

**Inter-Korean Economic Cooperation:  
The Need for Reciprocity  
-Does Lopsided Cooperation Continue to Soothe  
North's Bluffing Mentality?-**

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# **Inter-Korean Economic Cooperation: The Need for Reciprocity -Does Lopsided Cooperation Continue to Soothe North's Bluffing Mentality?-**

**Eui-Gak Hwang**\*

## **Abstract**

This paper attempts to look into the inter-Korean economic cooperation and trade. It will first briefly review the political background and current status of the idiosyncratic determinants of the inter-Korean economic cooperation and trade, followed by its resultant impacts as well as policy suggestion for the future desirable directions. Over the last 20 years, the intra-trade has increased by about 90 times in its value from 20 million US dollars in 1989 to 1.8 billion US dollars in 2007. Since 1999, in particular, inter-Korean economic cooperation has greatly expanded. Its share of North Korean total trade (export plus import) accounted for 13 % in 1999, 26% in 2005 and greatly jumped to 61.2% in 2007.

Such an increase is mostly due to increasing aids and investments from the South, while economic gap between the North and South is still widening and the North's cliff-edge strategy has no signs yet to end. The increase in aids and investment from the South owes largely to both non-economic factors to help the deteriorating economy and appeasement policy to lure the bluffer into bright world. The success of such lopsided policy by the South is yet to be seen, but reciprocity principle would likely work better than free lunch type giving policy (chicken humanitarian policy) in insuring the autarchic North toward self-sustaining market economy.

Key words: Inter-Korean economic cooperation, trade, aids and investment, reciprocity, bluffer, chicken humanitarian, market economy.

JEL classification: F1, O1, P2.

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## **1. Inter-Korean Economic Cooperation: The Definition and the Current Status**

### 1.1. The Definition: Economic Cooperation v.s Bilateral Trade

The term, economic cooperation, has very multi-facet implications. It may be generally meant to connote the “two-ways balanced transactions based on comparative advantages, cooperative economic projects, and mutual economic aids and supports”, etc. In the case of bilateral relation between North Korea and South Korea, economic cooperation has been used largely to encompass “human exchange”(meetings of separate families, mutual visits, and Mt. Kumkang tourism, and feasibility surveys for Gaesung special zone, etc.), the South’s provision of various material supplies to meet the demands of the North, and both pecuniary and non-pecuniary aids and investments into North Korea. Most of the time, the main flow of such inter-Korean cooperation has so far run from the South to the North, not the other direction. It has been utterly unbalanced transaction. Inter-Korean trade has also occurred in such heavily biased direction that the purchases into the South have overwhelmed the imports into the North, because the trade has been conducting on the basis of political consideration rather than economic efficiency principle. According to the “Law Governing the North-South Exchange and Cooperation”(1990.8) of South Korea, the inter-Korean trade refers to the imports and exports between the North and South, which include movements of all goods between the two states via any third mediator country. The imports and exports statistics are, however, officially being compiled inclusively on the basis of all flows of goods, both commercial trade goods and free donation goods under “cooperative programs”, by the Custom Clearing Office in the South. Strictly speaking, the inter-Korean economic cooperation involves all public and civilian transactions and activities such as economic assistance in cash and materials, cultural performance swaps, tour visits, food and health and medical assistances, sports, and academic exchanges, etc. Economic cooperation is broader than trade in its definition. But in reality, inter-Korean trade has so far been loosely used to involve not only commercial transactions but also non-economic flows of all sorts of materials and human services crossing the border between

the North and the South. Such very inclusive and open concept would often be sources of definitional confusion and misunderstanding among people concerned on what is meant respectively by the “inter-Korean economic cooperation” and the “inter-Korean trade“. Objectively speaking, trade is a subset of economic cooperation as mentioned above. But trade involves the interchange of the shipment of goods and services with the monetary payments for the purchase and sales of the goods and services. On the other hand, economic cooperation may not necessarily involve the counter flows or exchanges between goods and its corresponding monetary payments. Economic cooperation may be based either on reciprocity principle or on unbalanced way. Aside from such definitional distinction, trade and cooperation are being used interchangeably in the relations between the North and the South. That reflects the peculiarity of inter-Korean relations.

Both trade and “cooperation” surplus since the imports into the South exceeds the imports into the North in the bilateral commercial trade, not to mention the lopsided cooperation. If we look at the inter-Korean economic cooperation, the North has always enjoyed assistance flown into the North. Even if the inflows of materials accompanied by the South’s investment into the North are hard to classify as “lopsided economic aid”, the North has been and is currently getting more than the South in the inter-Korean economic cooperation.

In this paper, we will define the inter-economic cooperation as broadly including trade, investment, and economic assistance (aid) between the two Koreas. So far inter-Korean trade as well as investment into the North has been promoted to assist North Korean economy. Therefore, we may use the inter-Korean trade interchangeably with inter-Korean economic cooperation in this paper, even if the two terms strictly differ one another, in that trade involves the exchange of goods and services with monetary payments.

In terms of neo-classical economics theory, the investment –saving gap is equal to the external trade gap plus net capital outflow (or inflow) inclusive the income transfer payments between two trade partners. Namely,  $I - S = - (X - M) + F(r)$ , where  $I$  is domestic investment,  $S$  domestic saving,  $X$  is a country’s exports and  $M$  imports, and  $F(r)$  is net outflows of capital, which is inversely related to the level of domestic interest rate ( $r$ ) given

international rate ( $r^*$ ), which is also inclusive of net transfer payments such as aids and subsidies across the border. This trade gap equation explains that if a country's (say, North Korea's) investment (I) exceeds its own domestic saving (S), it has trade deficits, that is, its exports (X) are less than its imports (M). The deficits need to be supplemented by net inflows of foreign capital and foreign aids ( in this case "minus F" meaning net inflows), in order to keep the balance of payments in equilibrium. In the bilateral trade between the North and South, the North's exports into the South have always larger than its imports from the South. But total amount of money gained from trade has moved in the same direction as the flows of capital in the inter-Korean trade, which is contrary to the above theory. That is because the trade surplus of North Korea over South Korea has been possible only due to the South's concession. If we include all beneficial returns obtained in the bilateral trade as well as investment and various aids and grants into the category of trade, the money flow into the North has always exceeded the flow into the South. That makes as if the South has huge trade surplus in its transaction with the North. In reality, in terms of pecuniary flows involving the inter-Korean trade, the North has gotten the most out of the bilateral trade. For the South has tried to import as much as possible from the North instead of attempting to export to the North in order to give more money to the North. Money runs opposite to the flow of physical import and export of goods. In the inter-Korean trade, for illustration, the sale of commodities from the North accompanies its counter flows of payment money from the South. The purchase of goods from the North is mostly made by political considerations in that the imports are made to help the economy by the South. Meanwhile, in the accounting of the South's exports to the North are included the tradable commodities as well as investment goods and transfer payment and aid goods which all pass and record through the South's custom clearing office. If all together in accounting, the South appears to gain tremendous trade surplus because the South's aggregate shipments (exports) sent to the North exceed its imports from the North. But in terms of aggregate monetary settlements, the North has, in fact, gained most of the pecuniary advantage in its transaction with the South.

