

## **NK RECAP: FEBRUARY 2006**

If February is any indication, 2006 will see considerable growth in inter-Korean cooperation and opening of the North Korean economy. A report released on February 16 by the South Korean Ministry of Unification estimated the DPRK foreign trade volume in 2005 at over 3 billion USD as Pyongyang seeks to foster economic cooperation primarily with China, Russia, Mongolia, and also with other Asian and African countries. The Korea International Trade Association reported this month that inter-Korean trade in January was up 27.5 percent from last year.

### **Reaching Out**

According to a report released by the ROK Ministry of Unification in February, in 2005, North Korea dispatched economic delegations to the following countries: Uganda, Kenya, Guinea, Nigeria, Mali, Yemen, South Africa, Namibia, Gambia, Angola, Senegal, India, Thailand, Vietnam, China, Mongolia, Singapore, Malaysia, Japan, Germany, France, Italy, Poland, Sweden, Finland, Norway, the United Kingdom, Australia, Russia, Switzerland, Mexico, Canada, Cuba, Venezuela, Czech, Syria, Iran, Egypt, and Qatar.

### **Restarting Sinuiju?**

In addition to this “reaching out” to potential trade partners, there was a report that the North’s Sinuiju Special Administrative Region (SAR) -- which has been in limbo since the arrest in China of Yang Bin, the Chinese-born Dutch business tycoon chosen by DPRK authorities to oversee the project -- may be restarted. According to the report, as many as 30,000 people were being relocated out of the area, while residents were being mobilized to work on construction projects in the region.

### **Economic Sanctions**

North Korea stated on February 13 that six-party talks were unlikely to resume due to U.S. financial restrictions placed on businesses with North Korean ties. Four South Korean Uri Party lawmakers who visited Pyongyang on February 7 said that North Korea appeared willing to resolve the counterfeiting issues that led the U.S. to take actions against these businesses. The Korea Central News Agency, the government mouthpiece in the DPRK, stated that it is against “all sorts of illegal acts in the financial field” and that it “will, as ever, actively join the international actions against money laundering.” Attempts to pressure the U.S. to lift sanctions

have driven the North into closer cooperation with China, South Korea, and Japan. China has publicly urged North Korea to halt all illicit financial activities.

It was also reported that the DPRK had ordered its embassies and trade offices to avoid such illegal activities, specifically money-laundering, counterfeiting, and drug trafficking. However, in late February, it was reported that North Korean diplomats were arrested by Mongolian authorities for trying to smuggle 1 million USD and 200 million yen into the Central Asian nation.

### **DPRK-Japan Relations**

During talks held from February 4 - 8 between Japan and the North, Pyongyang threatened Japan with a “strong physical response” if Japan were to impose economic sanctions on the DPRK. And despite the North’s desire for closer cooperation with Japan, DPRK-Japan trade slumped to its lowest in 28 years as the February talks between the two countries failed to produce any moves toward normalization of relations.

### **Hyundai Asan Patches Up Rift with DPRK**

On February 10, Hyundai Asan President Yoon Man-joon announced that Hyundai Asan had reached an agreement with the North to continue to develop the Mount Kumgang tourism district. This comes after the repairing of relations between Hyundai and North Korea -- relations that were fractured when Hyundai Asan fired Vice President Kim Yoon-kyu last fall for his alleged involvement in “accounting irregularities,” a move that Pyongyang openly criticized -- and after Hyundai agreed to pay \$400,000 to the North in compensation for the death of one and injury of two North Koreans hit by a car driven by a Hyundai employee while working at the tourist resort.

### **South Korean Lawmakers Call for New Unification SEZs**

A South Korean lawmaker of the Grand National Party (GNP) called this month for a “Unification Special Economic Zone” to be built in Paju, South Korea, claiming that it would be less constrictive than the Kaesong Industrial Park and therefore more attractive to overseas investors.

Gyeonggi Province Governor Sohn Hak Kyu, however, proposed yet another special economic

zone (SEZ) be built. On February 15, in an interview with the Japanese *Asahi Simbun*, Sohn shared his proposal for a unified SEZ to be located inside the Demilitarized Zone (DMZ) in the northern part of the province.

