

Influence and Dependence: Economic Relationship between East and West Germany

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Introduction

Germany and Korea have many similarities despite of the enormous geographical distance between two countries. The divisions of both countries were primarily the direct results of World War II. Victorious Powers of the Second World War occupied different sections of the nations. Both countries were caught up in the East West confrontation.

Contrary to the case of Germany, the situation of the two Koreas was implacably hardened by the Korean War. Accordingly, there were no economic relations between North and South Korea during the Cold War. The inner Korean Trade began in 1989 and kept increasing on the whole. It is expected to expand further due to the Sunshine Policy of the Kim Daejung Government.

This paper is primarily aimed at deriving a feasible approach to facilitate economic relations between North and South Korea by observing and analyzing the past economic cooperation between East and West Germany. It is clear that the establishment of economic relations, either in the form of international trade or economic integration brings about mutual economic benefits. This simplified version of the economic cooperation, however, does not automatically apply to the case of divided nations.

It is true that in addition to general benefits, there should be

some more specific benefits when divided nations resume old economic ties. However, the economic relationships between divided nations have aspects of politics and security. South Korea has suspected that North Korea uses the inner Korean trade to build up its military forces. This is the reason why many people in South Korea do not enthusiastically support the Sunshine policy.

The following will discuss the exchange of goods between the two divided Germanys during forty years. The economic relationship between the two Germanys raises several questions: How could the economic cooperation between the two Germanys be sustained in spite of ensuing political conflicts? Can economic cooperation between divided nations threaten the national security? Or will mutual economic interests eventually resolve conflicts in the long run and lead to an integration of divided nations?

Addressing these questions would help assess the sustainability of the Sunshine policy and the prospects for a reunification of Korean peninsula. The inner German trade by and large has increased continuously despite several obstacles. The development was not linear but passed through several phases. The objective of this paper is twofold: first to analyze the change of the inner German trade in every phase and second, to identify determinants of the change.

This paper is organized as follows. The first section briefly explains historical development of economic relationship between the two Germanys. It highlights the inner German trade since a major portion of the economic relationship is the exchange of goods. Accordingly, dealing with the exchange of services and capitals would go beyond the scope of this paper. The second section attempts to identify positive determinants of the inner German trade. Negative determinants of the inner German trade are discussed in the third section, which also assesses the changes in the two Germanys' vulnerability to external influence. The paper ends with broad conclusions regarding the political and security dimension of the economic relationship in the case of the divided Germanys.

The established economic cooperation between the two Germanys can serve as a standard reference for Korea since

Germany shows how to maintain a flourishing economic relationship, how to ease the pain of East German people who were suffering from the separation, and how to reunify the nation.

Historical Development of Inner German Trade

After World War II, Germany was divided into four zones and occupied by the four Allied Powers. The division of Germany was based on the Potsdam Agreement in 1945. The Potsdam Agreement among the Allied Powers, however, provided the basic principle that in spite of the political division the German economy was to be treated as a single economic unit.¹

There were a number of agreements made between the occupation authorities of the four zones, especially bilateral agreements between each of the Western Allies' zones and the USSR zone. This made the bargaining power of Western Allies weaker, and sometimes exposed inconsistencies among the trade policies of the Western Allies. A further development was made in November 1947 when the Western zone altogether signed an agreement with the USSR zone. The so-called Berlin Agreement in practice divided Germany into two instead of four.²

In 1949, the Federal Republic of Germany and the German Democratic Republic were born as states having their own respective entities. Consequently, the inter zone trade changed its formal character into interstate trade. The Second Berlin Agreement of 1952 concretely formulated the regulations ruling trade between the two Germanys. The idea, which was formulated in the Potsdam Agreement to be applied to the inter zone trade, could finally get a concrete legal framework.³ Since both states refused to recognize each other diplomatically, the agreement was accepted not between the two states but between the two currency areas of

¹ Joachim Nawrocki, *Die Beziehungen zwischen den beiden Staaten in Deutschland*, (Berlin: Verlag Gebr. Holzappel 1988) p. 15.

² Suk Bum Yoon, "East and West German Economic Relations: A Korean Perspective" in: Dalchoong Kim et al.(ed.) *East-West Relations and Divided Nation Problems in the Gorbachev Era*, (Seoul: Yonsei University, 1988) pp. 326-7.