Because the size of the inter-Korean economic cooperation is measured in terms of monetary flows, the term inter-Korean cooperation inclusive of the loosely defined- trade, investment and other transfers, etc., reduces “our confusion” as compared to the counter flows of payment involving the pure bilateral commercial trade, as explained above. In the peculiar inter-Korean trade, if more goods and services are shipped to the South, it means more payments are made to the North either on pure commercial basis or complementary basis. But the trade surplus by the North is not necessarily grounded on the pure comparative advantage trading principle.

On the other hand, aggregate shipments into the North including commercial goods and non-commercial assistance goods are always larger than out-of the North, which in turn shows as if the South is making the trade surplus. In reality, the assistance goods and investment goods do not carry immediate pay-backs, though the later may bring their return in the long run. In short run, the surplus from the inter-Korean cooperation has so far been in the pocket of North Korea, as the most money has been poured into it.

## 1. 2.The Historical Outline of Inter-Korean Economic Cooperation

The inter-Korean economic cooperation was first proposed with “The Agreement on the Implementation of Trade and Economic Co-operation and the Establishment of the South-North Joint Economic Committee (23 articles)” signed by both the North and the South representatives on June 20, 1985, at Panmunjom. The joint proposal for inter-Korean economic cooperation had very important implications on the various aspects including political, military and social and cultural areas in the divided nation. But no actual implementation was made until South Korean President Roh Tae-Woo did unilaterally announce his “Special Declaration on National Self-esteem, Unification and Prosperity” on July 7, 1988. After the 7.7 declaration, small indirect trade (trade via a third country) was timidly attempted by the South businessmen. Since then, various trade promotion measures were promulgated in the South. Among them included were the Inter-Korean Cooperation Custom Law and the Law of Inter-Korean Cooperation Fund (1990.8.1). The size of inter-

Korean trade was mere 20 million US dollars in 1989, which rose by 90 times larger to 1.8 billion US dollars in 2007. In March, 1993 North Korea declared its withdrawal from NPT (nuclear non-proliferation treaty), which threatened to interrupt the inter-trade relation. But as top level talks between the United States and DPRK agreed to end the nuclear issue on October 21, 1994, South Korea swiftly moved to expand the inter-trade relations. On November 9, the South Korean government announced “the Measures for Inter-Korean Economic Cooperation Promotion” which made door open, though strict restrictive ways, to the mutual visits of businessmen, the limited investment into the North, and the establishments of the branch offices of the South firms in the North. More active inter-cooperation began with the Kim Dae-Jung regime of the South. Upon his inauguration to the Presidency in February, 1998, Kim Dae-Jung set up his policy objectives toward North Korea and three basic principles:

(1).active promotion of the North-South economic cooperation based on the principle of the separation of the economy from politics, (2) cooperation on the basis of market function, and (3) promotion based on each participants’ own decision.

DJ’s government promulgated in October, 1999 “the Guidelines for the Uses of the Inter-Korean Economic Cooperation Funds” in order to subsidize the investment into the North, imports and exports, and commission-based processing trade (CPT) as well as financing the small and medium firms involved in the North projects.

Kim Dae-Jung’s *sunshine policy* targeted namely to soften the political and military strains between the two Koreas and to induce the North to *Glasnost and Perestroika*.

Especially after the 6·15 Kim-Kim<sup>1</sup> joint communiqué made in Pyongyang in 2000, the Mt. Kumkang sightseeing project (first opened in November, 1998), the Gaesung industrial complex project (started in 1989) and other intra-Korean trade have greatly enlarged. In the name of mutual cooperation toward both common prosperity and peace, DJ’s appeasement policy had mainly focused on helping the Greater Dear Leader’s regime in the North, in order to keep the political and military status quo in the peninsula. DJ’s pro-

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<sup>1</sup> Kim Joing-Il and Kim Dae-Jung (DJ) met in Pyongyang and released a joint communiqué on June 15, 2000.

North's policy was succeeded by his imitating leftist regime led by new President Ro Moo-Hyun in 2003.

Ro Moo-Hyun had greatly promoted the exchanges of both people and materials across the border by working to provide the South's investors with various legal systems, procedures, and offices openings in the North. On December 24, 2003, two railroads were connected across the "heretofore no-return borders". On October 28, 2005, the North-South Joint Consultant Office for Economic Cooperation was opened in Gaesung complex. Mr. Ro Moo-Hyun visited Pyongyang on October 2-4, 2007 to hold the summit talks with the Dear Leader Kim Jong-Il. Six weeks later, the North and the South Prime Ministers met (November 14-16), followed by Defense Ministers' meeting (November 27-29). It was also followed by Inter-Korean Economic Cooperation Committee meeting (December 4-6) and the West Sea Peaceful Cooperation Promotion Committee meeting (December 28-29).

The Ro Moo-Hyun's government made the South Congress pass the Law for the Promotion of the North-South Relation Development<sup>2</sup> in December 2005. Based on the law, the First Basic Plan for the North-South Relation Development<sup>3</sup> was formulated to report to the House of Representatives on November 22, 2007. The Basic Plan contains 3 broad principles, 6 promotion directions, and 7 strategic targets to implement from 2008 to the end of 2012, which turn all into cloudy possibility under the new conservative regime taken over by new President Lee Myung-Bak in February, 2008.

### 1.3. The Status of the Inter-Korean Trade

It has been about 20 years since the intra-trade began across the demarcation line in Korean peninsula in 1989. In the first two years, annual intra-trade size remained at a mere level of less than 20 million US dollars. In 1991 when the inter-Korean Exchange and Cooperation Law was promulgated in the South, the intra-trade increased by 730% over the

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<sup>2</sup> Law No. 7763, 2005.12.29

<sup>3</sup> See the article 13 of Law No. 7763 cited above. The Basic Plan was made in accordance with the article 13: 3 item of the Law.



previous year. In spite of the DPRK's withdrawal from the IAEA (International Atomic Energy Agency) Non-Proliferation Treaty, the inter-Korean trade continued to grow pro-cyclically with the two Korean economic situations. Amid of the newly closed-up nuclear issue between IAEA (and USA) and DPRK in 1988 and the financial crisis in South Korea, President Kim Dae-Jung announced his "*sunshine policy*", signaling his willing to expand the relations with North Korea. In 1988, the intra-trade amount was \$221,943 thousand, that was about 28% decrease over the previous year (\$308, 339 thousand), but the intra trade regained its strength to reach to \$1,797,896 thousand in 2007. (See table 1.)

Table 1. Trend of Annual Intra-Korean Trade (Unit: 1000 US dollars)

Year	Import into South	Export from South	Total	Annual Growth(%)
1989	18,655	65	18,724	--
1990	12,278	1,188	13,466	-28.1
1991	105,719	5,547	111,266	726.3
1992	162,863	10,563	173,426	55.9
1993	178,167	8,425	186,592	7.6
1994	176,298	18,249	194,547	4.3
1995	222,855	64,436	287,291	47.5
1996	182,400	69,639	252,039	-12.3
1997	193,069	115,270	308,339	22.3
1998	92,264	129,679	221,943	-28.0
1999	121,604	211,832	333,437	50.2
2000	152,373	272,775	425,148	27.5
2001	176,170	226,787	402,957	-5.2
2002	271,575	370,155	641,730	59.3
2003	289,252	434,965	724,040	12.9
2004	258,039	439,001	697,040	-3.8
2005	340,281	715,472	1,055,754	51.5
2006	519,539	830,200	1,349,739	27.8
2007	765,346	1,032,550	1,797,896	33.2
Total	4,238,749	4,956,801	9,195,551	--

Source: The Ministry of Unification: *Trend of Inter-Korean Trade (annual)*, reorganized by author.

