

# The Kim Dae-jung Administration's Engagement Policy toward North Korea

## More Exchanges Open New Opportunities for South-North Dialogue

### Foundation Laid for Peace and Reconciliation

The general objective of the North Korea Policy of the Kim Dae-jung Administration, dubbed the "Government of the People," is to substantially improve relations with North Korea through settlement of peace, reconciliation and cooperation. The Administration is carrying out its engagement policies consistently under the following three guiding principles: First, the country will not tolerate any armed provocation from the North. Second, the country will not absorb North Korea. Third, the country will actively seek reconciliation and cooperation.

As a result of the Republic's engagement policy, known as Sunshine Policy, the situation on the Korean Peninsula has been moving in a positive direction, helping the country induce foreign capital and cope with the 1997-98 economic crisis successfully. The relative peace and cooperation between Seoul and Pyongyang is bringing about increased exchanges

between them. Basketball teams and performing artists are making and returning visits. During the past few years, more than 200,000 South Koreans toured the picturesque Kumgangsan (the Diamond Mountains) in the North. In 1999, inter-Korea trade reached US \$330 million, a record high.

In an international effort to secure peace on the Korean Peninsula, Korea, the US and Japan, which have a particular stake in the region, have been working jointly on a comprehensive diplomatic and economic settlement with North Korea. When William Perry, the US Policy Coordinator on Korea,

visited Chong Wa Dae in December 1998, President Kim made it clear that Pyongyang should never be allowed to develop weapons of mass destruction and that a comprehensive settlement should be reached with Pyongyang instead of a piecemeal stop and go effort. In the ensuing North Korea-US talks in Berlin in September 1999, Pyongyang agreed to the US demand to suspend test-firing of long-range missiles, and Washington, in turn, decided to partially lifting its embargo on North Korea.

### Revitalizing South-North Economic Interaction

As part of its move to expand inter-Korea economic cooperation under the principle of separating economy from politics, the Government announced a set of measures on April 30, 1998. Through this action, the use of the Government's South-North Economic Cooperative Fund was liberalized. Until then, the fund was

restricted to major government projects promoting integration of the divided nation such as humanitarian aid and building lightwater nuclear reactors in North Korea. In October 1999, the Government worked out guidelines for use of the fund in an effort to encourage small businesses to trade with North Korea. They set out requirements for those small and medium-size businesses that want to apply for the fund.

### Kumgangsan Tourism is in Full Swing

In September 1998, the Government decided to allow South Koreans to travel to Kumgangsan in the North as a means of expanding South-North exchanges. On November 18 the same year, Hyundai Corporation launched the first luxury sea liner Kumgangho. As of February 2000, a total of 192,055 people from the South (including 76 foreign nationals) toured the famous mountain in the North.

North Korea and Hyundai signed an agreement detailing tour rules and protection of tourists. Hyundai is developing a comprehensive Kumgangsan resort replete with fine hotels and other amenities. The courses for the Kumgangsan tour are being diversified, too. Kumgangsan tourism is not only the first major South-North economic/cultural program but is a symbol of diminishing tension on the Korean Peninsula. Encouraged by the economic benefits of the Kumgangsan project, North Korea is beginning to open up to more material as well as people-to-people exchanges with the South.

### People-to-People and Cultural Interaction

Since 1989 through 1999, more than 10,000 South Koreans, not including the Kumgangsan tourists, visited North Korea. Direct exchanges of visits by athletes and performers are unprecedented. There have been occasions when the athletes from both Koreas competed in a match in a third country, but not in South or North Korea.

In the area of performing arts, concerts by the Little Angels choir and of the music of Yun Isang were performed in Pyongyang in 1998, and the South Koreans made an aborted attempt to hold another musical event last year. In 1999, South and North Korea labor organizations had soccer games in Pyongyang. During the same year, the two sides organized Unification Basketball Games and exchanged matches, the first one in Pyongyang and the second in Seoul in December.

