

## **Policy Priorities for the Unified Korea**

*Eui-Gak Hwang*

*Professor emeritus of economics, Korea University and  
Senior Research Professor of The International Centre  
for the Study of East Asian Development (ICSEAD),  
Japan*

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## Abstract

This looks into some major policy priorities for the Unified Korea when a sudden collapse of North Korean regime occurs. The hard landing scenario for Korean reunification requires the Koreans to be prepared for contingency tasks. Post-unification measures for economic and political integration are selectively suggested for monetary conversion, economic restructuring, and privatization, as well as integration approach.

## Key words:

Contingency, Conversion, Exchange rate, Integration, Monetary, Reunification

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\* Eui-Gak Hwang is a senior research professor at the International Center for the Study of East Asian Development (ICSEAD), Kitakyushu, Japan.  
e-mail address; [hwang@icsead.or.jp](mailto:hwang@icsead.or.jp); [eghwang40@yahoo.co.kr](mailto:eghwang40@yahoo.co.kr)

## 1. Introduction

*And if at another time I announce that a nation or kingdom is to be built up and planted and if it does evil in my sight and does not obey me, then I will reconsider the good I had intended to do for it. (Jeremiah 18:9-11.)*

*I will drive the northern army far from you, pushing it into a parched and barren land, with its front columns going into the eastern sea and those in the rear into the western sea. And its stench will go up; its smell will rise up. (Joel 2:20.)*

*Therefore keep watch, because you do not know the day or the hour. (Matthew 25:13.)*

The economic and political integration of a unified Korea has ever been the national hope of both Koreas, but in reality the two sides have been pursuing the integration in favor of their respective but completely different system that each has antagonistically maintained since the division in 1945. The origin of the nation's cleavage was in large part traced to the ideological splits among independent movement leaders after the World War II, none the less than their wrong-guided political ambitions which underlined the stumbling blocs for them to compromise and to unite unselfishly. After the first button was mistakenly placed and fixed, it could not be possible for the actors to bravely take self-correction for long. The interest groups behind as well as given situations have not made possible for the separated to re-harmonize, since either side was not willing to desert completely from the respective ideological philosophy. The two sides destined for different ways have thus conflicted endlessly and complained maliciously one another on the responsibility for the nation's division and all sorts of thereof pains. In a bitter rivalry for over a half-century, the race seems to have almost driven the North side into a *culdesac*. Toward the end of last century, a purposeful wind of powerful breaths from the lofty heaven wiped away the landscape of communist blocs. A decade of subsequent wild wind had blown off to revise the theretofore atlas of most communist countries subject to reform. Only a remnant of Stalinist-type communists is the 'Democratic People's Republic of Korea', which is, in fact, neither "democratic" nor "people's republic" contrary to its connotation.

However, North Korea has lost most of its formerly brethren trade partners. The isolated *juche doctrine* in addition to a collapse of communist blocs in East Europe has only attributed to worsening its economic foundation that has been inherently inefficient. The North is incapable of meeting its people's basic needs, including feeding its people. But leadership in Pyongyang has nonetheless developed very expensive rocket (or disguised ballistic missile) and nuclear bombs and it still manages to retain its grips amid rumors of wide spread famine. The puzzle cannot be easily solved without full understanding of the North regime's brutal ruthless political rule and hard suppression on human rights<sup>1</sup>, Kim's gift for political manipulation, a use of brinkmanship diplomacy and China's tutelage. When the famine stricken North bluntly rejected food offers from South Korea in summer 2008 and from the U.S in spring 2009, many North Korea watchers wondered how it was going to meet the short supply if China was not backing. While a U.N. Security Council is yet in debate on strong economic sanctions against the North condemning the North's April 5 (2009) rocket launch, a breathless Yonhap news wired that "many full loaded trucks are moving busy into North Korea from China side across the Yellow river bridge".

On April 14, 2009, North Korea asked the International Atomic Energy Agency (IAEA) inspectors to leave the country in a strong response to a U.N. Security Council's non-binding presidential statement (condemning the North's rocket launch on April 5 in violation of Security Council resolution 1718 that was issued in the wake of its nuclear bomb test on October 9, 2006) made a day earlier. The communist nation also announced that it would never again take part in six-nation nuclear disarmament talks and would restore the plants at Yongbyon that produced weapons-grade plutonium. Soon after the strong reaction from Pyongyang, the U.S. made a statement urging the North to return to the six-nation forum. The U.S. may likely offer direct talks to woo it back to six-party dialogue as hinted by Hillary Rodham Clinton. Clinton criticized Pyongyang's move, but added that the U.S. is hopeful of eventually achieving a breakthrough 'through direct talks with the North'. That is exactly what the communist nation intends: to prompt the U.S. to hold bilateral discussions on the normalization of

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<sup>1</sup> It is known that there is more than 150,000 political prisoners in labor camps today, that is, one political prisoner for every 155 citizens. To know about the terrifying life in the North Korean gulag, read Kang Chol-Hwan and Pierre Rigoulot, *The Aquariums of Pyongyang*, Basic Book, New York, 2001.

diplomatic relations. The North's boycott of six-party talk also looks like as if a big blow to China which has played a role of a chairmanship. But China is always keeping an open door for bilateral talk with North Korea. More importantly, however, it is very doubtful if the six-nation talks (the two Koreas, China, Russia, Japan and the U.S.) would be successful when talks reopen, if not just consuming time until the North has bombs in hand. The U.S.-led members of the talks would never likely win in this pull-and-push gamble with the North. To join in the world nuclear club, Pyongyang seems to have so far deliberately studied and set up its strategy in full preparation to cope with the U.S.-led opposition.

The North's 'military-first policy' has been intentionally deploying a rotation of 'push-and-back' strategies with a series of "mix of policies": namely, (1) buying the name for an 'axis of evil' by axing two American officers to death in Pan-Mun-Jum JSA (Joint Security Area) on August 18, 1976, by exploding down a Korean civilian air flight with 116 passengers on board in 1986, and by breaking the IAEA rule in 1993, to list a few; (2) repeating partial 'exposition and hide' policy of its nuclear and missile programs (1993-2009); (3) harmonizing its brinkmanship diplomacy with country risk management (2003-2009). In the end, communist tactics is to turn over everything to the original point blaming the other side for all failures on the table. All such strategy and tactics are deployed on the basis of purposeful schemes. All attempts are planned in advance, but not accidental events. In general, most communists are not at all humanists in that they only use and sacrifice others thoroughly for the sake of achieving their "selfish-motivated objectives".

On the other hands, most counter measures taken by its foe in the South placed under the protection umbrella of the United States were mostly instant and unprepared beforehand. Even the North's rocket launch was well prepared and calculated in advance on what it could gain thereof. Kim's gift of reading the would-be responses from the U.S., Japan, South Korea, Russia and China is far beyond the brains of those nations. Once it knows the others, it dares to experiment without a fear whatever it wants to do. In particular, it regards that the big guy (U.S.A) is nothing but 'a paper tiger' which likes to talk but will not risk real danger because of a headache with the North, if not verbal bluffs. More importantly, the North calculates deliberately that the U.S. will neither use

its power to tame the North in face of prodigious China's military presence nor abandon its preference "to take a back seat" if possible at most in Asian problems.

If so, North Korea's leadership can behave as if it is an ox with its yoke off which goes its own way. But a time will come sooner or later that its exploited people can no longer tolerate the ruthless oppressor and dictator. People are endlessly being brainwashed to keep "red" and to wait for future, but their real "hearts" remain unchanged as planted by creator in the beginning. Many North Korean elites who have continued to support their leadership with little regard for the plight of most grassroots must now fear that a day is to come to rage a backlash against their brutal rule. On that day, the arrogant ruler will be put to shame for all the wrongs he and his regime has done to innocent people. The fierce anger will be poured out; the raging of oppressed people will rage against the tyranny and his cadets, making them the desolate ruin bringing the end to those destined for the end. Is it not written everywhere (see Isaiah chapters 17, 18 and Zephaniah chapter 3) in the Holy Bible?

