

# Inter-Korean Economic Cooperation

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# Division and the Korean War

# Liberation

- Korea was liberated from Japan's 36-year colonial rule in 1945



# Division

- However, Korea was immediately divided into the North and South
- North Korea(Democratic People's Republic of Korea) was established as an independent state in 1948 with the support of the Soviet Union and China, and South Korea (Republic of Korea) with the support of the United States in the same year



# Korean War

- The Korean War, which began in 1950 with North Korea's sudden invasion of the South, continued for three years
- Even now, the two Koreas are in a state of truce legally

# Catastrophic Damage (National Archive)

- **The Korean War caused enormous casualties on both sides**
  - **South:** 750,000 civilians died or were missing, 220,000 were injured, while 150,000 soldiers died or were missing, 450,000 were injured
  - **North:** 1,080,000 civilian deaths or missing, 1.6 million injuries while 610,000 deaths or missing, 220,000 injuries
  - **The U.N. military** had 30,000 deaths, 110,000 injuries, and 6,000 missing, while **the Chinese military** had 110,000 deaths, 220,000 injuries, and 30,000 missing
- **Economic losses amounted to about \$4 billion, which is about \$50 billion in present value.**

# Friend or Foe?



# Complete Ban

- After the Korean War, North Korea was only recognized as an enemy
- Thus, economic cooperation with North Korea was completely prohibited for 35 years after the Korean War
- In this situation, it was impossible and illegal to recognize North Korea as an 'economic partner'
- Hostility toward North Korea had gradually eased over time



# Beginning of inter-Korean Economic Cooperation

# July 7<sup>th</sup> Declaration

- On July 7, 1988, inter-Korean economic cooperation was legalized with President Roh Tae-woo's "Presidential Special Declaration for National Self-Respect, Unification and Prosperity"
  - By using expressions such as "a national community that achieves prosperity together" and "removing the walls of division and realizing exchanges across all sectors," the Declaration defined North Korea as not just an enemy but **a partner toward unification**
- As a result, inter-Korean economic cooperation, which had been suspended since the Korean War, was formalized and legalized, leading to an opportunity to resume



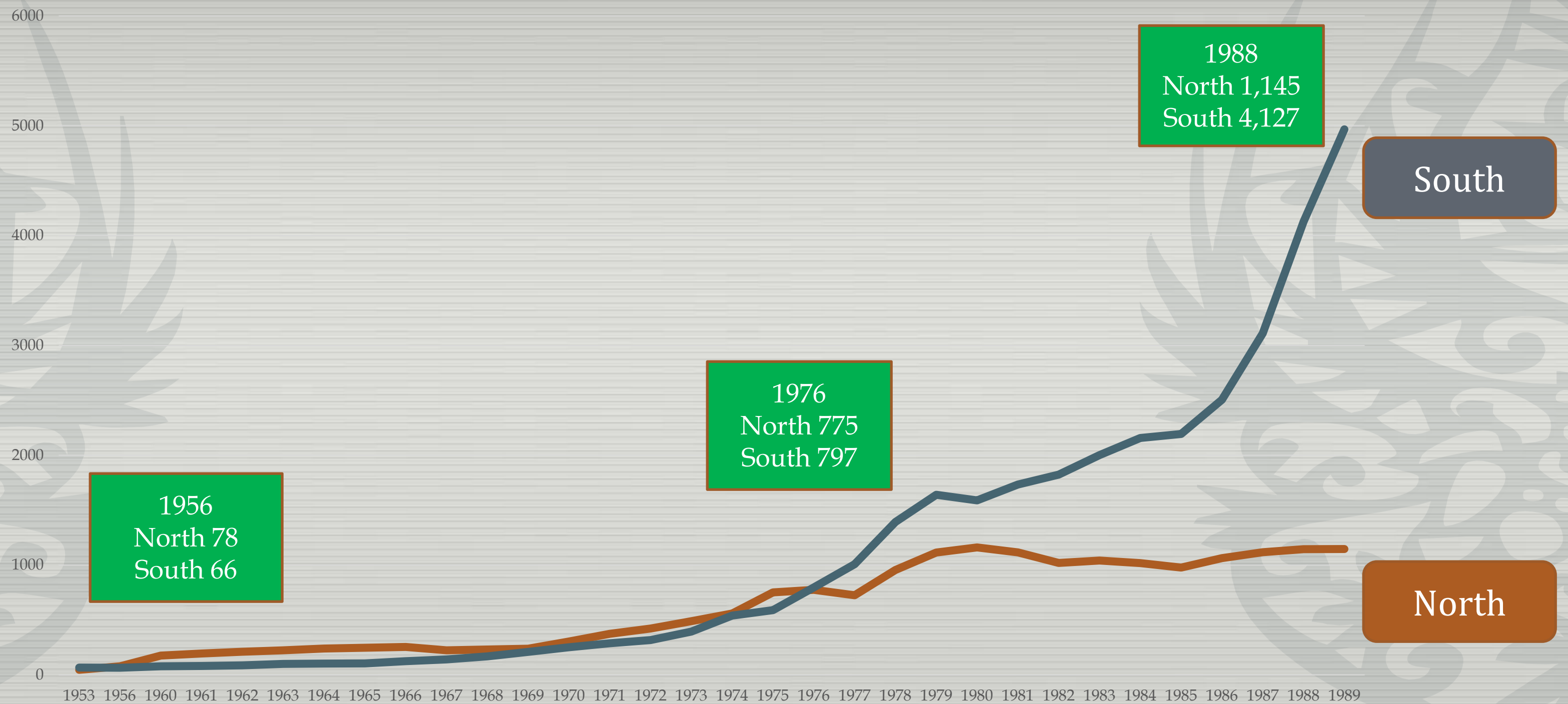
# 6 Action Plans of the July 7<sup>th</sup> Declaration

