

Re-examination of Unification Talks and the Role of Inter-Korean Trade

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1. THE QUESTION

President Lee Myung Bak revealed his conception of the ‘Three Phases for Peaceful Unification of North and South Korea’ and ‘Unification Tax’ in his 2010 August 15th Independence Day congratulatory address. Subsequently, talks surrounding the unification of the two Koreas have increased in all sectors of society. There are now voices that demand a thorough preparation for a seemingly imminent Korean unification as rumors of an unstable political situation in the North triggered by the rise of Kim Jong Un as heir to the regime continue to spread. Rapid changes in the North, the possibility of a prolonged strain on inter-Korean relations, and stronger sanctions against North Korea have pushed the current South Korean administration towards unification preparation. Some experts expect the opportunity for unification to surface in the future with the rapid change in the North because of deepening economic problems and an unstable regime change that will follow the death of North Korean leader Kim Jong Il.

Unification is a “process of overcoming the differences in divergent identities by accumulating mutual collective memory and building a new collective identity” and the “creation of a new future-oriented history.”¹ Unification should represent the formation of an ethnic community that guarantees the freedom, wellbeing, and human dignity that contribute to a shared prosperity on the Korean Peninsula for all citizens. The happiness we pursue can only be achieved after the minimization of conflict (a precondition) so that the conditions of stability, peace, and freedom can be realized. The ultimate goal of unification is to overcome the agonizing experience of division and create a better society where happiness (both spiritual and material) is secure. This is also the process of putting behind a miserable past and creating a new space for a shared history where the differences between North and South can co-exist.

The achievement of a unification embedded with an even more beautiful collective memory necessitates efforts to make contact, engage in dialogue, exchange ideas, and cooperate for an extended

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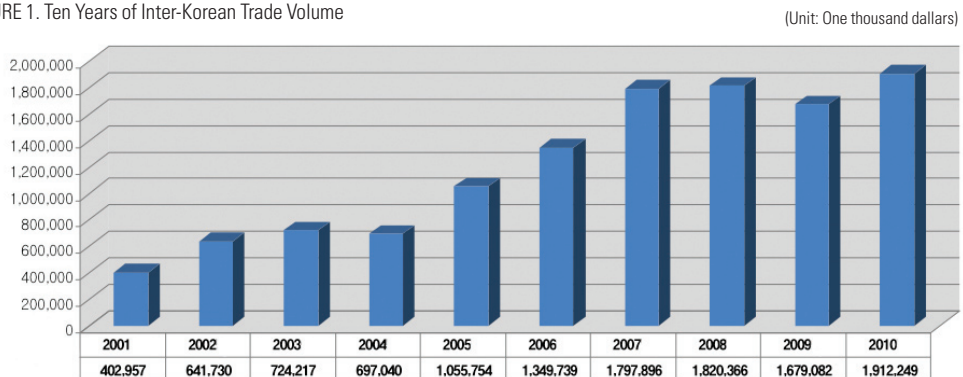
amount of time. It is critical that representatives of North and South Korea to meet frequently to build confidence and strengthen the determination towards unification despite the escalation of uncertainty over the North's future. In this context, inter-Korean trade or economic cooperation can play a significant role. Exchange and cooperation between the two Koreas will be an essential phase for more productive and effective discussions on the preparation for unification that earn more sympathy from South Koreans.

This paper re-examines the strategic value and role of inter-Korean trade in Korean unification discussions. A study of the status and characteristics of the past decade of inter-Korean trade and a comparison with the increased trade between North Korea and China will show relevant implications that present challenges for future inter-Korean cooperation. Of special consideration is that the North Korean economy is undergoing difficulty due to poor science technology that requires immediate assistance to modernize and become self-sufficient.