In fact, South Korean regimes have so far feared that North Korea might implode, which would produce many problems such as refuge exodus and huge unbearable costs for national integration. But reunification either through the North's implosion or through other ways is not what South Korea may avoid as possible as until two side's (per capita) income converges. The conversion will never likely occur without integration. The North's paranoiac ruler is not likely to turn away from his evil, or to reform his ways and actions. Furthermore, reunification will not come depending on what any government will, or what people will. In a day, the North regime collapse followed by national reunification will come when we all least think but surely with best surprising ways to manage all costs and problems thereof.<sup>2</sup> South Koreans just need to be watchful and to prepare for themselves for that day.

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<sup>2</sup> In connection with this issue, refer to the following messages in the Bible: "Who of you by worrying can add a single hour to his life? Since you cannot do this very little thing, why do you worry about the rest? Consider how the little grows. They do not labor or spin. Yet I tell you, not even Solomon in all his splendors was dressed like one of these". (The New Testament, Luke 12: 25-27.)

## **2. Policy Priorities for the Unified Korea**

There are so numerous things Koreans need to prepare toward national reunification as there will be a heap of expected and unexpected problems and short-term and long-term issues to deal with in the process of national integration if it comes suddenly with the collapse of the communist regime in North Korea. Both before and follow-up measures would vary depending on how the reunification will be planted and processed.

Integration into a command-type political and economic system would differ from a unity into a free market and democratic economy. Gradual integration may require, of course, different policy measures from a case of big-bang mode. Planning a new political and economic system in a unified land is another important matter to take care into consideration. In this section, therefore, unification policy issues (priorities) will be discussed in general framework with no regard to the speed and mode of reunification, although we hold in mind the hope of sudden collapse model for the incumbent Kim's regime in the North. But one proposition here is that the nation will unify with absorption into the South Korea's free democratic market economy, though politically the unified nation may target to balance on a neutrality stance in the world politics. Naturally the discussion will evolve with a clear perception in mind that integration process is to be made by South Korea's leadership at the wake of the dissolution of North Korean regime.

To begin with, we assume that "hard-landing" is the "only way" to lead to national reunification, namely a model of implosion that is to be ignited as the masses' uprisings to raid an unstoppable backlash against the North's brutal but unsustainable regime. This hypothesis may not work soon if Beijing, Seoul and Washington would provide unconditional steady provision of foods and other assistance to the regime because of anxieties both about the consequences of North Korea's sudden collapse and about the political prices followed up with new evolution of situations that would arise differently from their own respective expectations in the era of post-regime change. Otherwise, we assume this would surely come sooner or later as the North Korea's masses in the corner are to be tempted to envy for material conditions and individual freedom.

As contrast to the hard-landing scenario that results from an unexpected collapse of the North Korean regime, one can argue that gradual integration or the soft-landing model is possible and preferred. But observing the North Korea's stance to keep its *juche system* will teach us that a soft-landing despite of its alleged advantage over a big-bang approach is seldom likely and feasible to develop in Korea, if not cementing rather a permanent status quo (division). It may be argued in words or in theory as if the soft landing is less costly, but in reality a gradual integration between two extreme ideological rivals is never likely possible unless one side faces a sudden death. More important, Korean communists are so impossible to compromise with the South's capitalists just as it is impossible to mix fire and water. Those who support for a gradual approach must be miscalculating as if the North and the South could converge into one unified philosophy over time. Otherwise, they must be favoring permanent division instead of national reunification, because they believe the reunification is of no help for both sides. In words, indeed, two Korean sides do not oppose national unity but the two sides have apparently different perceptions on integration method and approach.<sup>3</sup>

The path of its post-implosion must not be out of reach for South Koreans, in that South Korea will take a sovereign control over the process of transition with full supports from as well as close cooperation with neighbor countries like China, Japan, Russia and the United States among others.<sup>4</sup> With this in mind, this chapter will discuss policy priorities for a united Korea. Firstly, we will consider some urgent tasks immediately needed at an occurrence of the big bang, to be followed by some in-depth consideration of key transitional economic policies to be taken in the process of national integration as well as problems thereof.

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<sup>3</sup> North Korea and South Korea both say that national objective is to achieve reunification. But North Korea made it clear that inter-Korean relations and cooperation are one thing, and "our father-land's reunification is another. It says that "two states can increase non-political exchange in economics, cultural and social domains. But this method can 'not' be a method for the improvement of relations between the north and the south for the settlement of the question of our country's reunification". See *National Reunification and "Conclusion of Agreements on Traffic, Correspondence and Trade*, Information Bulletin: The Secretariat of the Committee for Peaceful Reunification of Fatherland, (Pyongyang, DPRK), No.86, April 1990. pp.6-11. Refer to the appendix of this chapter,

<sup>4</sup> To secure such supports and cooperation, a unified Korea must proclaim its neutrality stance in the regional and international politics, keeping its policy of nonpartisanship after national reunification.



### 3. Contingency Tasks for a Post-Kim Jong-il Transition in North Korea

Since summer 2008, reports began circulate in the world media that Kim Jong-il choose his governance post in hide at an underground bunker office while he might also have suffered a stroke. For about six months, he had not appeared in public inviting many outside headline news to speculate about his serious health condition. However, he began to reappear in public in days before and after the North's April 5<sup>th</sup> rocket launch in 2009. His photo taken with a group of scientists and engineers to congratulate themselves for their "successful" rocket launch and released by the Chosun (North Korea) Central News Agency on April 6 shows he wears a thick jumper to cover up his haggard look.

Being reappointed as Chairman of the National Defense Commission by the Supreme Peoples' Congress held on April 9, 2009, he demonstrates that he still manages his full authority with an iron fist, despite of his ever worn-out look. After the April 9<sup>th</sup> Congress, discussion on possible post-Kim Jong-il transition in North Korea once again makes scenarios span abroad ranging from military or collective rule to the hereditary transfer of power to one of his sons, or to brother-in-law Jang Sung-taek under some type of protectorate or interim control. It may not necessarily the way we know of the past succession in North Korea where Kim Il-sung passed the baton to his son Kim Jong-il. Next succession may be more of a united leadership where the newly appointed member of the National Defense Commission like Jang Sung-taek, a secretary and de-factor Kim's love-mate Kim Ok, and some senior military heads working with one of, or more of Kim's sons may come to compromise but with very unstable nature of a united leadership. Such a united leadership structure will be inherently unstable due to hidden conflicts of interests among those elites, given the current situation being untenable as long as the North is incapable of feeding its people amid of extravagant spending for its nuclear and missile projects.

We see that either Kim's sudden death or implosion backed by inside *coup d'etat* will lead to total collapse of the North Korean regime, similar to the fall of Romania's Nicolae Ceausecu's regime in 1989. For all walks of life in North Korea have been long experiencing their personality cult and vicious repression by communist authorities

as well as food and energy shortages that challenge the very survival of average citizens, very close and personal reminiscent of Romania's life between 1965 and 1989. The death of Kim Jong-il who has hold all power in his grip would result in so-called a contingency situation in the North, just as would it be of similar turmoil ignited by people's uprisings whose probability is rated yet very low in the presence of too brutal repercussion by communist security forces and its cronies in the North.

At this juncture, we may first have two questions: (1) Is it possible at all for mass demonstrations to rise against the brutal and skillful communist dictatorship in North Korea? (2) When anti-government uprisings break out due to either peoples' overall dissents or the inside splits among elites, who will the North Korea's military eventually side line with (or against) between Kim's close followers and protestors?