### Family Reunions are being Discussed

The Government has always emphasized the urgency of arranging reunions of relatives living in different parts of the divided land. It is the Government's humanitarian nature and the aging of the first-generation members of the separated families. At the South-North Talks in Beijing in April 1998 and June-July in 1999, the Republic proposed a detailed family reunion plan, but it was not accepted by the North. The Government is striving to realize the family get-togethers in a convenient place on a regular basis and under a dependable

system. At the same time, the Government is endeavoring to arrange family reunions in a third country on an individual basis. It provides a subsidy of 400,000 won for each family who is trying to find out if their relatives are still living. For those who are actually planning reunions in a third country, the Government pays 800,000 won. For those separated families with incomes under the poverty level and those who have POW relatives still kept in the North, the Government pays up to double the set amounts. Administrative procedures for passport application for visits to North Korea have been simplified. Since September 1998, prior Government approval is no longer needed for senior citizens to visit the North for a family reunion. They just need to report their travel plans to the Government. Documentation requirement for the passport application has been substantially reduced, from 74 forms to 28.

### Humanitarian Assistance toward North Emphasized

The South has been shipping grain and other essential supplies to the North in recent years. In principle, terms for the humanitarian aid are determined through official communication between the two Koreas. Emergency aid is being extended without condition. The Republic is working on plans to improve North Korean agricultural production in an effort to seek a permanent solution to the food problem. Non-governmental humanitarian assistance is also increasing and has been increasing. The South, under the Govern-

ment of the People, has sent US \$79.65 million worth of food, medical supplies and fertilizer to the North as of the end of January 2000. The amount, when averaged on a yearly basis, represents 39 per cent of the previous Administration's.

### Light-water Nuclear Reactor Projects for the North

In accordance with the 1994 Agreed Framework, signed by the US and North Korea in Geneva, the KEDO (Korean Peninsula Energy Development Organization), led by South Korea, the US and Japan, is constructing two light-water nuclear reactors (LWR), which were promised to North Korea in return for freezing its nuclear development projects. Two reactors of one million kilowatt capacity each are being built in Kumho. Hamgyongnam-do province under generous repayment terms.

South Korea will play a central role in the purchase and construction of the reactors. KEDO is to build Korean-made LWRs in the North in cooperation with the main contractor, KEPCO (Korea Electric Power Corp.). KEPCO is responsible for designing, manufacturing, building and installing the reactors. Ground has been cleared for installing the power generators, and the construction of breaker and other facilities are about to begin. Korea is paying the bulk of the multi-billion dollar project which is to be repaid over 17 years after a three-year grace period. Most of the materials and human resources for the reactors construction are supplied by KEPCO and its sub-contractors.



People searching for their relatives in North Korea

## Korean Economic Trend

Continued from page 16  
retail sales narrowed to an 11.1 per cent increase in June, due largely to diminishing sales in automobiles, petrochemicals and electronics. Facility investments recorded a 26.1 per cent increase in June, continuing a declining trend that began in February. Meanwhile, domestic machinery orders received dropped 5.8 per cent year-on-year from 1999, reflecting a downturn in both public and private sector orders.

### Exports and Imports Increase in 1st Half 2000

The Ministry of Commerce, Industry and Energy (MOCIE) recently announced export and import records in the first half of the year.

Exports reached US \$82.84 billion in the 1st half, a 25.5 per cent increase over the equivalent period last year. Exports in June stood at 15.31 billion, breaking the previous highest record of US \$14.96 billion set in December 1999. Heavy chemicals led in exports, while light industry continued to recover.

Exports to advanced countries, including the US and Japan, increased significantly, while exports to developing countries still recovering from financial crisis, including ASEAN, recorded slower growth.

Imports in the first half of the year reached US \$78.59 billion, a 44.7 per cent increase compared to the same period last year. Raw materials and capital goods imports continued to rise, with the ratio of raw materials to capital goods to consumer goods remaining at 5:4:1. Imports from developing countries marked the sharpest increase - up 64.7 per cent due to rising prices in international crude oil - while imports from advanced countries increased 32 per cent compared to the same period the year before.

