

PROSPECTS FOR MT. KUMKANG TOUR PROJECT

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The Korea National Tourism Association (KNTA) established a new corporate entity with Hyundai Asan to assume charge of tourism in North Korea.

In late June, the domestic press reported that the Korea National Tourism Association (KNTA) established a new corporate entity with Hyundai Asan to assume charge of tourism in North Korea including the Mt. Kumkang tour project. As a result, the flagging Mt. Kumkang tour project will be expanded to include land route tours and a consortium of Korean and foreign companies will be formed to participate in the tourism venture.

Economic cooperation between the two Koreas has been progressing actively since the South-North summit in June 2000, and the Mt. Kumkang tour was one of the leading examples. This year however, the tour was faced with possible suspension due to faltering inter-Korean relations and Hyundai Asan's financial issues. The announcement that the KNTA would participate brought new hope for the tour. This article examines the significance of a public company's participation in a North Korean venture, forecasts the positive and negative effects of this change in participants, and suggests tasks for the tour's future success.

Significance of KNTA's participation

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The participation of the KNTA, a government-invested entity, can first be seen as a government statement of intent to continue its North Korean engagement policy. By indirectly accommodating North Korea's demands for government funds to continue the Mt. Kumkang tour, the KNTA's participation indicated in an implicit way that the government would support economic cooperation. It also means that the government will invigorate economic cooperation with North Korea through government-invested organizations. In other words, the South Korean government will directly participate in North Korean ventures through public companies.

The KNTA's participation also is an attempt to ease concerns about the venture's profitability and attract the participation of domestic and foreign companies. Considering that the KNTA is a government-invested organization, its recent participation in the Mt. Kumkang tour means that the South Korean government is entering as a strategic partner to Hyundai Asan. This government guarantee is intended to allay domestic and foreign companies' concerns regarding the project's profitability, and to attract their participation.

The recent participation measure also reflects the transition in Korea's business-government relations from a vertical relationship of regulation and supervision to a horizontal, cooperative one. Such cooperation between business and government can be seen as an extension of the concept of inter-business cooperation. The cooperative venture between the government and Hyundai Asan is expected to serve as a new model for South-North economic cooperation in the future.

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Positive effects from the partnership

1. To provide reason for North Korea to designate Mt. Kumkang as a special tourism zone

From North Korea's view, the first advantage of the new arrangement is that foreign capital can be attracted by using existing resources without any other large-scale investment. Secondly, as the Mt. Kumkang region is an area that is relatively unpopulated, North Korea will be able to minimize public exposure to capitalism from contact with South Korean tourists.

Therefore, the revival of the Mt. Kumkang tour project with the KNTA's participation is expected to provide the North Korean government with a rationale to turn Mt. Kumkang into a special tourism zone. In order to prevent the Mt. Kumkang tour project from being terminated, the North Korean government had appealed to the South for support and had considered designating Mt. Kumkang as a special tourism zone. The South's support of the Mt. Kumkang tour through KNTA participation is expected to increase the probability of North Korea's designating the area as a special tourism zone.

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2. To facilitate funding for the Mt. Kumkang tour and increased negotiation leverage with the North

The recent measure will also help Hyundai Asan raise funds. Due to losses, Hyundai Asan had been unable to pay its fees to North Korea. Although it may be difficult for Hyundai Asan to receive direct financial support from the KNTA, it will at least be able to take out loans from financial institutions. As a result, Hyundai Asan will be able to make the payments to North Korea that had been delayed due to the Hyundai Group's separation.

In addition, the cooperation between business and a public corporation will help raise funds for possible land route tours to North Korea in the future and will provide more flexibility in negotiations with the North regarding the tour.

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3. To provide a reason to revitalize the Mt. Kumkang tour

During the last few years, Hyundai Asan's financial results for the Mt. Kumkang

tour were far below expectations. This was partly due to uncertain South-North relations. This uncertainty has caused both domestic and foreign companies to hesitate from investing in land tours or creation of special tourism zones, although agreements to do so have already been reached.