2. CURRENT STATUS AND CHARACTERISTICS OF INTER-KOREAN TRADE

The size of inter-Korean trade totaled 5.41 billion dollars since the commencement of the Lee administration in 2008. The trade volume total hit an unprecedented level in 2010 at 1.91 billion dollars. The trade volume increased by 13.9% compared to 1.68 billion dollars in 2009 despite measures to suspend processing-on-commission and general trade pursuant to the "May 24 Sanctions Against North Korea" in the aftermath of the 2010 sinking of the ROK navy corvette Cheonan. The reasons for this have been analyzed as due to the continuous production at the Gaesong Industrial Complex and the selective import/export of processing-on-commission and general trade. The trade volume of the Gaesong Industrial Complex was 8.1 billion dollars in 2008, 9.4 billion dollars in 2009 and 1.44 billion dollars in 2010, marking a big jump in its share in overall inter-Korean trade from 44.5% in 2008 to 56.0% in 2009 and 75.5% in 2010.

FIGURE 1. Ten Years of Inter-Korean Trade Volume



Source: Ministry of Unification

¹ Education Center for Unification, "Understanding Unification issue", 2006, P.11

Inter-Korean Trade – Total Annual Trade Volume

(Unit: One million dollars)

Year	'89-00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	Total
Imports	1,618	176	272	289	258	340	520	765	932	934	1,044	7,148
Exports	908	227	370	435	439	715	830	1,032	888	745	868	7,458
Total	2,526	403	642	724	697	1,055	1,350	1,798	1,820	1,679	1,912	14,606

Inter-Korean Trade – Annual Number of Transactions

(Unit: Transactions)

Year	'89-00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	Total
Imports	15,525	4,720	5,023	6,366	5,940	9,337	16,412	25,027	31,243	37,307	39,800	196,690
Exports	15,902	3,084	3,773	4,863	6,953	11,878	17,039	26,731	36,202	41,293	44,402	212,010
Total	31,427	7,754	8,796	11,209	12,893	21,215	38,451	51,758	67,445	78,600	84,202	408,700

Inter-Korean Trade – Annual Number of Items for Trade

(Unit: Items)

Year	'89-00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	Total
Imports	1,202	201	204	186	202	381	421	450	482	486	448	781
Exports	2,098	492	495	530	575	712	697	803	813	771	740	1,081
Total	2,843	549	572	588	634	775	757	853	859	822	795	1,102

Source: Ministry of Unification

Inter-Korean Trade Volume by Type

(Unit: 10,000 tons, %)

Category	Type of Inter-Korean Trade	'04	'05	'06	'07	'08	'09	'10
Imports	General trade & Processing-on-commission trade	258	320	441	645	624	499	334
	Economic Cooperation (Gaesong Industrial Complex, Mt. Geumgang Tour, and Light Industry Cooperation)	-	20	77	120	308	435	710
	Non-commercial trade (Government & Private aid / Social & cultural cooperation / Light Water Reactor Project)	-	-	1	-	-	-	-
	Subtotal of Imports	258	340	520	765	932	934	1,044
Exports	General trade & Processing-on-commission trade	89	100	116	146	184	167	101
	Economic Cooperation (Gaesong Industrial Complex, Mt. Geumgang Tour, and Light Industry Cooperation)	89	250	294	520	596	541	744
	Non-commercial trade (Government & Private aid / Social & Cultural cooperation / Light Water Reactor Project)	261	366	421	367	108	37	23
	Subtotal of Exports	439	715	830	1,033	888	745	868

Source: Korea Development Bank (2005)

The volume of inter-Korean trade from its inception in 1989 to 2010 is 14.6 billion dollars, with exports to the North (7.5 billion dollars) 0.4 billion dollars greater than imports from the North (7.1 billion dollars). The trade volume began to exceed 1 billion dollars as of 2005. Exports surpassed imports from 2001 to 2007; however, this was reversed after 2008. This is due to the increase of imports of products manufactured at the Gaesong Industrial Complex. The total number of items for trade (textile products, electronics, light industry product such as shoes) is 1,102, which has remained the same since inter-Korean trade began. Among them, the number of export items is 1,081, greater than 781 items for import. The items for trade show an increase of diversity over time.

The total production (cumulative) since 2005 is 1.15 billion dollars, which recorded a total of 323 million dollars in 2010 alone. As illustrated in the graph below, the total size of production shows a rapid increase over time.