The trade balance recorded a temporary deficit in January due to seasonal factors. However, with exports maintaining a favorable trend and imports slowing after May, Korea registered a net US \$4.25 billion trade surplus in the first half of

### Unemployment Rate Continues to Decline

The unemployment rate in June stood at 3.6 per cent, down 0.1 percentage points from the 3.7 per cent recorded in May, according to the Ministry of Finance and Economy.

Compared to the 6.2 per cent recorded in June of 1999, the year-on-year jobless rate declined by 2.6 percentage points. Meanwhile, the seasonally adjusted unemployment rate dropped to 3.8 per cent in June from 3.9 per cent in May, continuing a consecutive seventeen-month downward trend. Employment increases in the construction and agricultural sectors accounted for the decline in June's unemployment rate. By industry, year-on-year employment in the construction sector marked a 7.5 per cent increase, while manufacturing increased 6.5 per cent. Employment in the agricultural sector, however, declined 3 per cent from the previous year.

The labour force participation rate in June stood at 61.4 per cent, slightly down from 61.5 per cent the previous month. The number of employed workers in June rose to 21.39 million, up 3.8 per cent from the year before.

### Private Consumption Escalates

Private consumption continued its upward trend, reaching 11.2 per cent in the first quarter of 2000, up from 10.3 per cent in the equivalent period last year, according to a recent analysis by the Bank of Korea. Consumption of durable goods rose sharply during the country's faster-than-expected economic recovery. Communication, transportation, and entertainment expenses also increased significantly in the first quarter.

The sharp rise in imports since 1999 reflects Korea's strong economic activity. Consistent with this trend, imports of consumer goods, which plummeted in 1998, also show signs of recovery.

The consumption increase from January to May of this

year is attributed to a post-financial crisis rebound in income, as well as to a 'wealth effect' created by a bullish stock market. According to a regression analysis using time-series data of the 1990s, household consumption is bound to rise from 0.5 per cent to 0.7 per cent when stock prices rise by 10 per cent. Since 1990, increasing openness of capital markets has propelled stock market growth, which in turn has positively influenced consumption, as well as accelerating the accumulation of stocks as household assets.

### Dishonored Bill Ratio Drops in June

The dishonored bill ratio stood at 0.16 per cent in June, down 0.03 percentage points from 0.19 per cent recorded in May. During the second quarter, the dishonored bill ratio was 0.17 per cent, significantly down from 0.23 per cent averaged in the first quarter.

A total 549 companies registered for bankruptcy in June, an increase of 37 from the month before. However, the total number of bankruptcies decreased from 1,620 in the first quarter to 1,564 in the second.

The number of start-up companies in June reached 3,948 in eight major cities, second in number only to March of this year, when 4,605 start-up companies registered. Accordingly, the ratio of start-up companies to bankrupt companies remained at a high 17.7 to 1 level.

### 29.7 Percent of Total Stocks Held by Foreign Investors

The number of foreign investors registered in Korea stood at 10,843 at close of June, an addition of 142 new investors since May. Institutional investors accounted for 61.1 percent of total assets, while individual investors accounted for 38.9 percent.

Stock investments in the Korea Stock Exchange represented 93.4 percent of total foreign investment in June, up 0.1 percentage points from the previous month. Stocks held by foreigners accounted for 29.7

percent of the total of all listed companies at market value, an increase of 7.8 percentage points over 1999.

Foreign investors held 9.1 per cent of total stocks registered in KOSDAQ in June, down 0.4 percentage points from the month before. Foreign direct investment accounted for 66.9 percent of total foreign investments in KOSDAQ.

In June, foreign investors held 1,469 billion won in bonds, a 13.8 per cent decrease from May. Foreign investors accounted for 0.4 per cent of total listed bonds.