Note: Export from the South includes commercial (general) exports, materials for commission based processing, investments, and humanitarian and other cooperation supports to the North while the import includes only purchases by the South.

The inter-Korean trade (alternatively, economic cooperation) is composed of categories as follow: (1) commercial trade in which the general trade (GT), commission-based processing trade (CPT), economic cooperation (EC) inclusive of Gaesung Industrial Complex projects, Mt. Kumgang sightseeing projects, and other public investment projects, and (2) non-commercial trade which includes both the public and private social and cultural projects, aids and grants, grains and fertilizer supports and the light water reactor construction subsidies<sup>4</sup> and KEDO diesel oil supplies. As shown in table 2, the commercial trade inclusive of economic cooperation projects (such as Mt. Kumgang projects, Gaesung industrial projects, and others) occupies a large proportion as compared to non-commercial trade. The narrowly defined (pure) economic cooperation (EC) projects which include Mt. Kumgang tour-related project, Gaesung industrial complex projects, and other economic cooperative assistance to the North have expanded much since 2004. The share of this economic cooperation (EC) projects out of total commercial trade (GT+CPT+EC) was 6.8% in 2002, which jumped to 39.2% in 2005, 40.0% in 2006 and 44.7% in 2007. As of the end of 2007, the commercial trade consists of the general trade (25.7%), commission-based processing trade (18.3%), Mt. Kumgang sightseeing (6.4), and Gaesung industrial projects (24.5), and others (4.7), which altogether accounted for 79.6% with the remaining 20.4% being non-commercial trade (private and public assistance) in the total trade (imports+exports). In general, non-commercial trade is regarded as pure assistance being mostly moved from the South to the North. A considerable amount of commercial trade contains the characteristics of non-economical ‘aid measures’, though in the long run, some profits are expected to return back to those partners who are now extending “don’t-ask-investment’ into the North either from naive fraternity or due to direct or indirect indications from those in political power. It is believed that a large composition of GT and CPT has also been up-to-date propelled to support the North by the South Korean government.

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<sup>4</sup> Total budget for the light water energy project was set at 4.6 billion dollars of which South Korea was to assume 70 % (3.22 billion dollars), but the project was suspended in December 2003. Actual spending for the project was 1.48 billion dollars up to the suspension. (S. Korea: \$1.07 billion, Japan:\$0.39 billion and EU: 0.02billion).

Table 2. Inter-Korean Trade by Major Categories (Unit: million US dollars)

Commercial Trade								
GT	CPT	Economic Cooperation			Sub-total	Non-comm.	Total	
		( Mt. Kum.)	( Gaesung)	(others)				
1995	230.4	45.9	--	--	--	276.3	11.0	287.3
1998	73.0	71.0	37.7	0	1.2	182.5	39.4	221.9
1999	89.0	100.0	40.7	0	6.3	236.1	97.3	333.4
2000	110.5	129.2	16.2	0	17.4	273.3	151.8	425.1
2002	171.8	171.2	11.9	0	13.1	367.9	273.8	641.7
2004	171.8	176.0	41.8	41.7	5.8	436.5	260.5	697.0
2005	209.8	209.7	87.1	176.7	6.2	689.5	366.2	1,055.8
2006	304.1	253.0	56.7	298.8	15.5	928.1	421.7	1,349.7
2007	461.4	330.0	114.8	440.7	84.4	1,431.2	366.1	1,797.9

Source: The same as table 1.

As the result, both economic and non-economic motives of many intra-Korean trade participants have been inconsequentially intermingled in their decision making processes. But as time goes by, South Korean firms tend to learn much lessons and to incline more and more toward profit motives when they decide any trade with the North. Many are also experiencing the insufficiency of the infrastructures including communication, transportation, and custom clearance across the borders, not to speak of solving such problems as ‘default products’ involved with commission-based processing works in the North. Above all, many unsolved political and military tensions will remain as the “big uncertainty factors in the intra-Korean trade.

As regards to the exchanges of people between the South and North, visits to the North (excluding sightseeing visits to Mt. Kumgang and Gaesung area) dominated as shown in table 3. Table 4 shows annual visits of South Korean residents for Mt. Kumgang and Gaesung area sightseeing tours. The overall tilt to the North in the flows of both economic trade and human exchange are obviously with telling effect of the South regime’s deepening love-call, the South’s higher income and the South people’s general curiosity about the Hermit Kingdom as well as weakening political and military tensions. It does, of

course, not go without saying that DJ *sunshine policy* has contributed to make South Koreans disarmed, while most north brethren have not yet untied their combat boots. The South's fretting provision of large economic assistance to the North during the last two decades has apparently helped Dear Leader hold a bold bargaining position in the nuclear deals with the United States. Ironically, the South's assistance has so far attributed in some degree to the postponement of friendly diplomatic relation between the United States and the Democratic People's Republic of Korea. But in 2008 when Lee Myung-Bak being behind the anti-communist conservative supporters took his Presidency, the South-North relation as well as the relation between the United States and North Korea appears to enter into a new phase. North Korea has been seeking for the military and diplomatic talks with the Uncle Sam while excluding South Korea in the issues.

By passing, the past two regimes led by Kim Dae-Jung and Ro Moo-Hyun were believed to pour more than 11.0 US billion dollars into the cooperation projects for North Korea. (Kim: 7.3 billion dollars in 1998-2002 and Ro: 3.7 billion dollars in 2003-2006, and the latter's 2007 budget amounted to 1.2 billion dollars ). In his return to their contributions, Kim Jong-Il invited them respectively to make cordial visits to him in Pyongyang.

Table 3. Annual Exchanges of People (unit: numbers)

	89-97	98	99	00	01	02	03	04	05	06	07	Total
S→N	2,405	3,317	5,599	7,280	8,551	12,825	15,280	26,213	87,028	100,838	158,170	427,506
N→S	575	-	62	706	191	1,052	1,023	321	1,313	870	1,044	7,157
Total	2,980	3,317	5,661	7,986	8,742	13,877	16,303	26,534	88,341	101,708	159,214	434,663

Table 4. Tour Visits to Mt. Kumgang and Gaesung Region

	98	99	00	01	02	03	04	05	06	07	Total
Mt. Kumgang	10,554	148,074	213,009	57,879	84,727	74,334	268,420	298,247	234,446	345,000	1,734,687
Gaesung								1,484		7,427	8,911
Total	10,554	148,074	213,009	57,879	84,727	74,334	268,420	299,731	234,446	352,433	1,743,607

Sources: The Ministry of Unification: Exchanges of People between the South and the North (monthly statistics).

#### 1.4. The Comparison of the Inter-Korean Trade with the North- China Trade

Since 2000, both South Korea and China have been two major trade partners of DPRK. During the period of 2000-2005, the marginal increase of North Korean external trade amounting to 1.6 US billion dollars was exactly equal to the increases of both the South-North trade (0.6 billion) and China-North Korea trade (1.0 billion dollars).