1. Open doors for **mutual exchanges** between South and North Koreans and **free inter-Korean travel** by overseas Koreans
2. Active support for **correspondence and mutual visits** between separated families
3. Willingness to start **inter-Korean trade**
4. In favor of **trade between South Korea's allies and North Korea** in non-military materials
5. Elimination of exhausting **competitive confrontational diplomacy** between the two Koreas
6. Cooperation in improving **relations between North Korea and South Korean allies**

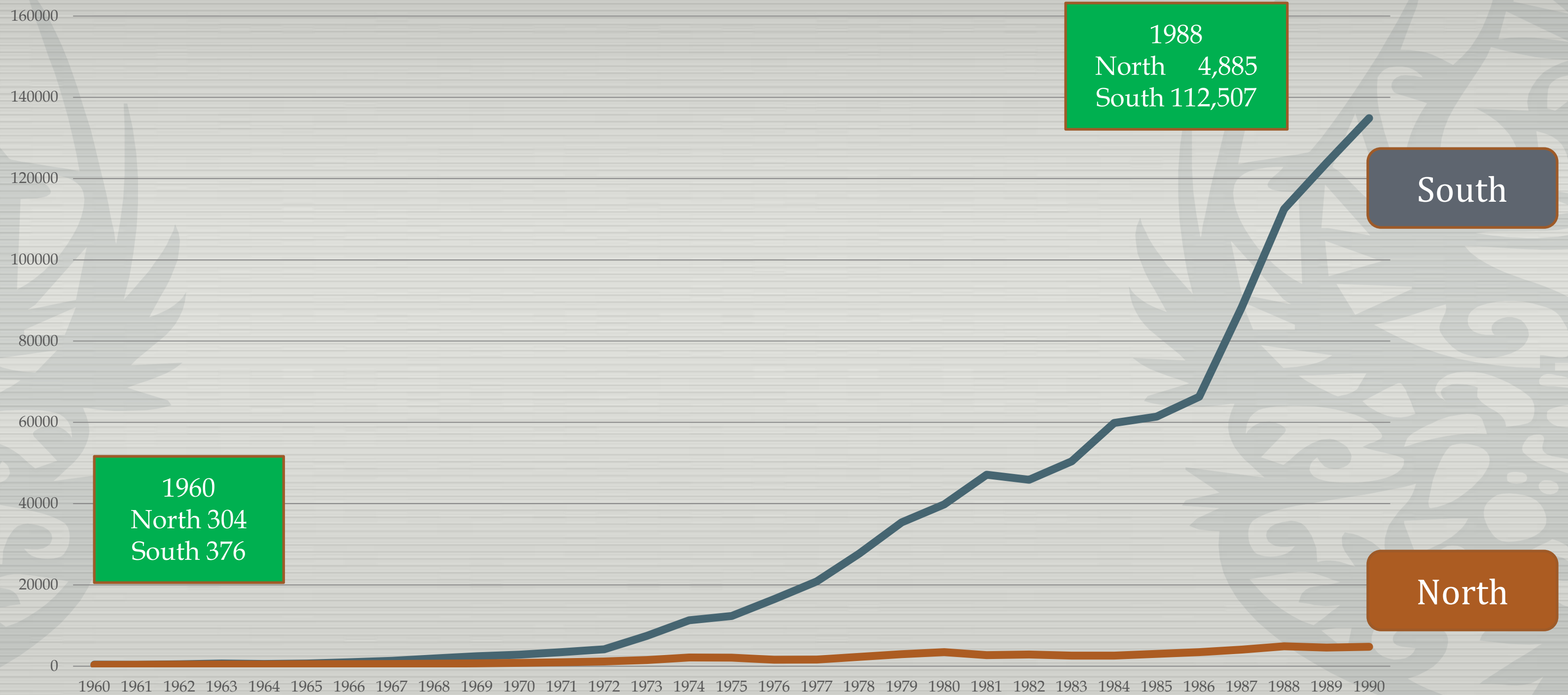
# Background of the July 7<sup>th</sup> Declaration

- The end of the Cold War
- Seoul Summer Olympic Games
- Greatly overwhelming economic power