### External Liabilities and Assets as of the end of June 2000

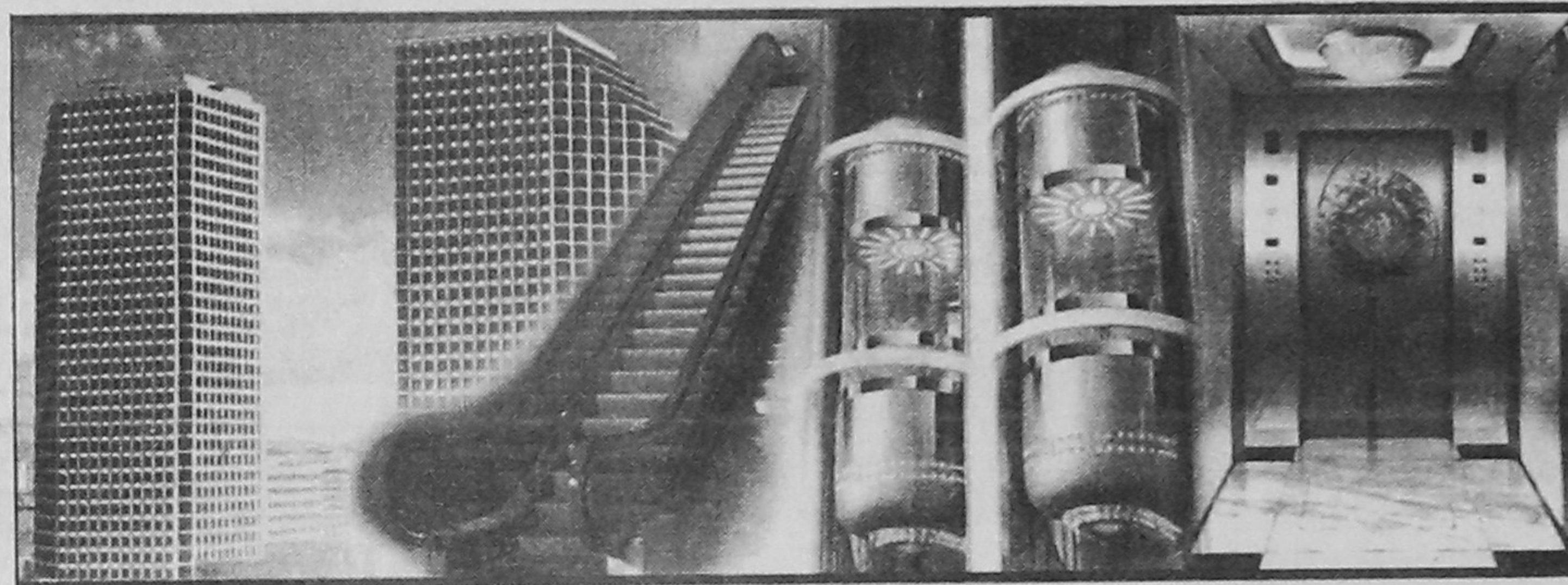
On August 5, 2000, the Ministry of Finance and Economy announced that, despite continued repayment of external debts by local financial institutions (US \$0.3 billion), Korea's external liabilities rose to US \$142 billion by the close of June 2000, an increase of US \$0.5 billion from the end of May. This is attributed mainly to increases in the issuance of foreign currency-denominated securities by domestic companies (US \$0.4 billion), surges in import-related credit (US \$0.2 billion), and accrual in debt extended by foreign banks (US \$ 0.2 billion).

Long-term external liabilities decreased from US \$94.7 billion in May to US \$94.5 billion in June, reflecting repayment of US \$0.5 billion in long-term external liabilities owed by local financial institutions. Meanwhile, short-term external liabilities increased from US \$46.8 billion in May to US \$47.5 billion in June. The increase is attributable mainly to a short-term trade-related credit boost (US \$0.2 billion) as well as to debt accumulation extended by foreign banks.

The ratio of short-term liabilities to foreign exchange reserves stood at 52.7 percent at the end of June 2000, a decrease of 1.3 percentage point from the end of May 2000.

This article is provided by Ministry of Finance and Economy, Republic of Korea.

We extend our heartiest felicitations to the Government and Friendly people of the Republic of Korea on the Occasion of their National Foundation Day on 3<sup>rd</sup> October 2000.