The comparison of the inter-Korean economic cooperation with the bilateral economic cooperation between North Korea and China does reveal some features on the characteristics of the inter-Korean relations. Firstly, the annual growth rates of both China and South Korea economic cooperation with the North Korea were respectively about 30% around before and after 2000. However, in terms of the contents the South-North economic cooperation comprised relatively lower share of pure commercial trade and larger share in investment and aids as compared to the opposites in China-North Korea economic cooperation. North Korea has seldom provided either China or South Korea with any subsidy aids and direct investment, which could include in its exports statistics. Since the North exports (inclusive of its aids and investments in both China and South Korea) are very insignificant at all, we may just compare only its imports (inclusive of aids and investments from China and South Korea) from the two countries, for simplicity. In the case of the inter-Korean economic cooperation, the South's aids and investments were 184 million dollars ( which accounts for 67.5% of total South Korean exports to the North) in 2000, which rose to 349 million dollars (79.5%) in 2004 and 635 million dollars (88.8%) in 2005. As compared, Chinese aids and investments into North Korea was 104 million (23.1%) in 2000, 163 million dollars (20.4%) in 2004, and 290 million dollars (26.8%). China has kept its economic cooperation with North Korea on commercial basis rather than offering its war brother country with "free gifts" (namely aids and investments). In other words, China trades with North Korea on much more reciprocity principle than the inter-Korean trade which has based on lopsided fraternity favoritism, although the two Koreas are yet in the state of unfinished truce.

Secondly, South Korea and China are exporting intermediate inputs and materials to North Korea while importing mostly primary goods. But in terms of trade items and kinds, South Korea's trade is rather simple and few as compared to those of the Chinese trade.<sup>5</sup> Thirdly, the share of general trade in the inter-Korean economic cooperation has been less than the half while China's trade depends heavily on the general trade with only the share of 5% of the commission-based processing trade. South Korea has been "red" in its general trade with the North, while China has kept "blue". South Korea's pure commercial exports was merely about 1/50 of Chinese exports to North Korea as of 2005. This explains that the South's influence on the North's markets is far smaller than Chinese impacts. According to the Chinese People's Newspaper (2006.8.11 internet edition), Chinese products account for 70%, North Korean products 20%, and Russia and Japan account for 10% together among all commodities being daily transacted in North Korea's markets.

Fourthly, there are distinctively different in the pattern of direct investment into North Korea between South Korea and China.<sup>6</sup> South Korea has mostly invested in the North's special economic zones (i.e., Gaesung industrial complex) with aims of utilizing low wage labors of the North in CPT and other manufacturing. On the other hand, China has concentrated in such areas as mining sectors to obtain natural resources. Recently, China is diversifying its investment in infrastructure expansion as well as manufacturing, and circulation and marketing areas. In a brief word, South Korea looks forward with a short-sight while China approaches with a long-sights. And Chinese roads appear more promising in the long run, though the eventual success will depend upon God, not on who takes what road today.

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<sup>5</sup> See Lee Young-Hoon, *The Status of China-North Korea Trade and its Impacts on North Korean Economy*, The Bank of Korea: Monthly Bulletin (in Korean), 2006.2.

<sup>6</sup> North Korea announced its measures (named as 7.1 action plans) on July 1, 2002, in order to designate Shineuijoo Special Administration Area (September, 2002), and both Gaesung Industrial Complex and Mt. Kumgang Tourism Area (November, 2002) with its eye on foreign capital inflows.

## **2. The Determinants of Inter-Korean Economic Cooperation**

### 2.1. The Brief Outline

The major determinants of inter-Korean relations involve both “actors (participants)” and “environments” in both sides. Actors include the South’s government, the South’s enterprises, public and private organizations, and the North Korean government which in broad context is the sole decision maker as well as action planner in the peculiar North. The internal and external environments involve various factors affecting the two parties, i.e., the South’s and the North’s respective relations with neighboring nations, particularly with the United States, as well as the two parties’ economic, political and military problems involved. Once we confine our discussion within the contexts of the motives of the inter-Korean economic cooperation, it would be easier to traffic the respective interests of participating actors. Needless to say, South Korea’s private companies are mainly concerned with making money in the business while other social NGO groups approach from humanitarian aspects to help people in the North rather than “profit-seeking”. The South’s government inclusive of public organizations has approached North Korea to help relieving the latter’s economic hardships with the hope that the cooperation could contribute to easing the long-standing strains across the border.

On the other hand, it seems as if the North leaders understand that the sustainability of its system depends on its improvement of relations with the United States prior to the North-South inter-relations. North Korean leaders have apparently learned that its system risks, its economic recovery, and international environments favorable to induce foreign capital and even the inter-Korean economic cooperation are all dependent upon its strains or relations with the United States.

## 2.2. Trade, Investment, and Economic Assistance

From the perspectives of South Korean business people, the motives for inter-Korean trade and investment into North Korea are many-folded. To list some are included the current and future profitability, availability of low wage labors, tariff-preferences, the establishment of bridgehead, contribution to government policy, and not the least “helping their own or their parent’s native home”. But the main incentive lies in profit-seeking.

From the viewpoints of North Koreans, however, the inter-Korean economic cooperation must be no more or no less than “mutual sharing of income” based on “our own national fraternity”. The North side does not generally take into consideration the South business’s profit creation from the intra-Korean trade. Nevertheless, North Korea has enjoyed a considerable benefit in its exports of marine products and raw minerals (including coal) to the South due to relatively short transportation distance and various favors (i.e., tariff exemption) extended by the South side. The impediment to the North’s indigenous tradable items is the decreasing demand for such goods in the South.

The South’s investments into North Korea are largely in the forms of joint investment or joint operation companies<sup>7</sup>, except for Mt. Kumgang project which is being solely invested and operated by the South’s Hyun-Dae. Most South Korean investors build factories jointly with North Korean puppet companies. They import raw and intermediate goods from the South to process finished goods using low wage workers in the North and then re-export them to South Korea and third countries via South Korea. This intra-trade can continue as long as the overall cost (including plants) of production for a particular product in the South exceeds the overall cost of production of the product in the North. The choice of production locations as well as kinds of products depends on comparative costs of plants (including land and other facility), wage and productivity differentials, and all transportation costs involved between the two locations. Considering only that the North’s

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<sup>7</sup> Joint investment company is one where two parties invest 50:50% each but only one party is solely responsible for managing the company. Joint operation (management) company is the one two parties share equally their investment as well as management of the company.



average monthly wage (\$36) is currently about 1.5% of the South's average monthly income (\$2,360) in 2008, there is good incentive for the South's labor-intensive goods producers to look for investment opportunity in the North. Particularly the investments in Gaesung complex are being subsidized by the South Korean government in terms of provisions of basic infrastructure lay-outs and electricity supplies in addition to the availability of new road across the border. However, the short and long-run success of any investments not only in Gaesung complex but also elsewhere is likely to depend upon the changing dynamism of comparative advantage structures among alternative investment locations and projects across the world. Everything is changing fast in this global and dynamic age.