Any probable incidence of large mass uprisings is seemingly yet doubtful as Kim Jong-il is enforcing his absolute power grip, which allows no chance to make factionalism and elements of discord head forward. But there is still a room for the story to change in case of Kim Jong-il's demise or incapacitation due to his health, and on the other hand, depending on worst conditions threatening the people's last survivability. The latter case is like an overly pressed balloon that will soon explode when it is under heavier pressure beyond its capacity. Many North Korean people are being tempted to join in material conditions and social freedom with their brethren across the border. The North's leadership has become increasingly aware that the North-South often contacts are attributing to the social erosion in the North. It was unofficially reported that Choi Sang-chul, a North's architect who promoted the inter-Korean relation, was executed in late 2008 for his guilty verdict for misguiding the people in the North. As a communist regime's legitimacy erodes swiftly, masses are likely to stand up to get rid of the disastrous regime. A Romainan-style regime downfall due to civilian revolution is not at all impossible for North Korean people now experiencing the pre-1990 Romania.

But civilian-led uprisings may result in a colossal bloodbath unless the North military turn back to protect civilians by staging a de-facto coup against the ruling class. In spite of Kim Jong-il's tactics to buy its military favors through his so-called "military-first" policy over a decade back from now, a considerable numbers of military

forces, particularly those in lower echelons, must be tempting to side with his or her family members and relatives in civilian cloths who have been exploited like others by communist authorities. In other words, most members of the North Korean military do not view themselves as a group separated from the rest of North Korean society. Such an example was also made in Romania. The downfall of Ceausescu was swift, because the Romanian military led by General Victor Stanculescu avoided escalating the civilian casualty by standing firm against the Ceausescu regime. It was unimaginable experience, but who can say that the Romanian experience will not also apply to possible end-game scenarios in North Korea? While the Workers' Party is viewed as being the root of all evil and Kim's pawn, the military despite of his policy priority is less responsible for the appalling political oppression and human rights violations, and personality cult, possibly with the exception of a few of very high-ranking generals having memberships in the National Defense Commission. But once the regime faces a fatality situation with Kim Jong-il's demise, they will also divide one another becoming nothing.

It must be noted that today in North Korea, students and young people do no longer respect Kim Jong-il nor communist cadets group according to the spreads of words leaked out of the North. Many scars and damages are being made intentionally against both Kim Il-sung and Kim Jong-il memorial statuses standing at corners of streets throughout North Korea. This foretells in part that possibility for people's uprisings is on its up-ward trends in North Korea as time passes.

A contingency situation will likely invite the Chinese military engagement into North Korea to prevent mass refuge and armed people from crossing the borders. China may attempt to engage into the Korean Peninsula with or without agreement with the United Nations. Officially, China repeats its non-intervention policy into the Peninsula, but the Chinese reaction would be volatile depending on the circumstances to evolve at that time. On this, South Korea must keep talks with China, Japan and the United States to secure full cooperation on the contingency plan. This will be the important test that South Korean diplomacy has to pass on its road to a successful national integration. Koreans must also give it a serious thought if China, Japan, and the United States might not want to see two Koreas unified, contrary to their rhetoric of supporting Korean reunification. In particular, Koreans must reconsider what it meant when Chinese

President Hu Jintao sent a friendly message to Kim Jong-il expressing his willingness to strengthen bilateral relationship between China and DPRK at the wake of a U.N. Security Council's Presidential announcement condemning the North's rocket launch of April 5, 2009.

Although China has made substantial adjustments to its Korea policy moving closer to Seoul for economic cooperation, China still keeps its lukewarm relations with Pyongyang. From a security standpoint, China may not support the reunification of Korea, preferring a divided Korea on which it can exert its military influence more readily. The juxtaposition of its two-Korea policy is not so encouraging for all Koreans who put priority on a national reunification. But knowing the neighbor will help all Koreans wake up and think about how to explore ways to cooperate each other (between the North and the South) as well as with the neighbor for mutual benefit and for the future.

In brief, China may want two Koreas remain divided, by which it can manage the conflicts and competition between two Koreas in Chinese favor for international politics, not to mention its security standpoint.<sup>5</sup> Japan and the United States may regard the Korean reunification as helpful for their security only if it is unified in the form of free democratic system. But both countries are not so positive to see it united soon. These are all points of considerations that all Koreans (North and South) keep in mind in judging how to wisely respond when a sudden big bang is to occur in the North.

On the other hand, the North Korean regime downfall may bring a swiftly anarchic process involving riots, bloodshed, and refugees, and also raising the specter of North Korea's nuclear, missile, chemical and bacteriological arsenal being on the loose. To effectively control on these problems, the South's military may need badly to cooperate with the North's military by ensuring timely and legitimate promise to accommodate the North's military forces into various proper posts in the post-unified Korea. Toward ensuring the needed patronage for further successful transformation, the South must

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<sup>5</sup> If there were a new diplomatic relation established between the U.S. and DPRK, all picture would likely change. In general, current North Korean leadership has some reservation in trusting the Chinese with full hearts despite of Beijing's tutelage. DPRK, if still managed to survive till then, will shift its weight of dependence from China to its new friend, the United States, at that day when it makes reconciliation with the Uncle Sam. If so, it would be a question to see if China wants to keep closer to South Korea and *vice versa*.

seek many feasible approaches to grant the North Korean military the legitimacy to be the decisive factor in a post Kim Jong-il transition and to make them smoothly assimilate into the South Korean streams afterward. It may sound impossible for the heretofore rival two military powers to come to co-operate one another, but it will be no longer a matter of past enemy relations and there will be ‘nothing impossible’ if a large Richter scale earthquake occurs as a big-bang opportunity to make the divided Korea into one. No less important is, of course, to buy full cooperation and support for national reunification from those countries, which have stakes on the Peninsula. This is possible if and only if two Korea’s people get united toward the common objective of national reunification. And it is believed that most Koreans, the North and the South, are willing for this, only with the exception of incumbent North Korea’s communist leaders who will demolish as soon as a big bang revolution breaks out in the North.

#### **4. Major Policy Tasks for Economic Integration**

In this section, we will maintain the scenario that Korea will be unified abruptly as the North’s communist regime collapses one day with neither reforming the current inefficient socialist system nor improving the standards of living.<sup>6</sup> And it is assumed here that post-reunification measures will be mostly assigned to the responsibility of South Koreans. Despite the probable advantages of soft-landing, North Korea’s adherence with its untenable *juche doctrine* which has for nearly five decades contributed to continuously worsening economic situation and severe food and energy shortage might force South Korea to assume the hard-landing situation.

The process of reform in Central and Eastern Europe following the collapse of the Berlin Wall in 1989 was a fascinating experiment in swift transition from one type of socio-economic organization to another. In many cases, the speed of adjustment was grounded on ‘shock therapy’, involving rapid trade and price liberalization, rapid privatization, deregulation and a swift end to state subsidies. No less significant was an

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<sup>6</sup> As a matter of fact, a post-reunification economic measure is indifferent with regard to the mode (either gradual or sudden) and method of the reunification. What matters are both the timing of adjustment process taken in the post-integration and the degree of existing differences in all level of economic conditions and sectors between the two states at the time of political unification.

attempt to build a fully functioning, market-based economic system in each ex-communist country, not to point about replacing one communist party system with multi-party democracy.<sup>7</sup>

With both Korea's conditions and Europe's policies in mind, this section will discuss such important priority issues as regards to the south-north currency and financial integration and privatization of state-owned enterprises in the northern part. Other issues such as north-south migration, reform of property ownership, and restructuring of manufacturing and rural sectors are in order, but we regard taking measures on them as not like urgent short-term tasks. In particular, migration between two parts of the country will occur in two ways, offsetting each other. At the early stage, many refugees may flow into the South, while many northern born residents and their descendants in the South would perhaps like to return to their hometowns in the North once the country is unified.

