

Unification Minister Hyun In-Taek at an exhibition of Gaeseong Industrial Complex products

02

Inter-Korean Exchanges and Cooperation

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Chapter 2. Inter-Korean Exchanges and Cooperation

Inter-Korean exchanges and cooperation have dwindled due to a series of hard-line measures and provocations committed by North Korea from 2009 to early 2010. North Korea's shooting of a South Korean tourist at Mt. Geumgang on July 11, 2008 led to a suspension of the tour program. At the end of 2008, the North took "December 1 measures" to restrict overland travel between the two Koreas. In 2009, it conducted a series of provocations, including a suspension of communications suspension (March), a long-range rocket launch (April 5), and a second nuclear test (May 25), all of which hindered inter-Korean exchanges and cooperation. Turning to 2010, it froze and confiscated the South's assets at Mt. Geumgang in January and February and sank the South's naval vessel *Cheonan* on March 26.

After it was revealed that North Korea had attacked the *Cheonan*, the ROK government launched countermeasures on May 24 that included a ban on North Korean ships sailing through its waters, a suspension of inter-Korean trade and new investments in North Korea, a ban on cross-border visits, limits on South Koreans' contacts with North Koreans, and a suspension of assistance to the North, excluding pure humanitarian ones.

The continued escalation of tensions on the Korean peninsula inevitably led to a contraction of exchanges and cooperation between the two Koreas. In 2009, the number of inter-Korean travelers stood at 120,862, about 35.3% down from the previous year's 186,775. In the first half of 2010, the figure reached only 67,148. Inter-Korean trade decreased 7.8%

from US\$1.82 billion in 2008 to US\$1.68 billion in 2009. In 2010, it stood at US\$994 million as of late June.

Amid worsening bilateral relations, the ROK government has taken measures to promote inter-Korean exchanges and cooperation in an orderly manner and prepare for a possible expansion of them in the future. It revised laws including the Inter-Korean Exchange and Cooperation Act to improve exchange and cooperation procedures in a more simplified and orderly manner. It also provided equipment and materials for inter-Korean military communication lines to ensure smooth passage and communication. The ROK government improved the economic cooperation insurance system, introduced a trade insurance system, and increased the recipients of loans from the Inter-Korean Cooperation Fund to ease the difficulties facing the businesses engaged in inter-Korean economic cooperation. For a stable development of the Gaeseong Industrial Complex, the ROK government responded to the North's irrational demands with sound principles while carrying out joint study tours to industrial complexes in China and Vietnam.

To effectively manage and implement the countermeasures announced on May 24, the ROK government revised the Notice on Items Approved to be Carried into North Korea and the Approval Procedures. As a result, all inbound and outbound items, their transaction form, and payment method are now subject to the approval of the Unification Minister in principle. The ROK government also has been seeking a variety of measures to address the difficulties facing ROK businesses involved in inter-Korean trade and economic cooperation caused by the suspension of inter-Korean exchanges.

I . Economic Exchanges

1. Inter-Korean Trade and Investment

A. Overview

In the wake of an adjustment in inter-Korean relations and a global financial crisis as well as a fall in domestic demand, inter-Korean trade declined to US\$1.68 billion in 2009, 7.8% down from US\$1.82 billion in 2008 and 6.5% down from US\$1.80 billion in 2007.

Yearly Inter-Korean Trade Volume

(Unit: US\$1 million)

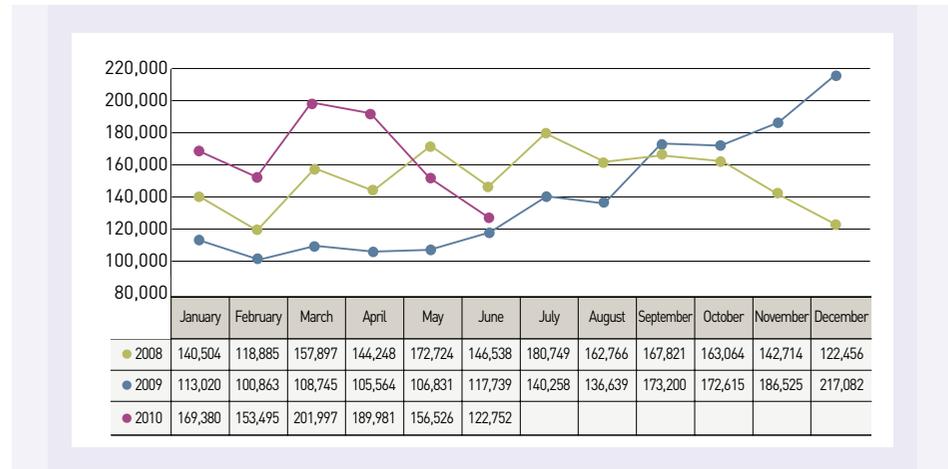
Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Jan.- June 2010
Inbound (Import)	19	12	106	163	178	176	223	182	193	92	122	152	176	272	289	258	340	520	765	932	934	553
Outbound (Export)	-	2	6	11	8	18	64	70	115	130	212	273	227	370	435	439	715	830	1,032	888	745	441
Total	19	14	112	174	186	194	287	252	308	222	334	425	403	642	724	697	1,055	1,350	1,797	1,820	1,679	994

Monthly inter-Korean trade figures revealed that trade volumes had declined every month since December 2008 when North Korea imposed restrictions on overland travel. Trade volumes remained below US\$120 million in the first half of 2009 before making a rebound as the North lifted restrictions on August 21 and the South Korean economy entered a recovery phase. In December that year, US\$220 million in trade was registered.

In 2010, bilateral trade recorded US\$994.13 million during the January-June period despite a trade suspension since May 24.

Monthly Trade Volume from 2008 to June, 2010

(Unit: US\$1,000)



B. Inter-Korean Trade by Category

Inter-Korean trade is composed of two parts, commercial and non-commercial. In 2009, commercial trade recorded US\$1.64 billion, 4.1% down from the previous year, while its portion of total trade rose to 97.8%. Inbound trade or imports registered US\$934 million, and outbound trade or exports, US\$707 million, indicating a 2.1% rise and a 9.2% fall from the previous year respectively.

Non-commercial trade shrank 65.9% over the year to register US\$36.96 million, representing 2.2% of total inter-Korean trade. This was due to a decline in assistance to the North in the context of changes in inter-Korean relations.

Commercial trade from January to June, 2010 stood at US\$983.9 million. In-bound deliveries reached US\$552.78 million while outbound deliveries were US\$441.35 million. During the same period, non-commercial trade recorded US\$10.23 million, representing 1% of total inter-Korean trade.

In commercial trade, GIC-related trade represented 56% of total inter-Korean trade with US\$940.55 million in 2009, a 16.3% increase from 2008.

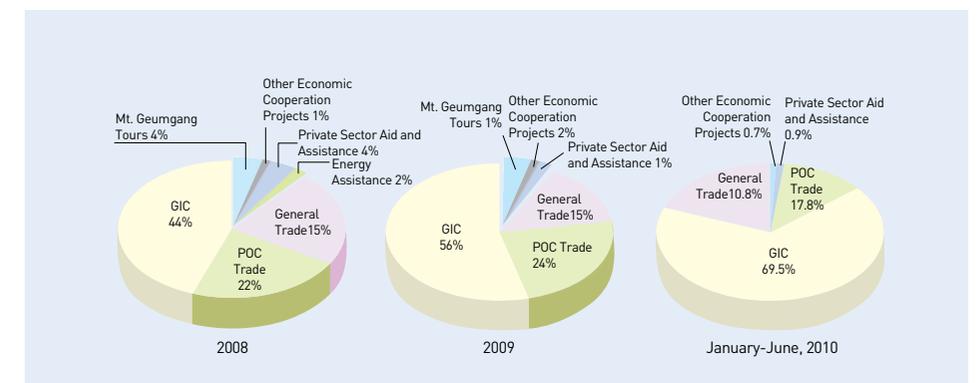
Inter-Korean Trade by Category in 2009 and 2010

Category		Commercial Trade					Non-Commercial Trade		Total
		Gaeseong Industrial Complex	Processing on Commission Trade	General Trade	Mt. Geumgang Tour	Other Economic Cooperation	Assistance	Social and Cultural Cooperation	
2009	Trade Volume (US\$1,000)	940,552	409,714	256,141	8,711	26,997	36,379	588	1,678,494
	Proportion (%)	56.0%	24.4%	15.3%	0.5%	1.6%	2.2%	0.0%	100%
Jan.-June, 2010	Trade Volume (US\$1,000)	691,090	177,255	107,213	1,585	6,756	9,581	650	994,129
	Proportion (%)	69.5%	17.8%	10.8%	0.2%	0.7%	1.0%	0.1%	100%

The processing-on-commission (POC) trade was US\$409.71 million, or about the same as it was in 2008. But, its proportion of total trade rose a bit to 24.4%. Meanwhile, general trade, which mainly involves imports of agricultural, forestry, fishery, and mining products from North Korea, recorded US\$256.14 million. This figure represents 15.3% of total inter-Korean trade, a 35.9% drop from the previous year.

In the first half of 2010, GIC-related trade recorded US\$691.09 million representing 69.5% of total inter-Korean trade; POC trade registered US\$177.26 million, or 17.8% of inter-Korean trade; and general trade totaled US\$107.21 million, or 10.8%.