³ Dettlef Kühn, "Agreement and Implementation between East and West Germany" in: Dalchoong Kim et al(ed.) *East-West Relations and Divided Nation Problems in the Gorbachev Era*, (Seoul: Yonsei University, 1988) p. 312.

the West German Mark and the East German Mark.

As explained above, the inner German trade originated from the inter zone trade. Thus, it began prior to the political division and has continued until the reunification. This means that the economic relationship was the oldest and the most consistent among all ties between the two Germanys. The trade between the two Germanys may be observed as a genuine international trade, at least ostensibly. However, the innate nature was more or less preserved as the inter zone trade. West Germany regarded the trade with East Germany as a domestic practice and an important link between the two parts of Germany.

The principles of the Berlin Agreement as the basis of a unified economic relationship between East and West Germany may be summarized as four broader categories as follows:¹

First, the exchange of goods is regulated by bilateral agreements. In principle only goods that are produced in West or East Germany may be exchanged. Trade with foreign products requires special arrangements.

Second, deliveries and purchases are not paid directly in the respective currencies but are settled in a clearing-business. Both central banks run the clearing accounts of the other side's central banks.

Third, the clearing system uses an accounting unit. 1 DM converts via 1 accounting unit into 1 or more East German Mark. The exchange rates between the accounting unit and the East German Mark can differ substantially according to the products traded.

Fourth, the accounts may be overdrawn to an extent, which has to be negotiated. This credit system, the Swing, is interest-free and designed to temporarily eradicate chronic accumulation of unilateral trade deficit. The Swing characterized inner German trade as unique and peculiar.

Table 1 shows that the exchange of goods between the two Germanys during the period of forty years from the division to the reunification. The inner German trade increased steadily in the whole period. It draws "S line" in concrete terms and can be divid-

¹ Franz-Lothar Altmann. "The Framework for Inner-German Trade and Travel" in: Dalchoong Kim et al(ed.) *Divided Nations and East-West Relations on the Threshold of the 1990s* (Seoul: Yonsei Univ., 1990) pp. 207-8.

<Table 1> The Trade of West Germany with East Germany, 1949-1989

(unit: mil. DM)

	turnover	delivery	purchase	trade balance
1949	430	220	210	10
1950	800	390	410	- 20
1955	1,150	560	590	- 30
1960	2,080	960	1,120	- 160
1961	1,810	870	940	- 70
1962	1,760	850	910	- 60
1963	1,880	860	1,020	- 160
1964	2,180	1,150	1,030	120
1965	2,470	1,210	1,260	- 50
1966	2,960	1,340	1,620	- 280
1967	2,740	1,260	1,480	- 220
1968	2,860	1,440	1,420	20
1969	2,930	1,660	2,270	- 610
1970	4,410	2,410	2,000	410
1975	7,260	3,920	3,340	580
1980	10,870	5,290	5,580	- 290
1981	11,630	5,580	6,050	- 470
1982	13,020	6,380	6,640	- 260
1983	13,830	6,950	6,880	70
1984	14,150	6,410	7,740	- 1330
1985	15,540	7,900	7,640	260
1986	14,290	7,450	6,840	610
1987	14,050	7,400	6,650	750
1988	14,020	7,230	6,790	440
1989	15,300	8,100	7,200	900

Source: Statistisches Bundesamt. *Statistisches Jahrbuch für 1990 Bundesrepublik Deutschland*. (Wiesbaden, 1990) p. 323.

ed into three development phases; standstill in the early phase, then expansion phase, and decrease phase.

The standstill phase lasted for twenty years from the establishment of the two German regimes in 1949 to the Ostpolitik in 1969. The inter zone trade was operated under the rights and responsi-

bilities of the Four Powers. The Soviet Union rigorously brought the inter zone trade under control. In 1950 shortly after the control of the inter zone trade was transferred to the two Germanys, the inner German trade increased by twofold. The exchange of goods came to a standstill and remained at a level of two billion DM in the 1960s.

The inner German trade expanded impressively with the Ostpolitik and continued mounting from 2.9 billion DM in 1969 to 15.5 billion DM in 1985 thereby increasing the trade by 530%. The last phase of the trade development began in 1986. The trade fell until 1989 and could not reach the best record of 1985. In this phase, the trade deficit of East Germany increased remarkably. As can be seen in Table 1, the aggregate trade deficit of East Germany amounted to 2.7 billion DM during this period.