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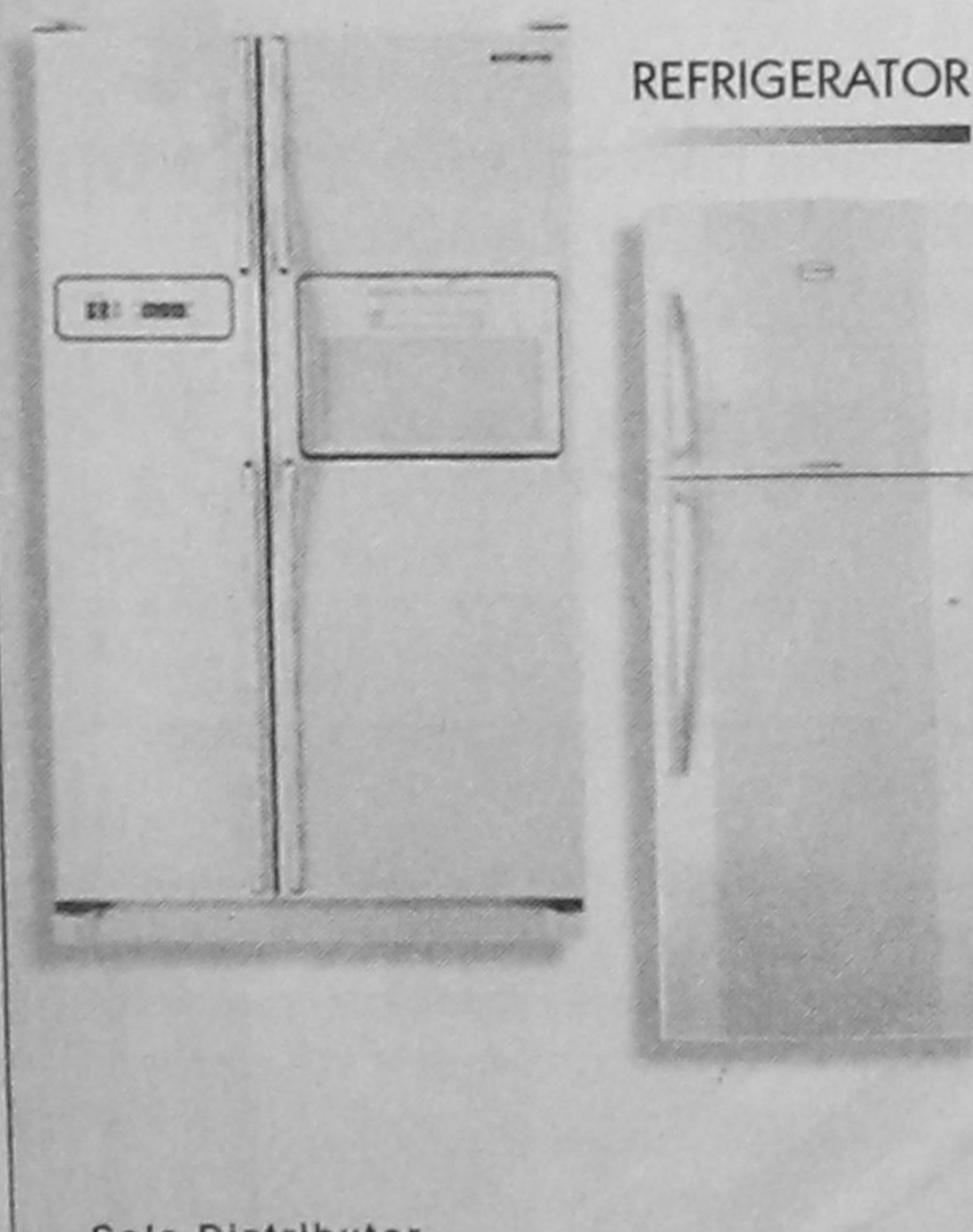
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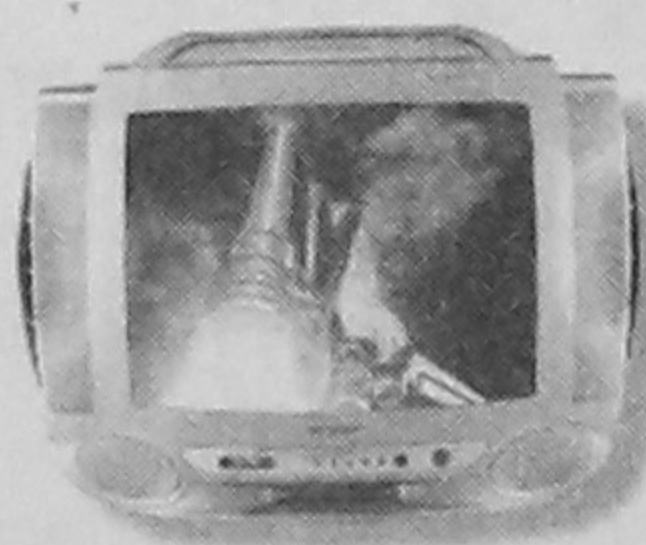


