

POLITICAL ECONOMY OF MT. KUMGANG TOUR

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The 18th day of November marked the first anniversary of the Mount Kumgang tour business. The tour carried highly symbolic significance as it allowed Koreans from both halves to meet in a civilian context half a century after the division. The concerns and criticisms have been corrected considerably and it can now be termed as a national tour product. The number of tourists in the first year was 143,000, which is about 25 times more than the total number of Koreans visiting North Korea over the past ten years (from 1989 to 1998), which was 5,700 approximately. These tourists and the cruise ships have acted as unification messengers; the East Sea turned from "a sea of tension and confrontation" to "a sea of cooperation and reconciliation". Therefore, the Mt. Kumgang tour business wiped out the concerns and promoted inter-Korean economic cooperation. The extent of effects in political, social and cultural aspects goes beyond initial expectations.

Political Meaning of Tourism Business

First, the Mt. Kumgang tour business differentiates itself from other preceding businesses because of its political importance. It provided a launching pad for restoring mutual confidence and achieving peaceful national unification. Also, this business contributed to easing the tension on the Korean peninsula and served as a catalyst for shift from political and ideological confrontation to more practical cooperative measures.

The second half of 1998 was an important period for North Korea. Making amendments

to the constitution in that year marked the end of four-year ruling based on the late Kim Il-sung's will and the beginning of Kim Jong-il regime. Under the motto of "Building a Powerful Nation", North Korea regained confidence in political, ideological and military terms, but the extreme economic hardship continued to act as the biggest threat to the system. At this point in time, opening Changchun Port, a military port, and allowing the operation of tour business for the next three decades show that the North Korean policy is shifting gradually from the political to economic interests.

In addition, the tour business formed emotional common grounds and confidence for both sides in social and cultural aspects and contributed to creating a favorable environment for understanding each other correctly and forming a mutual sound view of unification. Furthermore, it opened a new horizon to cultural exchanges and led to Pyongyang Moranbong Circus Team's performance and Unification Basketball Tournament and other artistic and athletic exchange programs.

Economic Meaning of Tourism Business

The tour business provided a momentum for widening the past scope of inter-Korean economic cooperation from "small-scale, exemplary, light industries oriented trade" to "large-scale, heavy industries oriented trade". The Western Coast Industrial Complexes, a sports complex and other facilities are going to be built that would serve as platform to expand into Hyundai's nine investment projects in North Korea. All these

efforts will become milestones in the history of inter-Korean economic cooperation.

More importantly, the tour business helped North Koreans gain commercial experience in the context of market economy. This in turn contributed to raising the awareness of necessity for legal and institutional mechanism in the inter-Korean economic cooperation. The detainment of a woman tourist in last June, for example, reaffirmed the importance of securing personal safety and set a noteworthy precedent of crisis management and conflict resolution between South and North Korea.

The tour business brought about considerable economic benefits to North Korea. Over the next six years, North Korea will earn \$942 million solely as price for permitting the tour business. North Korea will enjoy profits from service charges, performance fee and other direct income; building hospitality facilities and SOC facilities, improving its sovereign credit and promoting foreign investment from the West will also produce inestimable economic effects, both tangible and intangible, for the North.

North Korea's economic gains in the first year of the tour business including \$190 million tour fee and indirect income from performance facilities rent and wharfage, amounts to \$290 million. This equals to 51.8% of North Korea's exports (\$560 million) and 90.6% of trade deficit (\$320 million) in 1998. Such earning is going to be of substantial support for mitigating economic hardship and rebuilding the economy; furthermore, this would narrow the income gap between the two Koreas and contribute to the balanced development of the Korean peninsula in the future.

The impact of the Mt. Kumgang tour business on national and regional economy of South Korea will become clearly visible with the completion of the phase 2 project. When the phase 2 project concludes, production, value added and job creation will rise by 4.5 time than in 1999. According to a report by the Bank of Korea in February 1999, under the assumption that the number of tourists

amounts to 245,000, the Mt. Kumgang tour would lead North Korea to production worth 220 billion won through 240 billion won, create value added worth 113 billion won through 120 billion won and increase the number of jobs to 9,100 through 9,400.

In a nutshell, the Mt. Kumgang tour business has served as a turning point in the history of inter-Korean economic cooperation. It has designed a successful "win-win" economic cooperation model, benefitting all participants. In the long-term perspective, the tour can tremendously contribute to preparing groundwork for unification and saving unification costs.