#### 4.1 Economic and Monetary Integration for the Unified Korea

As a point of departure, we define the concept of 'integration' in terms of *static* sense as a situation in which the national components of a unified Korea are no longer separated by economic frontiers (i.e., the northern area and southern area) but function together as an entity. Used in a *dynamic* sense, it indicates the gradual elimination of the formerly separate national economic entities (i.e., the North Korea and the South Korea) gradually merging into a larger whole (i.e., the unified Korea) over time. Even if two Koreas is politically unified at a point of time, a gradual (dynamic) process will still linger on for a while until the integration process has passed through its stages and reached its object. Therefore, the dynamic application is the more usual in reality, but we will here treat 'economic integration' as if a 'stock (*static*) variable' instead of a 'flow (*dynamic*) variable', for simplicity of our discussion.

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<sup>7</sup> However, it must be kept in mind that the transition from a socialist economy to a market economy is a time-consuming experiment. Because it needs a lag of time to complete transforming the old 'implicit social contract' imbedded in the workers' mindsets to a new one. In other words, changing an 'institutional factor' cannot be so successful with a 'shock therapy' as contrast to the prevailing arguments supported by most neo-classical economists (i.e., Jeffrey Sachs).

First of all, economic integration is basically the integration of markets where both outputs and factors (labor, capital, entrepreneurship, etc.) are traded based on their respective demand and supply. Markets are the places where all citizens (producers and consumers) interact one another to keep their usual livings.<sup>8</sup> In order for these markets to function in an economy, a commonly accepted media of exchange (say, money) is required. In short, the market integration between the north and the south must be backed up by a common means of exchange, that is, a unified currency. As the market is an integral part of the social organism of a modern nation, so is currency (money) an indispensable lubricant to help smooth the processes of all transactions in a market economy. For an integrated economy, one kind of monetary units (that are solely issued by the nation's central bank) is commonly accepted and circulated as ubiquitous means of transactions for all walks of life within the country.

When a unified Korea is to set up, therefore, the first urgent economic task is to integrate the existing two monetary systems into one. A natural way is to liquidate the northern currency system by exchanging all existing quantities of the theretofore North Korean legal notes with South Korean notes. The conversion rate must be calculated by relative values of two respective currencies adjusted to a standard money like U.S. greenback. In applying this rule, however, there are several important problems to deal with. The first is what shadow (real) exchange rate we have to use to convert the unit value of the to-be-absorbed side's (North Korea) money into U.S. dollar. The second problem is related with one on how to estimate the total quantity of cashes in the hands of all North Koreans. North Korea has not ever released its statistics on monetary indexes such as quantity of reserve money, amount of bank notes issued, and other monetary aggregates (i.e.,  $M_1$  and  $M_2$ ). The third question regards to if money (and wage as well) were fairly distributed and accumulated based on each one's productivity such as to justify 'fairness' of each individual's cashes or income held. For there could be serious doubt if at time of the integration money might be heavily owned by those

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<sup>8</sup> Karl Marx had his conviction that the capitalist 'market' is a machine where capitalist methods 'mutilate the laborer into a fragment of a man, degrade him to the level of an appendage of a machine' (*Das Kapital*). Marx never understood that 'market' is life with the capacity for individual creativity and self-expression, that unlike the communist system gives the capitalist system both its extraordinary vitality and its social legitimacy.

covered-up communist party leaders and their relatives, Kim's favored elites groups and their families. Given unfair distribution of the North Korean cash holdings at the time of national integration, an offer of unconditional exchange of their holdings with the South's notes will cause another unfairness dilemma in relocating the economy. To attempt a fair traffic control in this money-exchange job would be one of the most problematic homework for monetary integration in the unified Korea. This is an issue that relates with wealth redistribution among former North Koreans in the post-reunification era.

Going back to the first problem, we may here illustrate an alternative approach. Firstly we have to approximate shadow (real) exchange rate respectively for both North and South Korea by the formula:

$$e = \frac{P_f}{P_d} = \frac{EP_f^*}{P_d} \text{ where } e \text{ is the real exchange rate; } P_f \text{ domestic price of tradable goods;}$$

$P_d$  domestic price of non-tradable goods; and  $P_f^*$  denotes the foreign price of tradable goods (in other words, world price in foreign money) and  $E$  (that is,  $P_f / P_f^*$ ) is nominal exchange rate.<sup>9</sup> Of course, price must be a weighted average price of all commodities and services in the relevant sample.

In reality, it is not possible to approximate any meaningful foreign exchange rate for North Korea, because information on both its price and commodity bundles and their relevant weights are not known to outside world. More important, the country's trade sector is less than 13 percent of its GDP as contrast to over 70% in South Korea.

However, since the North has its official rate of won/USD exchange, which was greatly adjusted from about (2.21 Won = 1 \$) in June 2002 to (153 Won = 1 \$) in July, 2002 when it attempted to adopt a timid price reform. Since then, the official nominal exchange rate has stayed at around average 140 won = 1 \$. Of course, this new rate can neither be understood as its shadow exchange rate, nor was the rate before. In absence of any alternative rate, however, we may simply use cross exchange rates to convert

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<sup>9</sup> There are some discussion on whether the exchange rate should be defined as  $P_f / P_d$  or  $P_d / P_f$ . Both approaches have their pros and cons. In the case of the former one ( $P_f / P_d$ ), a real appreciation of foreign currency is reflected by an increase in the real exchange rate index, while a decline represents a real depreciation of foreign currency *vis-a-vis* domestic currency. In the case of ( $P_d / P_f$ ), both nominal ( $E$ ) and real ( $e$ ) value of foreign currency (depreciation/appreciation) moves in the opposite direction with ratios of two price indexes (increase/decrease).



northern currency value to the South Korea's legal tender. The cross exchange rate between the northern won (let us express it as NW): 1 USD and the southern won (SW): 1USD is calculated as  $NW140/ SW1049$ , that produces an inter-Korean exchange rate at  $0.133 NW=1.0SW$ . This can be rewritten as  $1NW=7.52SW$ . The cross exchange rate used here, for illustration purpose, is based on five-year average rates (2003-2007) of both North and South Korea respectively.

Next, we have to estimate total quantity of northern currency in circulation before the national integration. This may be roughly calculated by using the North's nominal GDP (say,  $Y=py$ ) and a well-known Irving Fisher's equation of exchange expressed as

$MV = Y$  where  $M$  is quantity of money,  $V$  velocity of circulation, and  $Y$  is nominal income (GDP). Given an estimate of  $Y$ , it is a straight forward to calculate the quantity of money if we assign a guess on the size of velocity ( $V$ ). A rude guess on velocity in the *juche* and socialistic distribution system of North Korea is less than 5.0 at most, because commercial trade and transaction are extremely restricted and controlled. North Korea's nominal GDP was estimated by the Bank of Korea to be about 25,000 billion won in 2007. Based on these data, quantity of money supply ( $M$ ) can be approximated to reach around 5,000 billion won. Again a rule of thumb will tell that total amount of the North's notes would be counted to about 500 billion won, a more or less 10 percent of total money creation. To convert this 500 billion North Korean holding currency into the South's one, South Korean government should supply about 3,600 billion won of South Korean legal tender (that is, equivalent to 500 billion of North Korean paper money). This amount is corresponding to about 5 times larger than total investment money (about 730 billion South Korean won) made by 101 South Korean enterprises into Gaesung Industrial complex in North Korea as of March 2009.<sup>10</sup>

All those illustrative figures are based on the year 2007 data. In addition, it goes without saying that the conversion rate will mostly likely be determined not by

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<sup>10</sup> North Korea Army threatened South Korea by saying that Seoul is located within only 50 km distance from their artillery located near DMZ, on April 20, 2009, and also implied that they would consider to take some critical measure on Gaesung industrial complex where about 101 South companies run manufacturing plants if the South were to join in the U.S. led PSI (Proliferation Security Initiative organized on May 31, 2003 to prevent WMD proliferation). If Gaesung were shut down, it would cost about 730 billion won of invested money plus additional 630 billion of opportunity cost to the southern investors.

economic principal (standard) but by political consideration as was the case of German post-reunification process. If the absorbing entity (South Korea) is confident that it can accommodate even one-to-ten (1NW = 10SW) conversion rate between the northern currency and the southern currency, it may choose so, of course, at higher cost of South Koreans. Similarly, wage conversion rate also needs to be determined when workers from the northern side are to be employed. In principal, the wage rate should be in line with the labor productivity. Workers from the socialist economy may take some time to adjust their 'working attitude and ethics' to that of competitive market economic system, but it would not take so long. Once the merit of incentive system is given to northern workers, their average productivity will soon converge to the level of average southerner.