In terms of different types of inter-Korean trade, trade related to the Gaesong Industrial Complex in 2010 stood at 1.44 billion dollars and recorded a year-on-year increase of 53.4% (0.941 billion dollars in 2009). Gaesong Industrial Complex related trade has increased since 2004; it was just below the 1 billion dollar mark until 2009 and surpassed it for the first time in 2010. The 144 businesses residing and operating in the Gaesong Industrial Complex factories employ more than 45,000 North Korean workers; however, the number of new resident businesses has been strictly limited due to the souring of inter-Korean relations due to North Korean provocations.

TABLE 1 Number of Businesses Residing in the Gaesong Industrial Complex

Year	'05	'06	'07	'08	'09	'11.1
Number of Businesses in Operation	18	30	65	93	117	122

TABLE 2 Number of Gaesong Industrial Complex Workers

Year	'05	'06	'07	'08	'09	'11.1
Number of North Korean Workers	6,013	11,160	22,538	38,931	42,561	46,284

TABLE 3 Production Trends at the Gaesong Industrial Complex (cumulative)

Year	'05	'06	'07	'08	'09	'10	Total
Production Volume (ten thousand dollars)	1,491	7,373	18,478	25,142	25,648	32,332	110,646

The total production (cumulative) since 2005 is 1.15 billion dollars, which recorded a total of 323 million dollars in 2010 alone. As illustrated in the graph below, the total size of production shows a rapid increase over time.

TABLE 4 Trends in Export Volume of the Gaesong Industrial Complex (cumulative)

Year	'05	'06	'07	'08	'09	'10	Total
Export Volume (ten thousand dollars)	87	1,983	3,967	3,584	2,860	3,667	16,148

The accumulated export volume of the Gaesong Industrial Complex totaled 161.5 million dollars. In 2010, products equivalent to 36.7 million dollars were exported from the Gaesong Industrial Complex and represents a slight decrease from the record 40 million dollars in 2007. The increase in exports is somewhat slower than the increasing volume of the total production.

The general and processing-on-commission trade declined sharply with the suspension of inter-Korean trade on May 24. General trade fell by 54.0% compared to the previous year (256.1 million dollars) to 117.9 million dollars, and processing-on-commission trade fell by 22.5% year-on-year (497.1 million dollars in 2009) to stand at 317.6 million dollars.

This has had a significant impact on the proportion of each trade type in inter-Korean trade. The share of Gaesong Industrial Complex trade rose from 56.0% in 2009 to 75.5% in 2010. In contrast, the proportion of general trade fell from 15.3% in 2009 to 6.2% in 2010 and that of processing-on-commission trade from 24.4% in 2009 to 16.6% in 2010. Commercial trade (that includes the Gaesong Industrial Complex trade and general and processing-on-commission trade) represented 98.8% of all inter-Korean trade in 2010, whereas non-commercial trade that includes government and private humanitarian aid was a mere 1.2%.

The significant plunge in general and processing-on-commission trade and humanitarian aid to the North is due to the May 24 sanctions as a response to the North Korean sinking of the ROK frigate Cheonan in 2010².

3. COMPARISON WITH NORTH KOREA-CHINA TRADE

The volume of inter-Korean trade that excludes trade related to the Gaesong Industrial Complex (general trade, processing-on-commission trade) fell sharply in 2010; however, trade between North Korea and China was 3.47 billion dollars in 2010 and represents an increase of 29.3% compared to 2009 levels (2.68 billion dollars). The reasons behind the increase North Korean and Chinese trade is due to the increased North Korean dependency on China for external trade because of the sanctions imposed by the international community against the North, the decrease of trade with South Korea and Japan due to sanctions (UN Security Council Resolution 1718, 1874), and the growing demand for North Korean materials following China's rapid industrialization.

Exports from North Korea to China totaled 1.19 billion dollars and represents an increase of 49.8% than 2009 (793 million dollars), and imports from China totaled 2.28 billion dollars, recording a 20.6% year-on-year increase. Although North Korea's exports to China increased, the trade balance remained the same as that of 2009 with a deficit of approximately 1.1 billion dollars.

