

# 북한이탈주민을 위한 사랑 나눔 콘서트

## 06

### Capacity Building and Laying the Groundwork for Unification

- I. Capacity Building: Legal and Institutional Preparations for Peaceful Unification
- II. Establishing Internal and External Cooperation Networks to Prepare for National Unification
- III. Policy Implementation and Public Consensus
- IV. Management and Operation of the Inter-Korean Cooperation Fund

## Chapter 6. Capacity Building and Laying the Groundwork for Unification

### I . Capacity Building: Legal and Institutional Preparations for Peaceful Unification

#### 1. Strengthening the Ministry’s Capacity and Organizational Restructuring

##### A. Expanding the Capacity of the Ministry

In 2009, the Ministry of Unification’s general budget was 121.5 billion won (excluding contributions to the Inter-Korean Cooperation Fund), which was less than a meager 0.1% the total government budget. Statutory expenses, including settlement money for abduction victims and North Korean refugees, and facility and office maintenance expenses accounted for 80% of the general budget, while project expenses represented only 12%.

Against this backdrop, the Ministry of Unification, while focusing on actively responding to recent developments in inter-Korean relations and the changing environment for unification, increased its general budget for 2010 27% to 154.2 billion won. This increase was implemented in an effort to strengthen public support and to prepare effectively for unification from a mid- to long-term perspective. In particular, a total of 117.4 billion won was allocated to project expenses, a 40% jump from the previous year. To respond preemptively to recent changes and provide the necessary financial

support, the ministry increased financial support mainly for the following four areas: developing visions for the future of unified Korea, providing settlement support for North Korean refugees, strengthening the capacity of unification education, and improving analyses on North Korea.

B. Organizational Restructuring

In 2009, a government-wide organizational restructuring was pursued to enhance the ability to respond to pending policy issues such as economic recovery, green growth, and the stabilization of the livelihood of average citizens as well as efforts to increase government efficiency. Accordingly, the Ministry of Unification experienced a reduction in staff when 80 personnel were dismissed in the organizational restructuring the previous year. In May 2009, it reshuffled its structure to create a “large-bureau, large-division system” to work more effectively on policy tasks and pending projects. This enabled the Ministry to strengthen its functions and pursue mid- to long-term unification policies, build public consensus, and analyze the situation in North Korea. Organizational efficiency was improved by integrating units that had similar or redundant responsibilities (from 14 divisions and teams to 7 divisions and teams). By focusing on core functions despite the reduction in staff, the Ministry laid a foundation for the Lee administration’s policy of mutual benefits and common prosperity, in a more systematic and effective manner.

The Office of Gaeseong Industrial Complex Project (OGICP), which was launched in October 2004 as a temporary entity to support a stable management and development of the GIC, was scheduled to expire as of September 2009. Accordingly, the ROK government, after consultations with relevant agencies, launched the Inter-Korean Cooperation District Support Directorate as the new entity responsible for supporting the Gaeseong Industrial Complex and other joint cooperation districts. The OGICP was supposed to disband upon the completion of the first-phase development of the complex. But, progress on such essential issues as cross-

border passage, communications, and customs clearance was lagging, and the development was falling behind schedule, so it seemed impossible for the OGICP to meet its goals before its term was to expire. Furthermore, the detention of a Hyundai Asan worker by the North Korean authorities fanned the anxiety of the tenant enterprises and the average ROK citizen.

These situations required the government to play an even greater role than before. Therefore, the ROK government changed the OGICP to the Inter-Korean Cooperation District Support Directorate (CDSD) and handed over the existing functions and personnel of the former to the latter and entrusted the CDSD with an additional function of developing and supporting all future inter-Korean economic districts. An amendment to the Gaeseong Industrial Complex Support Act, introduced in April 2009, was passed by the National Assembly on March 26, 2010. The amendment prescribed the establishment of an organization designated by the Ministry of Unification to support the development of the complex and stable operations of tenant companies in the complex. As a result, the organization that temporarily supported the complex became permanent and the government was able to strengthen the organizational basis for the stable development of the complex as well as effectively manage and support any joint economic district established by the two Koreas.