The conversion rate is thus completely a matter of political judgment at the time or national reunification. The cost thereof as well as other unification cost may be in part met from savings that could be available by reforming theretofore military, diplomacy and other duplicative expenses. Both unification and liquidation process will also create a sort of multiplier effects to expand both income and jobs which will attribute to increasing tax revenue that helps meet partially the cost of integration.

However, some people may still worry that this monetary conversion (whatever conversion rate is applied) would cause huge burden on the central bank of the take-over side. This burden does of course mean the 'would-be inflation pressure' to be caused by money supply to meet the integration demands. But if integration is swift and if overall productivity is enhanced due to successful relocation of those North's workers into various economic activities in the unified economy, then inflationary pressure will be surely mitigated. As long as nation's productivity growth matches the growth rate of money, demand-side inflationary pressure is no longer of problem.<sup>11</sup>

All our discussions above are made on the assumption of a 'big-bang reunification (integration)' in place of alternative 'gradual integration'. For the later case, dual

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<sup>11</sup> This can be explained by the quantity equation of exchange,  $MV=py$ . By taking natural log of this quantity equation, we have  $\ln M + \ln V = \ln p + \ln y$ . Again taking derivative to this log equation gives;  $dM/M = dp/p + dy/y - dV/V$ . This explains that rate of money supply equals the inflation rate plus overall productivity growth minus change in velocity rate. If  $dV/V = 0$ , then inflation rate ( $dp/p$ ) would be zero if  $dM/M = dy/y$ .

economic systems are often presupposed to coexist separately in a unified country for an extended period of time. In the dual systems scenarios, the exchange conversion rate, wage conversion rate in relation with labor productivity, and firm's competitiveness and many other problems must be analyzed in terms of dynamic long-term and gradual adjustment framework. The dual systems model applied in the process of integration sounds seemingly less shocking and less friction, but the model will complicate the integration process by allowing two separate governments (systems) to function collaboratively (but not likely successful) till full economic and political unity between two systems are made. This presupposes a transitory process to work with 'two governments and systems in one country', which is nothing much different from the so-called "confederation (low stage of federation) approach" long proposed by North Korean authority.

It is surprising that many experts on the economics of German unification discussed in the context of such proposition (scenario) as maintaining two separate entities in their integration process.<sup>12</sup> But in reality, East German government was quickly dissolved and absorbed by the West. All integration tasks and problems thereof were placed on the shoulder of one unified German government and people. There are no longer two systems, nor two people with different German flags.

Therefore, such proposition for maintaining any dual systems (like a 'confederation') as a transitory process if made in any unification discussion must be cautioned as 'unrealistic and irrelevant' for a unified Korea which will take sole charge with one central government under one unified political and economic system in place of two separately independent local (regional) systems.

The monetary integration may necessitate the financial integration along with other economic integration between South and North Korea.<sup>13</sup> If a big-bang reunification is to occur, financial integration will also achieved in one stroke by South Korea's

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<sup>12</sup> A. Ghanie Ghaussy and Wolf Schaefer, eds., *The Economics of German Unification*, (New York: Routledge), 1993.

<sup>13</sup> Some researches are made on gradual financial integration between South and North Korea on the assumption that the South and the North will coexist for a while. For example, see Suhk-Sam Park and Ralf Mueller, "*Directions of the Financial Integration of South and North Korea: Based on the Experience of East and West Germany*", Bank of Korea Working Paper 2001-5, (Research Department, The Bank of Korea), October 2001. pp.1-27.

absorption of North Korea as was it in Germany in July, 1990. Then, financial integration will be just a part of overall process of economic integration in terms of South Korea's absorption.

In retrospect, it would be worth to briefly summarize here the German unification process; (1) a rapid integration approach; (2) a one-to-one conversion rate applied between the two currencies which resulted in substantial overvaluation of the East German mark (*ostmark*); (3) a near equalization of Eastern wages with West German's wages; (4) the huge infusion of financial resources from the West to the East; (5) the elimination of trade barriers and permission of free movements of labor and capital. These policies resulted in decrease of industrial production in the East by 54% in 1990 and another 20% in 1991. Also unemployment increased by about 30% in the East. Nonetheless, the West infused a huge transfer payment to maintain the high wage and consumption level in the East. This caused inflationary pressure on the shoulder of Deutsche Bundesbank, which in turn ended up with Germany's macro-economic policy mismatch in early 1990s.<sup>14</sup>

The current banking (financial) system of North Korea is more or less similar to the East German system before the 1990 reorganization, in that both are based on the Monobank System. The central banks (the Central Bank of North Korea and the State Bank of East Germany) handle not just the business of a central bank (i.e., notes issue, monetary control, domestic and international settlement business, lending, savings, insurance, and the supply and receipt of national funds) but also those of a commercial bank (i.e., a wide range of cashless settlements ranging from currency fund trading services to settlements with the national budget and transactions of bank loans and payments at various stages of economic activities).<sup>15</sup>

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<sup>14</sup> See the chapter on *The Political Economy of Re-unification between Two Koreas*, Section 5 in relation with the Germany's misguided macro-economic policy paradox mixed with pro-cyclical fiscal policy and counter-cyclical monetary policy.

<sup>15</sup> North Korea has a "unique fund supply system" which solely controls the supply of funds as other socialist economy does. The Central Bank of North Korea implements so-called "*control by Won*", a form of state control in which the central bank guarantees the supply of funds for all institutes and companies by which the bank controls such economic activities of all state agents as their purchase of raw materials, utilization of manpower, productions and sales, and the acquisition and utilization of fixed assets. *Control by Won* is indeed meant by the national (state) control that applies to those economic enterprises and institutes within the monetary domain.

Still there are some differences. In East Germany, the *Staatsbank* (central bank of the German Democratic Republic) determined foreign exchange rate, but in North Korea, the Foreign Trade Bank determines it. The North Korean central bank handles deposit taking whereas the East German counterpart did not, but the savings banks did handle the business.

As there did exist a wide range of cliffs in the banking systems between the two Germanys, so are big differences in the banking systems of two Koreas. The fundamental differences are originally attributed to their respective economic systems with a market-oriented banking system (in both West Germany and South Korea), a socialist banking system (in both East Germany and North Korea) and no substantial business relations between these two systems. Probably the most obvious institutional differences between socialist economies and market economies lies in the ownership structure and competitiveness among their financial institutions.

While, in both East Germany before 1990 and now in North Korea, banks are all state-owned and thus are not competitive, banking in the market economy is characterized by both a great variety of institutions mostly privately owned and very specialized financial services. National reunification will carry to reform the socialist banking system in the North into market-oriented banking system in the South just as an integral part of overall economic integration and nation re-building process. In short, big bang reunification will make it possible for the overwhelming side (i.e., the South Korea) to assume financial and economic sovereignty over the eroding side (i.e., the North Korea).