² The South Korean government adopted measures to halt trade with North Korea in five major exchange and cooperation areas in a hard-line response to the North Korean sinking of the ROK Cheonan (May 24, 2010): ban on the operation of North Korean ships, suspension of inter-Korean trade, prohibition of visits to North Korea and limits on contacting North Korean residents, prohibition on new investments and limitation on workers residing at the Gaesong Industrial Complex, and postponement of aid to North Korea (excluding assistance to vulnerable groups such as infants). However, product imports and exports of projects implemented prior to May 24 were permitted for a fixed length of time.

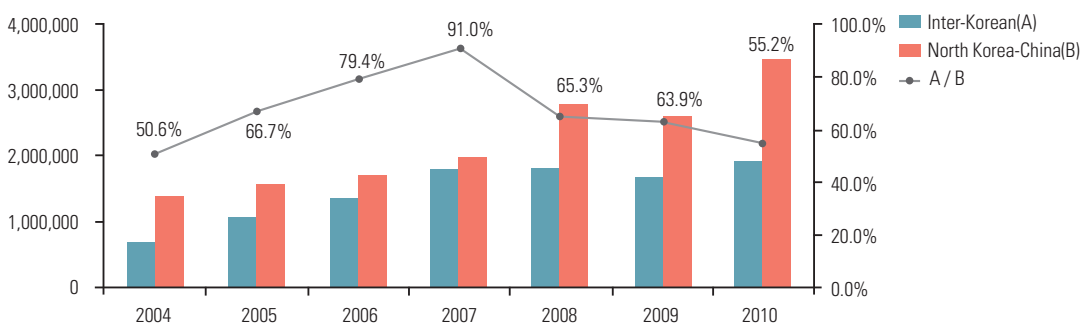
TABLE 5 Annual Trends in North Korea's Trade with China

Category	Exports		Imports		Trade Deficit	
	To China	Total	From China	Total	with China	Total Deficit
2000	37.2(6.7)	556	450.8(31.9)	1,413	413.6(48.3)	857
2001	166.8(25.7)	650	570.7(35.2)	1,620	403.9(41.6)	970
2002	270.7(36.8)	735	467.3(30.6)	1,525	196.6(24.9)	790
2003	395.3(50.9)	777	627.6(38.9)	1,614	232.2(27.7)	837
2004	585.7(57.4)	1,020	799.5(43.5)	1,837	213.8(26.2)	817
2005	499.2(50.0)	998	1,081.2(54.0)	2,003	582.0(57.9)	1,005
2006	467.7(49.4)	947	1,231.9(60.1)	2,049	764.2(69.3)	1,102
2007	581.5(63.3)	918	1,392.5(68.9)	2,022	811.0(73.5)	1,104
2008	754.0(66.7)	1,130	2,033.2(75.7)	2,685	1,278.2(110.7)	1,155
2009	793.0(74.6)	1,063	1,888(80.3)	2,351	1,097(85.2)	1,288
2010	1,188		2,278		1,090	

Source: KOTRA, KITA

The proportion of inter-Korean trade compared to North Korea and China peaked at 91% in 2007; however, with the worsening of inter-Korean relations since 2008, trade between the two Koreas stagnated while that of North Korean and Chinese trade rose significantly. The proportion of inter-Korean trade has since fallen from 65% in 2008, 64% in 2009, and to 55% in 2010³.

FIGURE 2 Trends in Trade North Korea-China compared to North-South Korea
(Unit: One thousand dollars, percentage %)



Source: KITA *Note: A/B = Proportion of inter-Korean trade compared to North Korea-China trade

The diverging views on the cause of this trend are stimulated by North Korean and Chinese trade that acts as a substitute for inter-Korean trade (general trade, processing-on-commission trade). Younghoon Lee⁴, the former governor of the Bank of Korea, believes that China benefits from trade

³ KITA news release, March 23, 2011

⁴ Younghoon Lee. "An Analysis on China's Economic Influence on North Korea", *Unification Economy* (2011), Spring, p. 59

⁵ KITA news release, March 23, 2011

restriction measures between the two Koreas⁵. The doubling of North Korea's textile product exports and the surge of 178% in fishery product exports to China in 2010 imply that restrictions on inter-Korean trade has rapidly channeled the transaction volume of North and South Korea to China.