Future Plans and Expected Effects

From now until the year 2028, Hyundai Asan Corporation (HAC) is aiming at a three-phased development of the Mt. Kumgang area into a comprehensive tourism complex, the best of its kind in the world. The first phase focuses mainly on cruise operation; the second phase, which lasts from January 2000 to March 2005, will focus on building massive-scale hospitality facilities and beginning comprehensive development. In the third phase, from April 2005 to the year 2028, the size of facilities will be enlarged and entertainment facilities will be diversified to accommodate the increasing number of tourists.

To that end, HAC is planning to form partnerships with domestic and foreign companies and invite investors to invest roughly \$350 million up until the second phase, and between \$150 million and \$200 million until 2028. In terms of development, HAC plans to make the Mt. Kumgang area into a family-oriented, recreational and environment-friendly "unforgettable recreational tourism complex in nature you want to visit at any season of the year". Also, hospitality establishments will be built and various means of transportation will be sought to attract large numbers of tourists.

By the year 2004, the second phase development project will be completed and

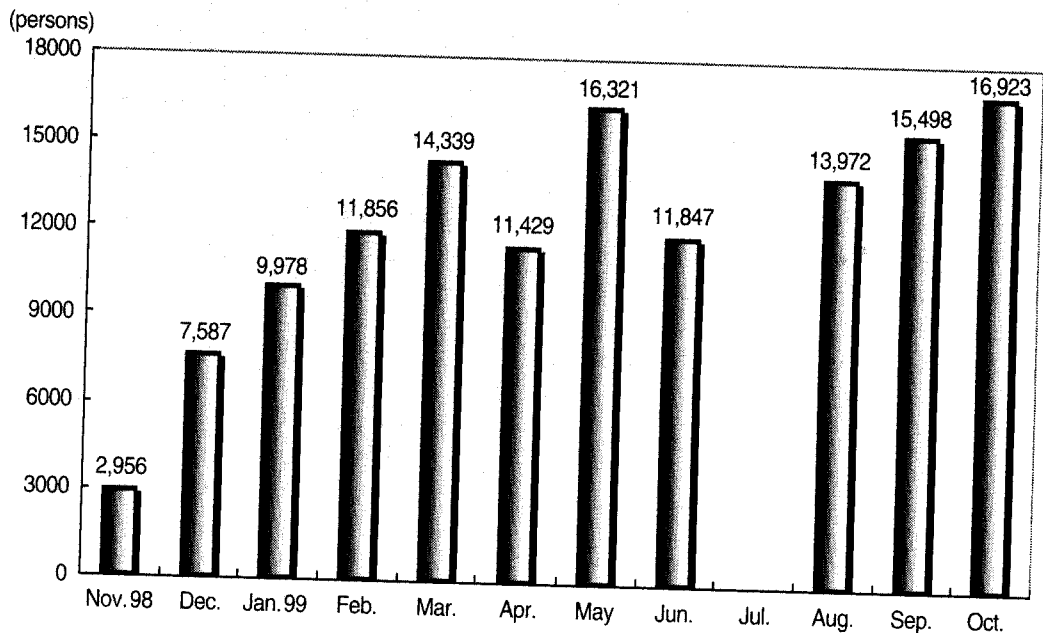
about 1.2 million tourists are expected to sign up per year. When the third phase project finishes, more or less 1.5 million tourists would go on the Mt. Kumgang tour.¹⁾ Also profitability of the tour business is going to be improved; foreigners have been allowed to visit Mt. Kumgang, and the part opening of hospitality and entertainment facilities will attract a bigger number of tourists. Subsequently, the business is expected to yield surplus from the year 2003.

Furthermore, as the inter-Korean relationship improves and Hyundai's business in North Korea matures, the number of tourists is to increase at an explosive rate, provided that overland transportation is allowed. The Hyundai Research Institute's finding tells that if the railroad service linking South and North Korea resumes, shorter traveling hours and

cost saving will increase the current number of tourists via cruise by four times.

Included in the Hyundai's future agenda is designing a partnership model for economic cooperation, in which every company both at home and abroad with capital and development capability can participate. With the showcase tour for foreigners and Hyundai's rights to monopolistic development and facilities use for three decades under its belt, HAC plans to host investor relations road shows in major cities around the world in the near future. Also, the company is planning to engage many individual investors to make equity investment by raising their confidence in the company through a promising long-term vision. By issuing bonds, stocks and foreign currency bonds in financial markets, HAC hopes to become a popular company. **VIP**

Figure 1. Number of Tourists to Mt. Kumgang



1) According to a recent survey result, between 86.6% and 88.8% of tourists to the Mt. Kumgang replied that they would go on the tour again, which confirms the success of the first phase project. References used are from the Ministry of Unification (May 6, 1999) and The Institute for Far Eastern Studies, Kyungnam University (November 11, 1999).