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# Policy Forum 07-066: The Second South-North Summit: Prospects for Intensifying Inter-Korean Cooperation



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By Lim Eul-chul

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## I. Introduction

Lim Eul-chul, Research Professor at Kyungnam University, writes "no one should be blindly optimistic about the upcoming summit, but if any agreements develop as a result of the meeting, it would mean qualitative development of inter-Korean relations. It would also mean the prospect of

huge opportunities in the future for entrepreneurs trying to find a way into North Korean markets, as business with North Korea is already progressing by leaps and bounds."

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## **II. Article by Lim Eul-chul**

- "The Second South-North Summit: Prospects for Intensifying Inter-Korean Cooperation"

By Lim Eul-chul

The second inter-Korean summit meeting, expected to be held in Pyongyang from October 2~4, has the prospect of serving as, more than anything else, an opportunity to quantitatively, qualitatively expand inter-Korean economic cooperation. This time around, discussion on denuclearization and building of a framework for peninsular peace cannot be put aside, but there is also a very good chance that broad discussions can be held regarding a course for inter-Korean economic cooperation that can be continuously pursued despite changes in domestic or overseas political circumstances, and that specific agreements can be reached in many areas within this topic.

### **DPRK Floods**

With the severe flooding in North Korea that has been blamed for the delay of the summit, and the immense hardships these rains have put on the North Korean people, the sense of need for emergency relief takes on not only a humanitarian character, but has also led to increasingly strong cries demanding an integrated policy for economic cooperation that can completely overhaul the DPRK system that stands weak in the face of such natural disasters. North Korea, also, has for some time now fervently wanted cooperation with and aid from the South in order to achieve its goal of economic reform capable of quickly improving the livelihoods of its citizens.

### **Seoul's Vision**

ROK President Roh Moo Hyun has publicly pronounced that he will open the doors to the "era of the northern economy" through inter-Korean cooperation. He plans to do this by expanding joint economic projects and further building military trust. The president also stated that if these doors swing open, it would be an opportunity for improvement so grand that it would not even be comparable to what has been seen in Vietnam or China. Of course, this vision for the future seems a bit optimistic, but at the same time, the real chance that this could succeed does not look small. It is the administration's position that, just as successful examples of reform in Vietnam and China have been seen, if the North Korean economy could only begin recovery with a boost from Southern aid and cooperation, it would have a good chance to continue to achieve high rates of economic growth.

### **Obstacles and Opportunities: U.S. Role**

Of course, there are many considerable obstacles that will need to be overcome in the future. There needs to be significant progress toward resolution of the North Korean nuclear issue in the near future. In particular, social overhead capital (SOC) investment in the North will only be possible after paving the way for a situation in which the flow of capital and technology into the DPRK would be permitted. Currently, this type of necessary investment faces difficulties due to restrictions stipulated by the U.S. Trading With the Enemy Act and the inclusion of North Korea on the U.S. list of terror-sponsor states.

If North Korea uses the upcoming summit as an opportunity to take the next step to the second set

of measures outlined in the February 13 agreement, and dismantle its nuclear program, not only could Washington ease economic sanctions, but the scope of inter-Korean economic cooperation could be significantly increased, and this clearly looks to be the direction in which the situation is moving. In the event there is progress related to the resolution of the nuclear issue, it would have a significant impact on the improvement of U.S.-DPRK relations, and at the same time could facilitate resolution of issues currently hindering growth of the Kaesong Industrial Complex, such as transit, communications, import of strategic materials, and the designation of country of origin.

### Cross-border Traffic

Agreement on the normalization of traffic on the Kyungui rail line would also significantly enhance the exchange of goods and people between the two Koreas. The government is currently preparing for the third stage of its goal to establish regularly scheduled trains between Seoul and Pyongyang. Stage one was arranging transit for North Korean laborers in the KIC, as well as the transportation of goods and materials for the complex. Then, after stage two, effecting a plan to transport South Korean laborers as well as tours to Kaesong city, the next stage is regular rail service between Seoul and Pyongyang. Currently, cross-border overland freight shipments are allowed only to and from the KIC, but as inter-Korean economic cooperation expands, it is important to note that profits can be increased by lowering transportation costs.

### Ongoing Efforts by Roh Administration

In truth, the current administration has, since quite some time ago, worked harder than anyone else on a comprehensive and concrete path toward balanced development of the inter-Korean economy. Seoul has prioritized further development and expansion of the Kaesong Industrial Complex, a project for labor-intensive manufacturers, as a means of creating an opportunity for small and medium-sized businesses to overcome their difficulties in South Korea. At the same time, the government has concrete plans for full-scale promotion of cooperation in agriculture, forestry, fisheries, light industry, mining, and more. In addition, the administration is currently working on a concrete plan of action for mid to long-term energy, distribution, communications and other SOC construction assistance.

There is a detailed plan to provide energy assistance while promoting businesses, as well. Seoul plans to provide electricity specifically for special economic zones or for South Korean enterprises, as well as cooperation in development and exploitation of the North's underground resources, rather than a vague idea of general energy aid to all of North Korea. In order to provide development assistance for North Korean SOC, joint-venture projects will be promoted while energy, roads and rails, ports and other basic development aid will be linked to the upcoming summit meeting, and will be dependant on the outcome of the North's nuclear issue. Linking this aid to areas in which there is inter-Korean cooperation is expected to foster North Korean industries and further promote inter-Korean industrial cooperation. Currently, the jointly-promoted Kaesong Industrial Complex is a good example of what developments can be expected in the future.

