanitarian aid, the economic relations between South and North Korea that took place during the socialist economic rebalancing of North Korea after 1990 can be largely categorized by the imports of North Korean goods by South Korean companies (agricultural, marine, minerals, steel, etc.), consignment processing (textile, metals, steel etc.) and investment in North Korea; as well as railway and road connection projects carried out separately by the government.

The import of North Korean goods and commissioned processing became a business profit model for South and North Korea as a form of benefitting from mutual needs. It can also be said that North Korea

received a lot of support in its economic recovery from South Korea's investments through the acquisition of foreign currencies and acquiring of skills. For example, through the Mt. Geumgang tourism project, about 1.93 million people visited Mt. Geumgang until it ended in July 2008. By the end of 2007, about 30.57 billion won (\$ 300 million) had been invested in Mt. Geumgang. With the Ministry of Culture and Tourism investing in the construction of separated family reunion facilities, while the Korea Tourism Organization built hot springs and cultural facilities and Hyundai Asan invested in the construction of docks, roads, service areas, restaurants and hotels. Additionally through ten years of tourism, a total of about \$1 billion in cash was sent to North Korea, including a total of \$450 million (remitted in June 2000) of which \$490 million was from tourists and \$70 million was through the viewing of the art troupes and use of facilities.

This amount was also regarded as a meaningful acquisition of foreign currency

by North Korea. It is impossible to identify whether this money was spent on nuclear development or used for economic recovery. However, the Bank of Korea estimates that North Korea's economic growth rate shifted from negative growth in the 1990s to positive growth after 2000, and that the economy is indeed recovering.

3. Inter-Korean Cooperation as seen through the Economic Cooperation between East and West Germany

At the Potsdam conference in July 1945, the Allied government agreed to treat Germany as a single unit of economic activity which allowed the continued economic relationships between East and West Germany.

At that time, East German goods were exempted from the EU Customs Act, and received VAT exemption and tax breaks from the Foreign Trade Act. GATT and EC recognized East German products as German goods and were able to sell them

without any tariffs in the Western European market. This internal economic cooperation enabled price competitiveness of East German products, thus contributing to the strengthening of the structure East Germany's economy. Despite the problem that internal trade helped to stabilize the Communist regime in East Germany, it contributed greatly to the alleviation of human suffering and the maintenance of national homogeneity in accordance with the partition policy of West Germany. Eventually, the internal economic cooperation became the basis of German unification.

West Germany's support for the East Germany that accompanied by economic cooperation was seen through the expansion of human exchanges, the easing of procedures at the border, human rights issues related to the prohibition of firing at escapees by border guards, and strengthening cooperation in the fields of environment, culture and education. Such support contributed to the economic

dependence of East Germany on West Germany within its systematic relations.

In 1984, following the provision of a loan, there are 11 main settlement measures that were taken by East Germany: the easing of the conditions for East German citizens to visit West Germany and the increase of the duration of stay in West Germany from 30 days to 60 days. West Germany also increased the visitation period to East Germany from 30 days to 45 days and lowered the amount of West German marks, which one person had to convert to East German marks, from 25 to 15 marks. Furthermore, in the case that East Germany requested economic support, a condition was instilled that the East German government had to make it known that the support had come from West Germany.

In terms of legal and institutional aspects related to unification, inter-Korean economic cooperation lacked detail and was incomplete. As a result, South Korea is still at a high risk of receiving political and military provocations and threats from

North Korea. Nor was it able to preserve its losses. In Germany, due to the agreement between the East and the West, the German Basic Law was enacted to promote economic cooperation and human exchange. However, the two Koreas did not provide legal consultation or consultation on human exchange or economic cooperation between the governments.

4. Conclusion: The Reason for the Prematurity of inter-Korean Economic Cooperation

At present, there are many optimistic views that the economic cooperation can be resumed and the Kaesong Industrial Complex or Mt. Geumgang tourism project can start again. However, there are still some issues that should be reviewed beforehand. First, is the question of 'How much of the economic sanctions should be lifted before economic cooperation can begin?' There are many people who think that economic sanctions will be phased out

in line with the progress of the denuclearization process, and that as a result, economic cooperation projects will soon be partially resumed. However, the sanctions adopted by the UN Security Council in 2016 and 2017 are all powerful and effective measures, and it is not enough that they are partially lifted. In order to have meaningful inter-Korean economic cooperation, all sanctions, including the financial ones must be lifted. If so, it is important to know the time in which the sanctions can be lifted in order to revive inter-Korean economic cooperation, and a similar case can be seen in the process of nuclear negotiations with Iran. Iran's nuclear negotiations began in March 2013 and ended well over two years later in July 2015. An important point is that during negotiations, the sanctions against Iran were not lifted during negotiations and even at the end of the negotiations. The dismantling of sanctions only took place only after Iran had actually implemented the measures defined in the final agreement,

and after the IAEA verified it, and after the report that the denuclearization measures were well implemented was released. Since Iran's nuclear program was relatively simple, it was not so difficult to lift the sanctions after the denuclearization and verification. However, since the North Korean nuclear program is much more extensive, if the same process is carried out it will take a much longer time until the sanctions are lifted. Experts differ in their

opinions, but it is expected to be a minimum of, 3 to 4 years, and can even be up to 10 to 20 years. Naturally, this approach will not be accepted by North Korea and the US will not accept this to be a realistic solution. In conclusion, the revival of economic cooperation between the two Koreas will not be too late if exchanges begin when the complete denuclearization of North Korea is achieved.

5. References

[재정칼럼] 남북경제협력 증장기 단계별 추진과제_8월호|작성자 [한국재정정보원](#)

[MTN] [더 리더] 송영길 동북아평화협력특별위원장 "남북경제 협력과 신북방 정책 실현...韓블루오션 열리게 될 것"|작성자 [국회의원 송영길](#)

<https://news.naver.com/main/read.nhn?mode=LSD&mid=sec&oid=001&aid=0010443002&sid1=001> 한국당, 단기일자리 8조원·남북경협 6천400억원 대폭 삭감 예고

<https://m.terms.naver.com/entry.nhn?cid=62006&docId=2808913&categoryId=62006> 남북 간 평화체제의 시발점, 개성공단

http://library.krihs.re.kr//dl_image/IMG/06/000000025831/SERVICE/000000025831_01.PDF 한반도 신경제지도 구상을 위한 기초연구

<https://www.voakorea.com/a/4500366.html> 미 전문가들 "한국의 대북제재 예외 요청, 시기상조... 남북 경협 일러"

<http://www.news1.kr/articles/?3357596> KDI "남북경협 시기상조...남북 공동기구 만들어 준비해야"

<http://m.bluetoday.net/news/articleView.html?idxno=18768> 美 전문가들 "한국의 대북제재 예외 요청, 시기상조

<https://blog.naver.com/gounikorea/221324692398> 통일부 대학생 기자단, 유니콘이 간다! [북한경제의 특징과 남북경제협력 전망 편]작성자대한민국 통일부

<https://www.msn.com/ko-kr/money/topstories/kdi-남북경협-시기상조...남북-공동기구-만들어-준비해야/ar-AAzgxXz>

<https://www.youtube.com/watch?v=YtdecSxRlBk&feature=share> 美CSIS "北 미신고 미사일기지 13곳 확인...'삭간물' 기지 운용 중" / YTN