# per capita income (unit: USD)



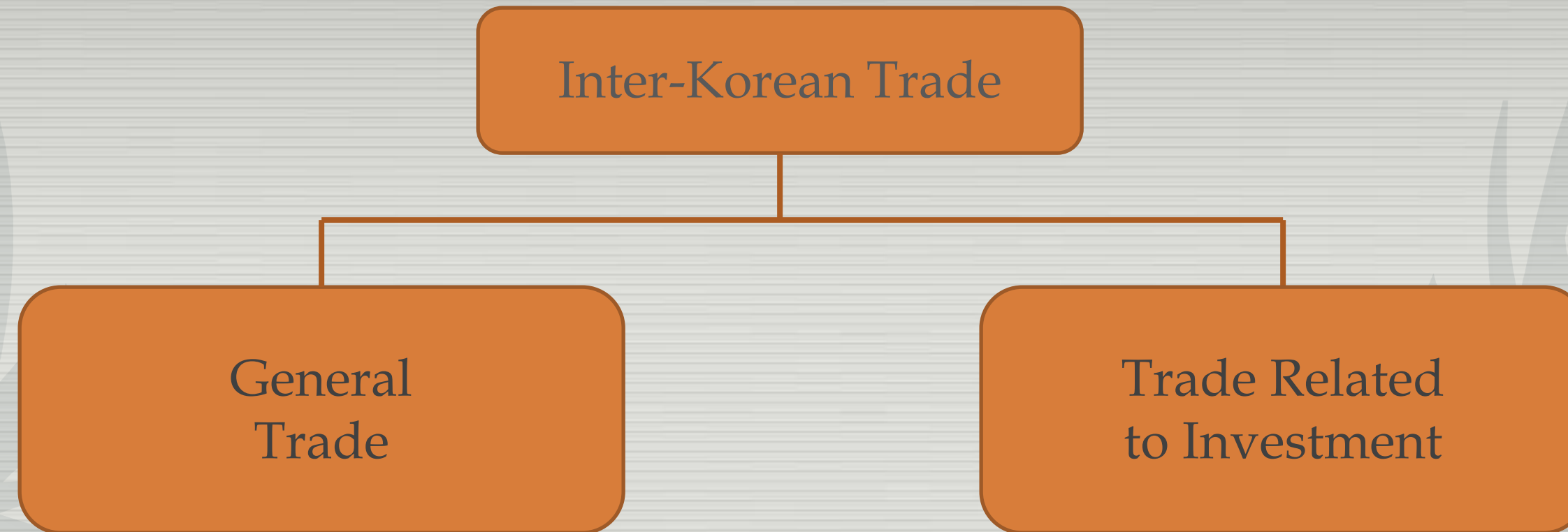
# foreign trade volume (unit: mil. USD)