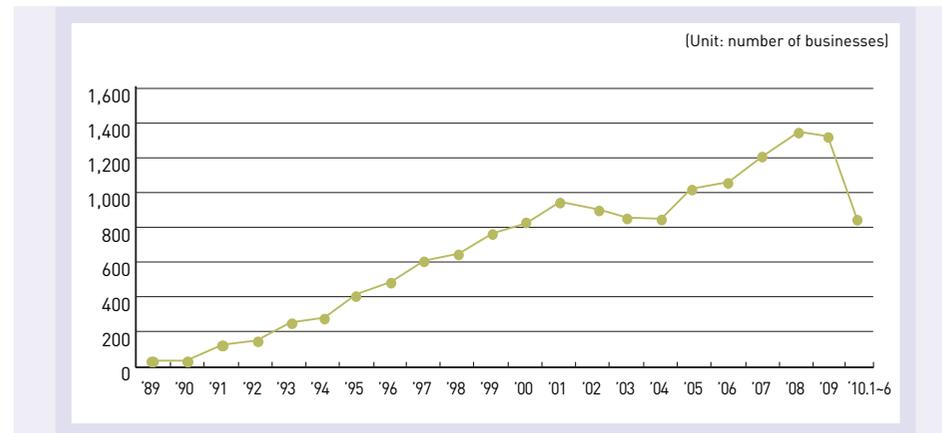
Proportion of Trade by Category from 2008 to June 2010



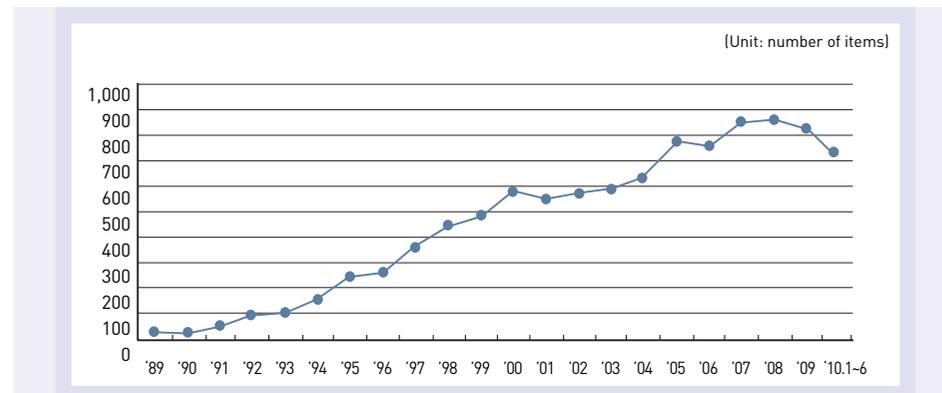
C. Trade Structure

In the aftermath of the North's second nuclear test on May 25, 2009, the number of businesses engaged in inter-Korean trade and the number of trade items declined slightly. The number of businesses fell by 35 from 1,354 in 2008 to 1,319 in 2009, and that of trade items, by 37 from 859 to 822. The figures continued to decline during January-June, 2010 as the number of businesses dropped to 822, and that of items to 732.

Businesses Involved in Inter-Korean Economic Cooperation by Year



Trade Items by Year



In 2009, trade items such as textiles, electrical and electronic goods, agricultural, forestry and fishery products, and machinery accounted for the most part of inter-Korean trade. Textile trade represented 41% with US\$687.79 million, a substantial increase from the previous year's US\$530.05 million. Trade of electrical and electronic goods recorded US\$331.11 million, up 53% from 2008 mainly due to a rise in POC trade of televisions, radios, and electrical wire. But, the trade of agricultural, forestry, and fishery products was down by 16.9% to US\$237.71 million over the previous year, and the trade of mining products was also down by 59.9% to US\$58.3 million.

The four categories above represented the lion's share of inter-Korean trade in the first half of 2010 as well. Textile trade accounted for 41.6%, registering US\$413.29 million. Electrical and electronic goods; agricultural, forestry, and fishery products; machinery; and mining products recorded US\$234.37 million, US\$95.72 million, US\$74.49 million, and US\$18.99 million, respectively.

Items of Inter-Korean Trade

(Unit: US\$1,000)

Category	Textiles	Electrical and Electronic Goods	Agricultural, Forestry, and Fishery Products	Machinery	Daily Consumer Necessities
2009	687,792	331,117	237,717	121,317	92,348
Jan.-Jun., 2010	413,288	234,369	95,722	74,485	63,613

Steel and Metal Products	Chemical and Industrial Products	Mining Products	Plastic, Rubber, and Leather Goods	Others	Total
63,563	59,510	58,305	26,113	1,299	1,679,081
51,759	28,250	18,989	12,987	668	994,129

D. Tourism Projects

Launched on November 18, 1998, Mt. Geumgang tour came to a halt on July 12, 2008, following the shooting death of a South Korean tourist on

July 11. In striving to resolve the incident, the ROK government consistently maintained that it would resume the tours only after creating an environment where its citizens can enjoy the famous scenic beauties with a guarantee of their personal safety. This would be achieved by an investigation into the incident through government-level consultations, a guarantee of non-recurrence, and stricter personal safety measures. The ROK government repeated this position in the working-level inter-Korean talks on Mt. Geumgang and Gaeseong tours held in Gaeseong on February 8, 2010. However, as the North only repeated its previous argument that the shooting death was an incident caused by the victim's lack of attention the talks ended without making any significant progress.

While calling for an unconditional resumption of the tour on the one hand, North Korea, on the other hand, unilaterally notified the South on March 25 of an investigation into assets owned by the South in the Mt. Geumgang tour district, and subsequently conducted the investigations from March 25 to 31.

In response, on March 31, the Unification Ministry spokesperson released a ROK government statement declaring that any act by North Korea infringing on the property rights of South Korean businesses would be considered a violation of business-to-business and inter-Korean agreements as well as international norms and regulations. The spokesperson also maintained that the North would be held accountable if it conducts any such acts and urged it to return to dialogue at the earliest date.

On April 3, however, North Korea froze the ROK government properties, including a reunion center, a fire station, a hot spring spa, a cultural hall, and a duty-free shop, and demanded the withdrawal of the South Korean staff from the reunion center. On April 23, North Korean authorities claimed that they have decided to confiscate the frozen ROK government assets and freeze properties owned by ROK companies.

On the same day, the ROK Unification Ministry spokesperson said the government prescribed the freeze and seizure as illegal and unjust acts that fundamentally undermine inter-Korean relations, and declared to take strong measures.

Nevertheless, North Korea froze and seized South Korean properties on April 29 and 30, and notified the South it was going to evict all staff members from the Mt. Geumgang resort except for 16 people. As of June, 2010, there are only 16 personnel at the Mt. Geumgang district for maintenance, including two Chinese workers.

The Gaeseong tour, which began operating on December 5, 2007, also came to a halt on November 29, 2008 after the North announced it was suspending the tour as part of its restrictions on overland travel (December 1, 2008). The ROK government has tried to resolve its suspension, taking a position that stronger measures to guarantee personal safety need to be introduced through inter-Korean consultations.

2. Government-level Economic Exchanges

A. Modernization of Military Communication Lines

In September 2002, military authorities of the two Koreas began cooperative communications on the occasion of the reconnection of inter-Korean railroads and roads. The North and the South signed the Agreement on the Designation of Inter-Korean Administration Zone and Military Assurance for Working on Reconnection of Railroads and Roads in the East and West Sea Areas on September 17, 2002. Accordingly, they installed military hotlines (one for telephone calls, one for facsimile transmissions, and one reserve line) in the West Sea area on September 24, and in the East Sea area on December 5, 2003.

With the passage of time, the lines have become worn out and one of them in the West Sea area became inoperable on May 5, 2008. Accordingly, on May 8, North Korea requested assistance from the South in the form of materials and equipment for the improvement of lines. Considering the inconveniences experienced by its citizens who visit the North for business purposes, the ROK government decided to modernize inter-Korean military

communication systems in the 204th meeting of the Council on Inter-Korean Exchanges and Cooperation, and provided the North with some materials and equipment on May 30. The South subsequently purchased materials and equipment for a second delivery, but this shipment was put on hold due to a deterioration in inter-Korean relations, which included the shooting death of a South Korean tourist in Mt. Geumgang.

In October 2009, the ROK resumed construction to install military communication lines after repeated requests from the North, and to address the inconveniences its citizens experienced when traveling to the North. Between October 28 and November 19, it delivered to the North the materials and equipment needed for the construction and operation of optical communication lines, with a total of five shipments. The North and the South carried out their construction in their respective sections.



Connection of fiber optic cables between the North and the South



Test calls on the fiber optic cables

Upon the completion of the constructions, the two Koreas connected the fiberoptical cables over the Military Demarcation Line on December 22, 2009, and thus established communication lines between the two Korean military authorities. Following the test calls on December 24 and 25, normal operation began on December 26. The establishment of this communication system allowed the two Koreas to exchange transit information in an

expeditious and stable manner, thereby offering greater convenience for ROK citizens visiting the North overland.

B. Flood Prevention Projects in the Imjin River

In the late 1990s, massive flooding on the lower Imjin River affected the northern part of Gyeonggi Province, leaving many casualties and property damage. This raised the need for flood prevention projects along the Imjin River basin. The Imjin River begins in the North and flows down to the South, with two thirds—mostly the upper reaches—located in the North. As a shared river, it is imperative for the ROK to work with the North to reduce or avoid flood damage downstream.

Against this backdrop, the two Koreas agreed to start a joint flood prevention project for the Imjin River in the second inter-Korean ministerial talks in September 2000 following a proposal by the South. They continued discussing the matter in the meetings of the Inter-Korean Economic Cooperation Promotion Committee (ECPC) and the inter-Korean working-level consultative meetings on the prevention of floods in the Imjin River.