### **Unauthorized Cell Phone Users to be Fined**

Still wary of the impact of opening up, North Korean laws regarding cellular phone use were revised so that control now falls under the police rather than the National Security Agency. Those caught with unauthorized phones will face fines up to \$500 for “unsocialist” activity.

### **Kaesong Industrial Complex**

In North Korea’s Kaesong Industrial Complex (KIC), progress continues as South Korea is gearing up to lease land to non-Korean companies. While no companies have yet signed on, the government expects that completion of stage 1 and development of stages 2 and 3 of the complex will bring about foreign investment. Currently, forty-one Korean businesses have been authorized to operate there, and a total of 6,027 North Koreans are employed in the KIC. Goods produced in the KIC will be treated as South Korean goods and not subject to tariffs according to a free trade agreement (FTA) signed by South Korea and Singapore. An FTA between the ROK and the European Free Trade Area also allows goods having over 60 percent South Korean materials to be exported with no tariffs. According to a U.S. official, however, Washington would not consider goods manufactured at the KIC as South Korean products in its free-trade negotiations with Seoul (although it is unclear if the U.S. has left room for negotiation on that point for a later date).

On February 9, the first ever investment relations meeting was held in the KIC. The event was attended by approximately 300 business and political figures from both Koreas, while 128 ambassadors, consuls, and officials inspected the complex.

### **Inter-Korean Talks**

Inter-Korean talks this month included the 7th round of Red Cross talks held from February 21 - 23, at which North Korea agreed to discuss the fate of South Korean abductees, estimated at more than 500 South Korean POWs and another 480 civilians, mostly fishermen, thought to still be alive in North Korea. The two sides also agreed to hold another round of reunions for families separated by the divide of the peninsula, to be held in conjunction with events marking

the sixth anniversary of the June 15, 2000 summit meeting between Kim Jong Il and Kim Dae Jung.

A working-level meeting on the connection of rails and roads was held from February 27 - 28 in Kaesong. Officials hope to complete trial runs across the border in March.

The South Korean Ministry of Unification has a new representative as Lee Jong-seok was inaugurated on February 10. Having been a key policy advisor for some time, he is expected to continue to push for inter-Korean cooperation and further the goals of Seoul's "Policy for Peace and Prosperity."

A new South Korean delegate to the Six-Party Talks was also named this month, with Deputy Foreign Minister Chun Young Woo now replacing Song Min Soon. He will be visiting China, Japan, Russia and the United States to urge the resumption of the talks in Beijing. Chun will have his work cut out for him in trying to restart the talks. In one sense, this is important for Seoul, as a representative from Moody's credit rating agency visited South Korea from February 15 - 17 to explain how inter-Korean relations affected the country's rating, and warned that if nuclear negotiations become bogged down or DPRK counterfeiting issues continue to unfold that it would be difficult for the South to improve its sovereign credit rating.

### **2006 Winter Olympics**

The two Koreas marched together in the opening ceremony of the 2006 Winter Olympics in Torino, Italy. This was their first joint appearance at a winter Olympic ceremony.

### **Kim Jong Il's Birthday**

February 16 marked the 64th birthday for DPRK leader Kim Jong Il, and with it came much speculation about his successor. No one has been officially slated to follow in his footsteps, and it appears that both his first and second sons may be unsuitable. The oldest, Kim Jong-nam, has been sidelined since being arrested by Japanese immigration authorities for attempting to smuggle his family in on fake passports for a weekend at Disneyland, and reports this month indicate that the number two son, Kim Jong Chul, may have a medical disorder that makes him unsuitable.

**Humanitarian Aid**

On February 1, North Korea requested that the South supply fertilizer, and Seoul agreed to provide 150,000 tons on February 28 as a humanitarian gesture, but said that the remaining 300,000 tons requested by the North would be linked to progress on the return of South Korean POWs and abductees.

Also, at the request of Pyongyang, the UN World Food Program agreed to provide assistance just months after North Korea claimed that humanitarian assistance was no longer required. A two-year program to provide food to children and pregnant women will be considered development aid and is valued at 102 million USD.