Lastly, the one-way assistance to the North has been so far influenced by non-economic and political considerations. The distinction is very difficult, but largely the private sectors provide the North with somewhat humanitarian aids, while the South government extends more or less politically implicative assistance. Up to date, the South Korean government has attempted to induce both the change of the North's behaviors and the settlement of peace in the peninsula. Toward those objectives, the South government has been willing to pay off as much as possible to its unpredictable brothers in the North. Such political position is related to so-called the "*commercial liberalism*", which believes that the inter-economic improvement would contribute to enhancing "the peace" among parties concerned. Beginning from Ro Tae-Woo government in 1987, South Korea adopted *its policy of functionalism* to deepen the intra-Korean dependency and the inter-Korean economic cooperation with eyes on reducing the military tensions. Kim Dae-Jung and Ro Moo-Hyun regimes aggressively advanced their policies on the basis of both *functionalism and liberalism*. The *functionalists* basically approach to advance from humanitarian projects to economic projects to military and political appeasement stage. The *neo-liberalism*, a hybrid of *functionalism and liberalism* seeks the government parallel policies for the interactions of both economic and political areas as well as other variety of mutual contacts without regards to ideological differences. In spite of the South's aggressive and friendly gesture toward North Korea in every aspects, the North has maintained very

negative position with the South when they come to talks for easing military confrontation, even after the 6.15 joint declaration<sup>8</sup>. Therefore, many conservative Koreans suspect if real inter-Korean improvement for peace has been ever made despite of the enormous dollars poured into North Korea under the past two progressive regimes. The return from the North has been too small as compared to the South's big aid-dumping into the North. When Dear Leader launched missiles in July 2006 and when he adamantly tested a nuclear bomb in October 2006, many people began to awaken to the need for reciprocity in inter-Korean economic cooperation. This awakening on the part of majority of the

South's people led in fact to the regime change in favor of the seemingly conservative Hannara (Grand National) Party candidate Lee Myung-Bak in the Presidential election held in December, 2007, ending the past 10 years reign of the leftist' liberal party (which was renamed as the United Democratic Party) in South Korea. However, the liberal (left-wing) fractions have already proliferated greatly in numbers in every corners of South Korean society during the so-called last 10 lost years from the perspective of conservatives. In less than three months later President Lee Myung-Bak took office, they were rekindling to stage street demonstrations (under the slogan of "candlelit vigil cultural activities" to avoid obtaining the legal permission for staging such demonstrations) of which core target is to oust the right wing regime with the cover-up slander against the US beef imports. The leftist-prone civic coalition members and their supporters are using their internet news-medias and blogs to spread groundless hearsays to paralyze the embattled Lee's regime. The wild wind may or may not be linked with the North's denotative move but it is likely to get cyclically stronger across the landscape during the rest of Lee's term in the Blue House. If the trend of the inter-Korean relations is moving to wane for any reasons, the anti-government movements can be seen and felt in a series of events occurring here and there in the South whenever the incumbent government exposes any weakness, even tiny,

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<sup>8</sup> Kim Jong-Il and Kim Dae-Jung made a joint declaration on June 15, 2000 upon their summit in Pyongyang.

in its governance and overall policy. The ideological splits and hatreds would not end in the South unless the communist system of North Korea is dismantled<sup>9</sup>.

### **3. The Effects of the Inter-Korean Economic Cooperation**

#### 3.1. The Impacts on the South Korean Economy

It may be possible to evaluate that the policy of the inter-Korean economic cooperation has somewhat contributed to reduce the military and political strains and tensions toward North Korea, at least in the South. In particular, the DJ's *sunshine policy* has largely contributed to make many South Koreans disarmed mentally against any remaining dangers from Kim Jong-Il and his communist regime. Furthermore, the South's most post-war generations come to not regard the North communists as enemy. Rather many of them believe that the United States is main our national enemy. They have been brainwashed so by many liberal-minded teachers in elementary and junior high schools, not to mention the influences out of Korean history books and periodicals written by numerous leftists writers<sup>10</sup> and circulated widely among youngsters without any effective caution. Such drift has been reinforced by the DJ's radical policy shifts on domestic issues as well as on North Korea. It is not yet clear if the *sunshine* has ever been working in accordance with its proclaimed objective to undress the North's iron stance to shift toward free and flexible world<sup>11</sup>. Nevertheless, DJ *sunshine policy* helped South Koreans including business people and military soldiers to lift off their worries about war renewal in the peninsula, thus having

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<sup>9</sup> See Eui-Gak Hwang, *Are Koreans Ideologically Victims Yet?*, Working Paper Series Vol.2008-15, June 2008, The International Centre for the Study of East Asian Development (ICSEAD), Kitakyushu, Japan.

<sup>10</sup> Bruce Cumings and his Korean students are responsible for having mislead Korean youngsters. Probably DJ may also be one of followers of Bruce Cumings on the Origins of the Korean War.

<sup>11</sup> Nam Sung-Wook shows that there exists some positive correlation between the South's stocks price index and the inter-Korean trade in his study made after the IMF crisis. But his research is based on too simple model with limited number of variables and observations, which do not guarantee sound results. See his paper titled: *The North-South Relations and Country Credibility—With Emphasis on Correlation between Stock Prices and Inter-Korean Relations*, presented at the Korean Political Association, July 2007 9 (in Korean).

induced many to visit North Korea either for sightseeing or for searching for business opportunities if possible. The aggregate inter-Korean trade occupies only 0.19% of the South's total external trade and 0.13% out of its GDP respectively in 2005. Excluding the free supports to the North, the commercial trade (including pure trade and investment) accounted for mere 0.13% of the South's total trade and 0.09% of the South's GDP, which is indeed not significant from the perspective of South Korea's economy. South Korea has annual trade deficits of about 200 million US dollars with North Korea, which is of course not a big burden in terms of its current economic strengths. South Korean economy is capable of providing the North with more economic cooperation, and is willing to, if the North responded more friendly and honestly for the benefits of both economy and people. What is now blocking is related with the emotional issues involving the South's distrusts and suspicions that the North's leaders might have diverting the South's money to build its nuclear and missile projects while leaving near million of people to starvation. What is needed today for the inter-Korean cooperation is the need for reciprocity. The reciprocity does not necessarily involve the trade of goods and services with other economic commodities, but it can involve the transaction of economic supplies with such equivalent pay-offs as positive responses toward common interests in political, military and international arena.

Table 5. The Share of the Inter-Korean Trade in the South's Economy (2005).

	Economic Cooperation (\$ million)	Share in the South's Trade (%)	Share in the South's GDP (%)
N-S Cooperation	1,055	0.19	0.13
(Trade)	420	0.08	0.05
Trade Balance	-194	-0.04	-0.02
(Investment)	270	0.05	0.03
(Subsidies)	365	0.07	0.05

Note: In 2005, South Korean total trade amounted to 545.7 billion US dollars and its GDP was 787.5 billion US dollars.

Sources: The Ministry of Unification and the Bank of Korea.

The South Korean government subsidies are made from the South-North Cooperation Fund, which is classified into three categories: subsidies, investment, and other expenses. The Fund had generated about 2.98 billion US dollars ( equivalent to 2,987.9 billion Korean won )for the period of 1991-2005, out of which about 262.0 million US dollars(2,620.0 billion Korean won), that is, annual average of about 174. 7 million US dollars (174.7 billion won per year) were used. This amount is equivalent to about 0.1% of the South's total budget of about 2.1 trillion US dollars (2,123.7 trillion won) and about 0.04% of GDP of about 7.3 trillion US dollars (7,264.8 trillion won) during the five years period. This figure does not include the money donated to KEDO projects. The expenditure in the Grain Management Special Account is also excluded, because which aims principally to support the domestic farm households through government purchase of rice at the domestic price. But government sent the purchased rice to North Korea for aids<sup>12</sup> whose value is being recoded at the international price, about 1/3 of domestic rice price. The accounting for every money used to assist the North is never clear cut and the accounting methods remain very elusive not only because of dual prices like the case of rice above, but also because of many omissions of private humanitarian aids provided through indirect and round-about delivery channels.