In the 8th ECPC meeting held in March 2004, the North and the South agreed to adopt an agreement on the prevention of floods in the Imjin River basin. In the third inter-Korean working-level consultation in April the same year, they agreed on areas for independent survey, the provision of necessary equipment by the South to the North, and the provision of data including hydrological and meteorological information by the North to the South. According to an agreement on swift exchanges of survey results made in the 10th ECPC meeting in July 2005, the South and the North, in August and December the same year, exchanged the results of their independent surveys.

Since then, there was not much progress on the flood prevention project due to the North's reluctance and inactiveness. On September 6, 2009, however, North Korea released water from a dam in the Imjin River, causing the death of six South Korean campers. The ROK government

expressed deep regret over the incident in a message to the North, as well as in a commentary by the Unification Ministry spokesperson. The South strongly demanded the North to provide a full explanation on the cause of the incident and come up with measures to prevent a recurrence of such incidents.

To prevent similar incidents, the ROK government sought consultations with the North on the use of shared rivers. On October 14, 2009, inter-Korean working-level talks were held in the Inter-Korean Economic Cooperation Consultation Office in Gaeseong. There, the ROK, in its keynote remark, demanded an official apology, condolences, and a sufficient explanation from the North's responsible authority that would be acceptable to the ROK people. Also, the South proposed three principles to institutionalize the common use of shared rivers: reasonable and equal use, mutual cooperation and trust, and the establishment of a prior-notification system to prevent similar incidents in the future.

North Korea made an official apology for the incident, expressed deep condolences to the bereaved families, and explained to the South that it was an inevitable choice to release water from the dam to avoid even greater damage. The North also confirmed that it would give prior notice to the South before it discharges water from a dam in the Imjin River.

Building on the results from the working-level talks, the ROK government will continue to consult with the North on building flood forecast systems and institutional frameworks on damage prevention and the common use of shared rivers.

II . Gaeseong Industrial Complex

1. Stable Management of the GIC

A. Changes in Operating Conditions

There were several obstacles in promoting the Gaeseong Industrial Complex (GIC) project. For instance, North Korea placed restrictions on the overland travel of people and vehicles across the Military Demarcation Line on December 1, 2008 and detained a South Korean worker in 2009. Nevertheless, the ROK government has made efforts on many fronts to push ahead with the project in a stable manner.

In March 2009, North Korea took issue with Key Resolve, the annual ROK-U.S. military exercise. It closed land routes to the GIC three times during the exercise period from March 9 to 21, which led to a disruption in the supply of material inputs and a drop in production. In late March, the North detained a South Korean worker for making critical remarks about its regime and ideologically instigating a North Korean female worker. Due to the detention, the issue of personal safety of South Koreans working in the GIC was raised. In May the same year, North Korea unilaterally insisted that the existing contracts and laws on the GIC were null and void.

As to the North's overland travel restrictions, the ROK government demanded an immediate withdrawal of the restrictions, pointing out their unjustness in a statement to North Korea and in a letter of the Unification Minister. At the same time, the government tried to ease the worries of the enterprises working in the GIC. It also took an active response to the detention case, based on cooperation with major stakeholders such as the GIC companies. The ROK sent a protesting message and demanded that the South Korean worker be released as soon as possible in the working-level talks on the GIC. Also, it requested cooperation from other countries concerned. As for the North's insistence on nullifying existing contracts and laws, the ROK government set forth three principles: the establishment of

rules, the pursuit of economic rationality, and future-oriented development. The South clearly expressed that it cannot accept the North's unjust claims and demanded that the North withdraw them.

Such consistent moves of the ROK government resulted in a normalization of overland travel to the GIC from March 21 and the release of the detained worker on August 13 after 137 days. On August 20, restrictions on entry, exit, and sojourn, which had been in place since December 2008, were also lifted.

B. Progress on the “3Cs” and other Issues for Steady Development

As North Korea lifted its “December 1 Measures,” restrictions on entry, exit, and stay that started on December 1, 2008, vehicles' passage to the GIC rose from 6 to 23 times a day in the summer season and 21 in the winter. From September 1, 2009, the gate was opened for transit from 08:30 to 17:40 on weekdays.

In line with this arrangement, the ROK government introduced an automated vehicle inspection system in September 2009 to facilitate a normalization of transit. In November, it even introduced a plate recognition system in the Inter-Korean Transit Offices to facilitate vehicle inspections. It also continued to implement independent measures to simplify passage and customs clearance procedures such as replacing radio frequency identification readers (RFID).

As a result, the success rate of digital pass recognition was improved to over 99%, and recognition time was shortened to less than two seconds. With installation of additional communication lines in the complex, inconveniences facing GIC enterprises were reduced.



Joint study tour to overseas industrial complexes, December 12-22, 2009

The ROK government's commitment to stable maintenance and development of the GIC led to a joint study tour of industrial complexes in Qindao, Suzhou, and Shenzhen in China, and Yenpong in Vietnam from December 12 to 22, 2009. During the tour, the delegation composed of North and South Koreans studied development and management systems, corporate support service, and passage and customs clearance systems of overseas industrial complexes in an attempt to broaden a common understanding on the present and future of the GIC. Subsequently, the two Koreas held review meetings in the Inter-Korean Economic Cooperation Consultation Office in Gaeseong from January 19 to 20, 2010 to assess the results of the tour and discussed the way forward and the common challenges facing the GIC.

In the fourth inter-Korean working-level talks on the GIC on February 1, 2010, the ROK emphasized the need to first address the inefficiencies stemming from the “3C” issues and urged the North to cooperate. As such, the two Koreas had a working-level contact on the issues on March 2 and had serious, detailed consultations on how to resolve them, but failed to reach an agreement. They agreed to discuss the matter further in working-level contacts that would be held later on.

C. Reduction of the Number of People Staying in the GIC after the *Cheonan* Incident

After it was found that North Korea was behind the sinking of the *Cheonan*, the ROK government implemented countermeasures on May 24, 2010. They included the suspension of new investment projects and the prohibition of additional capital investment for existing business ventures in the Gaeseong Industrial Complex (GIC) as well as the termination of processing businesses outside the GIC.

Nevertheless, the ROK government decided to maintain on-going production activities of the GIC given the unique status of the complex. However, it decided to reduce the number of personnel staying in the complex to 50-60% of normal levels, after comprehensively considering the safety of its citizens as well as production factors.

The North's Committee for the Peaceful Reunification of the Fatherland issued a statement on May 25 that expressed strong opposition to the measure. On May 27, the General Staff of the Korean People's Army released a notification with similar criticism. In addition, the North's General Bureau for Central Guidance to the Development of the Special Zone also criticized the South in an oral statement declaring, "the South's actions are preparations for a closure of the complex, and, if it is shut down later, the South will be held accountable." It also insisted that the outbound shipment of all GIC production facilities by South Korean enterprises be approved by its tax office. However, at the same time, the Bureau stated that it would continue to strive to promote the complex.

A reduction in the number of South Korean workers in the GIC caused some inconveniences in the production activities of GIC businesses. To minimize losses to ROK enterprises, the ROK government extended a significant level of support and administrative help to avoid major disruptions, and, at the same time, reinforced and streamlined the institutional framework, including the economic cooperation insurance system.

2. Status of Tenant Companies and Their Production

A. Companies in the GIC

On June 14, 2004, 15 companies signed tenant contracts to start their businesses in the GIC pilot site, and, in 2005, 18 firms moved into the complex. At the end of June 2010, 121 companies were operating in the GIC. There were 70 firms in textiles, 22 in machinery and metal works, 13 in electrical and electronic goods, 9 in chemical products, 3 in food products, 3 in paper and wooden products, and 1 in non-metal minerals. Despite the hardship caused by the North's restrictions on border crossings in the first half of 2009, the number of companies rose by 28 between 2008 and June 2010.

Number of Tenant Companies

Year	2005	2006	2007	2008	2009	End of June 2010
No. of Companies	18	30	65	93	117	121

Area of Production

Area	Textile (Textiles, Sewing Goods, Cloths, Leather Goods, Bags, and Shoes)	Machinery and Metal Works	Electrical and Electronic Goods	Chemical Products	Food Products	Paper and Wooden Products	Non-metal Minerals	Total
No. of Companies	70	22	13	9	3	3	1	121

The increase in the number of GIC workers, which continued to soar by more than 10,000 every year until 2008 as the number of companies increased, slowed somewhat in 2009. The number of North Korean workers exceeded the 30,000 mark when Living Art, a kitchenware company, hired 55 workers in November 2004. As of late June 2010, about 44,000 North Koreans were working in the complex.

Number of North Korean Workers in the GIC

Year	2005	2006	2007	2008	2009	June 2010
Number of Workers	7,621	11,189	22,538	38,931	42,561	44,011

B. Status of Production

In 2009, the growth of production output in the GIC slowed down despite an increase in investment and the number of tenant companies. The value of GIC production in 2009 was US\$250 million, about the same as in the previous year. The complex's accumulated production amount exceeded US\$700 million in September 2009 and US\$800 million in January 2010, after surpassing the US\$100 million mark in late January 2007. As of late June, 2010, the amount stands at US\$941.04 million.

The production amount from 2008 to the end of June, 2010 was US\$239.82 million in textiles, US\$65.52 million in electrical and electronic goods, US\$60.97 million in machinery and metal works, US\$44.37 million in chemical products, and US\$5.49 million in food products, paper, and wooden products and miscellaneous items.