Positive Determinants of Inner German Trade

West Germany understood political meanings of the inner German trade. In 1965 the West German Chancellor Ludwig Erhard insisted that the inner German trade was not simply a business, but would play a role of bridge. He said that the trade safeguarded the transit between West Germany and West Berlin and linked the two parts of Germany.⁵ The function of bridge was realized intensively when West Germany started Ostpolitik.

Before that time, West Germany had treated the communist East Germany as not existing and introduced a political doctrine by which West Germany refused to keep up diplomatic relations with any other country in the world that would recognize East Germany. This policy underwent a change. No longer did West Germany try to prevent Western Allies or other countries from building up relations with the communist East Germany. After the formation of a Social-Liberal coalition in September 1969, the West German government headed by Willy Brandt decided to recognize East Germany as a state, but to continue to regard it as a part of

⁵ Maria Haendcke-Hoppe-Arndt. "Interzonenhandel/Innerdeutscher Handel," Deutsche Bundestag (Hg.) *Deutschlandpolitik, innerdeutsche Beziehungen und internationale Rahmenbedingungen*, (Frankfurt a. M.: Nomos Verlag 1995) p. 1549.

Germany as a whole and hence not as a foreign country.⁶

The principle of "one nation, two states" facilitated the German-German Detente in 1972, leading to simultaneous admission to the UN and cross-recognition by other Powers. The German question, however, was to remain unsettled in political and legal terms. West Germany followed a somewhat ironical political concept: No recognition of the East German state in a sense of international law, but at the same time no direct confrontation with the legitimacy of the communist East Germany.⁷

Brandt never recognized East Germany as a foreign country, reaffirming that the Berlin Agreement should be the basic framework for the inner German trade. This meant that West Germany did not recognize the demarcation line between the two Germanys as a border line. As a result, the terms "export" and "import" never have been used due to the domestic character of the trade. West Germany did not levy custom duties on products of East German origin. Furthermore concerning turnover taxation, the Ministry of Finance applied reduced turnover tax rates.⁸

A breakthrough of the trade was made in the signing of the "Treaty on the Basis of Relations between West Germany and East Germany" on December 21, 1972, which became effective half a year later. The Basic Treaty stressed the wish to create preconditions for cooperation between the two states. The Swing covering the East German trade deficit against West Germany was set for the year 1976 at 850 million DM, the highest level of the whole period.

While West Germany was interested in the political function of the inner German trade, East Germany made great account of economic interests of the trade. The economic situations in the four zones showed great contrasts particularly between the Soviet occupied eastern zone and the other three zones. Before World War II, the west part of Germany established complimentary relations with the east part of Germany. The west part produced mainly raw materials, and the east part processed them. After the division of

⁶ Detlef Kühn. *op. cit.*, p. 311.

⁷ Richard von Weizsäcker. *Northeast Asia as seen from Europe and Germany* (Korea Christian Academy: International Conference for Peace and Cooperation in Northeast Asia. 1999. 4. 20), pp. 23-4.

⁸ Maria Haendeke-Hoppe-Arndt. *op. cit.*, p. 1547.

Germany into occupation zones, the Soviet zone became dependent on the West zones for the supply of raw materials. Furthermore the basic industrial facilities and stock material in the Soviet occupied zone were dismantled and carried to Russia by the Russian occupation authority. The necessity for trade with the west zones seemed inevitable.

Next to the Soviet Union, West Germany was the second trade partner of East Germany during the Cold War. According to official statistics of East Germany, the trade with West Germany accounted for 7-8% of the total external trade. However, it has been discovered after the German reunification that the official statistics had been manipulated. The East German leadership tried to show that the dependence of the East German economy on West Germany kept within due bounds. According to the newly modified statistics, the ratio increased to 20% in 1985-89.⁹

It is noteworthy that East Germany had two channels of trade with the West bloc. Unlike the other East bloc countries, East Germany could import goods through the inner German trade without paying hard currency. This amount accounted for 60% of the total trade with OECD member countries including West Germany. Due to this special trade channel, East German Economy could recover rather easily from the debt servicing difficulties which most of the COMECON countries had faced in the early 1980s.¹⁰

Contrary to East Germany, the dependence of West German economy on the trade with East Germany was relatively insignificant. The trade accounted for 2% of the total external trade of West Germany. East Germany ranked as the 15th trade partner of West Germany. From the viewpoint of quantity, the trade with East Germany fell into insignificance. However, it was important for small and medium-sized firms because 80% of the smaller business, i.e. about 7,000 firms engaged in trade with East Germany.¹¹

The structure of the inner German trade implies the direction

⁹ *Statistisches Jahrbuch der DDR* 1990, p. 277.