Trade

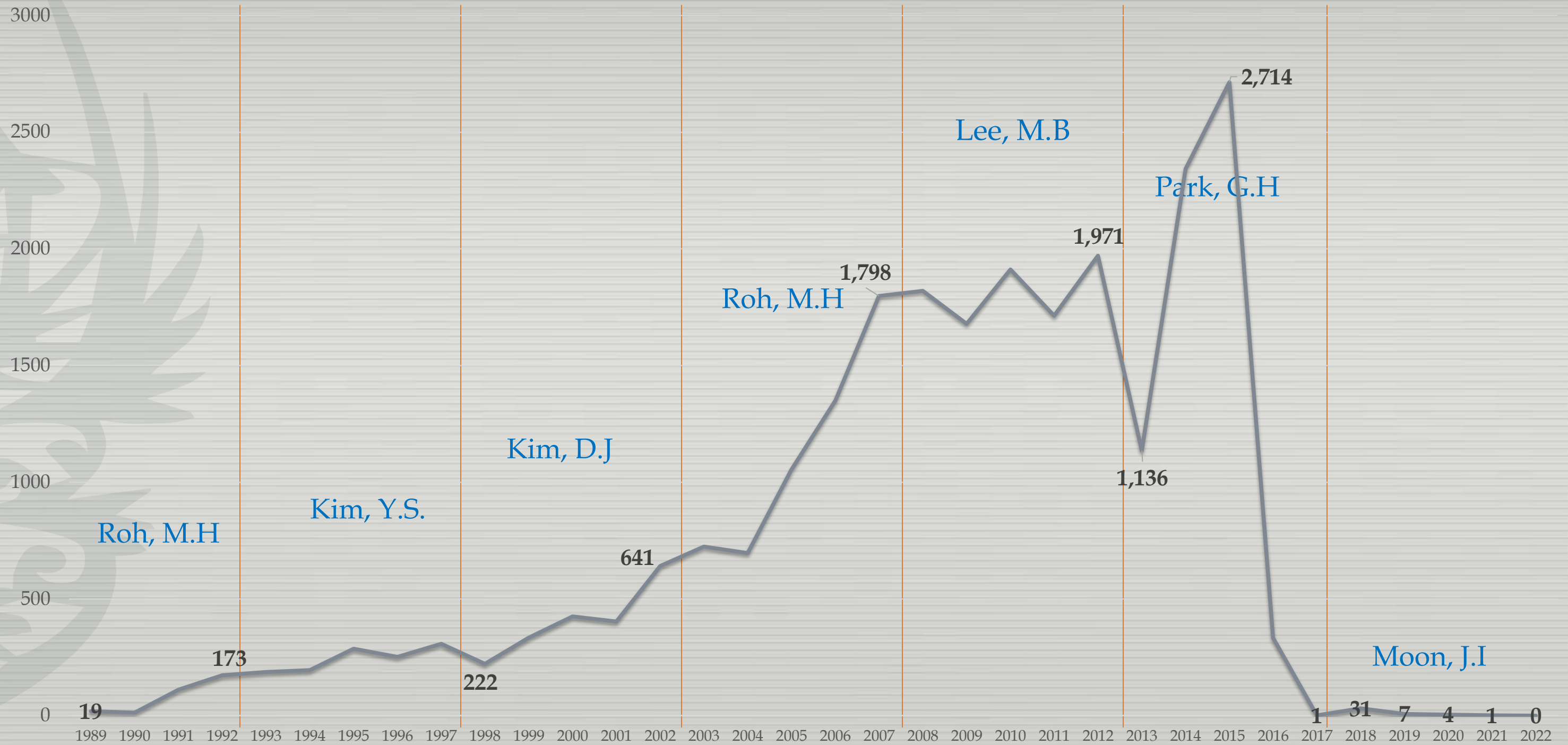
# Classification of Trade



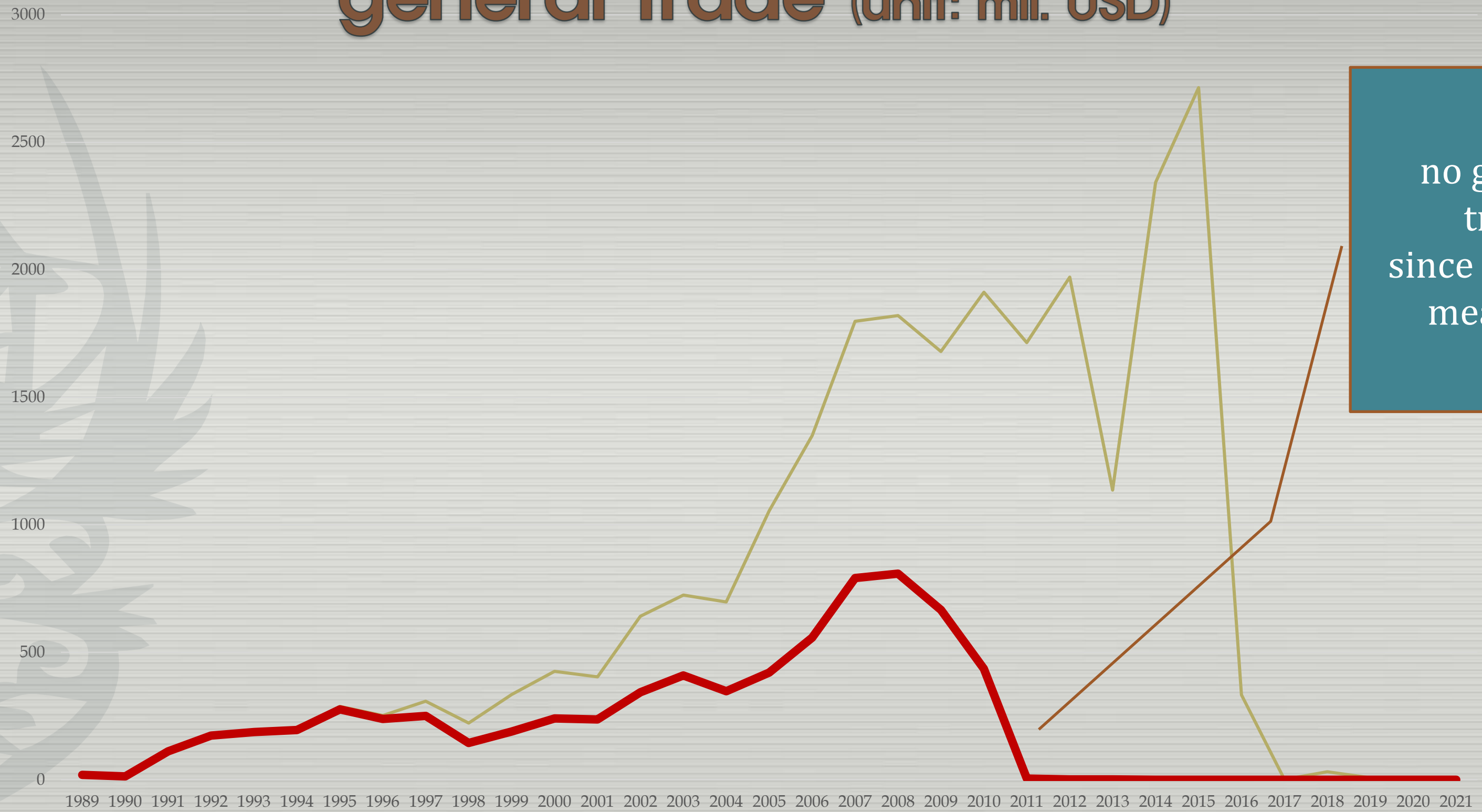
# Brief History

- 1988: the July 7<sup>th</sup> Declaration
- 1989: realization of the first trade
- 1998: South Korea's foreign exchange crisis
- 2000: inter-Korean summit (President Kim, D.J.)
- 2007: inter-Korean summit (President Roh, M.H.)
- 2010: Cheonan navy ship sinking incident & May 24<sup>th</sup> measures
- 2016: the closure of the Gaeseong Industrial Complex

# inter-Korean trade (unit: mil. USD)



# general trade (unit: mil. USD)



no general trade since May 24<sup>th</sup> measures

## balance of general trade (unit: mil. USD)

	2005	2006	2007	2008	2009	2010
Import	320	441	646	624	499	334
Export	99	116	146	184	167	101
Total	419	557	792	808	666	435
balance	-221	-325	-500	-440	-332	-233

- Very difficult to export: North Korea's lack of foreign currency makes it difficult to buy South Korean goods
- Importing is also not easy: North Korea's economic difficulties and the poor quality of North Korean goods make it difficult for South Korean consumers to find items of interest