Out of the official Cooperation Fund (1991-2005), South Korean government used 1.68 billion US dollars equivalent to 1.68 trillion Korean won (64%) to send North Korea foods and fertilizers and used about 820.0 million US dollars (31%) equivalent to 820 billion Korean won for the construction of railroads and roads as well as for other aids, with the remaining 490.0 million US dollars (0.5%) for social and cultural projects during the periods of 1991-2005.

The aids provided by the South's private sectors were officially around 600.8 million US dollars (about 54.6 million dollars per year), which was about 1/3 of the South government aids during the same periods. However, the actual amount handed over to northern relatives

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<sup>12</sup> As regards to some argument that a total of about 8.4 trillion won (that is 8.4 billion US dollars) was given to North Korea for 10 years starting from 1988 to August 2007, refer to *The Reference Data for Aids to North*, the Ministry of Unification, October 13, 2006, and *Records of the National Assembly*, October, 2008.

and various organizations (say, various forms of church, Buddhist temple, and orphanage, etc.) by the South residents is estimated to exceed the official figures. Nevertheless, the share of government is much larger than the money involving the private businesses sectors in the inter-Korean cooperation. Many South Korean companies participating in the cooperation projects have not been making profits, except for a few of recent business activities in Gaesung projects<sup>13</sup>. Aside that, it is not known if the South government has ever demanded in clear language the North side any corresponding pay-offs in return to its continued assistances. This point is recently the source of arguments among South Koreans who are split between the left-wings and the right-wings, as regarding to the real nature and intention of the inter-Korean economic cooperation advanced greatly by DJ's *sunshine policy*. The right-wing supporters believe that the South *reckless pouring into the North* has only helped Kim Jong-II develop missiles and nuclear weapons that will target at the *enemy in the South*.

The total opportunity costs of both the public aids and private investments into the North must include the non-profit making investment times the compound interest rates forgone thereof plus the internalized social costs involving the portion of the South money that the North might have sinuously diverted to develop its war weapons, thus causing unrests on South Korean people, minus the positive contribution of the cooperation to reducing the mutual tensions *interalia*. For the period of 1989-2005, annual public aids were about 175 million US dollars while annual private investments into the North were about 55 million US dollars of which about 2/3 ( 67%) was lost, as mentioned earlier. Based on these figures, for illustration, the quick rule of thumb estimate shows that the annual opportunity costs of monetary values given to the North amount to about 1,164 trillion US dollars in 2005<sup>14</sup>. For the last 10 years as a whole, the total opportunity costs of the inter-Korean

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<sup>13</sup> According to Kim Young-Yoon's study, about 2/3 companies are losing monies in their businesses with the North. See Kim Young-Yoon, *A Study of Failure Cases on the Inter-Korean Economic Cooperation: A Policy Tasks*, The Research Institute for National Unification, 2004, (in Korean).

<sup>14</sup> It is estimated as follows: (public aids + private investment times 0.67 times (1+ r)) times 0.01 times ½ of total population in South Korea, where 0.67 is failure rate of the investment, r is annual interest rate forgone assumed to be 0.05, and the number 0.01 indicates that about 10 percents of total public and private

cooperation would estimate to approximately 11,640 trillion US dollars from the perspective of South Korea. If we add the external costs of those ideological conflicts involving the intra-Korean issues that would result in frequent anti-government demonstrations in South Korea, the internalized costs will reach to an astronomical unit, even though the nominal intra-Korean trade are not so significant in view of the current size of the South Korean economy. By passing, it may be worth noting that Gaesung industrial complex was approaching near the breakeven point in 2007, according to a report by the Gaesung Industrial Complex Supporting Team of the Ministry of Unification in Seoul. Beginning from 2004 until the end of August 2006, total cash and material inputs for the Gaesung projects were about 28,056 thousand US dollars which included 16,000 thousand dollars for land compensation (for 1 million pyong =3.3 million square meter of area), 7,218 thousand dollars for wage and salary for workers, 3,105 thousand dollars for construction materials, 1,289 thousand dollars for communication bills, and 444 thousand dollars for tax payments. The exact cost-benefit analysis needs further estimating the overall effects of the investments on value added, employment and net exports of those South Korean participating firms.

### 3.2. The Impacts on the North Korean Economy

The inter-Korean economic cooperation has increased the dependency of North Korean economy on the South. Generally, the inter-Korean trade statistics can be reclassified so that general trade is regarded as commercial trade while classifying the aids as a transfer payment. Most of material-type investments are made for South Korean branch companies in the North. Such investment in form of input materials for the South Korean branch firms in the North is problematic if we regard it as a part constituting the North Korean GDP. Commission-based processing trade is related with the ‘transaction of labor forces’, from which the North Korean workers take their processing commission which accounts for

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investments going to strengthening the military power in the North. It is also assumed that only a half of South Koreans are being affected with one US cents per person by the potential threats from the North.

approximately 50 % of the total cost of CPT<sup>15</sup>. On the other hand, we consider that the in-kind grants are no much different from the free aids in view of the special relation between the two Koreas. So in this analysis, we will simply treat it as a part of transfer payments from the South to the North. Though the data sets are nothing but too simplified approximations as such, the North Korea's balance of trade from the inter-Korean economic cooperation, for illustration purpose, using the data of 2005 as a standard year, could be roughly estimated as shown in the table 6, below.

The North Korean income increase owing to the inter-Korean economic cooperation is equal to “trade (commodities) balance + processing commission (CP revenue)”, which constitute the parts of the North Korean GDP plus “the current transfer payments from the South to the North”. The latter one (that includes humanitarian aids and foods grants from the South) does not belong to the concepts of either North's Gross Domestic Products (GDP) or North's Gross National Income (GNI).

But the aids and grants (which are also de-facto aids) constitute those items contributing to the increase of the North's Gross Disposable Income (GNDI).

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<sup>15</sup> In the total costs of the processed goods being re-imported into the South side, the cost of raw materials provided by the parent companies in the South, transportation costs, and processing costs are included. The costs of commission-based processing goods would vary depending upon both the kinds of goods and the companies involved. We consider the average costs to be around 50 % out of the total trade balance related with the CPT goods, for simplicity, in this analysis.



Table 6. North Korea's Trade Balance Earned from the Inter-Korean Economic Cooperation in 2005. (unit: million US dollars)

Type	Exports	Imports	BOP composition	Credits	Liabilities	Balance
Trade	99.4	320.1				
General	20.9	188.9	trade balance	20.9	188.9	168.0
CPT	78.5	131.2	commission			26.4
Aids & Grants	365.0	0	current transfer	0	365.0	365.0
Humanitarian	241.0				241.0	
Food Grants	124.0				124.0	
Investments	251.1	20.1		20.0	251.1	
Light Water	0.4	-			0.4	
Mt. Kumgang.	87.0	0			87.0	
Gaesung	156.9	19.8		19.8	156.9	
Other projects	6.8	0.2		0.2	6.8	
Total						559.4

Sources: The Ministry of Unification. This table is based on Lee Young-Hoon's *The Status and Evaluation of the Inter-Korean Economic Cooperation*, a working paper of the Bank of Korea, 2007. p.31 (in Korean).