Amount of Production by Product

(Unit: US\$1,000)

Year	2005	2006	2007	2008	2009	End of June 2010	Aggregate Amount
Textiles	6,780	27,793	85,543	132,179	152,050	87,775	492,120
Chemical Products	1,768	10,900	18,262	21,785	26,179	18,193	97,087
Machinery and Metal Works	5,250	20,853	41,947	49,250	37,312	23,662	178,274
Electrical and Electronic Goods	1,108	14,191	39,027	47,162	37,584	27,942	167,014
Food Products	-	-	-	976	2,003	1,380	4,359
Paper and Wooden Products	-	-	-	70	1,313	731	2,114
Others	-	-	-	-	34	38	72
Total	14,906	73,737	184,779	251,422	256,475	159,721	941,040

3. Infrastructure and Auxiliary Facilities

Considering the fact that GIC companies are South Korean firms and that global competitiveness is important to them, the ROK government built infrastructure on par with other domestic industrial complexes in the South. A water supply system, a wastewater treatment system, and a waste landfill were completed in December 2009, following the completion of the first-phase development site in June 2006. As of December 2009, the daily water supply capacity was 30,000 tons; wastewater treatment, 15,000 tons; the capacity at the landfill site, 61,000 cubic meters; and the daily capacity for incinerated waste, 12 tons. As for electrical power, a daily capacity of 100,000 kilowatts of electricity is supplied to factories there.

The construction of a second incinerator with a daily capacity of 50 tons was supposed to begin in December 2008 with a target completion date of December 2011. However, the plan was put off due to such changing circumstances as the North's restrictions on passage to the GIC in 2009.

The number of communication lines reached a total of 1,300 as KT installed an extra 600 lines in November 2009. The ROK government will discuss with the North about building a communication center, providing Internet access, and allowing the use of mobile phones, with the goal of providing communication services comparable to that in South Korea.



A birdseye view of the GIC, October 2010



Fire station in the GIC

The construction of a technical training center began in 2007, and a general support center and a day care center will soon start operating after the completion of construction in 2009. Moreover, the construction of a fire station with a floor space of 2,181 square meters that can accommodate eight fire trucks began in December 2009, and an emergency care center is on the drawing board. The general support center, a 15-story building with one basement floor and 30,784 square meters of total floor space, was built between August 2007 and December 2009. The building houses the Kaesong Industrial District Management Committee (KIDMAC), offices of public institutions, convenience facilities, including a bank, a promotion hall, an exhibition hall, and shops that service tenant companies.



GIC General Support Center

4. Laws, Institutions, and Business Support System

A. Laws and Institutions

The Gaeseong Industrial Complex is subject to inter-Korean agreements, the South's laws, and the North's laws as well. To run the complex in a cooperative manner, the two sides concluded the Agreement on Entry into, Exit from, and Stay in the Gaesong Industrial Complex and the Mt. Geumgang Tourist District. Furthermore, several other inter-Korean agreements are now applicable to the complex, including the Agreement on Investment Protection between the North and the South.

In May 2007, the Gaesong Industrial District Support Act was enacted in South Korea. Accordingly, the development and operational support as well as the protection of and support for the South Koreans who invest in, or enter or stay in the complex are now conducted according to the Act. According to this legislation, the tenant enterprises in the GIC became eligible to receive benefits from all support systems applicable to small and medium enterprises (SMEs) under ROK laws such as the Promotion of

Small and Medium Enterprises and Encouragement of Purchase of SME Products Act. Other than this act, the Inter-Korean Exchanges and Cooperation Act and the Inter-Korean Cooperation Fund Act, in addition to other laws, also apply to the GIC.

Inter-Korean Agreements on the Gaeseong Industrial Complex

Category	Inter-Korean Agreements
Four Agreements for Economic Cooperation	<ul style="list-style-type: none"> • Agreement on Investment Protection between the North and the South • Agreement on Avoidance of Double Taxation on Income between the North and the South • Agreement on Procedures for Resolution of Commercial Disputes between the North and the South • Agreement on Clearing Settlement between the North and the South
Agreements Related to Gaeseong Industrial Complex	<ul style="list-style-type: none"> • Agreement on Communications for the Gaeseong Industrial Complex • Agreement on Customs Clearance for the Gaeseong Industrial Complex • Agreement on Quarantine for the Gaeseong Industrial Complex • Agreement on Entry into, Exit from, and Stay in the Gaeseong Industrial Complex and the Mt. Geumgang Tourist District
Other Related Agreements	<ul style="list-style-type: none"> • Agreement on Procedures for Verification of Place of Origin of Goods Traded between the North and the South • Agreement on Formation and Operation of Inter-Korean Commercial Arbitration Committee • Framework Agreement on Motor Vehicle Operation between the North and the South • Framework Agreement on Train Operation between the North and the South • Agreement on Military Guarantees for Passage, Communication, and Customs Clearance in the Joint Administration Area in East Sea and West Sea

The North's legal framework is composed of the Kaesong Industrial Zone Act (the KIZ Act) as the basic law and 16 regulations, including the Development Regulations. The KIZ Act authorizes the central industrial district guidance agency to establish detailed rules under the regulations. Detailed rules are enacted through consultations between the two Koreas given that the industrial complex is operated under inter-Korean cooperation. Accordingly, consultations on about 10 detailed rules are currently being held between the two Koreas. Besides, the Kaesong

Industrial District Management Committee (KIDMAC), authorized by the KIZ Act, has enacted and implemented 46 working rules, including construction and building standards for the district.

B. Business Support System

The Inter-Korean Cooperation District Support Directorate of the South and the General Bureau for Central Guidance to the Development of the Special Zone of the North are the central support and management bodies of the Gaeseong Industrial Complex project.

The Directorate was established on October 5, 2009, succeeding the Office of Gaeseong Industrial Complex Project as the latter's organizational term expired. Now, the Directorate is responsible for the planning and coordination of the overall affairs related to the GIC, including support for infrastructure building and improvement of the entry and exit system as agreed between the two Koreas.

The KIDMAC was established in October 2004 in order to provide support for production and management activities of the GIC tenant companies. As of December 2009, the KIDMAC is composed of one chairman, one vice-chairman, five departments (general management, business support, complex management, entry and exit, and planning and legal affairs), and three teams (legal order, budget and accounting, and entry and exit support). The budget and entry and exit support divisions were reorganized in September 2009 to speed up the entry and exit procedures and to improve the efficiency of budget planning and execution. Responsible for general management and operation of the GIC, the KIDMAC issued 1,495 passage and residence cards and dealt with 437 applications to register or establish businesses in 2009 alone.

5. Support for Corporate Investment

A. Financial Support

Considering the poor business environment during the developing stages of the GIC, the ROK government allowed enterprises to take loans from the Inter-Korean Cooperation Fund to pay for initial capital costs. By December 2007, about 47.8 billion won was extended to the businesses that moved into the pilot site, and about 25.8 billion won to the first group of companies going to the main site. This support was replaced with the technology guarantee and the credit guarantee systems in December 2007. In the meantime, the Small & Medium Business Corporation (SBC) extended 26.7 billion won to 38 small and medium enterprises between 2007 and late June 2010.

The restrictions that North Korea imposed on cross-border travel on December 1, 2008 challenged the business activities of those involved in inter-Korean cooperation projects. In an effort to ease their difficulties, the ROK government delayed the receipt of interest and principal on the loans from the Inter-Korean Cooperation Fund by six months for 22 businesses in January 2009, and did so once again in November the same year. The ROK government also decided to provide an emergency operation fund with a limit of six billion won for those who moved into the GIC after June 30, 2008. Accordingly, it extended a total of 1.8 billion won in loans to 9 businesses by the end of June 2010, which helped relieve the difficulties facing the tenant companies and promoted their production activities.

The ROK government introduced an economic cooperation insurance policy in July 2005 under which damages are covered up to 90% from the Inter-Korean Cooperation Fund if tenant companies suffer losses due to unexpected risks rising from the North's seizure of invested assets and the resultant discontinuation of their operations. The number of subscribers began rising after the end of 2008 when the business conditions in the GIC deteriorated due to the North's restrictive measures. As of late June 2010,

there were 139 subscribers and the total assets of the insurance fund reached 485.9 billion won. To provide better business conditions to the tenant companies, the ROK government raised the insurance amount limit from 5 billion won to 7 billion won and eased the requirement for insurance payment from three months of business suspension to one month in July 2009. Expansion of insurance coverage, loosening of payment requirements, and deferment of loan repayment helped relieve the suffering of the GIC tenants.

Also, the ROK government introduced a trade insurance policy (for outbound delivery of raw materials and performance guarantee) so that the tenants can avoid the risk involved in the suspension of delivery for raw materials and enjoy a stable environment for investment and production.

Financial Support

(Unit: 100 million won)

Specification		Total	Pilot Site	1 st Main Site	2 nd Main Site
Loan from the Inter-Korean Cooperation Fund	First	760	475	282	-
	Second	60	-	-	60
Loan from the SBC		25.1 billion won for 38 companies			
Economic Cooperation Insurance		485.9 billion won in insurance fund from 139 subscribers (as of June 2010)			

B. Support for Market Expansion

The ROK government made a variety of efforts to help the GIC tenants expand their markets in 2009. Following the conclusion of a free trade agreement with the U.S. on April 2, 2007, the ROK signed another free trade agreement with the European Union on October 15, the same year. As for recognizing goods produced in the GIC as having originated in the ROK, the two agreements stipulate that the Committee on Outward Processing Zone on the Korean peninsula, which will be established one

year after the Korea-US FTA is ratified by the National Assembly, shall handle the designation of certain areas, including the GIC in the North, as outward processing zones (OPZ) under certain criteria. As such, the ROK government will continue to make efforts for GIC products to be considered as ROK produced goods and to acquire preferential treatments for OPZs.