¹⁰ Hanns-Dieter Jacobsen. "Aktueller Stand der Entwicklungsmöglichkeiten des Ost-West-Handels," in: *Ostkolleg der BPB (Hg.) Rat für gegenseitige Wirtschaftshilfe*, Köln 1987, p. 130.

¹¹ Fritz Homann. "Zur Zukunft des innerdeutschen Handels," in: *Deutschland Archiv*, Nr. 10, 1986, p. 1089.

of the technology transfer. The capital goods from East Germany accounted merely for 11-15%. On the East German side, the ratio of capital goods import increased from 17% in 1961 to 38% in 1989. West Germany was no doubt technology transfer nation for East Germany.¹²

Negative Determinants of Inner German Trade

After the political division of the two Germanys, West Germany started with a policy of avoiding any contact with the East German authorities because of their lack of democratic legitimacy. Until 1961 when the Wall was built around West Berlin, West Germany had replied only to two out of around fifty official letters which the East German leadership had sent to the president, the government, and the parliament etc.¹³

A similar standpoint can be seen also in the trade with East Germany. Since politics of West Germany tried to avoid official contacts with representatives of East Germany, West German Ministry of Economic Affairs established the "Trust Agency for inter Zone Trade" under the German Chamber of Commerce and Industry in 1949. This civilian agency was renamed in December 1981 as the "Trust Agency for Industry and Trade".¹⁴

On the East German side, the agency participating in the inner German trade was Ministry of Foreign Trade. Since the trade was trusted to governmental institutions in most of the socialist countries, it was natural that the ministry handled the inner German trade in East Germany, whereas West Germany trusts it to a civilian organization. Representatives of the West civilian organization met with representatives of the East German Ministry of Foreign Trade to discuss all current questions of the trade.

The Trust Agency for Industry and Trade had played a role as a diplomatic channel to East Germany until the Basic Treaty made an

¹² Michael Baumann. "Der innerdeutsche Handel 1989 Grundlagen, Probleme, Perspektiven." in: *Deutschland Archiv*, Sonderheft, 1989, p. 174.

¹³ Eckhard Jesse. *Die Demokratie der Bundesrepublik Deutschland*, (Berlin: Colloquium Verlag, 1986) p. 203.

¹⁴ Karl C. Thalheim. *Die wirtschaftliche Entwicklung der beiden Staaten in Deutschland*, (Berlin: Landeszentrale für politische Bildungsarbeit 1988) p. 121.

exchange of "Permanent Representations" with seats in Bonn and East Berlin possible.¹⁵ It had complementary relations with the Permanent Representation in East Berlin that had no rights and responsibilities in trade affairs.

The inner German trade was hindered occasionally by West German attempts to turn the trade to an instrument of pressure. These occurred especially in the first phase of the inner German trade. Since East Germany might have wanted to maintain trade relationship with West Germany because of economic benefit, and West Germany might have not suffered from a break off of the trade, West Germany tried to use the inner German trade in order to pursue its political purpose.

For example, West Germany abrogated the Berlin Agreement one-sidedly in 1960 when East Germany had tried to introduce a permit-paper for visits of inhabitants from West Berlin to East Berlin. The act of West German government was criticized not only by the East German government but also by the West German public. Ultimately, West Germany renewed the Berlin Agreement in early 1961, and the Permit Paper Agreement was signed in December 1963.

The inner German trade also had economic obstacles. First of all, the two Germanys, both of which are industrialized countries, followed a pattern of trade between developing countries. They exported raw material, which accounted for nearly a half of their total export amount. This trade pattern, which was not suitable to the production capabilities of the both countries, constrained the goods exchange. The industrialized countries should have exchanged finished products with each other.