The net increase of the North Korea's income in 2005 thanks to the inter-Korean economic cooperation was approximated to amount to 194 million US dollars( commodity trade: balance 168.0 million dollars plus processing commission revenue: 26.4 million dollars) in terms of the concepts of both nominal GDP and GNI. But it totaled to 559.4 million US dollars in terms of the concept of GNDI (gross national disposable income) for North Korean people as a whole. This net effect of the inter-Korean economic cooperation (which was based on our very conservative approximation) on North Korean GNI and total exports (the sum of imports and exports) accounted for about 2.3% and 18.7% respectively in 2005. If we added other omitted cooperation items such as fertilizer aids, infrastructure facilities, electricity supplies, medicines, and various fees and tax payments, etc., its share

of North Korean total trade rose from 13% in 1999, 26% in 2005 and most recently to 61.2% in 2007.<sup>16</sup>

In sum, the inter Korean cooperation has seemingly helped the North fill considerably its external trade gaps with China and other countries. It is estimated that North Korea has annually earned about 180 million US dollars from the inter-Korean economic cooperation. If other revenues made in relation with the visitors and relative remittances from the South were added, the figure would exceed at least more than 200 million dollars annually since 1998. South Korea has literally contributed since 1998 to sustain the regime in the North regardless of the latter's often bluffing to consume it with "fire".

#### **4. Is There New Policy Paradigm Toward the Inter-Korean Cooperation Under Lee Myung-Bak's Leadership?**

*"National unification is the main hope of 70 million Korean people. The relation between the South and the North must develop toward better productive ways ever than before. I will solve our national division problem not by the measuring rod of ideology, but by the rule of pragmatism. Our goal lies in both helping the South and the North residents live happily and providing the common grounds for reunification".*

*-President Lee Myung-Bak's Inauguration Address on February 25, 2008 –*

With new government in the Blue House being backed by South Korean conservatives, many people are demanding fundamental shifts in policy paradigm toward the North Korea. New President Lee pronounced that his regime will pursue the roads of both *common survival and mutual prosperity* on the basis of pragmatism and productivity. In his remarks, he made it clear that his government would not recklessly pour money into the North unless the latter does not correspondingly respond to the beneficiary extended by the South. This

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<sup>16</sup> Refer to both various reports cited above on the Inter-Korean trade and cooperation and *The Estimation of North Korean Economic Growth (Annual)* by the Bank of Korea (<http://www.bok.or.kr>) (in Korean). Also see KOTRA, *The Trends of North Korea Trade (each year)*. (<http://www.kotra.or.kr>).

did sound as if he fully recognized the need of reciprocity in every transaction between two Koreas. The reciprocity is meant by some balanced trade between the two Koreas, not necessarily in pecuniary two-ways but in the form of formidable give-and-take alternatives.

The new government in the South pronounced *its 2008 action plan comprising three main objectives with twelve supplementary tasks* that are considered necessary for achieving both “*common survival and mutual prosperity*”<sup>17</sup>. The new action plan intends to carry forward the inter-Korean economic cooperation in line with the North’s response in reducing its nuclear projects. The new four principles propose that Lee’s government will cooperate with the North step by step if and only if such preconditions as the North’s denuclearization progress , economic feasibility, financial capability, and people’s consensus regarding the inter-Korean economic cooperation are met.

As usual, the North side began to bluntly shut up Lee’s stance and opened its criticism against his conservative approaches. In an interview with reports in late March, the talkative President Lee said that his government would always leave door open to talk with the North, revealing his somewhat set-back position. To make matters worse in the South, the candlelight pranks having the semblance of cultural activities namely against US beef imports appear certainly targeting to up-side down the conservative pro-American regime. Amidst of anti-US beef and anti-conservative street demonstrations continuing in June 2008, Lee government appears to kneel down before the liberal protestors whose core members must be suspiciously linked directly or indirectly to Dear Leader in the North. As long as the liberal groups are shaking the government, the Lee’s plan is hard to survive through his initial policy direction. Unless the government newly wakes up to go ahead

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<sup>17</sup> The 2008 Action Plan has three objectives and twelve implementation tasks. The first objective targets to facilitate the North’s denuclearization, which in turn consists of (a) achieving the North’s nuclear dismantlement through the inter-Korean relation, and (b) inducing the North’s denuclearization as well as its glasnost. The second objective aims to enlarge inter-cooperation with eyes on common survival, thus contributing to economic progress in the peninsula. Toward to this objective, it proposes (c) to reduce any barriers to the enterprises engaging in the cooperation, promoting (d) forestry area cooperation , (e) fishery area cooperation, and (f) resource area cooperation in addition to (g) the Na-deul island project. The third one aims to promote mutual welfare of people in both the South and the North. Toward this, (h) reunion of separate families, (i) POW’s and kidnapping issues, (j) dissidents’ settlement, (k) transparency of the distribution process of humanitarian aids, and (l) human rights in the North must be solved. (Source: Ministry of Unification, *The Status and The Directions of Policy toward North Korea*, 2008. 6.)

with its policy strongly in accordance with the laws and the principles whatever the costs would be, all action plans would be trampled, just as the fate of rightly advocated reciprocity principle confronts defiance in the hot summer of 2008. Lee Myung-Bak government appears being trapped both by internal protests and by North Korean leader's constant plot to blackball it.

### **5. Concluding Remarks on the Need for Reciprocity in Inter-Korean Relations.**

From the moment he occupied the Blue House in early 2008, Lee Myung-Bak offered to help the North improve its economy, education, infrastructure, finance, and living conditions within five years if the North shows reducing its inordinate nuclear programs. He also presented his inter-Korean policies to assist the North to raise its per capita income to 3,000 US dollars within ten years when the North takes denuclearization steps. Lee's policy toward the North reflects the reciprocity principle vividly different from the lopsided cooperation of the past regimes. For 10 years, the defector policy of both Kim Dae-Jung and Ro Moo-Hyun regimes has been to help the North communist leaders to do increasingly less for their starving populace with increasingly more aids. The idea of *DJ's sunshine policy* was a serious mistakes—the product of wishful thinking and the opposite true realism. For any generous external aids would not help the beggars change their begging mentality unless the aids accompany with the conditionality that the beggars promise to stand on their feet. Furthermore, *the sunshine* has South Koreans undress but the North leaders tighten their roofs. As a result of taking this policy, the North could rebuild its military strength while leaving many residents unable to get out of the shadow of shortage economy. Free aids could demolish the spirits of the beneficiary unless they carry the lesson that *Heaven Helps Those Who Help Themselves*. The gap that exists in North Korea between the bottom-hit economy and the total reluctance of the present leadership to implement the most elementary and necessary *perestroika and glasnost* turns the North leaders to look for non-expensive money that they think they can obtain *by warping and bluffing* the South.

The North's interests with nuclear weapons have made the rogue regime behave more aggressively to get more supports from the South. That is one of many reasons why the South must demand the reciprocity principle with the North. Installing reciprocity in the inter-Korean economic relation will not be cheap, but it is necessary. The benefits will outweigh the costs in the long run for both South Korea and North Korea as well.