The participation of a public company will help ease any doubts that companies may have, and is expected to revitalize the Mt. Kumkang tour project. If the tour is revived, domestic companies are expected to participate in parts of the tour (such as hotels or casinos).

4. To create a basis for expanded tours to North Korea

Through the Mt. Kumkang tour, North Korea is expected to use its existing resources to actively expand into other tour projects.

Through the Mt. Kumkang tour, North Korea is expected to use its existing resources to actively expand into other tour projects. North Korea has already gained some experience in tourism through the Mt. Kumkang project. Meanwhile, the South has clearly stated its willingness to support tourism in North Korea through the participation of a public company.

The fact that both South and North Korea both have similar intentions regarding tourism in North Korea will result in further progress, possibly expanding tours into Kaesong, Mt. Paekdu, Mt. Myohyang, and Mt. Chilbo.

Negative effects from KNTA's participation

1. lower credibility regarding the government's North Korea policy

Since its introduction, the current government has proclaimed "separation of business and politics" in its North Korea policy, a motto by which it has abided fairly consistently. However, the participation of a public corporation in a North Korea venture is expected to raise doubts about the government's commitment to its old motto.

The KNTA's participation may lower the government's credibility regarding its North Korea policy.

A recent press report stated that the government plans to supply 33 billion won of subsidies yearly, and that the KNTA requested a 90 billion won "South-North cooperation fund". If this is true, complaints may arise that the government is using taxpayers' money to continue to Mt. Kumkang tour. Such criticisms have already been voiced by the opposition, and the controversy over support to North Korea is expected to continue in the future. Therefore, the KNTA's participation may lower the government's credibility regarding its North Korea policy.

2. low private investment due to uncertain profitability

Despite Hyundai Asan's assertions, the uncertain profitability of the Mt. Kumkang tour project is expected to hinder its business prospects. According to a

meeting between Hyundai Asan and North Korea held in June, the tourists to Mt. Kumkang will reach 1 million a year if land route tours are introduced. However, there are no clear indications that such a figure can be reached.

If the KNTA participates and land route tours are opened, the Mt. Kumkang tour's profitability will definitely be improved. However, without definite and active cooperation from the North, South Korea's efforts in themselves will not raise profitability. Therefore, uncertain profitability is expected to obscure the prospects for participation by domestic and foreign companies as well as for financing.

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-Table 1. Effects of KNTA's Participation in the Mt. Kumkang Tour Project-

Positive Effects	Negative Effects
-lead to designation of Mt. Kumkang as special tourism zone	-lower government credibility regarding North Korea policy (abandonment of "separation of business and politics")
-facilitate funding, and increase the South's negotiating leverage with North Korea	-hesitant corporate participation due to unclear profitability
-a reason for revitalizing Mt. Kumkang tour	
-provide a basis for expanded tour projects in North Korea	

Future tasks

Until recently, the Mt. Kumkang tour was faltering for many reasons. The KNTA's participation in the tour needs to be successful not only to improve profitability but also to improve South-North relations.

To ensure this, realistic means of acquiring profitability are needed. The cooperation of both the South and North Korea will be required. Some measures for business participants include diversifying the tour products, efficiently attracting both Korean and foreign tourists, setting competitive prices, and connections with other tour destinations. In addition, North Korea should cooperate by means such as promising to liberalize tourism in the Mt. Kumkang region, or simplifying entry and exit.

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The tour operators should also try to improve the public perception of the Mt. Kumkang tour's profitability. To minimize criticisms that taxpayers' money is being funnelled to support the Mt. Kumkang tour or that the tour wouldn't be able to operate without aid, consortiums between private firms should be created and means of attracting foreign capital should be proposed. In addition, business participants should shed light on the fact that a successful tour will not only improve the national economy but also help create a basis for peaceful reunification. **VIP**