The second obstacle was the clearing system of the trade. Since the export was paid through bilateral clearing system, the amount of goods exchange depended on the less exporting trade partner. The East German side had difficulty to export because of the low competitiveness of its export goods in the West German market. The competitiveness of East German products has dropped still more due to the investment reduction in the early 1980s. Faced

¹⁵ Willi Keindienst. "Abwicklung und Praxis der Handelsbeziehungen zur DDR." in: Erik Böttcher (Hg.) *Wirtschaftsbeziehungen mit dem Osten*. Stuttgart 1971, p. 66.

with the debt servicing difficulty, East Germany had to spend less on consumption and investment than it produced.¹⁶

Despite of the low competitiveness, East Germany managed to increase its deliveries to West Germany through re-exports of Soviet-supplied cheap oil. The steep rise in crude oil prices in the international market after the first and second oil crisis helped East Germany expand its exports to West Germany and earn about 7 billion DM from the oil business. The oil products export continued amounting from 1.1 billion DM in 1979 to 1.8 billion DM in 1984. The export amount of oil products accounted for 23% of the total export in 1984.¹⁷

The third obstacle to the trade was the economic integration of West and East Germany into EC and COMECON respectively. The East German economy integrated into COMECON delivered 75% of export goods to that region, especially to the Soviet Union.¹⁸ As engaging in the West European integration, West Germany had emphasized the domestic character of the inner German trade that was then legally recognized as transactions within the EC market by the EC member countries. However, shipments from the East Germany may have been limited by quotas, expressed in quantities or in value terms, or may also have been under price surveillance procedures when market disturbances by low price deliveries were suspected. Agricultural products were strictly under the quota policy. They were imported mainly to meet the demand of West Berlin.

Last and not least, the security problem restrained the inner German trade. The Adenauer government took a cautious approach to the inner German trade because it did not want to strengthen the East German economy. Adenauer carried out "a policy of power" for the German reunification, and the power referred to the economic power. He regarded East Germany, which did not have an autonomy in its policy toward West Germany, as

¹⁶ Baumann, *op. cit.*, p. 175.

¹⁷ Jochen Bethkenhagen, "Die Energiewirtschaft der UdSSR und ihre Verflechtung mit dem RGW." in: Ostkolleg der BPB (Hg.) *Rat für gegenseitige Wirtschaftshilfe*. Bonn, 1987, pp. 80-81.

¹⁸ Jürgen Nitz, "Wirtschaftsbeziehungen DDR-BRD Bestimmungsfaktoren, Tendenzen, Probleme und Perspektiven" in: *Aus Politik und Zeitgeschichte*, B. 10, 1989, p. 13.

Satellite state of the Soviet Union. An active policy of reunification was, therefore, pursued particularly towards the Soviet Union. West Germany tried to have the Soviet Union be at its side through intensive relations with the Soviet Union, and at same time to isolate East Germany to the extent that the Soviet Union would have solved the German question in favor of West Germany.¹⁹

There was strong voice in West Germany to warn against the danger of Ostpolitik strengthening rather than weakening the communist system. This camp was afraid that such a daring Ostpolitik might in the final outcome decrease the chances for a reunification.²⁰

The Brandt government, however, tried to improve life for the East Germans by negotiating and dealing with their communist authorities on the inner German relations. A policy of little steps was taken up. Rather quickly it proved to be fairly successful. The strategy of "change through rapprochement", which the Kohl government continued to follow, did not really stabilize the communists in the long run. West Germany offered hard currency loans in a great measure. It created slowly but steadily a growing economic dependence of East Germany on Western contributions that had been promised to provide.²¹

General Secretary Honecker, who tried to modernize the East German economy and to raise the standard of living, imported plants and equipments with foreign capital. As a result of the modernization strategy, the East German net hard currency debt peaked at 10 billion \$ in 1980, and the East German leadership was forced to worry about its own economic security.

The Swing, an interest-free overdraft facility for the settlement of payments in inner German trade, became the subject of security controversy in East Germany. Until the debt crisis, the amount of Swing Credit provided by West Germany had increased steadily year by year and covered the East German trade deficit against West Germany. However, it continued to fall from 850 million DM

¹⁹ Bernd Feuerbach. "Die Diskussion ber Phasen und Probleme der Deutschlandpolitik 1945-1990," in: Ingrun Drechsler (Hg.) *Gertrennte Vergangenheit, gemeinsame Zukunft* (München: dtv 1997) p. 20.

²⁰ Maria Haendcke-Hoppe-Arndt. *op. cit.*, p. 1549.