# number of inter-Korean trading companies



# Investment



# Classification of Investment



# General Investment

- Since 1988, 91 investment projects have been approved, but fewer than 10 have been realized
- No project has ever made money
- Large companies are avoiding investing in North Korea

# Reasons for Avoiding Investment

- No domestic market
- Very low purchasing power
- Extremely poor and outdated infrastructure
- No freedom of employment
- Lack of understanding of the market economic system
- Difficulties in immigration and communication
- High political risks
- Economic sanctions

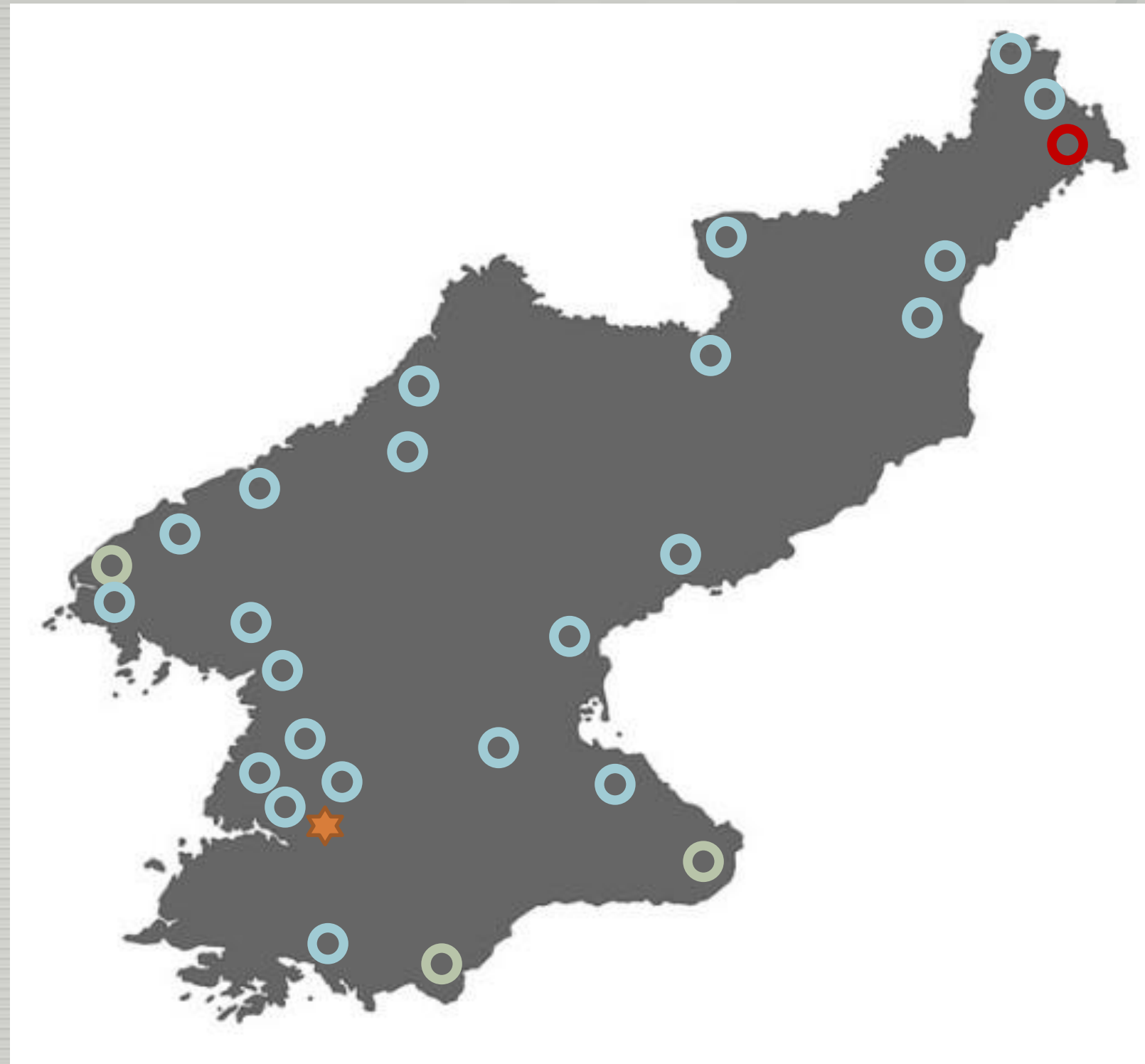
**There has been no general investment since the mid-2000s**