This scenario is much simple and sure one that will lead to one unified Korea as compared to uncertain gradual approach scenario. The gradual reunification scenario for Korea is based on the so-called June 15 Declaration jointly signed by the South's Kim Dae-jung and the North's Kim Jong-il in Pyongyang in 2000. The two leaders recognized a basis for common understanding in the Kim Dae-jung's suggestion of a *confederation* and the North's suggestion of a *lower stage of federation*, and agreed to pursue reunification. This indicates that the two Koreas were agreed upon the two existing different political systems on the peninsula continuing to coexist in this way for some considerable time.

Is there still a real chance for a longer period, in which the two Korean states could live together in a confederation? In other words, can the North regime hold on much longer if the South continues to pour aids into it? In monetary affairs this would mean that the North would have to build up its financial institutions and economic vitality, of course, with some help from the South Korea. Will the self-isolated North keeping its political system intact become “better” enough to accommodate dynamic economic reform to balance with the South? More important, will the communists vote for reunification after many years of confederation? Or will a time come to make majority of South Koreans favor to accept the North’s *juche* communist system instead of keeping ‘divided’? For politics is only a game for politicians. Answers to the above questions are all “no”.

Through the June 15 confederation deal, the North’s Kim wanted to get much economic aids from the South with which the North could strengthen itself militarily and economically, while the South’s Kim wanted to achieve his personal ambition (i.e., a win of Nobel Peace Award) by showing up his initiative for peaceful coexistence. But reunification was not a real wish in their heart, if not in words. Nor has the North’s economy improved much ever since, if not were its enhanced nuclear and missile capacities. Importantly, a confederation of the two sovereign governments with two currencies, probably more-or-less restricted trade, and at the same time two citizenships to prevent a mass exodus across the border is politically and morally ‘infeasible’, because it is no more than a juxtaposition of two countries yet in hostile relations. What for such a deformed idea for a confederation? Is it just a joint plot to shy away peoples’ several decade-hopes for reunification?

It is also realistically impossible to make a ‘real reconciliation’, if not a fake one, between the two ideological rivals till either the South leader bows down before the “ever-victorious General” in the North or the ruthless leader falls down suddenly by its inside implosion. Korea will not be reunified in ‘gradual mode’, but in ‘big-bang mode’. Nevertheless, many so-called Korean specialists and experts have been nibbling at ‘gradual reunification’ on the Peninsula. Such a discussion on assumed ‘gradual reunification’ is indeed in vain and nothing but a play upon words. For ‘gradualism’

will never work on the Korean Peninsula as far as divided Koreans are concerned. Korean reunification has to come like a whirlwind some day in unknown future.

#### 4.2 Economic Restructuring and Privatization

The post-unification policy will highlight on integrating the North Korean collective economy into open market system of the South. Systemic transformation may be very difficult, given the socialized system with population in the northern part numbering to about half of the 48 million in South Korea. Economic restructuring can not be done in a big bang mode, and its long term success will largely depend on getting the institutions right and getting the restructuring process right, with well orchestrated micro and macro economic policies. Here the restructuring process includes overall economic functioning, rearranging institutional and legal systems as well as the reconstruction of North Korean manufacturing, service sectors, and social overhead capitals. Many difficult problems are heaped up ahead, of course, in particular if many law suits are attempted to regain their lost property rights in the North. Because many old land and property owners and their descendents living in the South will surely like to claim their land and property right in the North which has been under state and collective ownership since early 1950s. If a unified government does not immediately enact a special precautionary emergency law governing the rights of land property in the North, social turmoil and problems will likely be in order at the wake of national reunification.

The unified government must provide guidance on the restructuring process so as to smoothly transform socialistic and collective mentality of workers into orientation toward competitive markets from the outset so that all individuals and all range of economic activities may quickly adjust to new system to be introduced into the northern part. The immediate advantage of North Korea of becoming part of the South Korean political and economic system will lie in that they do not need to pass through the process of repeating trial-and error in finding their new system. They just can draw on South Korea's creditability on basic economic foundation, although it could never be perfect in many aspects. Particularly, the South's capitalist economy embodies many problems and shortcomings from a normative perspective of start-up fairness and social

righteousness. The shortcomings inherent in the South's capitalist economy must be managed by all people's efforts conducive not to diffuse into the unpolluted part. In other words, those shortcomings and problems need to receive constant social concern before and after reunification as an important moral drive to rebuild the nation on good governance and transparency.

Privatization of the previously state-owned companies and properties will be the most important and difficult task in post-unification Korea. This privatization must be implemented in the most honest and fair ways, while maintaining "efficient and productive entrepreneurial concept", that are conducive to enhancing overall interests (shares) of all people. It may need to establish a state organization, like the *Treuhandanstalt* of Germany,<sup>16</sup> which will set up overall restructuring framework and prepare the restructuring blueprint under its oversight and responsibility. This state agent must exercise a good helping function to get "the institutions and the prices right". The privatization process will depend on legal and political institutions (and well organized regulation) that help control corruption and enhance efficiency if the post-unification policies would be effective. The success of privatization will also depend upon whether the oversight organization (government) delegates its privatization task to most competitive private agents in those deals related to sale and purchase of state owned companies. Likewise, private bidders and state oversight organization as well must have entrepreneurial concepts and understandings for those many companies and institutions that they will be in care of. They must be able to correctly diagnose and identify between viable and nonviable enterprises. They could make cool judgment on timing and choice regarding to immediate liquidation or recovery investment for businesses. In short, the privatization process must not be monopolized by the oversight organization (government), but be open to competitive biddings among many private participants

Lastly, everything is up to good leadership and honest and faithful patriotic workers who are to be in charge. Korea needs to invest for many important tasks ahead by

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<sup>16</sup> *Treuhandanstalt* was established on July 1, 1990 to promote the privatization of state-owned companies in the East Germany. But in Germany this state organization took sole power beyond its capability in privatizing companies in the transformation process.



training and preparing these groups of young elites who are willing to work for their nation.

In concluding, it will accompany the political will and judgment to privatize the previously collective or state-owned companies as fast as possible. This means that privatization carries in earlier stage a sort of strategy for state intervention in market. The government subsidy for the privatization process is a common way to distort the streams of funds in the market economy. If private entrepreneurs are influenced by amount of government subsidies in their business decision makings, the results would be another distortion of fund allocation in the markets. This sort of negative externality of public money inputs demanded for privatization and liquidation in post-unification economy must be balanced with the positive externality of government subsidies in the integration process. How to ensure free market capitalism in face of large demand for state intervention in the process of unification will depend on what policymakers and technocrats do in post-unification process and era. While free-market capitalism would be a long-term ideal for a unified Korea, a strategy of ensuring a balance between state capitalism and open market capitalism will still be a working model for economic integration. In an economy whose success will yet depend on both good government policy and heavy state traffic control, it may be premature to assert that the free market will be the only powerful alternative to state intervention from the onset of integration. In general, deep state intervention means that bureaucratic waste, inefficiency, and corruption are likely to arise in the economy. Likewise, the free market model cannot necessarily be a panacea for a transitory and disordered economy.<sup>17</sup>

A first step will entail the fate of whole people unless a painful shift of step-correction does subsequently occur. Time and again, the demons of ideology, politics, and conflicting interests have so far come to exercise disproportionate influence on academic and public debate about Korea's unification policy. However, a cool policy

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<sup>17</sup> The global recession ignited from the U.S. mortgage market collapse in 2007-2008 undermined international confidence in the free-market model, deriving socialist countries like China, Russia, and other states to have compelling reasons to blame American-style capitalism for the slowdown. The U.S. government's huge investments to buy the failing companies assets arouse a debate if America is yet a free market economy.