²¹ Stephan Eisel. "The Politics of a United Germany" in: *DEADALUS* vol. 123, no. 1, Winter 1994. p. 162.

in 1976-82 to 770 million DM in 1983 to 690 million DM in 1984 and finally to 600 DM in 1985. East Germany not only lowered the Swing but also used it less. It used around 90% of the Swing in 1970s, however around 30% in 1980s.²²

As observed, East Germany assumed a cautious attitude in the trade with West Germany in terms of the economic security. In terms of the military security, West Germany was put under pressure from the Western allies, especially from the U.S. which tried to restrain the trade. The Western bloc established the Coordinating Committee for East-West Trade Policy in 1949 to control over exporting goods of military use to communist bloc countries. The COCOM had been used to reach an accord easily in the early Cold War and the Detente period. In the late Cold War of the 1980s, the trade expansion policy of West Germany came in conflict with the American policy trying to contain the Eastern bloc again. The U.S. rewrote the COCOM list more restrictively in 1984 and again in 1985. This affected the inner German trade negatively.²³

Conclusion

The inner German trade began before the division. While political relations were most of the times hostile, economic relations continued to be improved and contributed to the stabilization and reunification. The developments in the trade policy pursued by West Germany towards the East Germany suggest that political, security, economic obstacles alternately stood on the way of the gradual expansion of trade.

The inner German trade can be divided into three development phases. The first phase of the standstill began with the political division of the two Germanys and ended with the Ostpolitik. Obstacles of the political character cut a conspicuous figure in this phase. West Germany treated East Germany as not existing and did not recognize it as a state. West Germany worried about conse-

²² Armin Volze. "Geld und Politik in den innerdeutschen Beziehungen 1970-1989," in: *Deutschland Archiv*, März 1990, p. 382.

²³ Hanns-Dieter Jacobsen. "Die amerikanischen Exportkontrollen als bündnispolitisches Problem," in: *Osteuropa Wirtschaft*, Nr. 3, 1986, p. 190.

quences of the trade strengthening the communist regime. However, the inner German trade increased slowly in the first phase because of the active policy pursued by East Germany.

The second phase started with the Ostpolitik. After the political obstacles had been removed, the trade skyrocketed and reached the peak in 1985. Obstacles of the trade were limited capabilities of East Germany to supply high quality products to the West German market.

In the third phase, the trade continuously decreased until the reunification. Obstacles of this phase were of security character. The active trade policy of West Germany was confronted with the attempt of the U.S. to restrict the trade with the communist bloc countries. At same time, East Germany got worried about the gradually increasing dependence of its own economy on the trade with West Germany.

Comparing the situations developed in Germany with those in Korea, it is obvious that the Korean situations are substantially different from those of Germany. Although there are limits for the two Koreas to emulate the German experience because of a number of significant contrasting factors in the circumstances under which the two nations are divided, the relatively successful management of division by the two Germanys offers useful lessons for Korea.

Firstly, technology transfers resulted from the inner Korean trade might not be able to strengthen North Korean military forces. East Germany did not depend its military modernization on the trade with West Germany. The low standard of the technology in East Germany was derived from the vices of the communist system itself.

Secondly, it will be not true that the inner Korean trade brings about economic benefits in favor of North Korea, therefore Kim Jongil would not consider an economic reform. Trade partners on the side of South Korea are private firms seeking their profits.

Thirdly, it will be difficult for South Korea to use the trade as an instrument to put North Korea under pressure. The example of West Germany that failed to repeal the introduction of a permit-paper by abrogating the Berlin Agreement in 1960 suggests a minimal value of the trade as a pressure instrument.

The economic relations between North and South Korea have been minimally maintained and worsened by ensuing internal conflicts between North and South Korea. South Korean authorities tended not only to make the trade policy less flexible but also to make it more inconsistent and thus difficult to generate widespread domestic support. This has made substantive progress in inner Korean relations unlikely.

Since the establishment of a communist government in 1948, North Korea has been under the dictatorial rule of one person. This makes it difficult for North Korea to open its society to the outside world, much less to allow accommodation and exchange with South Korea, even when a change of policy is necessary for economic purposes.

The Kim Daejung government initiates the most practical and feasible action in dealing with North Korea, completely separate from political considerations. The principle of the Sunshine policy is apolitical in nature. The inner Korean trade is based on the principle of mutual economic benefit. As long as free exchanges and visits are realized, further steps can be taken towards strengthening the unity of the Korean nation.

The Sunshine policy is of importance and relevance to the situation in which political tensions persist and further aggravate feelings on both sides. There is no alternative to it. A sit and wait position is not a real option as it will prolong the separation. It is the time that South Korea should take decisive measures to expand the trade with North Korea. Political and security considerations are not opportune. It is North Korea who should take a passive and worrying attitude. **CKR**