

# Evaluations and Suggestions to Guarantee Business Self-Regulation and Plans to Solve Side-Effects

Soo Young Choi\*

The government plans, which will promote the South-North economic cooperation led the by private sector while respecting the self-regulatory judgments of business enterprises according to the separation principle of the economy and politics, look very firm. Measures to activate South-North economic cooperation, outlined at the end of March, were decided upon at 45th Promotion Committee of the South-North Exchange and Cooperation (April 30, 1998). Accordingly the advancement movement toward North Korea by business world appeared visible. Business enterprises which tried to find out a new way-out in the economic crisis situation due to the foreign exchange crisis could go ahead aggressively to advance toward North Korea on the opportunity of the activation measures of the South-North economic cooperation.

## The Meaning of Guaranteeing Self-Regulation of Business Enterprises

Since the past economic cooperation between South and North Korea proceeded in relation to the general situation of South-North relations, the improvement of South-North relations and South-North economic cooperation proceeded at the same pace. Under these political and economic relations, contacts and advances

\* Dr. Choi is the Manager of Information Materials at the Research Institute for National Unification

toward North Korea by the private sector were controlled through the guidance, supervision and regulations by the government. It is a fact that many businessmen involved in the South-North economic cooperation showed dissatisfaction with the excessive intervention and regulations by the government. This kind of dissatisfaction seemed to come from the perception that this was used for domestic politics, even though the unexpected political and military situations in the South-North relations were perceived as a bottleneck to the South-North economic cooperation.

The Government announced that it will respect self-regulatory judgments when the private businesses promote the South-North economic cooperation according to the separation principle of economy and politics. It's desirable to look through the meaning of the self-regulation of business enterprises in economic cooperation led by the private sector from many angles. We need to think of whether the government should remain indifferent to self-regulatory economic promotion by the private sector or if the business enterprises should control the promotion of economic cooperation themselves until this problem is solved, even in the case where similar provocations like the infiltration of the North Korean submarine in front of Kangnung would happen again. Even though priorities are given to the self-regulation of business enterprises under the separation principle of the economy and politics, more serious problems could happen if we promote South-North economic cooperation without considering the South-North relations.

South-North economic cooperation should proceed in consideration of the universality and uniqueness of the South-North relations. The self-regulatory promotion of economic cooperation by private enterprises which take this universality and uniqueness into good consideration will play a positive role in the development of economic cooperation and the improvement of the South-North relations. South-North economic cooperation as a part of the South-North relations should make good use of universality. Universality means that the self-regulation of the private sector is maximized based on econom-

---

*The self-regulatory promotion of economic cooperation by private enterprises which take this universality and uniqueness into good consideration will play a positive role in the development of economic cooperation and the improvement of the South-North relations.*

*Self-regulation of the private sector can be interpreted as meaning that the private enterprises promote economic cooperation in the areas where both South and North Korean governments are satisfied, not just where our business and North Korean partners are satisfied.*

ic logic. On the contrary, uniqueness should presuppose that non-economic South-North relations can suppress the South-North economic cooperation based on self-regulatory judgments by the private sector.

Self-regulation of the private sector can be interpreted as meaning that the private enterprises promote economic cooperation in the areas where both South and North Korean governments are satisfied, not just where our business and North Korean partners are satisfied. From this macroscopic point of view, private enterprises can create profits and make losses through economic cooperation. The responsibilities for profits and losses due to investment in North Korea naturally belong to investors themselves and in principle, there cannot be any compensation of losses due to economic cooperation.

Self-regulation of business enterprises also require close cooperation between the private sector and the government. The private enterprises can't promote economic cooperation without considering national security. The reality of the South-North relations in the conflict situation of politics and military requires that the private sector promotes economic cooperation autonomously by itself based on security. Therefore if tension occurs in the South-North relations due to a serious attitude change by North Korea, the private sector should control the tempo of economic cooperation autonomously. If the government controlled economic cooperation in urgent situations in the past, now is the time when self-regulatory control by the businesses considering the overall South-North relations is required. Because North Korea has a different ideology, way of thinking, business goals and national goals from ours, the goals they are striving for through economic cooperation can be quite different. Economic cooperation led by the private sector should be promoted considering these aspects.

But what is most important is that we perceive that self-regulation of the private sector is limited to peoples' sympathy. If the businesses for economic cooperation approved by the government are against the feelings of most people, the business firms should self regulate the situation such that the above things don't happen.