Also, the ROK government supported GIC tenants to participate in various exhibitions and sales events to help them promote and sell their goods and explore new markets. In 2009, the following trade promotion events were held: the GIC and Inter-Korean Trade Goods Exhibition; Buy Korea 2009 Autumn; the 8th World Korean Business Convention in Songdo Convensia, Incheon; and the GIC Goods Exhibition in the National Assembly building.

In 2008, the government introduced “PEACE WORKS” as a common brand for GIC products to facilitate sales, and applied for a trademark in January 2009. Small cards and banner advertisements of the brand were also used during the exhibitions.

In 2010, the GIC companies attended a Common Brand Fair held in COEX, Seoul where they had opportunities to display and promote their products, and consult with major retailers regarding sales opportunities. The Korea Federation of Textile Industries held a sourcing meeting that served as an opportunity for the GIC firms to expand their markets.

C. Public Health and Medical Support

Within the complex is the Green Doctors Hospital, which opened in April, 2007 by bringing together medical facilities of Green Doctors, a volunteer medical group, and the North’s general clinic into one building. North and South Korean workers are provided basic services in separated sections, but the surgical, radiology, diagnostic test, and ultrasound rooms are shared. The medical team is comprised of two doctors, one nurse, and two administrative staffs from the South and 19 staff members from the North.

Number of Medical Treatment Provided by Green Doctors Hospital

(Unit: number of patients)

Year	Total	South Side	North Side
2005	6,169	5,362	807
2006	7,232	5,834	1,398
2007	43,413	7,647	35,766
2008	69,724	7,751	61,973
2009	78,007	5,803	72,204
End of June, 2010	19,952	2,133	17,819

Out of the 90,023 North Korean workers who were treated at the hospital between 2009 and late June 2010, about 42% or 37,359 used the internal medicine department, 32,461 (36%) were treated in the obstetrics and gynecology department, 17,453 (19%) were treated by the surgical department, and 2,750 (3%) were provided with miscellaneous medical services. The ROK government is seeking to launch an emergency care hospital within the complex to provide enhanced medical services to GIC employees.

A new strain of H1N1 flu virus swept across the world in 2009. The ROK government took several measures to prevent the pandemic from spreading to the GIC. It installed thermal cameras on the ROK side of the Inter-Korean Transit Office to monitor the body temperature of the employees crossing to the North, provided public health education to GIC companies, and distributed prevention manuals.

After confirming that a South Korean worker was infected with H1N1 virus on November 14, 2009, the ROK government loaned two thermal cameras to the North for free to strengthen prevention campaigns within the complex. Also, it vaccinated the medical staffs of the Green Doctors Hospital in December, donated two thermal cameras to the North, and provided the North Korean workers with 1,000 doses of Tamiflu antiviral medicine.



GIC Products Exhibition, December 2-3, 2009

D. Improvement in Working Environment

Financial remuneration for the North Korean workers includes wages, additional allowances for overtime or night work, bonuses for certain duties or positions, in addition to other special bonuses. The labor regulations of the North's Kaesong Industrial Zone Act stipulates that the minimum monthly wage be settled through the agreement between the KIDMAC and the General Bureau for Central Guidance to the Development of the Special Zone and not to be increased by more than 5% each year. The monthly minimum wage rose from US\$50 to US\$52.5 on August 1, 2007 and to US\$55.125 on August 1, 2008. From August 1, 2009, it was US\$57.881. Aside from labor compensation, the tenant enterprises pay 15% of their monthly payroll as social insurance premium according to the labor regulations.

The KIDMAC and the tenant companies operate shuttle buses for the North Korean commuters. There were 228 buses in operation as of late June 2010. Besides, the enterprises provide the North Korean workers with breaks shower and exercise facilities to improve their working environment.



GIC commuter buses



Day care center in the GIC

To raise the GIC's productivity, the ROK government wanted to build the Center for Technology and Education in November 2007 and nurture technicians who can meet the diverse demand of the GIC tenant companies. The center was composed of 22 lecture and training rooms that may simultaneously accommodate 700 people a day. It was supposed to provide a variety of programs, including ones customized to tenant companies' needs, and self-development courses for the South Korean workers, but the facility has not been launched due to worsening inter-Korean relations and the failure to reach a final agreement between the two Koreas.

Since 2006, the two sides have pursued the establishment of a day care center and a technical education center. Following consultations between the two Koreas, construction began in October 2009 and was completed in December that year. The center is expected to enhance productivity of the GIC companies since it would help raise the personal welfare of the North Korean female workers and reduce their absence rate. The day care center is a two-story building with a total floor space of 860 square meters and can accommodate up to 200 infants and children at the same time. Even though the consultations with the North have long remained suspended because of soured bilateral relations, the center will go into operation at full swing once an agreement is reached on operational details.

III. Social and Cultural Exchanges

Social and cultural exchanges between any two antagonizing parties are important in that they serve as a basis for mutual integration, and create opportunities for mutual cooperation and reconciliation, thereby laying the foundation for a joint social and cultural community.

In 2009, social and cultural exchanges between the two Koreas were substantially reduced due to the North's long-range rocket launch and nuclear test, and the subsequent deterioration in bilateral relations. In that year, 32 groups of 267 South Koreans made cross-border visits to the North, and five groups of 63 North Koreans visited the South, huge decreases from the previous year. In the first half of 2010, 32 groups of 204 South Koreans crossed the border, but there were no visits from the North to the South. Nonetheless, bilateral cooperation and contacts have been steadily pursued in the areas of culture, academia, sports, and religion.

The Women's Committee of the Korean Fine Arts Association brought together works of North and South Korean female painters in the Women & Today Exhibition held at the KEPCO Art Center Gallery, Seoul October 17-25, and in the National Assembly building November 2-4. This joint exhibition of North and South Korean female artists was the first of its kind since national division. Works of about 140 artists, including 18 female painters from the Mansudae Art Studio in Pyongyang, participated in the exhibitions.

In the area of academic exchanges, 20 rounds of joint publication meetings have been held since the compilation of the Grand Dictionary of the Korean Language was approved in 2004. In 2009, four meetings were held as the work on writing the dictionary gained momentum. As of late June 2010, the selection of the vocabulary had been completed and the writing was in full progress, with about 55% having been completed.

The joint excavation of Manwoldae in Gaeseong, launched in 2006, continued into 2010. The excavation and investigation of the 3,300-square-meter Gondok Hall was made from March 23 to May 18, and an analysis of the joint excavation was underway at the end of June.



Opening ceremony of the Women & Today Exhibition at National Assemblymen's Building, November 2-4, 2009

The Inter-Korean Sports Exchange Association held a friendly match between junior soccer teams of the North and the South in Kunming, China from July 17 to August 4, 2009. The two Koreas discussed ways to continue exchanges of youth soccer matches that had taken place since 2007, but failed to reach an agreement. In the run-up to the 2010 World Cup in South Africa, a qualifying match between the national soccer teams of the two Koreas was held in the Sangam World Cup Stadium in Seoul on April 1, 2009.

From 2009 to 2010, religious exchanges were focused more on working-level consultations than on large-scale events. Besides, such consultations were mainly about raising the quality of existing projects and the exchange of opinions about future projects, rather than pursuing any new projects. Christian churches in South Korea had working-level discussions with North Koreans in Gaeseong, Pyongyang, and in China. Good News had intensive consultations on the distribution of the South Korean Bible and Saeeden Church visited the Pongsu Church in Pyongyang to check on operational conditions.



Inter-Korean meeting on the joint publication of the Grand Dictionary of the Korean Language in Shenyang, China, June 21-30, 2009

The Jogye Order of Korean Buddhism held an inter-Korean joint Dharma talk on the second anniversary of the restoration of Singye Temple at mid- to long-term exchanges of Buddhism between the North and the South and offered incense and candles to the North on Buddha's birthday in 2010. The Cheontae Order held a joint Dharma talk in Yongtong Temple in Gaeseong in commemoration of nirvana of Daegak Guksa Uicheon on November 21. The Jogye Order Association of Believers travelled to Pyongyang to discuss with the Korea Buddhist Federation of North Korea the issue of recovering cultural assets.

The Catholic Church of the South discussed with the Korea Roman Catholics Association of the North ministerial rights (legislative, judicial, and administrative rights of the Vatican), but failed to achieve tangible results due to the lack of conceptual understanding by the North. The Commemoration Association for Partiot Ahn Jung-geun held a joint seminar together with the Korea Religionists Council in Gaeseong on November 3 and a joint commemorative event in Lushun, China from March 26 to 28, 2010.

The Chondoist Church of the South pursued joint events to

commemorate the March 1 Independence Movement and National Liberation Day but without results. The Council for Peaceful Reunification of the Dangun Nation issued joint statements with the North on the occasions of Independence Movement Day, National Liberation Day, and National Foundation Day even though it had failed to hold a joint event for National Foundation Day in 2009.

The North and the South separately marked the June 15 Joint Declaration and the August 15 National Liberation Day in 2009. The South Side Committee for Implementing the June 15 Joint Declaration held a commemorative event of its own at the Jangchung Gymnasium in Seoul on June 14, 2009. It also commemorated the August 15 National Liberation Day in the Baekbeom Memorial Hall. Sectoral exchanges continued by the subcommittees of labor, education, literature, and journalism.

The year 2010 marks the tenth anniversary of the June 15 Joint Declaration. However, the two Koreas held various events independently amid tensions caused by the sinking of the *Cheonan* and the North's threats regarding the Mt. Geumgang resort. The South Side Committee held an outdoor event in Seoul Plaza on June 13 and a ceremony in the Memorial Hall of Buddhist Culture and History of Korean Buddhism on June 15.