Mineral products (such as iron ore, coal, and zinc) occupy 54.6% (as of 2010) of North Korean trade with China.

TABLE 6 Trends in North Korea's Exports to China in 2010

(Unit: One thousand dollars, percentage (%))

Total Exports	Textile products	Fisheries
1,187,862 (32.1)	190,311 (202.6)	59,530 (175.7)

Source: KITA *Note: Brackets () illustrate year-on-year increase rate

TABLE 7 North Korea's Mineral Exports to China

(Unit: Ten thousand dollars)

	2005	2006	2007	2008	2009	2010
Total Trade Volume	158,034	169,960	197,397	278,728	268,073	346,600
North Korean Exports to China	49,916(31.6)	46,772(27.5)	58,152(29.5)	75,405(27.1)	79,304(29.6)	118,786(34.3)
North Korean Mineral Exports to China	21,835(43.7)	23,005(49.2)	34,403(59.2)	42,024(55.7)	40,168(50.7)	64,802(54.6)

Source: KOTRA, KITA, Hyundai Research Institute *Note: Mineral products included are HS code 26 - 27

TABLE 8 Trends in North Korea's Five Major Export Products

(Unit: Ten thousand dollars)

HS	Products	2008	2009	Increase/Decrease
27	Minerals, fuel, and energy	207,550	261,426	26.0%
26	Slag, Metal, and Arsenic compounds	212,691	140,249	-34.1%
62	Clothing	77,296	93,260	20.7%
72	Steel	78,448	72,598	-7.5%
03	Fish and shellfish	40,000	57,538	43.8%

Source: KOTRA, KITA, Hyundai Research Institute *Note: Mineral products included are HS code 26 - 27

The continued suspension of general and processing-on-commission trade triggered by strained inter-Korean relations is expected to increase and deepen North Korean trade with China with a focus on clothing, fishery products, and mineral resources.

⁶ Seok, Lee. "The Change of Trade between South and North Korea and Economic Background of strained inter-Korean relations," *KDI Policy Forum* (2009), No. 212.

4. IMPACT OF INTER-KOREAN TRADE

Inter-Korean trade continues play an important role towards the unification of the Korean Peninsula in politics, economics, society, and culture. This will also remain true in the future. It is particularly notable that despite the tense relations between the two, inter-Korean trade has contributed to the shaping of a new relationship with the North that includes coaxing its closed regime towards openness to strengthen the foundation for the promotion of peace, exchange of ideas, and bilateral cooperation to a limited extent.

Exchange and cooperation between the two Koreas have deepened the economic dependency of North Korea on the South as well as increased the direct and indirect influence of South Korea on the North. More North Koreans are now conscious of the concept of market economy and their fear towards the South has subsided. Therefore, from a certain perspective, inter-Korean trade has played a pivotal role in creating change in North Korea. It has also had a positive effect on the economies of both sides. For the South, it has increased exports of small-and-medium enterprises (SMEs), raised employment rates and income, and contributed to the advancement of the North Korean economy and society. In particular, (given that the science and technology gap between the two continues to widen) it is likely that inter-Korean trade will further contribute to the technological development of North Korean light industries.

South Korea has traditionally been the largest trading partner of North Korea. Some analysts argue that the provision of hard currency through trade was used as an economic foundation for the North to expand its trade with China in the 2000s as well as contribute to the stable expansion of North Korean trade by substituting the decrease in its trade with Japan due to North Korean sanctions by Japan⁶. Table 9 shows that North Korea's trade dependency on the South was 0.3% in 1993; however, it surged to 31.0% in 2006. Most of the trade was composed of finished products exported to the South that were processed on commission by the North with raw materials and parts imported from the South.