We shouldn't forget that self-regulation is very important but it also is accompanied by a very severe responsibility. It is appropriate that business for economic cooperation should be promoted by the leadership of the private enterprises based on economic logic, but it is imperative to be aware of the uniqueness of the South-North relations and the eyes of people.

### Side Effects due to Private Self-Regulation

Many people, especially businessmen sympathized with the fact that it is desirable for the South-North economic cooperation to be promoted autonomously by the leadership of the private sector under the separation principle of the economy and politics. This situation was made ready with the start of the People's Government and the basic grounds for the economic cooperations by the private enterprises were greatly expanded through the activation measures for South-North economic cooperation. But we cannot overlook the following types of side-effects and problems which could stem from cases where the South-North economic cooperation is done by self-regulatory judgments by private enterprises.

First, excessive competition of business enterprises in South-North economic cooperation is expected. Not only is the visitation of North Korea by all businessmen allowed in principle in case of requirement preparations, but also the system of frequent visits to North Korea, which was applied only in the case where the approval of cooperation business was given in the past, has been expanded and applied to all businessmen. Our businessmen who want to go to North Korea can contact North Korea at any time in reality. In a way, North Korea still prefers investment from a third-party country and tries to introduce investment toward North Korea in their own advantageous direction. In this situation North Korea intentionally can cause excessive competition in reality to the movement of our business enterprises toward North Korea. And the movement of our business enterprises toward North Korea, rather than checking for economic profitability,

*Excessive competition of business enterprises in South-North economic cooperation is expected. ... In a way, North Korea still prefers investment from a third-party country and tries to introduce investment toward North Korea in their own advantageous direction.*

can get excessive for the purpose of having prior occupation in North Korea.

Second, for advertisements, there can be room for business enterprises participating in the South-North economic cooperation to work together. Under the IMF bail-out package, most businesses shrank their investment activities due to structural reforms and streamlined management. Therefore, there could appear business enterprises which make use of the movement toward North Korea as the enhancement of business images and advertisement and showing-off rather than as a part of investment activities. These business enterprises will try to maximize the effects by advertising the plans of the movement toward North Korea or rosy blue-prints through all kinds of mass media. But this behavior is not only negative to the development of the South-North economic cooperation but also will give North Korea an opportunity to make bad use of economic cooperation of the private self-regulation politically.

Third, economic cooperation through private self-regulation could lead to overlapping investments in North Korea. In case where business enterprises involved in the South-North economic cooperation will decide the investment in North Korea based on their own judgment for the purpose of pursuing profits, overlapping investment will happen inevitably. Even though one business enterprise in the process of deciding on investment in North Korea happens to know that another business enterprise proceeding with investment activity in North Korea in a similar area, it must be impossible for this enterprise to revise or give up the investment

plans in North Korea. Overlapping investments in North Korea, in the sense of inefficient and distorted distribution of our capital, will have a negative effect on the domestic economy, even though small in size.

Fourth, too many intermediaries may compete due to lack of information. As the South-North economic cooperation by the private self-regulation becomes possible, new advancement toward North Korea by small and medium-sized companies will increase dramatically. Because new companies that want to go to North

*Overlapping investments in North Korea, in the sense of inefficient and distorted distribution of our capital, will have a negative effect on the domestic economy, even though small in size.*

Korea are short of information in regard to the investment environment in North Korea and contact opportunities, a lot of them will depend on intermediaries who have contact with North Korea. In this case, there may be too many intermediaries who will try to get only commissions rather than accomplish investment in North Korea, which will hurt the economic cooperation. And even though investments in North Korea are accomplished to a certain extent through these intermediaries, conditions and lands could be different from those which companies planned and expected originally, which can hurt normal investment activities in North Korea.

Fifth, the opportunities of small and medium-sized companies' advancement to North Korea can weaken relatively. South-North economic cooperation by the private self-regulation means that small and medium-sized corporations compete against big corporations for the advancement into North Korea. Considering that big corporations advanced domestically to all categories regardless of business types in the past, we cannot guarantee that this kind of situation won't be repeated. Even though there is nothing wrong legally with the competition between small and medium-sized corporations and big corporations for the advancement to North Korea according to private self-regulation, it is possible for fair form of competition not to be accomplished. Therefore even a promising small and medium-sized corporation in a specific field, being pushed by the capital logic of big corporations, can suffer a setback in the advancement to North Korea.

## **Plans to Solve Side-Effects: Organization of a Private Conference**

The role of the private enterprises advancing to the South-North economic cooperation must be basically based on self-regulation based on economic logic.