Set aside of this short of argument on the nature of free market economy, there would be stages of different economic conditions in which government intervention is the "must". In particular, in the early stage of two different economic system's integration into one, *laisser-faire* policy is not thinkable.

prescription and choice for national integration should be drawn within attainable goals with arguments based on reason and reality. As such, study for the unified Korea's near-term and long-term direction in relation with its post-integration process based on a variety of situation scenarios yet remains as a hard-unfinished homework that will demand all serious Korean political economists to put together in their sleepless nights.

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The Bible: Old testament and New testament (New International Version)

Appendix A:

**National Reunification and “Conclusion of Agreements on Traffic, Correspondence and Trade”.**

*(This is a North Korea’s propaganda text reflecting its official position on National Reunification, appeared at Information Bulletin, Pyongyang, DPRK, No.86, April 1990. This statement opposing to perpetuate division of the nation, which came in response to the then South Korean President Roh Tae-woo’s July 7<sup>th</sup> (1988) declaration for national reconciliation, is well contrasted with the follow-up events in which the North Korean leadership reversed its tack and sought simultaneous entry into the United Nations with South Korea on 17 September 1991.)*

Lately the South Korean authorities are frequently talking about the question of “concluding agreements on traffic, correspondence, and trade” between the north and the south and clamoring that this year they would “conclude” an “Agreement on Traffic” at least even if they could not do other things.

Today our nation is confronted with the supreme task of national reunification and accordingly the establishment of any relation between the north and the south should proceed from this fundamental aim of national reunification and should contribute to it. No one can dare deny this principled demand.

Then does it conform with this principled demand to “conclude” the afore-said “three agreements” at the present juncture? In other words, does it break the present state of closure and open up the road to the peaceful reunification of the country?

If the north and the south “conclude” the “three agreements” at the present juncture, it will not open up the road to national reunification but, on the contrary, will bring about the grave consequence of freezing and perpetuating the present state of division.

To begin with, the south Korean authorities proceeded from the conception of “two Korea” in talking about “conclusion of agreements” between the north and the south, clamoring about “agreement on traffic”, “agreements on correspondence and trade” and the like.

It goes without saying that the conception of “conclusion of an agreement” is a conception in international relations commonly used among different states.

If the north and the south “conclude any agreement”, it will mean that they recognize each other as a “state” and externally it will give an impression that the north and the south are separate “states”. This clearly shows that “conclusion of agreements” between the north and the south is intended to make “two Koreas” a fait accompli.

From the beginning there cannot be such thing as the “conclusion” of “agreement” between the north and the south. And even if the “three agreements are concluded” between the north and the south at the present juncture, it cannot open up the road to national reunification.

Of course, the conclusion of the three agreements can be a method for improvement of relations for the normalization of diplomatic relations between two different states. But it cannot be a means of promoting the improvement of relations between the north and the south and bringing them close to each other in our country.

In international relations it is true that when two states restore their relations which have been severed and normalize diplomatic relations between them, they usually start from no-political exchange and partial exchange of economic, cultural and social domains and, on its basis, gradually deepen the relations of friendship and cooperation.

This method can be a method for the improvement of relations for the normalization of diplomatic relations between two states but cannot be a method for the improvement of relations between the north and the south for the settlement of the question of our country’s reunification.

For the peaceful reunification of our country it is necessary to solve various questions in north-south relations including the question of removing the political and military confrontation and the question of realizing many-sided cooperation and exchange in economic, cultural, social and various other domains.

In view of its significance the question of “concluding the three agreements” is not a pressing issue that must be settled before anything else. And even if this question is solved, it will not help solve other questions. In other words, in our country where the north and the south extremely mistrust each other and stand in sharp confrontation with each other, personal travel, correspondence and trade cannot be realized satisfactorily and even if they are partially realized, it will not contribute to the realization of national reconciliation and unity.

To begin with, the attempt to introduce the method for improvement of relations for the normalization of diplomatic relations between two different states is a dogmatic conception and is a wrong one.

To make a breakthrough for national reunification at the present stage, they should not peddle around the “conclusion of the three agreements” but take practical measures for removing the political and military confrontation and tension and ensuring peace between the north and the south and, first of all, pull down the concrete wall, the symbol of national split and north-south confrontation.

Then mistrust and confrontation between the north and the south will be removed, national reconciliation and unity be realized and a broad avenue to national reunification be opened.

In particular, as the south Korean authorities pursue the “two Koreas” policy, the “three agreements” will only result in maintaining and fixing the present state of division.

Although the south Korean authorities never miss a chance to talk about unification, their talk is nothing but a deceptive trick to cover up their splitter’s nature.

The south Korean authorities try to step up the “northern policy” and “separate admission to the U.N.” and keep in force the “national security law.” This clearly proves that they are following the “two Koreas” policy in actuality.

As publicly known, the “northern policy” and “separate admission to the U.N.” are aimed to win the recognition of south Korea as an “independent state” from the socialist countries and through the arena of the U.N. and have “two Koreas” legalized and the “national security law” is aimed to make the north and the south completely closed to each other and thus block the road to reunification and perpetuate the division.

As long as the south Korean authorities seek “two Korea”, the “three agreements” will only realize partial traffic, correspondence and trade under the present conditions of split but will not serve to open the door of reunification.

The south Korean authorities keep in force the “national security law” which defines the north as an “anti-state organization” and declares any contact with and travel to the north “violation of the law.” Their talk about the “conclusion of the three agreements” is itself self-contradictory and ridiculous one. In view of the contents, the three

agreements are aimed to realize traffic, correspondence and trade among a few people under the control of the “government “ and not to make a breakthrough for reunification.

According to south Korean publications, the agreement on traffic, agreement of correspondence and agreement on trade envisage prior “permission” of the authorities and the “special law on north-south exchange and cooperation” stipulates that “permission” shall not be given to those who are liable to endanger the “national security or public peace”. This means that even if the three agreements are concluded, the south Korean rulers will not open up the road of traffic, correspondence and trade to the patriotic people who oppose flunkeyism and treachery and “two Korea” plot and call for independence, democracy and reunification but only to those who follow their anti-reunification policy. Furthermore, the south Korean rulers threaten, saying that when south Koreans want to contact with people in the north, they will allow only “non-political contact” not discussing the reunification question and even those who go to the north with their approval will be severely punished by law if they are suspected of having conducted activities for reunification during their visit to the north.

From this we can know that the south Korean authorities are completely separating artificially the question of “conclusion of the three agreements” from the question of national reunification. Therefore, it is clear that the argument about conclusion of the three agreements from the concept is not aimed to break the closure of the north and the south to each other and open the road to reunification but to maintain the present state of division as it is and open the road of pure traffic, correspondence and trade to a few restricted people. The above-mentioned facts clearly show that the south Korean authorities’ argument about conclusion of the three agreements is not oriented for reunification but for division.

They are lately noisily talking about the question of conclusion of the three agreements whose splitter’s nature is transparent. This is nothing but a last resort to counter our new reunification proposal for demolishing the wall of division between the north and the south and realizing free travel and full opening of the door.

As everyone knows, the great leader President Kim Il-sung in the New Year Address for this year advanced the epochal reunification proposal for demolishing the wall of division between the north and the south, first of all, the concrete wall in the southern

portion of the Military Demarcation Line, and realizing free travel and full opening of the door as a decisive measure to overcome the obstacle and difficulty lying in the way of reunification and bring about a fundamental change in the solution of the reunification question.

If the wall of division between the north and the south is pulled down and free travel and full opening of the door are realized between them, the closure of the north and the south to each other will be removed, the national bond be restored, the north and the south discard misunderstanding of and mistrust in each other and national reconciliation and unity be achieved. And it will be possible to pool the nation's desire for reunification, join its strength, repulse the foreign interference and realize the reunification of the country independently and peacefully.

For its feasibility and fairness our new reunification proposal enjoys the warm welcome and support of the entire Korean people and the world's progressive people and the south Korean authorities are urged to accept it without delay. Of course, the south Korean authorities talked more than once about the question of "free travel" and "full opening of the door". But it is no more than propaganda for improving their public image.