# SEZs in North Korea

Kim, Il-Sung

Kim, Jong-Il

Kim, Jong-Il

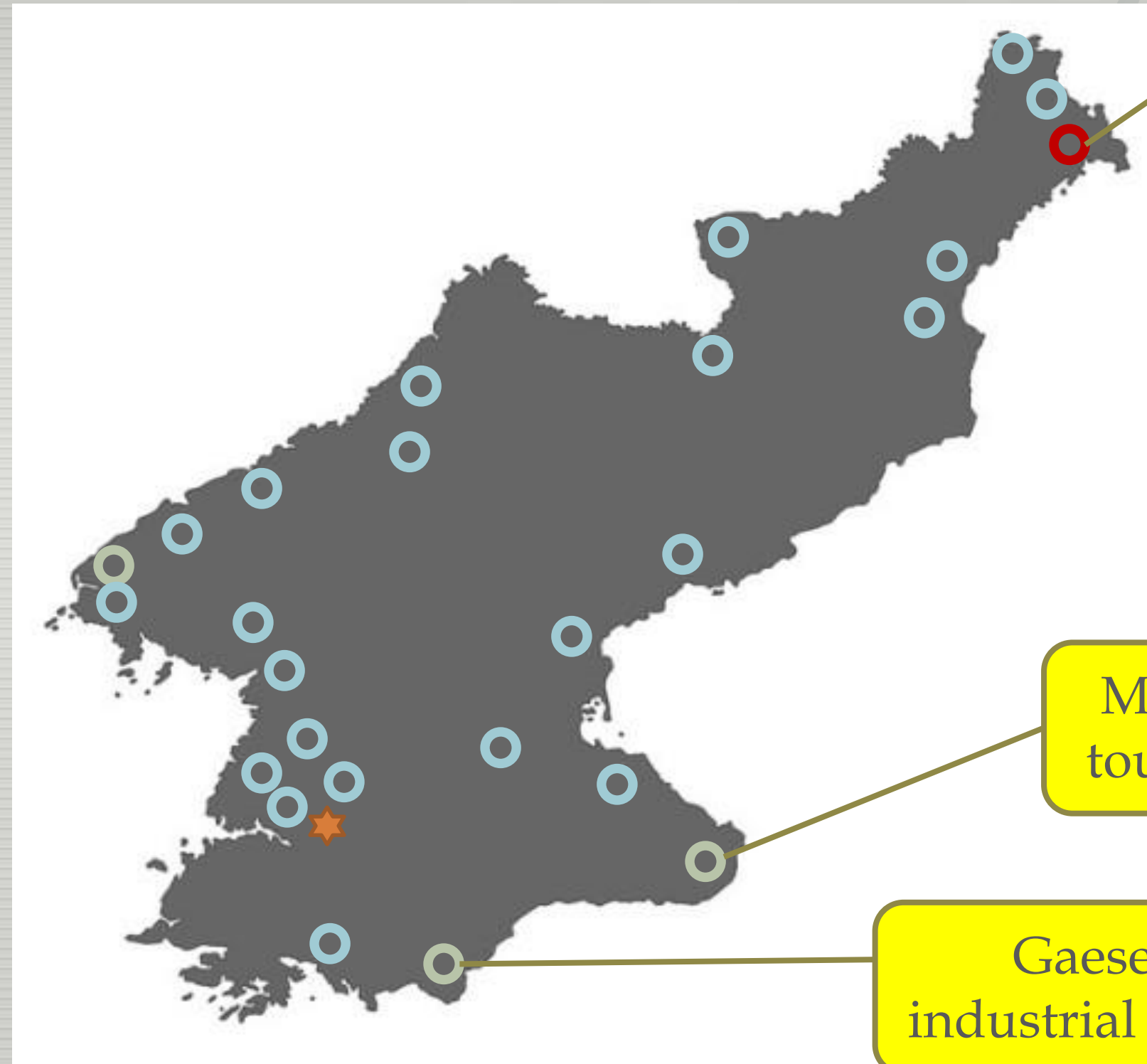


# Investment in SEZs

Kim, Il-Sung

Kim, Jong-Il

Kim, Jong-Il



A few Chinese small firms

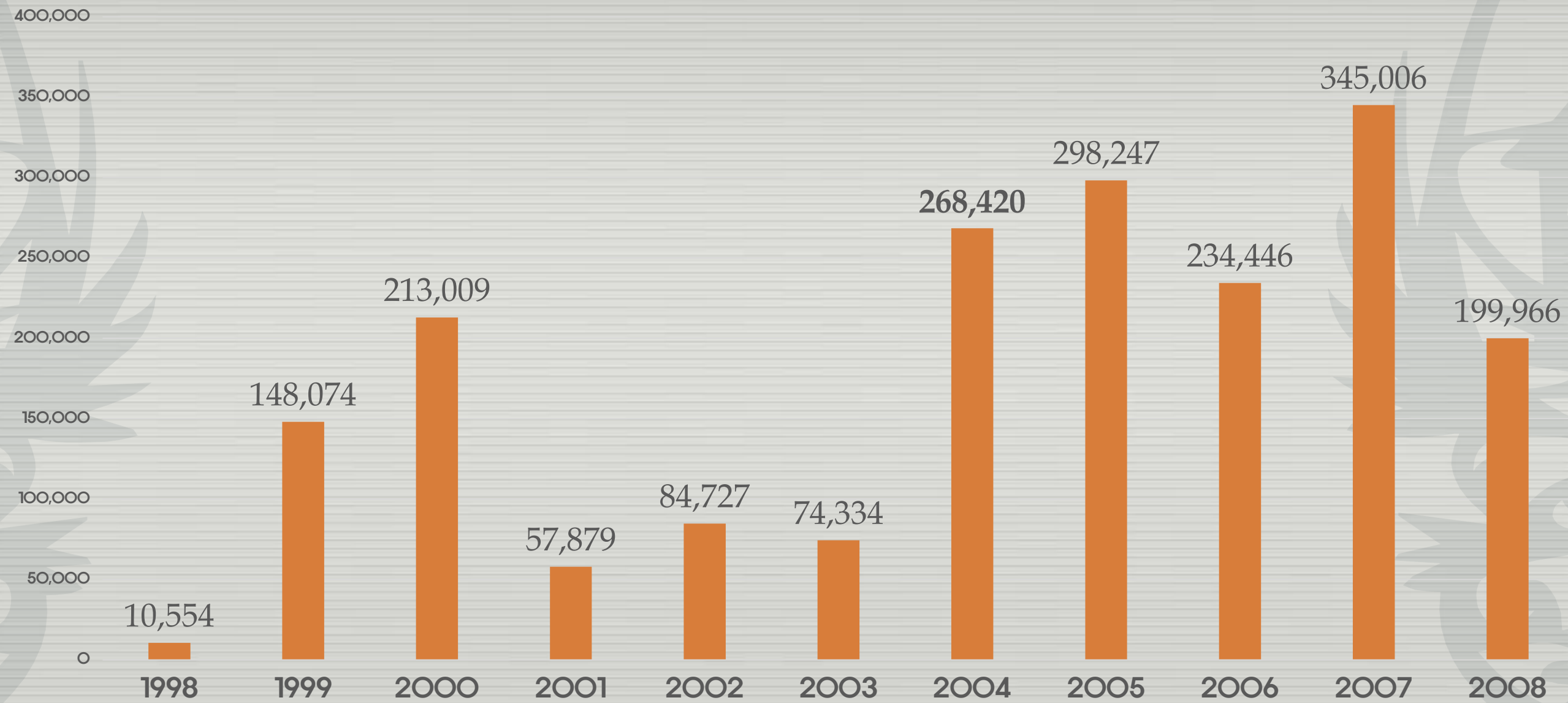
Mt. Kumgang tourism project