As regards to the Lee Myung-Bak government's new approach, the North is still responding negatively as of June 2008 when the candle lights keep burning in every night in Seoul streets. The North even turned down the 50 thousand ton of corn aids offered in June 2008 by the Lee's government, although North Korea faces severity of food shortages. According to a recently obtained North Korean government document released by Good Friends, which is working to help hungry North Koreans, it calls for a redoubling of the North's campaign to increase this (2008) year's crop production<sup>18</sup>. This reveals that the country is in severe state of food shortage.

Anyhow, Lee's earlier tough stance toward the North since taking office had infuriated the North, which considered it an insult to the Dear Leader Kim who had negotiated and signed previous deals. Lee began soon to sense a sort of crisis ignited in the South from the resumption of US beef imports in late spring 2008. The beef fiasco appeared to make him reconsider, right or wrong, that he could not overcome the crisis by keeping further from North Korea. In a reversal of his hard-line stance toward North Korea, President Lee Myung-Bak offered to resume dialogue with the North during his first parliamentary Presidential speech made on July 11, 2008. The president stressed that his government was willing to engage in serious discussions with North Korea on how to implement the inter-Korean agreements made so far, including the 1991 Joint Declaration on the Denuclearization of the Korean Peninsula, South-North Joint Declaration of June 15, 2000 and the October 4, 2007 summit declaration between the leaders of the two Koreas<sup>19</sup>. Lee

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<sup>18</sup> The Korea Herald, p.2, June 19, 2008.

<sup>19</sup> Lee Myung-Bak's liberal predecessor, Roh Moo-Hyun and North Korean leader Kim Jong-Il held the second inter-Korean summit in Pyongyang in October, 2007 and signed a 10-point joint declaration calling for establishing permanent peace on the peninsula and significantly expanding in the inter-Korean cooperation in politics, the economy, denuclearization and other issues.

expressed his wish to engage in inter-Korean humanitarian cooperation. “From a humanitarian and fraternal standpoint, the South Korean government is ready to cooperate in efforts to help relieve the food shortage in the North as well as alleviate the pain felt by the North Korean people. Issues involving South Korean POWs, separated families and South Korean abductees should be resolved as well”. “Inter-Korean relations should transcend changes in administrations and be pursued from a future-oriented perspective for all the Korean people,” Lee told lawmakers<sup>20</sup>. There was no North Korean immediate reaction to Lee’s speech, which was considered a softening of his hard-line posture<sup>21</sup>. Since his election, he had said he would “review” the inter-Korean agreements, which promised projects worth billions of dollars. He had during his election campaign ruled out expanding joint economic projects already under way, including Gaesung industrial complex north of Seoul and another symbol of reconciliation pursued by his liberal predecessors. Lee’s overture came amid a deepening chill in relations with the North Korea, though recognizing the need for reciprocity in the inter-Korean relations.

The need for reciprocity in the inter-Korean relations cannot be too much emphasized. The “reciprocity”, that is, in other words, “cooperate if”, is beneficial for both parties. Above all, “the cooperation if” principle will help improve each economic policy efficiently, providing both parties with “better understanding” about “economic functioning” of the other system. Learning about the policy efficiency of the other-side party is one of the important gains that could be earned through reciprocity deals. Likewise, “paying the price” is far more worthy in the long run than “free lunch” for the parties involved to learn how to build their economy. The reciprocity deals will also contribute to make both parties earnestly complement one another on the basis of comparative advantage of endowments in both software and hardware aspects. The reciprocity deals can contribute to promote peaceful coexistence and to strengthen the inter-Korean cooperation

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<sup>20</sup> Quoted from Jong Ang daily, July 12, 2008(No.2,372) p.1. <http://joongangdaily.joins.com>.

<sup>21</sup> Earlier on July 7, 2008, Lee Myung-Bak said to reporters that he was willing to meet North Korean leader any time in order to speed up the North’s dismantling of its nuclear programs. North Korea rejected any possibility of summit talks with Lee, saying that “it is preposterous for Lee to suggest such a meeting”. The North accused Lee of suggesting a summit with the North Korean leader in an attempt to “evade the responsibility for having bedeviled the inter-Korean relations”.

in parallel. The reciprocity is the starting point of the long-run joint efforts toward inter-Korean cooperation as well as building mutual trusts and common prosperity under peaceful environment. Of course, a heavily shut-door country like DPRK need to come to understand the long-run benefits to gain from the reciprocal fair trade in stead of beneficiary trade. Getting used to a new mode of mutual cooperation is something that requires paradigm shifts in the ways that the leaders accept the reality.

The reciprocity can function well not only when the two parties agree to follow “the give and take game” complementally, but also only if each party could secure its internal consensus. Do two walk together long way unless they have agreed to do so? Does any leader keep up with his or her strong political stance if he or she lacks full supports from citizens?

The ideological split among South Koreans is a staggering flaw that is currently dragging down the realistic reciprocity approach being pursued by Lee’s government. The South’s coalition groups with the candle lights in their hands are demonstrating “*against food*”, namely the beef imports from the United States. The candlelight turmoil in summer 2008 is apparently contributing to make the Seoul government turn around from its initial “cooperate if” policy toward North Korea. When the current Lee Myung-Bak regime appears bogged down and unready to face the opposing forces sternly, it would invite further conflict inside the state. This would in turn lead the regime to be incapable of pursuing straight forward reciprocal deals with the North.

On the other side of the border, many hungry people are striving “*for food*”. The economy of chronic food shortages is not also in a position to take reciprocity stance at all. Pyongyang’s stubborn refusal to embrace Lee’s offer may seem also to be driven by its distrust against conservatives in the South.

The North’s monolithic group of elites who share the same views, values, and visions need first to wake up from their closed mind-sets and to come to understand the outside world if it wants to go forward to overcoming the vicious circle of economic and political stagnation.

The comparative situations illustrated above reflect the unsolved reality stifling around the two Koreas as of middle of 2008. While the Six Parties (South Korea, North Korea, USA, China, Russia and Japan) talks could just barely come to persuade North Korea to abandon its nuclear arsenal, the United States announced to remove North Korea from its lists of state sponsors of terrorism. Concurrently, President Lee Myung-Bak said that “full dialogue between the two Koreas must resume” in his speech at the newly-convened National Assembly on July 11, 2008. But on his way to the National Assembly, the president was informed that a South Korean tourist was shot to death near the beach hotel of Mount Kumgang by a North Korean soldier in the early morning of the very day. Seoul announced it would temporarily halt its tourism program as of July 12, 2008. The shot woman was one of some 1500 tourists visiting the Mt. Kumgang area in the week of the accident. More than a million South Koreans have visited the mountainous area since 1989 until this accident. This shooting, whether intentionally made or not, would be a cloud in the inter-Korean relation, at least temporarily.

On the other hand, so many liberalists who were recently out to the streets with both candle lights and loud shouting voices against Lee’s policy of resuming US beef imports remain “strangely quiet” about the shooting of an innocent tourist by a North Korean soldier, not to mention their continuing silence about human rights suppression in the North.

The future win-win outcomes in the inter-Korean relation seem depending on not only the removal of blockades in military, political, economic, and ideological fronts on the basis of reciprocity framework between the two Koreas, but also overcoming the crashes and divergences between conservatives and liberalists in South Korea.

*“They do not know how to do right, who hoard plunder and loot in their fortresses”.*

*Amos 3:10.*

*“I gave you empty stomach in every city and lack of bread in every town. Yet you have not returned to me”, declares the Lord.*

*Amos 4:6.*



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