### Benefits for ROK Businesses

It is expected that the role of small and medium-sized businesses will grow as cooperation in the light industry sector continues. Providing the raw materials and technology North Korean light industries require for the manufacture of textiles, shoes, soap, and other products also helps to boost South Korean small and medium-sized businesses. The government is working to create favorable conditions for the growth of the textile industry, and through investment into inter-Korean joint ventures, is improving facilities in North Korea while working on plans to build new factories in the North, as well. Inter-Korean cooperation in other sectors, such as agriculture, fisheries, forestry,

distribution, and communications is also expected to grow, while the scope and influence of the role of South Korean entrepreneurs will grow as investment begins to flow into the North.

### DPRK Project Wishlist

While myriad projects for economic cooperation are being prepared in the South, the majority of them call for investment on the part of North Korea, as well. Energy cooperation, modernization of railways, tourism on Mt. Baekdu, updating Nampo port facilities, reforestation, joint development of agricultural areas, and joint use of rivers, plans that are considered the "7 pillars of inter-Korean cooperation", have all, to some degree, been accepted by North Korea.

In February of last year, the Ministry of Unification drew up a report titled "Economic Cooperative Projects Needed and Wanted by North Korea". The paper provided a list of requests for aid or cooperation made during ministerial talks and other formal meetings between officials, as well as through private-sector organizations and businesses. According to the report, North Korea is looking for a total of sixteen projects, with four related to the energy sector, and five related to SOC. Projects include cooperation concerning power generation and transmission facilities, upgrading power lines, improvements to the highway from Kaesong to Pyongyang, modernization of the port in Nampo, and assistance for a fertilizer factory, food preparation facility, and freight truck assembly plant.

### Issues and Criticism

At the moment, however, North Korea considers the creation of another special economic zone to be burdensome. With Mt. Kumgang and Kaesong projects entrusted to South Korean enterprises, there are some in the North of the opinion that it is still too early for this sort of development in yet another region. The North's preference for step-by-step progress with tangible profits is not in complete harmony with the South's mid to long-term vision for economic cooperation. With North Korea's focus on only short-term gains, it is not difficult to guess what economic difficulties it is facing. However, North Korea's desire for "cooperation" in the form of South Korean aid is no small burden for Seoul.

To make matters worse, conservatives fear that Roh Moo Hyun will promise large-scale economic cooperation at the upcoming summit and pass that burden on to next administration, and accusations of misgovernment are growing. However, within the administration, there is a shift away from one-sided support for inter-Korean economic cooperation and toward more of a sense of investment, along with a sense of a need for development. If cooperation takes the form of joint-ownership in which both Koreas invest and there are mutual returns, then there is not only an opportunity for development, but ultimately, for the future creation of an inter-Korean economic community.

### Would the Next Administration Embrace any Agreements?

If the two leaders do reach agreements on a range of inter-Korean projects at the upcoming summit, would the agreements be recognized by the next administration? Currently, the Roh administration's term is almost up, and in this situation, more than a few people appear apprehensive about whether agreements reached at the summit would carry over to the next administration. There is a good chance that the next administration would see an agreement from the upcoming summit as a "Second June 15th Declaration", and reject it. This could lead to raise serious legal and political dangers.

Realistically, it would be difficult for the next administration to ignore the strategic value of inter-

Korean economic cooperation as it influences not only the economy, but political and military affairs, as well. Embracing such an agreement from the summit would also be advantageous in the building of a constructive, productive relationship of trust and confidence with North Korea. In addition, if inter-Korean economic cooperation leads to large-scale payments from public funds, authorization from the National Assembly would be required by law. If any agreements on inter-Korean economic cooperation emerging from the upcoming summit are approved by the legislature, then the next administration must work to actively promote them.

### Outlook for the Summit

Along these lines, it appears that substantial results can be drawn from the upcoming summit meeting. First, the two leaders will need to share a vision and outlook for the mid to long-term, on the principle of realistic gains more so than an inter-Korean economic community or the balanced development of a Korean economy. If this occurs, then the two can work toward agreement on economic cooperation in which step-by-step progression is possible, and both Koreas will reap benefits.

Officials are already sharing opinions regarding projects such as regular traffic on the Kyungui rail line, joint fishing in both the East and West Seas, tourism in Kaesong City and on Mt. Baekdu, improvements to the highway between Kaesong and Pyongyang, and expansion of joint development projects for the provision of raw materials for light industries and exploration of the North's mining resources. Agreements, and initial movement, on these projects is expected. That said, it is much too early for anything like an inter-Korean Free Trade Agreement, and taking into account North Korea's ability to accommodate these projects, and the current level of inter-Korean economic cooperation, the realistic probability of such an agreement does not appear to be high.

No one should be blindly optimistic about the upcoming summit, but if any agreements develop as a result of the meeting, it would mean qualitative development of inter-Korean relations. It would also mean the prospect of huge opportunities in the future for entrepreneurs trying to find a way into North Korean markets, as business with North Korea is already progressing by leaps and bounds.

### III. Nautilus invites your responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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