Gaeseong industrial complex

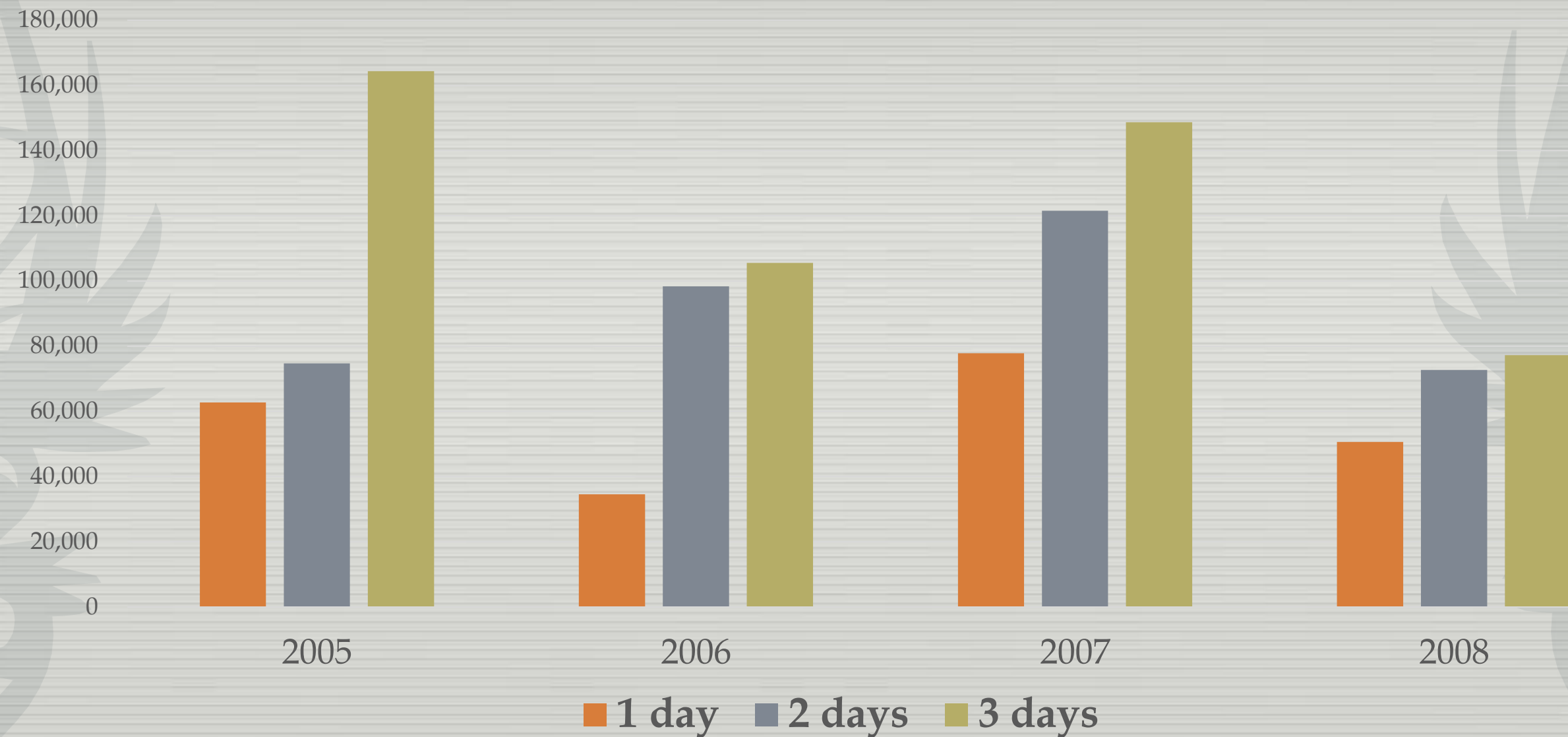
# Mt. Kumgang tourism project

- Nov. 1998: first departure of tourist ship
- Oct. 2003: beginning of overland tour
- Mar. 2008: beginning of passenger car tour
- Jul. 2008: a tourist killed and tourism project suspended