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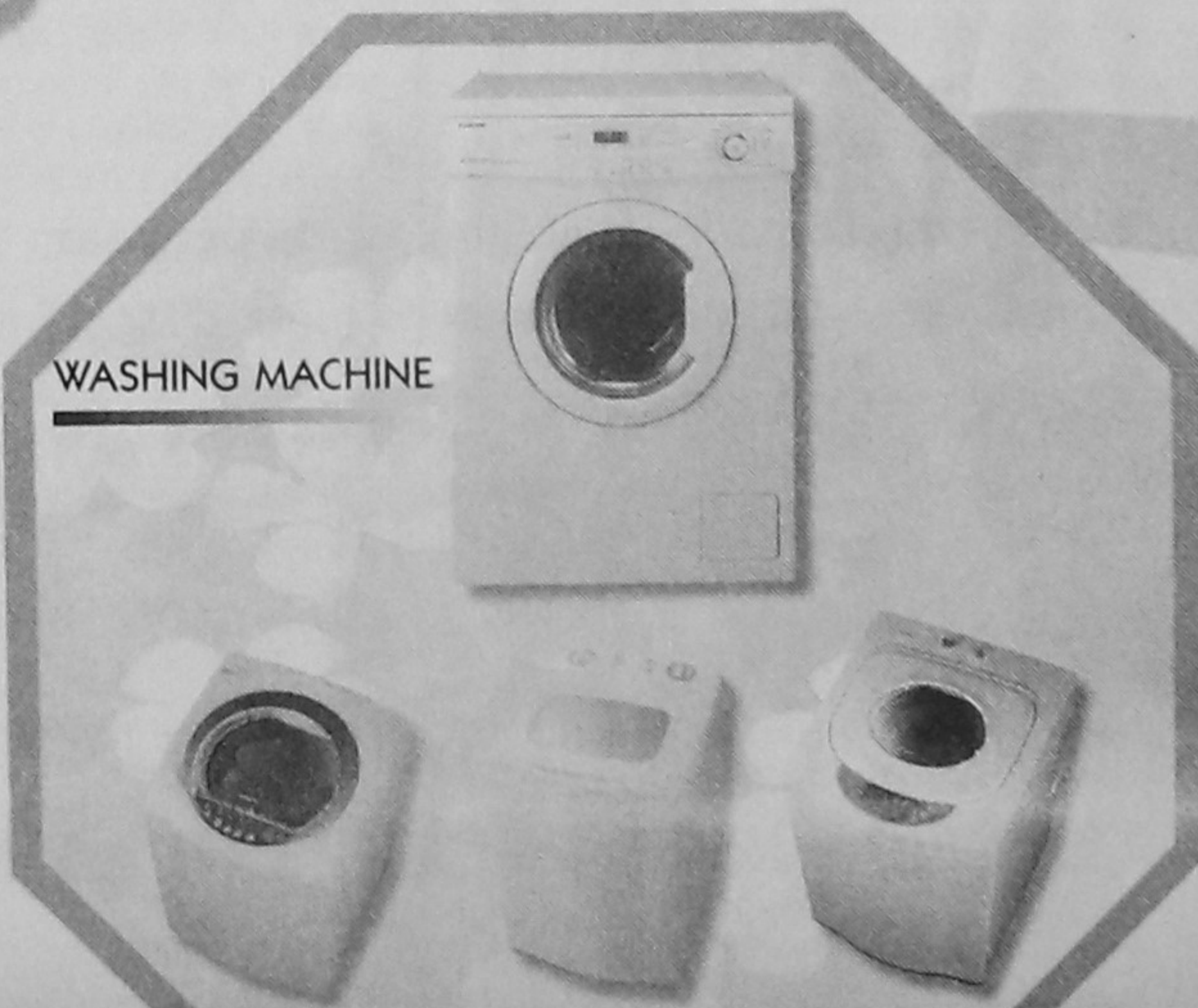
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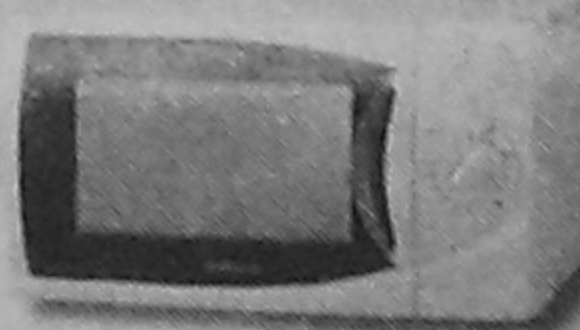