TABLE 9 North Korean Total Trade Volume and Dependency on the South

Year	2000	2001	2002	2003	2004	2005	2006
Total Trade Volume (One hundred million dollars)	19.7	22.7	22.6	23.9	28.6	30	30
Inter-Korean Trade Volume (One hundred million dollars)	4.3	4	6.4	7.2	7	10.6	13.5
	17.9	15.0	22.1	23.2	27.3	26.1	31.0

Source: Bank of Korea

The proportion of South Korean trade on has become an integral and significant part of the North Korean economy. The size of North Korean trade was 3.0 billion dollars in 2006. Trade with China was 1.7 billion dollars, Thailand 37.4 million dollars, and the EU at 23.5 million dollars. The North's total trade volume stood at 4.35 billion dollars when combined with inter-Korean trade at 1.35 billion dollars.

China (the largest trading partner) represents 39.1% of North Korean trade; the second largest trading partner is South Korea at 31.1%. In terms of exports, South Korea is accountable for 35.4% of the total exports by North Korea, and the No. 1 export market, followed by China at 31.9%. Trade with China and South Korea represents 70% of the North's overall trade and forms a signifi-

cant dependency on the two countries. China is the main import market for North Korea and the South is its major export market.

South Korea is the most important trading partner of North Korea because the trade surplus with the South became its major source of foreign revenue. When inter-Korean trade was resumed between 1989 and 1997, the South continued to record a trade deficit. It seemed as if there was a positive turnover in the South after 1998; however, this was due to a surge in non-commercial transactions that continued to record a deficit. For instance, the nominal trade balance in 2006 was a surplus of 310.7 million dollars in the South; however, the real trade balance was a deficit of 325.6 million dollars with the exclusion of non-commercial trade.

North Korean trade surplus with South Korea is worth noting since the trade deficit with China is compensated in a certain part by the trade surpluses with South Korea. Since the 1990s, North Korea has continued to record an annual trade deficit of 0.8 billion to 1 billion dollars in its trade with China. The trade deficit was 0.97 billion dollars in 2001, 0.79 billion dollars in 2002, 0.84 billion dollars in 2003, 0.82 billion dollars in 2005, and increased to 1.05 billion dollars in 2006. This clearly illustrates the proportion and importance of inter-Korean trade for the North Korean economy; in addition, it can be assumed that inter-Korean trade occupies a large part of the operation of the North's economy as well as plays a significant role.

Many problems arose during the process of pursuing trade between the two Koreas and many challenges remain. In particular, the abnormal practices (the South using inter-Korean trade for political reasons and the North using it to pursue practical interests) have failed to contribute to the reform and opening of North Korea along with North-South Korean economic integration. The frequent defaulting of economic cooperation agreements between the two have impaired the motivation of a sustainable economic cooperation and added an element of unpredictability in the relationship that must be corrected.

“Processing-on-consignment” such as clothes, electronics is a form of trade where all or part of the raw materials that must be processed are exported to the North and the processed products are then re-imported by the South for a ‘processing fee’. This is regarded as the most optimal customized exchange and cooperation model given the current political, military, and ideological confrontation (as well as the huge economic gap) between the two Koreas. The processing-on-consignment is a similar model to the Gaesong Industrial Complex model in which the North provides the land for factories and workers, while the South provides the technology and capital. It is a good example of a joint survival and co-prosperity relationship between the two. A considerable number of processing-on-consignment businesses are profitable. North Korea welcomed the orders from the South, as it was a means to increase the operation rate of its factories, import more foreign currency, and enable its workers to learn South Korean technology. The contact and technology exchange with the South have piqued the interest of many North Korean workers about South Korean society.

More than 150 companies (that include clothing brands and promotion firms) have engaged in processing-on-consignment trade with the North concur that North Korea is an ideal place for such agreements. North Korean workers are highly skilled and numerous; in addition, many large-scale manufacturing factories are equipped with modern and sophisticated equipment. There are no tariffs in inter-Korean trade and the early investment is relatively less than that of the Gaesong Industrial Complex. Strong quality control by the North results in extremely high satisfaction among South Korean companies. The competitiveness of the sewing factories in the North was a result of the exchange and cooperation between the North and South over the past twenty years. Although the sewing industry declined a long time ago in the South it has become the foundation to upgrade the industrial development of North Korea.

