

# *An Evaluation of South-North Economic Cooperation Since the South-North Summit and Prospects for the Future (Summary)*

Ihk-pyo Hong

Senior Researcher, Korea Institute for International Economic Policy (KIEP)

Due to various constraints, economic cooperation between the ROK and the DPRK was not activated to the degree that had been anticipated until the summit between the two Koreas in June 2000. After that summit, South-North economic cooperation, which had been progressing at the level of individual companies, was upgraded to the status of inter-authority cooperation. The alleviation of political and military tension and the increased tendency towards South-North conciliation and cooperation provided a favorable environment for realizing more intensive economic cooperation between the two Koreas.

South-North economic cooperation is essentially focused on business. It is difficult to expect sustained expansion and economic development if practical benefits are not guaranteed. Consequently, in undertaking such cooperation, it would be preferable to pursue more practical, direct targets that improve mutual economic benefits, based on the fundamental objectives of creating policies for peace on the Korean Peninsula and building the foundations for unification.

Economically speaking, South-North economic cooperation would minimize the burden of industrial restructuring in the ROK, bring about an expansion in the domestic market and redress the imbalanced industrial structure in the two Koreas. Moreover, it would enable the costs of unification to be decreased. Projects focused on reconnecting rail and road links with the DPRK would result in the ROK being connected to the rest of the continent. The Korean Peninsula would become a hub for distribution and transport in Northeast Asia. This would provide an opportunity for the two Koreas to secure practical benefits from transport and transit business. South-North economic cooperation is also extremely important in that it can contribute to alleviating tension and ensuring that a peaceful system becomes established on the Korean Peninsula.

South-North economic cooperation has two aspects: trade and investment. Trade began in 1988, with the ROK government's "July 7 Declaration" and "Measures to open up economic relationships with northern countries (i.e. socialist countries)". However, South-North trade underwent repeated ups and downs, due to the international political environment on the Korean Peninsula and changes in the South-North relationship. South-North trade underwent a rapid expansion after the simultaneous accession of the two Koreas to the United Nations on September 17, 1991, and the inter-Korean ministerial talks in 1991 and 1992. However, the rapid pace of the growth of South-North trade slackened off in mid-1992, due to the emergence of the DPRK nuclear issue, and trade between the two Koreas stagnated in 1993 and 1994. Once the nuclear issue entered the resolution phase with the Geneva

Agreement (October 1994), the government of the ROK actively promoted South-North economic cooperation. In 1995, the government of the ROK implemented proactive measures to activate South-North economic cooperation, such as permitting businesspeople to visit the DPRK and granting permission to people to conduct economic cooperation projects. In 1996, South-North relations deteriorated considerably and it was in this year that South-North trade recorded a decline for the first time since it began. In addition, the financial crisis that beset the economy of the ROK in 1997 resulted in companies' investment capacity and interest in South-North economic cooperation becoming significantly atrophied. In February 1998, after the Kim Dae Jung administration took power, the government adopted a more proactive stance with regard to South-North economic cooperation, announcing measures aimed at promoting tourism at Mt. Kumgang and expanding economic support for the North.

The growth in South-North trade increased further, triggered by the summit in June 2000. In particular, in 2000, commercial trade grew significantly, including trade focused on contract manufacturing and imports of agricultural, forestry and fisheries products from the DPRK. Moreover, due to aid and the increase in exports of non-commercial commodities under the KEDO project, South-North trade reached its highest level up to that point. Nevertheless, it was only from 2002 that the substantive results of the South-North summit began to emerge. Total annual South-North trade in fiscal 2002 exceeded \$600 million. Commercial trade grew to account for 53.4% of the total value of trade. In 2003 as well, total annual South-North trade exceeded \$700 million, despite the adverse factor of the DPRK nuclear issue. However, South-North trade declined again in fiscal 2004, due to a slump in commercial trade. With regard to South-North trade in fiscal 2004, although non-commercial trade increased due to such factors as the full-scale development of the Kaesong Industrial Zone, the activation of tourism projects and the expansion of humanitarian support for the North, including the provision of support in the aftermath of the Ryongchon disaster, commercial trade declined by 14.9% due to the recession in the ROK and the fact that South-North relations were deadlocked. In 2005, South-North relations recovered, the Kaesong Industrial Zone project got underway in earnest and there was a surge in South-North trade. As a result, annual trade exceeded \$1 billion. South-North trade can be said to adopt a utilitarian approach, pursuing mutual benefit and economic efficiency for both parties, but it is still highly sensitive to the domestic and international political situation.

Investment in the North began to take place openly from 1995 and the leading example of such an investment

project is the Mt. Kungang tourism project, which was initiated in 1998 by Hyundai Asan. However, as of the end of 2005, only 85 investment projects in the North had been approved. Of these, only six or seven are actually underway. Most of these are effectively joint public-private sector projects or projects relating to these.

The reasons for the stagnation of investment projects in the North are as follows: 1) the investment risks are very high; 2) basic infrastructure in the DPRK, such as electricity and railways, is decrepit; 3) there are constraints on communications and travel by businesspeople; and 4) there are restrictions relating to corporate management, including the employment of workers and domestic sales. Since the summit, talks between the authorities have become a regular event and the period since 2003, when institutional measures relating to investment were agreed and took effect, has been one in which investment projects aimed at the North have been substantively promoted.

The outcomes of South-North economic cooperation since the summit can be summarized as follows: 1) there has been substantial progress in institutional improvements relating to economic cooperation; 2) South-North trade has undergone sustained expansion, focused mainly on commercial trade; 3) investment projects in the North have been revitalized by the development of the Kaesong Industrial Zone; and 4) the so-called "three major South-North economic cooperation projects", i.e. the Mt. Kungang tourism project, the Kaesong Industrial Zone development project, and the South-North road and rail reconnection project, got properly underway.

Based on the agreement at the 10<sup>th</sup> South-North Economic Cooperation Promotion Committee Meeting

in July 2005, South-North economic cooperation is shifting from one-way economic cooperation to economic cooperation in a two-way, complementary form that fills each other's needs, and from trade in simple commodities to the age of investment cooperation aimed at the North. It is anticipated that the direction of the "new South-North economic cooperation projects" will be as follows.

Firstly, there will be a shift from the existing one-way, resource-focused economic cooperation projects to two-way economic cooperation projects that pursue mutual benefit. Secondly, new medium- and long-term economic cooperation projects will be promoted in the agricultural sector, forestry sector, fisheries sector, light industry sector and other sectors. Thirdly, large-scale social overhead capital (SOC) projects will be promoted. Fourthly, there will be a shift from South-North economic cooperation to multilateral or international cooperative projects. The political issues that must be tackled in order to promote these projects in the future are as follows: 1) creating the external conditions for the expansion of economic cooperation by resolving the DPRK nuclear issue; 2) continuously promoting the construction of the legal and institutional foundations for South-North economic cooperation; 3) translating agreements between the North and South authorities into reality, in order to discover new economic cooperation projects; 4) granting tax reductions and waivers and expanding financial support to companies participating in South-North economic cooperation; and 5) preparing a roadmap and enhancing financial resources for South-North economic cooperation and the economic development of the DPRK.

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