Therefore government intervention because of the side-effects mentioned above due to the leadership of the private sector should be minimized. We need to think very seriously about whether these kinds of problems can be controlled autonomously by the private enterprises and whether it is best for these problems to be

left to be solved by the private enterprises. It is because there can be side effects and problem such as overlapping investment under the situation that corporations advancing to the South-North economic cooperation won't recognize at all.

Right now the government is about to promote South-North economic cooperation based on the separation of the economy and politics, while respecting self-regulation of corporation, the subject of economic cooperation. If the government intervenes because of side-effects due to the private self-regulation, this will revert to the past in which the South-North economic cooperation went on under the principle of the interrelation of the economy and politics. This situation won't help the improvement of the South-North relations and draws criticism from business enterprises. Even so we cannot put aside the side-effects expected from the private self-regulation.

*In the situation where the government cannot go to the forefront, the establishment of a private organization in complete charge of economic cooperation partially solves the side-effects due to the private self-regulation.*

In the situation where the government cannot go to the forefront, the establishment of a private organization in complete charge of economic cooperation partially solves the side-effects due to the private self-regulation. This establishment can stop the side-effects due to the private self-regulation such as a self-regulatory adjusting establishment relating to the South-North economic cooperation before they happen, and play a role of the efficient allocation of resources in the economic sense. Also considering that right now the government is excluded in the South-North economic cooperation, this organization can be used as a window for practical negotiations with North Korea. This is because the uniqueness of the South-North relations requires that the South-North economic cooperation is promoted under the close cooperation of the government and the private enterprises.

A private, self-regulatory, organization in complete charge of the economic cooperation or the 'Committee of Private Economic Exchange between South and North'(temporary name) consisting mainly of four economic associations (Businessmens' Association, Trade Association, Central Committee of Small and Medium-sized Corporations, Korean Chamber of Commerce) as a private council

can be supposed. This council does the function of self-regulatory adjustment at the private level, consultation with government agencies and window for the negotiation with North Korea in relation to the South-North economic cooperation. Under the auspices of the council, subordinate agencies for each type of business are placed to offer advices to private enterprises advancing to the South-North economic cooperation, to assign the roles and to control excessive competitions. Also it will support private councils separately organized and run.

Right now 'the Council of Merchandise Exchange for Korean People' consisting of small and medium-sized corporations of trading and investing in North Korea plans an agency business of issuing invitation papers for visit to North Korea for separated families after the discussion with the government. In order to give overall support to trade and investments of small-& medium sized corporations toward North Korea, this council will open windows of trade and investment consultations toward North Korea for each section, which would be responsible for contact and selection of the North Korean partner, guarantee of invitation papers for visit to North Korea, business talks and conclusion of contracts. If the transactions know-how of this council in the field with North Korea is utilized appropriately, South-North economic cooperation under the separation of the economy and politics as the government suggests will be more effective. It is necessary for the 'Committee of Private Economic Exchange between South and North Korea' to support economic cooperation businesses in close relation to the existing private councils relating to economic cooperation.

Also, the 'Committee of Private Economic Exchange between North and South Korea' will promote conversation with responsible agencies like the "Gold Star Business Association' in relation to the South-North economic cooperation, trying to draw a mutual agreement. In order for North Korea to accept conversation relating to the South-North economic cooperation and respond to the consultation, the governmental participation should be minimized at the level of business cooperation or support.

The Sino-Taiwanese relation showed that economic coopera-



tion got deeper through the continuous exchange at the private level, even though the relations were tight at the government level, because they kept various contact channels even without the inter-governmental agreement. Here it was evaluated that anti-official and anti-private committee 'Relation Committee on Two Seashores of Straits' and 'Fund Committee of Straits Exchange' contributed a lot. In this respect, the 'Committee of Private Economic Exchange between South and North Korea' should be developed into the type of half-official and half-private organization characterized as pseudo governmental agency to accomplish over-all conference businesses in relation to economic cooperation.

If we ask business enterprises to do investments in North Korea in consideration of industry reallocation of South and North Korea rather than profit seeking, this goes to far and violates the basic objectives of self-regulation. The private council in complete charge of economic cooperation will be led to prevent excessive competitions, overlapping investments, too many intermediaries and to let small and medium-sized and big corporations coexist and advance to North Korea. In this procedure, business types for investment in North Korea will be adjusted naturally. The 'Committee of Private Economic Exchange between South and North Korea' will contribute to expansion and development of South-North economic cooperation in the long run and function positively for the efficient reallocation of industries on the Korean Peninsula without a doubt. ■