The exchanges between local governments of the two Koreas were not active in 2009 and 2010. Yet, most local governments have enacted and implemented local ordinances on inter-Korean exchanges and cooperation, and they have established their own funds for exchange programs. The year 2009 marked the tenth anniversary of the first inter-Korean exchange project initiated by a local government. The Jeju provincial government on January 22, 1999 offered to provide persimmons and tangerines to the North. The ROK government commissioned an industry-academia research institute at Ewha Womans University to publish *Ten Years of Inter-Korean Exchanges by Local Governments*. To share information and enhance cooperation on inter-Korean exchanges, the ROK has been operating the Local Governments Working-level Council for Inter-Korean Exchanges as well, and has held biennial meetings since 2009.

IV. Cross-border Visits and Transportation

1. Background and Role of Inter-Korean Transit Offices

The Inter-Korean Transit Offices were established because a standing organization was needed to handle border crossings. As inter-Korean roads and railroads were being reconnected and the tours to Mt. Geumgang became fully operational, the delivery of equipment and materials increased significantly. The offices were first launched as temporary organizations but were integrated into the Ministry of Unification on November 20, 2003. They now handle border crossings along the Gyeongui corridor on the west coast and the Donghae Corridor on the east coast.

The transit offices manage passage across the DMZ such as the examination and quarantine of cross-border visitors, civil services including issuance of temporary passes, briefing visitors and responding to emergencies, support for customs clearance of goods, and liaison and consultation with the North on train operations. Staff from the Ministry of Unification, the Ministry of Justice, the Ministry of Health and Welfare, and the Customs Service work together to offer entry and exit services at the two offices. The facilities also serve as the gateway to the Gaeseong Industrial Complex and the Mt. Geumgang tour resort.

2. Procedures of Inter-Korean Transit

There are special aspects for Korean citizens when traveling between the two Koreas. Since Koreans do not consider inter-Korean relations as relations between two sovereign nations, the ROK government applies a special concept for inter-Korean travel. It uses the words “entry and exit” rather than “arrival and departure” as in international travel. The Transit Office instead of the Immigration Office processes the entry and exit of visitors. The procedure and method for inter-Korean travel are also different

compared to those for international travel. Travelers need passports to travel abroad, but for cross-border visits to the North, they need prior approval and a visitation certificate issued by the Unification Minister. The inspection, customs clearance, and quarantine procedures for goods are the same as for imports from other countries.

Before visiting the GIC, visitors must apply for a certificate for passage or sojourn stay, and then submit their travel plans to OK (Online Kaesong), the online application system operated by the Kaesong Industrial District Foundation (KIDF).

Difference between Arrival & Departure and Entry & Exit

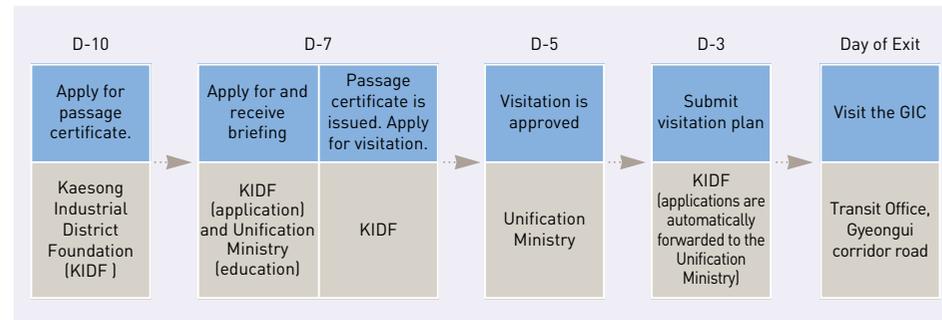
Category	Arrival & Departure	Entry & Exit
Differences	<ul style="list-style-type: none"> • Travel between nations, international transactions • Passport and visa requirement • Managed by the Immigration Service (Ministry of Justice) 	<ul style="list-style-type: none"> • Inter-Korean exchanges (as reflected in the Basic Agreement) • Visitation or sojourn certificate issued, visitation certificate carried during travel • Managed by the Inter-Korean Transit Office (Ministry of Unification)
Common Areas	<ul style="list-style-type: none"> • Public health and quarantine, customs clearance, and inspections 	

Applicants can then confirm whether their travel applications have been approved in the Unification Ministry's Inter-Korean Exchanges and Cooperation System. Upon confirmation, they can visit the North with the visitation certificate after being cleared in the Transit Office. When returning, they must carry the original passage or sojourn certificate. Generally, they can apply for the passage or sojourn certificate and the briefing session as well when they apply for visitation approval.

Visitors must apply and obtain approval for the use of a vehicle after applying for the visitation certificate, but before submitting their travel plans. If they apply through the Inter-Korean Exchanges and Cooperation System, they will automatically receive a radio frequency identification

(RFID) pass. If a car with an RFID pass passes through the vehicle inspection gate at the Transit Office, its passage is automatically processed (there is no need for a vehicle identification certificate, exit and entry documents or a passage confirmation), which allows a speedy and smooth passage.

Application Procedure for Visit to North Korea (GIC)



※ The URL for the Unification Ministry's Inter-Korean Exchanges and Cooperation System is <http://www.tongtong.go.kr>.

※ The URL for the KIDF's online passage application system is <http://www.oks.kidmac.com>

3. Status of Overland Transit Facilities

A. Status of Transit Facilities

Roads and railroads were reconnected at the inter-Korean border in 2003. Transit facilities for roads and railroads in the Gyeongui corridor on the west coast (including the Dorasan Station) and the Donghae corridor on the east coast (including the Jejin Station) were completed in 2006, and the Dorasan Logistics Center was completed in December 2007.

Construction of the Donaghae Line Logistics Center is underway at the Donghae Transit Office, and is expected to be finished in September 2010.

The Center will help the smooth delivery of products from the North. For instance, it will manage shipments of materials for development, or process in-bound delivery of minerals (iron ore, coal, tungsten and magnesium) or fishery products from the North's east coast area.

Since the reconnection of roads and railroads, the ROK government has continuously improved the transit facilities and has been committed to building a one-stop-service system to handle the entry and exit of people, vehicles, and goods between the two Koreas.

Status of Transit Facilities

Specification		Floor Space	Construction Period	Land Area/Number of Buildings
Gyeongui Line (Dorasan)	Railroad	15,825m ²	Sep. 2004-Apr. 2006	442,015m ² (36 Buildings)
	Road	18,310m ²	Sep. 2004-May 2006	
	Dorasan Logistics Center	19,488m ²	Oct. 2005-Dec. 2007	
Donghae Line (Goseong)	Railroad	6,705m ²	Sep. 2004-Apr. 2006	233,973m ² (15 Buildings)
	Road	14,055m ²	Sep. 2004-May 2006	
	Logistics Center	12,041m ²	Dec. 2006-Sep. 2010 [Scheduled]	

View of the Gyeongui Corridor Transit Facilities



Road facilities at the Gyeongui Corridor



Railroad facilities at Dorasan Station

View of the Donghae Corridor Transit Facilities



Road facilities at the Donghae Corridor



Railroad facilities at Jejin Station

B. Status of Overland Passage

Border crossings fell in 2009 compared to the previous year due to the suspension of tour programs following the shooting death of a South Korean tourist at Mt. Geumgang on July 1, 2008 and the North's restrictions on

passage that began on December 1, 2008. The North's measures included a suspension of the freight train operations and tours to Gaeseong and a limit on the passage of people and vehicles.

A total of 115,026 people and 72,929 vehicles crossed the border in the Gyeongui corridor road, and 3,682 people and 1,323 vehicles did so in the Donghae corridor road. Since the lifting of the restrictions on September 1, 2009, the number of people and vehicles crossing the border has continuously risen.

On April 13, 2010, North Korea froze the family reunion center and hot spring spa at Mt. Geumgang, and, on April 23, confiscated them and froze private properties there. On May 3, the whole staff except for 16 Hyundai Asan workers and the crew at the golf course was expelled. Accordingly, entry and exit now takes place once a week in the Donghae corridor for work shifts and the delivery of food and materials.

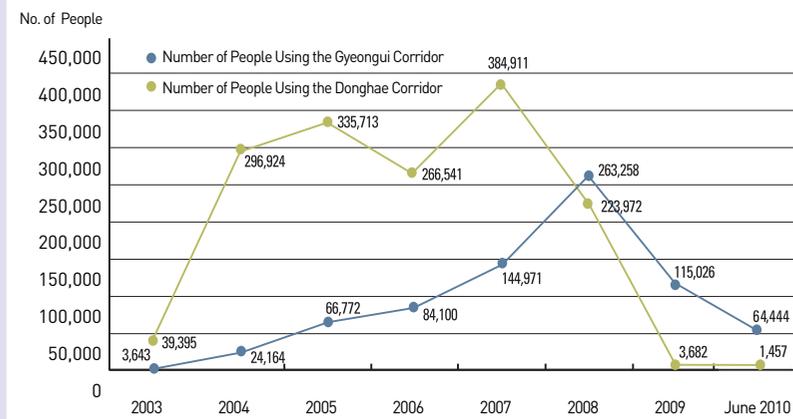
The number of South Koreans who stay in the Gaeseong Industrial Complex fell from the 800-1,000 level to the 400-500 level following the ROK government's policy measures taken on May 24 in response to the *Cheonan* sinking. Nevertheless, in late June 2010, the number of people crossing the border in the Gyeongui corridor every day rose from about 400 to 500 as the number of commuters increased. Below is a table that provides the number of people and vehicles that have been crossing the DMZ through the Gyeongui and Donghae Transit Offices.