This desirable cooperation model is in danger of becoming useless due to the possibility of a pro-

longed tension in inter-Korean relations. The partner companies in the North have no choice but to turn to Chinese or European companies since they must be in operation to survive. This is the same for South Korean companies, which are seeking alternative options in other countries such as China, Vietnam, Myanmar, and Uzbekistan. Yet, the factories in these countries are already saturated with other orders and higher labor costs demand more time and cost for a company to become established. Logistics costs are another burden that represent three to five times higher in production costs than in North Korea. Language is also a huge barrier in technological transfers. Unfortunately, the benefits of production costs in North Korea (in terms of price and quality competitiveness) are now inconsequential. The greatest obstacle to processing-on-consignment and general trade is that they are under the direct influence of inter-Korean politics; however, the problems that arouse during the past two decades of inter-Korean trade must not act as a cause to suspend or decrease trade. A forward-looking attitude is required to regard them as a surmountable challenge through continued cooperation between the two and further elevate inter-Korean trade.

5. CONCLUSION: STRENGTHENING OF THE STRATEGIC ROLE OF INTER-KOREAN ECONOMIC COOPERATION

The current suspension of inter-Korean relations has caused a considerable contraction of the economic cooperation between the two Koreas, such as inter-Korean trade (with the exception of Gae-song Industrial Complex); however, this difficult situation is also an opportunity to reflect on the value and utility of inter-Korean trade. It highlights the need to utilize inter-Korean economic cooperation as a strategic measure to achieve unification in practical unification discussions.

Inter-Korean trade is one of several available, realistic options that can create real change in North Korea. The pending issues in North Korea are ultimately its chronic lack of food, its failing economy, and the establishment of a process for regime succession are issues that are closely related to each other. The North Korean economy is becoming increasingly vulnerable and this could actually lead to a positive change in the North that was not attainable through inter-Korean trade in the past. For example, the numerous issues that arose during the past inter-Korean trade could be overcome in the mid-long term to increase the effect of economic reform, open North Korea, and build the foundation for the integration of the two economies.

Increased interest must be placed to support the development of science and technology in the North through inter-Korean economic cooperation. East Germany's prominent economist and professor Gabriele Noetzold published a paper on a new model of economic cooperation between East and West Germany in a Western journal in 1986. He claimed that the two sides needed to build a mid-long term cooperative relationship in technology-intensive industries to strengthen the competitiveness of the East. The companies in the West were positive to this idea because they believed that a long-term technological cooperative relationship would contribute to the empowerment of the East German economic capacity as well as increase sales opportunities for East Germany-made products in the West German market. This would be beneficial for companies in the West that engaged in business with the East. Although there are many restrictions due to the international economic sanctions against North Korea triggered by the nuclear issue that had carried out nuclear tests on two separate occasions in 2006 and 2009, discussions over science and technological exchange and cooperation measures must be included in the unification dialogue and for the revitalization of North-South economic cooperation.

The OECD warns through the "Economic Survey of Korea 2010" that the recent widening of the socio-economic gap between North and South Korea will raise the costs of unification. According to

the analysis, the population in North Korea was 23.3 million in 2008 (roughly 50% of the South); however, its GDP was 24.7 billion dollars (2.7%) and GDP per capita a mere 1,060 dollars (5.6%) of the South. A prolonged suspension of inter-Korean trade will worsen the economic isolation of North Korea and ultimately increase future unification costs. The OECD argues that the best way to lower such costs is the expansion of inter-Korean trade led by private companies. The Gaesong Industrial Complex project and processing-on-consignment trade should be shrewdly utilized to lower future unification costs and build a future growth engine through the integration of industry and science & technology by the two Koreas. It is critical to create an environment for inter-Korean economic trade so that it can gradually exceed the size of North Korea-China trade. If North Korea begins to trade in strategic materials and mineral resources (such as crops and crude oil) with the South as it does with China. This could considerably minimize unpredictable short-term elements that strain inter-Korean relations that represent an important momentum to maximize the benefits of unification in the mid-long term.

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