2. Amendment to the Inter-Korean Exchange and Cooperation Act and Related Regulations

Since the promulgation of the Inter-Korean Exchange and Cooperation Act in August 1990, the ROK government has consistently complemented the Act and relevant regulations, including the enforcement decrees and enforcement rules, to lay a legal and institutional foundation for the expansion of inter-Korean exchanges and cooperation.



In 2009, the Act and regulations were revised in order to ensure greater convenience to the public by streamlining relevant institutions and procedures in consideration of developments in inter-Korean exchanges and cooperation. The new legal framework was designed to bring order and fix existing problems in inter-Korean exchanges.

The main points of the revisions are as follows. First, considering the developments in inter-Korean exchanges and cooperation, the ROK government expanded items of trade to intangible articles in electronic form such as software, videos, and e-books and abolished the “trading party designation system,” which is based on a law that nominally allowed only those who were designated by the government to trade with the North.

In an effort to simplify the exchange and cooperation procedures, the new rules allowed those making frequent visits to the North to be exempt from reporting on their visits during an approved period and under certain circumstances. The reporting exemption was also granted to contacts with North Koreans within certain guidelines. It also improved the duplicate approval system for cooperative projects by abolishing the approval system for cooperative project entities while keeping the one for cooperative projects intact. Furthermore, the ROK government made it possible to pursue cooperative projects with investments of less than US\$500,000 within a special district by simply reporting the investment as a “small-sum investment.”

To promote orderly inter-Korean exchanges and cooperation, the ROK government introduced administrative inspection over ROK entities pursuing cooperative projects and for organizations receiving support from the Inter-Korean Cooperation Fund. The government also adjusted the category of persons subject to penalties and fines.

Main Points of the Amendment to Inter-Korean Exchange and Cooperation Act

Category	Purpose	Main Points
Act	To reflect developments in inter-Korean exchanges and cooperation	<ul style="list-style-type: none"><li>• The scope of tradable items was expanded through the inclusion of services and intangible articles in electronic form such as software, videos, and e-books.</li><li>• A “trading party designation system” was introduced.</li><li>• Legal grounds to commission duties to persons, corporations, or entities receiving subsidies were established.</li></ul>
	To simplify administrative procedures	<ul style="list-style-type: none"><li>• A certain group of people traveling directly between the North and the South was exempted from the duty to report their trips.</li><li>• A certain group of people who make contact with North Koreans is exempted from the duty to report on their contact.</li><li>• The “approval system for entities engaged in cooperative projects” was abolished and the “cooperative project approval system” was reinforced.</li><li>• A “cooperative project report system” was introduced.</li></ul>
	To promote the sound development of inter-Korean exchanges and cooperation	<ul style="list-style-type: none"><li>• The Minister of Unification was given an administrative authority to inspect cooperative project entities.</li><li>• The categories of cases subject to penalties and fines were adjusted.</li></ul>
Enforcement Decree	To specify the legal mandate	<ul style="list-style-type: none"><li>• The types of contact with North Koreans that are exempted from mandatory report were specified.<ul style="list-style-type: none"><li>- e.g., contacts made at an international conference approved by the ROK government and business contacts with those working at corporations located in foreign countries</li></ul></li><li>• Entities subject to the “cooperative project report system” are specified.<ul style="list-style-type: none"><li>- e.g., projects involving a total investment of less than US\$500,000 in a special district, including the Gaeseong Industrial Complex</li></ul></li><li>• Entities and their duties are specified.<ul style="list-style-type: none"><li>- e.g., recipients of subsidies, local governments, etc.</li></ul></li><li>• The procedures for administrative inspection of entities engaged in cooperative project are specified.</li></ul>
Enforcement Rule	To improve document and forms related to the revised laws	<ul style="list-style-type: none"><li>• Official forms for arbitration order, inspection plans, and others are prescribed.</li></ul>
Notices and Other Regulations	To adjust the list of items subject to approval for in- and out-bound delivery after the May 24 measures	<ul style="list-style-type: none"><li>• All in- and out-bound items between the North and the South are made subject to an approval of the Unification Minister.</li><li>• Items related to the GIC were allowed with a comprehensive approval in a separate notice.</li></ul>

As follow-up measures, the Ministry of Unification held briefings for its staffs in charge of inter-Korean exchanges and cooperation as well as other related agencies, entities, and businesses. The ministry also published a book of codes and laws along with a book of explanatory notes on the amendment to help the public understand the revised regulations better so that they can be smoothly implemented.