Number of People and Vehicles Passing the DMZ In the Gyeongui and Donghae Corridors

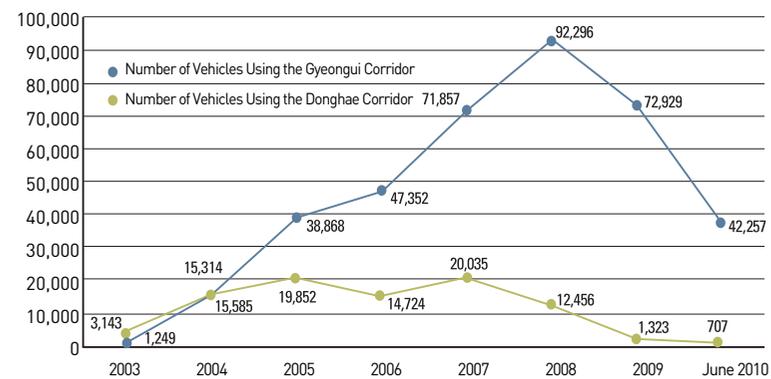
Specification		2003	2004	2005	2006	2007	2008	2009	June 30, 2010	Total
Gyeongui Corridor Road	People	3,643	24,164	66,772	84,100	144,971	263,258	115,026	64,444	766,378
	Vehicles	1,249	15,314	38,868	47,352	71,857	92,296	72,929	42,257	382,122
Donghae Corridor Road	People	39,395	296,924	335,713	266,541	384,911	223,972	3,682	1,457	1,552,595
	Vehicles	3,143	15,585	19,852	14,724	20,035	12,456	1,323	707	87,825

※ Before the restrictive measures of August 13, 2009, 75,395 people and 46,862 vehicles crossed the DMZ. After the measures were implemented during September 1-December 31, 43,313 people and 27,390 vehicles did so.

Number of People Traveling North



Number of Vehicles Traveling North



C. Inter-Korean Freight Train Operations

The construction of the railroad tracks for both the Gyeongui and Donghae lines was completed in December 2005. The Gyeongui Line runs

27.3km from Munsan in the South to Gaeseong in the North, and the Donghae Line runs 25.5km from Jejin in the South to Mt. Geumgang in the North. Subsequently, the Inter-Korean Economic Cooperation Promotion Committee held its 13th meeting in April 2007 and agreed to conduct test runs on May 17, 2007. On December 11, 2007, inter-Korean freight trains began to shuttle between the Dorasan Station on the South's side of the Gyeongui Line and the Panmun Station in the North five times a week except for weekends. The trains departed from the Dorasan Station at 9 p.m. and returned from the Panmun Station 2 p.m.

Initially, a 12-car train (one locomotive, ten freight cars, and one caboose) was supposed to run, but the two Koreas agreed to include the freight vehicles only when there was sufficient freight, and when there was no freight to haul, they decided to run only the locomotive and the caboose. However, the operation has been suspended since November 28, 2008 when the North restricted overland travel.

During the period of operation (December 11, 2007-November 28, 2008), 17 rounds of delivery took place and a total of 31 freight cars carried 318 tons of freight, and the operation made 222 round trips between the two Koreas. Of those 31 freight cars, 24 were used to transport 235 tons of freight from the South to the North and 7 were used to move 75 tons of freight in the opposite direction. Most of the cargo was materials related to the GIC.

Most GIC goods are produced in small quantities, so rail delivery is not cost efficient compared to truck transport, and, therefore, the rail operation was sporadic. Furthermore, the North's infrastructure is poor and freight delivery by rail only becomes cost competitive when the distance is greater than 200 kilometers. Thus, the freight train service is not efficient because Seoul or Incheon are the usual destinations for goods produced in the GIC, which is less than 100 kilometers away.

On August 20, 2009 North Korea informed the South that it would restore the train operation to the same schedule in place before the December 1, 2008 restrictions. However, the South intends to decide

whether and when to restore the service after considering the demand for the service.

D. Measures on Passage Considering Special Inter-Korean Status

North Korea's passage restrictions to Gaeseong imposed on December 1, 2008 caused major disruptions at the Inter-Korean Transit Office. The suspension of military communications during the ROK-U.S. Key Resolve military exercise led to a temporary halt in border crossings. Furthermore, UN Security Council Resolutions imposing sanctions against the North and export control regulations require greater monitoring and inspection of inter-Korean trade. The outbreak of H1N1 influenza virus also caused abrupt changes in inter-Korean passage. As such, the Inter-Korean Transit Offices took the following measures to ensure smooth passage.

The Transit Office implemented new rules from January 1 to August 31, 2009 in order to minimize confusion regarding cross border visits.

Main Points of Passage Rules

- ① Passenger cars are not allowed to pass the border at the 9:00 exit slot or the 15:00 entry slot.
- ② As an alternative, daily shuttle bus services will be provided between Seoul and GIC via Dorasan for the 9:00 and 10:00 exit slots and the 15:00 and 17:00 entry slots.
- ③ During the busy days of Monday, Friday and Saturday, tenant companies and construction firms are given different time slots for passage to prevent heavy traffic.
 - Tenant companies: Exit at 9:00 a.m. and 10:00 a.m. on Monday, and entry at 5:00 p.m. on Friday and at 3:00 p.m. on Saturday
 - Construction contractors: Exit at 11:00 a.m. on Monday and entry at 4:00 p.m. on Saturday
- ④ For all other times, visitors and vehicles are allowed to pass on a first-come-first-served basis (registration accepted three weeks ahead of visit)

North Korea strengthened restrictions on South Korean visitors. For example, the North began returning immediately anyone caught in possession of prohibited items. Thus, the ROK government informed visitors about the North's restrictions and also inspected their belongings and certificates for entry or sojourn in order to minimize the number of those being immediately sent back.

During the ROK-U.S. Key Resolve military exercise, the Kaesong Industrial District Management Committee delivered a passage plan to the North and the North's written agreement was received via the Committee as well. Since the North Korean military authorities sometimes did not notify the South of its consent on a South Korean's visit, which is needed for a South Korean to visit the North, and sent its consent after 8:00 a.m., which is later than normal, the ROK government tried to enhance the convenience of visitors by making frequent announcements to prospective visitors about any changes regarding passage.

The Transit Office worked together with the South Korean Customs Service to comply with UN Security Council resolution 1874, which was adopted in response to the North's second nuclear test on May 25, 2009. The Transit Office increased the inspection of in-bound items as well as out-bound items to prevent the delivery of dual-use items or luxury goods banned under export control regulations and UN Security Council resolutions. It took measures so that the document review of cargo containers would be completed 20 minutes prior to their exit in order to carry out a close screening with screening equipment.

The spread of the H1N1 influenza virus in late 2009 resulted in the implementation of measures to protect South Korean citizens visiting Gaeseong and to help prevent contagion in the North. With cooperation of the Ministry of Public Health and Welfare, the Transit Office used thermal scanners and ear thermometers to monitor cross-border visitors. When a suspected flu case was reported in the GIC, the Transit Office had the suspected patient return to the South immediately to undergo a test to determine whether the person had the H1N1 virus.

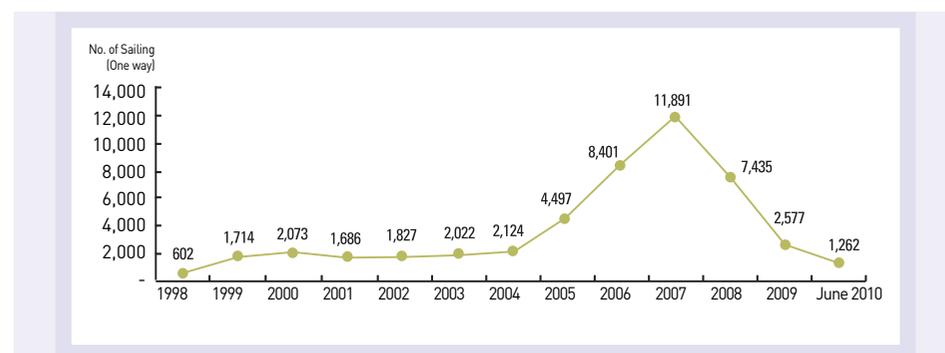
4. Maritime and Air Transportation

A. Maritime Transportation

According to the Inter-Korean Agreement on Maritime Transportation, which went into effect in 2005, and subsequent implementation agreements, sea routes were opened between seven South Korean ports (Incheon, Gunsan, Yeosu, Busan, Ulsan, Pohang, and Sokcho) and seven North Korean ports (Nampo, Haeju, Gosong, Wonsan, Heungnam, Chongjin, and Rajin). In addition, the Jeju Strait was opened to North Korean ships beginning August 15, 2005.

Since August 2005, the two Korea's authorities for maritime affairs (the South's Unification Ministry, and the North's Ministry of Land and Marine Transport) have operated one telephone line and one facsimile line. The two sides made daily tests of the two lines, once in the morning and once in the afternoon. They authorized the passage of the other side's vessels, shared information on emergencies, and provided information to support safe navigation.

Status of Inter-Korean Maritime Transit



In 2009, ships made 2,577 one-way trips between the two Koreas, down 65.3% from the previous year. The South's vessels made 2,044 trips, a

decrease of 71.5% from the previous year. The decline mostly was a result of decrease in the amount of sand and fishery products shipped to the South from Haeju and Gosong in the North. The North's vessels made 533 trips, up 109.8% from the previous year largely because of a rise in the delivery of fishery products and the start of regular ferry service between Incheon and Nampo by the *Dongnam 1*. From January to June 2010, a total of 1,262 one-way trips were made between the two Koreas. However, the North's ships were banned from ROK territorial waters beginning May 24, 2010, according to measures in response to the sinking of the *Cheonan*.

