

# INTER-KOREAN ECONOMIC COOPERATION IN 2002

Soon-Jick Hong  
(sjhong@hri.co.kr)

## Lull in South-North Relations and Economic Cooperation

North Korea is expected to emphasize science, technology and "new thinking" amid the recent economic recovery. Economic conditions have improved thanks to increased agricultural output (38% higher than in 2000), trade expansion (a 40% increase from 2000), and increased external aid due to redoubled efforts at foreign relations. As a result, it can be said that the North Korean economy has established a basic foundation to escape from its crisis. The price level in the farmers' market, which was 100 in 1998, fell to 91.0 in 2000 and to 66.3 in 2001, showing a downward stabilization. Regional price disparities have also narrowed. In addition, North Korea has tried to increase national competitiveness, strategically increase production, and has shown strong interest in the IT sector.

While relations between North Korea, China, and Russia improved, relations between South Korea, the US, and Japan showed signs of conflict and backsliding, and this situation was reflected in South-North relations. At bilateral summits, North Korea, China, and Russia agreed to strengthen diplomatic relations and set a framework for providing mutual support in the international arena. Meanwhile, the Bush administration's hard-line policy to North Korea as well as the fallout from the September 11th terrorist attacks acted as a restraint on South Korea's engagement policy to the North. South Korea's relations with Japan soured due to Japan's publishing of distorted history textbooks and Prime Minister Koizumi's visit to the Yasukuni Shrine.

With uncertainty in Seoul-Washington-Tokyo relations, the delay of Kim Jong-Il's visit to Seoul, the cancellation of the South-North ministerial-level talks, and the indefinite postponement of the fourth reunion of separated families, a deadlock was seen in inter-Korean relations this year. A side-effect of the impasse was a contraction in economic cooperation, and large-scale investment projects like the Mt. Kumkang tour project especially suffered.

Inter-Korean trade in 2001 is not expected to exceed 0.4 billion dollars due to South Korea's economic slump, faltering South-North relations, and the stoppage of the Incheon-Nampo ocean route (trade in 2000 reached a record high of 0.425 billion dollars). The trade figure at the end of November was 0.36 billion dollars (a 9.3% decrease from last year), and business-oriented trade excluding aid transactions amounted to only 25.8% of the total, a decline from 27.1% in 2000. The share of consignment manufacturing transactions rose slightly from 30.4% to 32.3%.

In the investment sector, the number of companies approved for economic cooperation has increased due to existing projects such as construction of light water reactors by KEDO, as well as the North's increasing interest in IT. However, the scale of investment has contracted

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due to the possibility the Mt. Kumkang tour 's closing as well as the lack of actual new investment in IT.

### 2002 expected to be an adjustment period for inter-Korean relations

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With the approach of Kim Il-Sung 's birthday commemoration, North Korea is expected to propose a new vision for the 21st century and step up its efforts at economic development. While emphasizing leading sectors such as electricity, coal, metals, and railways, the North is expected to also promote light industries to improve living standards. In particular, as construction of small and medium scale generators in 2001 was slow compared to the previous year, North Korea is expected to increase coal production, speed up construction of KEDO light water reactors, and expand its aid requests to China and Russia. Also, the emphasis on science and technology as well as modernization of factories that was seen in 2001 is expected to continue this year, and production efforts are expected to focus on improving national competitiveness. The shift in economic policy, the appointment of new bureaucrats for technology, as well as the expanding entry of military personnel into the economic sector, are expected to create a new environment and atmosphere supporting economic reform.

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South-North relations are expected to continue their " stop-and-go " trend, with the North keeping an eye on relations with the US, maintaining an attitude of economic pragmatism, and participating in dialogue with the South, while taking a passive position to the reunification of separated families and government talks.

Although the South Korean government has chosen " promotion of South-North reconciliation and cooperation " as one of its five objectives for 2002, the opposition majority in the national assembly as well as the coming end of Kim Dae-Jung 's presidency are expected to worsen the conditions for dialogue towards the North. The Bush Administration continues to label Kim Jong-Il as a " dictator ", and has put North Korea back on its list of terrorist-supporting states. Another reason for difficult US-North Korea relations is that the US is demanding North Korea reduce its conventional weapons following the resolution of the tension over the North 's missiles.