While clamoring about the home-visit of separated families, they opposed the performance in south Korea of the Opera "Flower Girl", an art work reflecting the our country's situation in the early 1930s at the time of the Japanese imperialist colonial rule and invited even by capitalist countries to be performed before full house, and with it as pretext they opposed the exchange of home-visiting group numbering several hundreds. This proves that the south Korean authorities are not interested in the home-visit of separate families and further have no intention to realize free travel and full opening of the door between the north and the south.

The south Korean authorities cannot accept nor openly oppose our epochal proposal for demolishing the concrete wall and realizing free travel and full opening of the door. Finding themselves in such a dilemma, they put up to the fore the question of "conclusion of the three agreements" as a last resort.

In his press conference, Roh Tae-woo rejected to all intents and purposes the pulling down of the concrete wall and said he would step up conclusion of the "agreements on

traffic and correspondence,” calling for “realizing first of all correspondence, telephone conversation and mutual travel of separated families” on the pretext that “agreement on free travel and full opening of the door would take time.”

As is clear to everyone, if the two sides have an intention to realize free travel and full opening of the door it will not “take time” to reach an agreement on it and if free travel and full opening of the door are realized, such questions as the home-visit of separated families, correspondence and telephone conversation would be settled without difficulty.

This notwithstanding, the traitor Roh Tae-woo demands the realization of the home-visit of separated families, correspondence and telephone conversation before free travel and full opening of the door. This is nothing but a crafty trick to cover up anti-reunification nature opposing our epochal reunification proposal.

If the south Korean authorities have an iota of national conscience of being concerned about the future destiny of the country and the nation, they should not peddle around the question of “conclusion of the three agreements” but take the road to reunification though it is belated.

The south Korean authorities should clearly announce the reunification of the” two Koreas” policy, give up the scheme for “U.N. membership” and “northern policy” externally and withdraw the “national security law,” and evil law opposing reunification, and “unified channel of dialogue” internally. Thus, they should heighten the atmosphere of reunification and open the road for the people of all strata to participate in the north-south dialogue. At the same time, they should demolish the concrete wall and take practical measures to remove the political and military confrontation.

Then, the north and the south eliminate misunderstanding and mistrust, achieve national reconciliation and unity, remove the obstacle and difficulty lying in the way of reunification and open up the highway to the reunification of the country by the concerted efforts of the entire nation.

*(Note: this English transcript is reproduced here as it was originally released by The Secretariat of the Committee for Peaceful Reunification of Fatherland, Pyongyang, DPRK in April 1990. This copy intends to help all Koreans of this age and next*



*generation of far afar read history and judge who, the north and the south, was really telling a “truth” or “lie” under covet name of fatherland reunification.)*

Appendix B:

**The July 7<sup>th</sup> Declaration entitled “Special Declaration for Korean Self-Existence and Prosperous Unification**

*(The first reunification policy of South Korea’s President Roh Tae-woo made on July 7<sup>th</sup>, 1988 was embodied in the “Korean National Commonwealth Policy” presented on September 11, 1989, which proposed the three principles of independence, peace, and democracy to establish a piecemeal reunification strategy. In October 1989, based on July 7<sup>th</sup> 1988 declaration, the South proposed the North to make the South-North Exchange and Cooperation Agreements focusing on “traffic, correspondence, and trade” between the two Koreas)*

My sixty million compatriots,

Today, I am going to enunciate the policy of the Sixth Republic to achieve the peaceful unification of our homeland, a long-standing goal dear to the hearts of the entire Korean people. We have been suffering the pain of territorial division for almost half a century. This national division has inflicted numerous ordeals and hard-ships upon the Korean people, thus hindering national development. Dismantling the barrier separating the South and the North and building a road to a unified and prosperous homeland is a duty that history has imposed on every Korean alive today.

The South and the North, divided by different ideologies and political systems, have gone through a fratricidal war. The divided halves of the single Korean nation have distrusted, denounced and antagonized each other since the day of territorial partition, and this painful state ahs yet to be remedied. Though the division was not brought about by our own volition, it is our responsibility to achieve national unification through our independent capabilities.

We must all work together to open a bright era of South-North reconciliation and co-operation. The time has come for all of us to endeavor in concert to promote the well-being and prosperity of the Korean people as a whole.

Today, the world is entering an age of reconciliation and co-operation transcending ideologies and political systems. A brave new tide of openness and exchange is engulfing peoples of different historical and cultural backgrounds. I believe we have now come to a historic moment when we should be able to find a breakthrough toward lasting peace and unification the Korean Peninsula that is still threatened with the danger of war amidst persisting tension and confrontation.

My fellow compatriots,

The fundamental reason why the tragic division has still to be overcome is that both the South and the North have been regarding each other as an adversary, rather than realizing that both halves of Korea belong to the same national community, so that inter-Korean enmity has continued to intensify. Having lived in a single ethnic community, the Korean people have shaped an illustrious history and cultural traditions, triumphing over almost ceaseless trials and challenges with pooled national strength and wisdom.

Accordingly, developing relations between the South and the North as members of a single national community to achieve common prosperity is a short cut to realizing a prosperous and unified homeland. This is also the path to national self-esteem and integration.

Now the South and the North must tear down the barrier that divides them and implement exchanges in all fields. Positive step after positive step must be taken to restore mutual trust and strengthen our bonds as members of one nation.

With the realization that we both belong to a single community, we must also put a stop to confrontation on the international scene. I hope that North Korea will contribute to the community of nations as a responsible member and that this will accelerate the opening and development of North Korean society. South and North Korea should recognize each other's place in the international community and co-operate with each other in the best interests of the entire Korean people.

My sixty million fellow compatriots,

Today, I promise to make efforts to open a new era of national self-esteem, unification and prosperity by building a social, cultural, economic and political community in which all members of the Korean society can participate on the principles of independence, peace, democracy and welfare. To this end, I declare to the nation and to the world that the following policies will be pursued:

- We will actively promote exchanges of visits between the people of South and North Korea, including politicians, businessmen, journalists, religious leaders, cultural leaders, artists, academics, sportsmen and students, and will make necessary arrangements to ensure that Koreans residing overseas can freely visit both parts of Korea.

- Even before the successful conclusion of the North-South Red Cross talks, we will promote and actively support, from a humanitarian view-point, all measures which can assist separated families in their efforts to find out whether their family members in the other part of the Peninsula are still alive and to trace their whereabouts, and will also promote exchanges of correspondence and visits between them.

- We will open doors for trade between South and North Korea, which will be regarded as internal trade within the national community.

- We hope to achieve a balanced development of the national economy with a view to enhancing the quality of life for all Korean people—in both the South and the North—and will not oppose nations friendly with us trading with North Korea, provided this trade does not involve military goods.

- We hope to bring an end counter-productive diplomacy characterized by competition and confrontation between the South and the North, and to co-operate in ensuring that North Korea makes a positive contribution to the international community. We also hope that representatives of South and North Korea will contact each other freely in international forums and will co-operate to pursue the common interests of the whole Korean nation.

- To create an atmosphere conducive to durable peace on the Korean Peninsula, we are willing to co-operate with North Korea in its efforts to improve relations with countries friendly to us, including the United States and Japan; and in parallel with this,

we will continue to seek improved relations with the Soviet Union, China and other socialist countries.

I trust that North Korea will respond positively to the measures outline above. If the North shows a positive attitude, I should like to make it clear that even more progressive measures will be taken one after another.

I hope that this declaration today will serve to open a new chapter in the development of inter-Korean relations and will lead to unification. I believe that if the entire 60 million Korean people pool their wisdom and strength, the South and the North will be integrated into a single social, cultural and economic community before this century is out. On that basis, I am confident that we will accomplish the great task of uniting in a single national entity in the not so very distant future.