# number of tourists



# number of tourists by tour itinerary



## revenue of Hyundai Asan (unit: bil. KRW)

year	sales	profits
1999~04	5,392	-333
2005	2,350	5.7
2006	2,230	3.7
2007	2,555	19.7
2008	2,288	-5.4

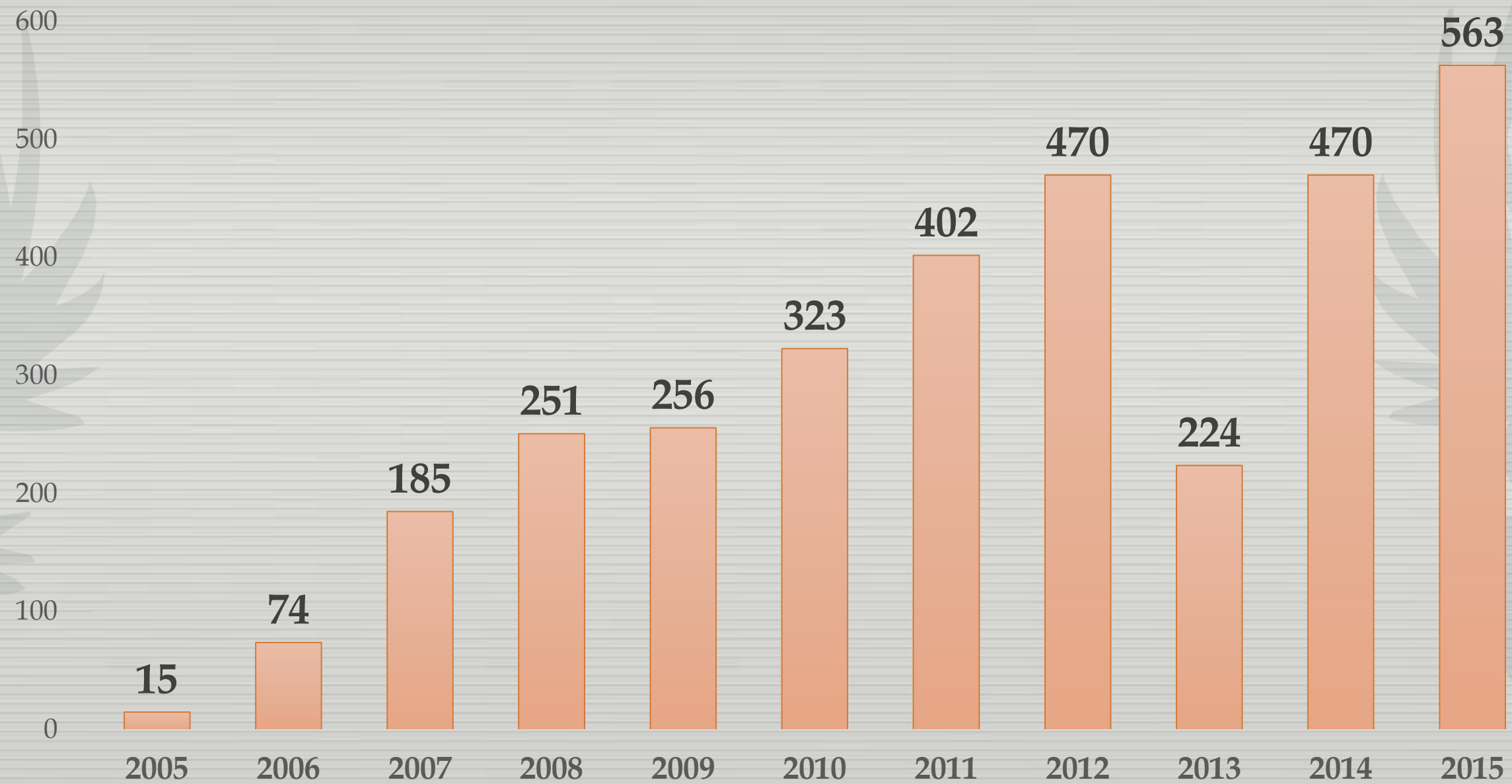
# Gaeseong Industrial Complex

- Aug. 2000: the 'Agreement on Industrial Zone Development' between Hyundai Asan and North Korea
- Jul. 2003: groundbreaking ceremony for Gaeseong Industrial Complex
- Dec. 2003: participation of LH Corporation
- Dec. 2004: the first production
- Mar. 2010: Cheonan navy ship sinking incident
- Jan. 2016: the 4<sup>th</sup> nuclear test of North Korea
- Feb. 2016: launch of an ICBM (Kwangmyongsong-4) of North Korea
- Feb. 2016: closure of the Gaeseong Industrial Complex

# number of companies and workers

year	companies	NK workers	SK workers
2005	18	6,013	507
2006	30	11,160	791
2007	65	22,538	785
2008	93	38,931	1,055
2009	117	42,561	935
2010	121	46,284	804
2011	123	49,866	776
2012	123	53,448	786
2013	123	52,329	757
2014	125	53,947	815
2015	125	54,988	820

# amount of production (unit: mil. USD)





**Since February 2016,  
inter-Korean economic cooperation  
has been completely suspended**

**Thank You**