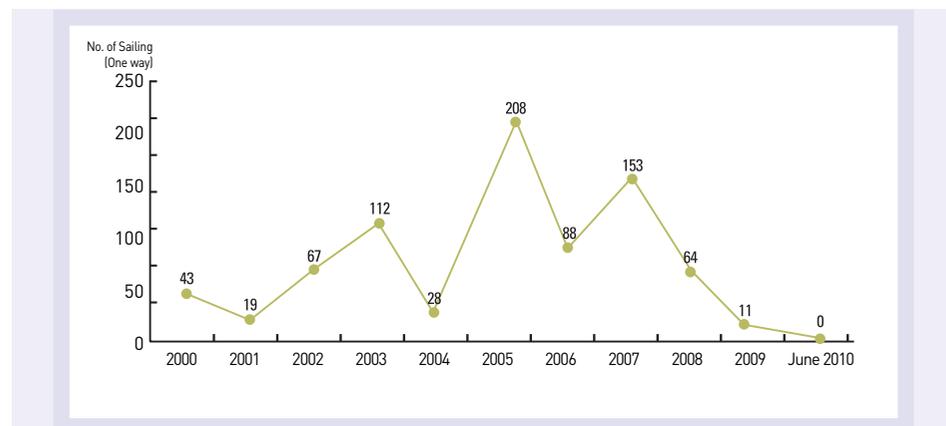
North Korean vessels have made a total of 2,165 trips through South Korean territorial waters since the Inter-Korean Agreement on Maritime Transportation went into effect in 2005. Of those cases, 1,477 were voyages between the North and the South, and 688 were passages through the South's waters.

B. Air Transportation

The amount of air traffic has fluctuated since the direct air route off the west coast was opened for the Inter-Korean Summit in June 2000. In 2009, the number of inter-Korean flights fell to 11, a drop of 82.8% from 2008. The flights included the Russian Foreign Minister's trip to Seoul via the North, the North Korean delegation's trip to former President Kim Dae-jung's funeral, and a trip to Pyongyang by a U.S. delegation led by Stephen Bosworth, the U.S. special representative for North Korean policy.

In the first half of 2010, no inter-Korean flights were made due to the absence of private sector events amid deteriorating relations between the two Koreas.

Inter-Korean Flights



V. Inter-Korean Economic Cooperation Consultation Office

1. Establishment and Operation

On July 12, 2005, the Inter-Korean Economic Cooperation Promotion Committee (ECPC) signed the Agreement on the Establishment and Operation of an Office for Inter-Korean Economic Cooperation Consultation. The agreement was signed during their tenth meeting in an effort to expand inter-Korean economic cooperation. Subsequently, the ECPC established the Office within the Gaeseong Industrial Complex on October 28, 2005. The facility was renamed “Inter-Korean Exchange and Cooperation Consultation Office” by Presidential Decree 20721 on February 29, 2008.

The Consultation Office (otherwise known as ECO) is a government agency located within the GIC to offer on-site support for inter-Korean exchanges and cooperation projects through regular contacts. For instance, the ECO handles economic transactions between the two Koreas; the execution of investments and advice on investments, liaison, provision of trade, and investment data; support for business consultations, trade

consulting, and briefings; and support for participation in trade fairs.

North Korea expelled 11 South Korean ECO officials on March 27, 2008, three days after the North announced their unilateral measures. ECO operations were discontinued on December 2008 after North Korea unilaterally announced on November 24 that it would be shut down.

On August 20, 2009, the North’s General Bureau for Central Guidance to the Development of the Special Zone notified the South that it “would operate the ECO in a normal manner and restore the entry, exit, and sojourn of personnel as before,” and proposed “to exchange the lists of personnel so that the ECO can operate normally starting from September 4.”

The South’s director of ECO responded with a revised proposal to “resume the operation from September 7, after considering the preparation and exchange of lists on September 3.” The North accepted the counter-proposal and operations resumed on September 7.

On May 26, 2010, two days after the South announced its policy measures in response to the sinking of the *Cheonan*, the head of the North’s ECO argued “the South Korean authorities’ linking of the ship incident with us distorts the truth, so we, as of this moment, freeze and close down the Consultation Office and expel all South Korean staff by 12:00 noon today.”

The ROK government expressed regrets over the North’s unilateral action and made it clear that the North would be held accountable for closing down the ECO and expelling the personnel. On May 26, the eight ECO staff in Gaeseong returned to the South.

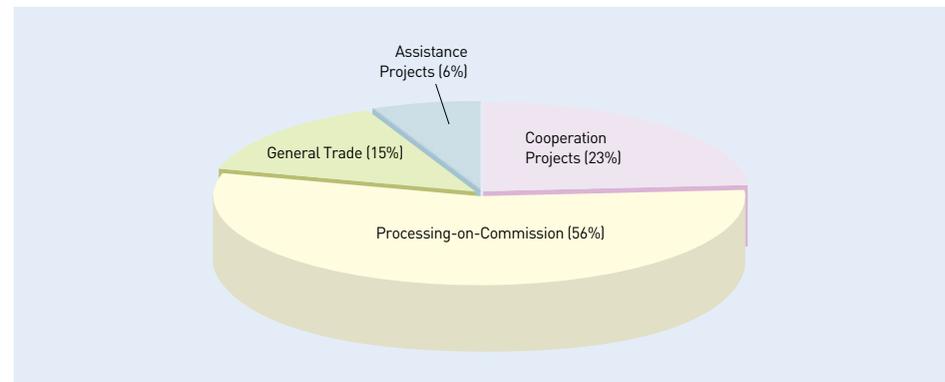
2. Support for Economic Cooperation Projects in the Private Sector

While in 2008 consultations on commission processing of spring and summer cloths had to be held in Dandong, China because of the ECO’s shutdown, in 2009 and 2010 they were held in ECO as its operations resumed in September 2009 (two rounds of consultations on were held from

November 10 to December 15, 2009 and from January 25 to February 13, 2010). A total of 171 business people from 65 companies in the South and 231 business people from the North attended the consultations where they discussed processing for about 13 million pieces of spring and summer garments (worth US\$24.3 million) for the year 2010.

Between September 7, 2009 and May 26, 2010, private firms had 192 inter-Korean business consultations. From the opening of the ECO on October 28, 2005 to its close-down in 2010, a total of 1,476 rounds of consultations were conducted: 821 on processing-on-commission, 333 on cooperation projects, 226 on general trade, and 96 on assistance projects. The number of people who visited the ECO for the consultations was 9,170 (4,703 from the South, and 4,467 from the North).

Project Types from 2005 to 2010



Companies that had difficulties communicating with their North Korean counterparts or visiting the plants in the North exchanged business documents through the ECO. Those documents included information about business proposals, work instructions, monitoring of progress, and confirmation of shipments, for example. Since the opening of the ECO, documents were exchanged on 27,862 occasions (13,743 cases from the South to the North and 14,119 cases from the North to the South).

Status of Inter-Korean Business Consultations and Participants

Year	Number of Consultations by Project Type (Cases)				Number of Participants (People)			
	Processing-on-Commission	Cooperation Project	General Trade	Assistance Project	Total	South Korea	North Korea	Total
2005	13	16	9	5	43	160	111	271
2006	222	131	69	24	446	1,396	1,149	2,545
2007	316	94	64	36	510	1,540	1,386	2,926
2008	156	64	46	19	285	1,012	1,040	2,052
2009	75	13	23	7	118	339	461	800
2010 (As of May 26)	39	15	15	5	74	256	320	576
Total	821	333	226	96	1,476	4,703	4,467	9,170



Business consultation between North and the South, December 15, 2009



Contact between liaison officers for exchange of documents, September 23, 2009

To sustain private inter-Korean economic cooperation, private firms need to deliver and exchange materials such as product samples. Therefore, the ROK government established a system allowing companies make deliveries door-to-door via the ECO in order to increase efficiency and reduce time and costs. Since May 4, 2006, when the North and the South agreed to provide support for the delivery of product samples, a total of 1,635 shipments have been delivered through the Transit Office.

Process of Sample Delivery



Support for Inter-Korean Economic Cooperation in the Private Sector

Year	Business Consultation	Document Exchange	Sample Delivery
2005	43	27	1
2006	446	3,221	222
2007	510	7,325	484
2008	285	11,630	686
2009	118	2,147	97
2010 (As of May 26)	74	3,512	145
Total	1,476	27,862	1,635

3. Inter-Korean Economic Cooperation and Greater Business Communication

The ROK government met with companies engaged in inter-Korean economic cooperation projects to brief them on developments in inter-Korean relations and listen to their feedback. The government hosted 27 meetings for representatives from 55 enterprises to help strengthen business communications. It also provided briefings for firms to help them better understand inter-Korean economic cooperation projects and business procedures.

4. Support for Holding Inter-Korean Dialogue

After ECO operations were normalized on September 7, 2009, a series of inter-Korean talks were held there. Working-level talks on the prevention of floods in the Imjin River basin (October 14, 2009) were followed by an inter-Korean working-level Red Cross contact (October 16, 2009), working-level consultations on joint visits to foreign economic cooperation zones (November 23, 2009), meetings to evaluate the overseas visits (January 19-21, 2010), and the fourth working-level talks on the GIC (February 1, 2010). In addition, an inter-Korean working-level talk on the Mt. Geumgang and Gaeseong tours and a working-level meeting on the “3C” issues of the GIC were held in the ECO on February 8, 2010 and March 2, 2010, respectively. By the time it was shut down on May 26, 2010, the ECO had supported a total of 43 inter-Korean talks.



Working level inter-Korean talks on Mt. Geumgang and Gaeseong tour, February 8, 2010