The apparent closing of the war in Afghanistan has a mixed meaning for relations between the US-North Korea as well as inter-Korean relations. If the US turns its anti-terrorist effort to North Korea, North Korea is expected to continue avoiding dialogue with the US while building relations with the EU until 2003, when North Korea expects to complete its light-water reactor. This would have a negative effect on South-North relations. On the other hand, the US, having gained a military success in Afghanistan, may choose to engage North Korea in dialogue. In an effort to avoid becoming the next target in the US war against terrorism, North Korea may become more proactive towards dialogue with the US and South Korea.

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In conditions where North Korea 's relations with the US do not improve, the North is not expected to unilaterally end talks with South Korea because of the North 's need for external aid. Considering that the North has continually declared its intent to enact the June 15th South-North Joint Declaration (which has been stated in the New Year 's Address as a " milestone for national reunification " ), North Korea may be willing to engage in dialogue with the South if given a reason. Therefore, with the chill in North Korea 's relations with the US, it is expected that North Korea will turn from a policy priority of " US first, South Korea second " to " South Korea first, US second " in order to improve its external image and gain further external aid.

In the realm of economic cooperation, profit-oriented consignment manufacturing and overall transactions are expected to maintain the levels of 2001, but significant improvement is unlikely because of the contraction in large scale investment projects in the North. The success of economic cooperation in 2002 depends on a number of factors such as whether Kim Jong-Il makes a return visit to Seoul, the announcement of the fourth agreement for economic cooperation, the re-connection of the South-North railway, the progress of energy cooperation, and the expansion of large-scale investment projects such as the Mt. Kumkang tour, an optimistic outlook may be premature considering the uncertain relations of North Korea with the US and its negative impact on relations with South Korea. The opening of excavation work for the KEDO light water reactor in September 2001 is expected to increase external transactions with the North. In addition, North Korea's interest in computers and the country's science and technology effort is expected to significantly increase IT cooperation. **VIP**

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**Table 1. Inter-Korean Transactions and Aid to North Korea**

(At November 2001)

	Unit	1997	1998	1999	2000	2001
<b>Visitors to North Korea</b>	persons	1,015	3,317	5,599	7,280	8,193
<b>Visitors to Mt. Kumkang</b>		-	10,554	148,008	212,247	55,158
<b>Meetings with North Koreans</b>	meetings	1,191	1,890	1,698	2,468	1,753
<b>Total Trade</b>		308.3	221.9	333.4	425.1	362.7
<b>- Inflow</b>	million	193.1	92.3	121.6	152.4	156.0
<b>- Outflow</b>	dollars	115.3	129.7	211.8	272.8	206.7
<b>Consignment Manufacturing</b>	thousand dollars	79.1	71.0	99.6	129.2	117.2
<b>- Share</b>	%	25.6	32.0	29.9	30.4	32.3
<b>Parties in Economic Cooperation</b>	parties	15	10	2	1	4
<b>Cooperation Projects</b>	projects	5	9	1	2	5
<b>Humanitarian Aid</b>		47,230	31,850	46,880	113,760	126,560
<b>- Government</b>	thousand dollars	26,670	11,000	28,250	78,630	70,070
<b>- Private</b>		20,560	20,850	18,630	35,130	56,490
<b>Defectors to South Korea</b>	persons	86	71	148	312	537
<b>Total aid to defectors</b>	million won	1,871	1,290	3,122	5,605	12,028

Source: Ministry of Unification, "Trends in South-North Korean Trade, Cooperation, and Humanitarian Projects", December 2001.

Notes: 1) "Visitors to North Korea", "Tourists to Mt. Kumkang", and "Meetings with North

Koreans" denote those that have been realized

2) "Share of Consignment Manufacturing" denotes its share of total trade

3) "Parties in Economic Cooperation" refers to parties who have gained initial approval to pursue inter-Korean projects, while "Cooperation Projects" refers to projects that have been approved regarding their actual content and scale and can be pursued.