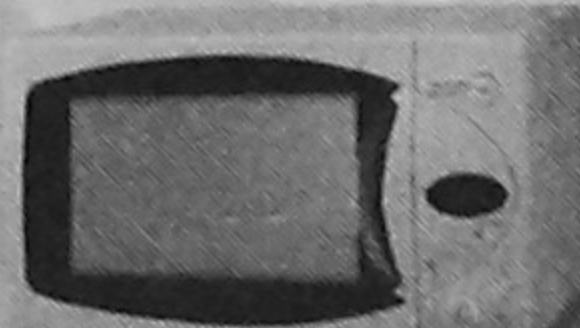
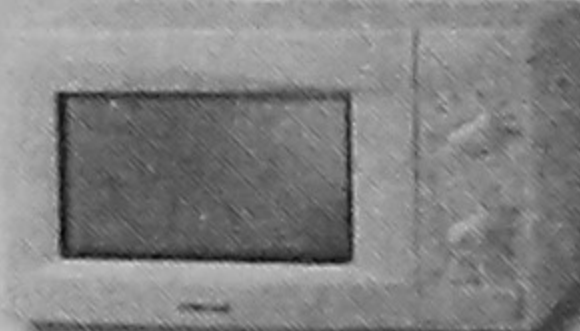
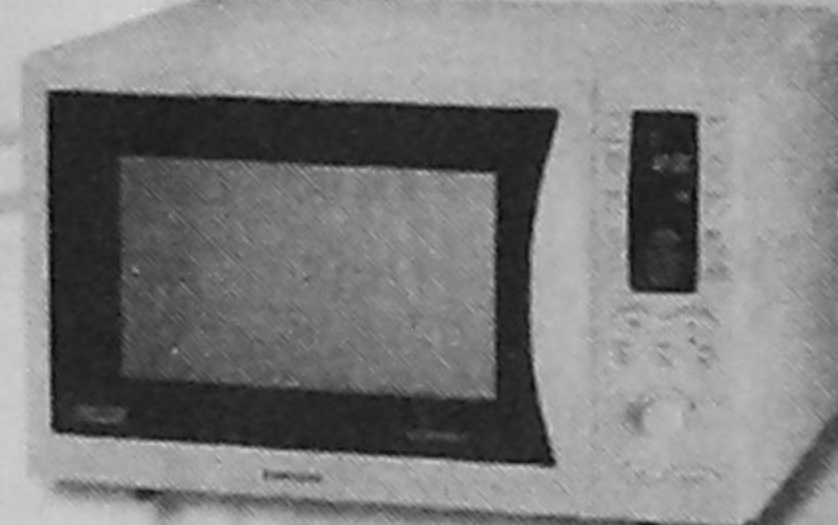
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