In 2010 inter-Korean trade was suspended after the ROK government announced measures against North Korea on May 24 in response to its attack on the *Cheonan*. To execute and manage the measures more effectively, the ROK government partially revised the Notice on Items Approved to be Carried into North Korea and the Approval Procedures. Accordingly, all items for in- and out-bound shipment between the North and the South, all forms of transactions, and payment methods were required to be approved by the Minister of Unification. Yet, the items related to production and management activities in the GIC were allowed with a comprehensive approval in a separate notice.

Subsequently, the government notified customs, quarantine, and inter-Korean travel authorities as well as businesses of the revisions, and asked for their understanding and cooperation regarding the May 24 measures.

3. Formulation of Basic Plans to Enhance Inter-Korean Relations

The Inter-Korean Relations Development Act, promulgated in December 2005, prescribes that the government shall formulate basic plans for the enhancement of inter-Korean relations in every five years. The plans should include the basic direction of inter-Korean relations and matters related to the promotion of peace on the Korean peninsula. The government is also required to devise annual implementation plans in accordance with the basic plans.

The Act also prescribes the establishment of an Inter-Korean Relations Development Committee (IKRDC) to deliberate on important issues in the

enhancement of inter-Korean relations. The committee, chaired by the Minister of Unification, is composed of 9 civilian members and 13 public officials of vice-ministerial level.

The ROK government established the first set of basic plans for enhancement of inter-Korean relations on November 28, 2007. Prior to the formulation of the 2009 implementation plans, the government consulted with various relevant agencies from December 2008 to January 2009, had the IKRDC review them from March 1 to 12, and called for a meeting of the civilian members of the committee on March 10 to collect their opinions.

North Korea unilaterally suspended inter-Korean dialogue and continued provocations, however. Its second nuclear test brought fundamental changes in the security situation on the Korean peninsula, thereby making it difficult for the ROK government to implement the basic plans. Subsequently, the National Assembly as well as some inter-Korean relations experts called for adjustments in the plans.

The ROK government held a number of IKRDC meetings to survey the committee members' opinion about changing the basic plans: several rounds of civilian members meetings were held from April 14 to May 7, a review by the civilian members was made on September 24, and a working subcommittee meeting was held on October 15. A series of review process produced a consensus that adjusting the basic plans was inevitable due to significant changes taken place in inter-Korean relations as well as in the situations surrounding the Korean peninsula. Accordingly, at the National Assembly audit on October 23, the government reported that it would make some changes in the basic plans.

To decide how the plans should be changed, the government collected opinions from various ministries and agencies. Finally, it introduced a draft proposal to a working subcommittee meeting on January 29, 2010 and a plenary committee agreed on the final draft on February 25. The government proposal went through a rigorous review and numerous revisions by the IKRDC members, both government and private, before reaching its final stage. However, due to sudden developments in inter-

Korean relations, including North Korea’s confiscation of the South’s properties at Mt. Geumgang and attack on the *Cheonan*, its confirmation was delayed, and the final draft has never been approved by the National Assembly.

4. Improving the Management System for Inter-Korean Trade

Inter-Korean trade has experienced a radical growth in terms of both quality and quantity over the two decades since 1989. The trade volume expanded almost one hundredfold and the number of items subject to government approval for in- and out-bound trade increased to almost 10,000. Subsequently, a need for a system to effectively manage inter-Korean trade grew larger over time.

In particular, the National Assembly pointed out a lack of control over inter-Korean trade during its annual audit on the administration in 2008. On December 13, the National Assembly thus charged the Board of Audit and Inspection (BAI) to conduct a special review on in- and out-bound trade with North Korea. After completing an audit in February 2009, the BAI made several recommendations.

The BAI recommended that the government first improve the efficiency of the import/export approval process by adjusting the number of items subject to individual approval. It also advised the introduction of a management system to assure import/export authorization of such items and created an institutional device to assure proper return of “conditional items”—those that are allowed to be carried into the North on a condition that they would be brought back to the South later—by making it mandatory to report to the customs office upon their return.

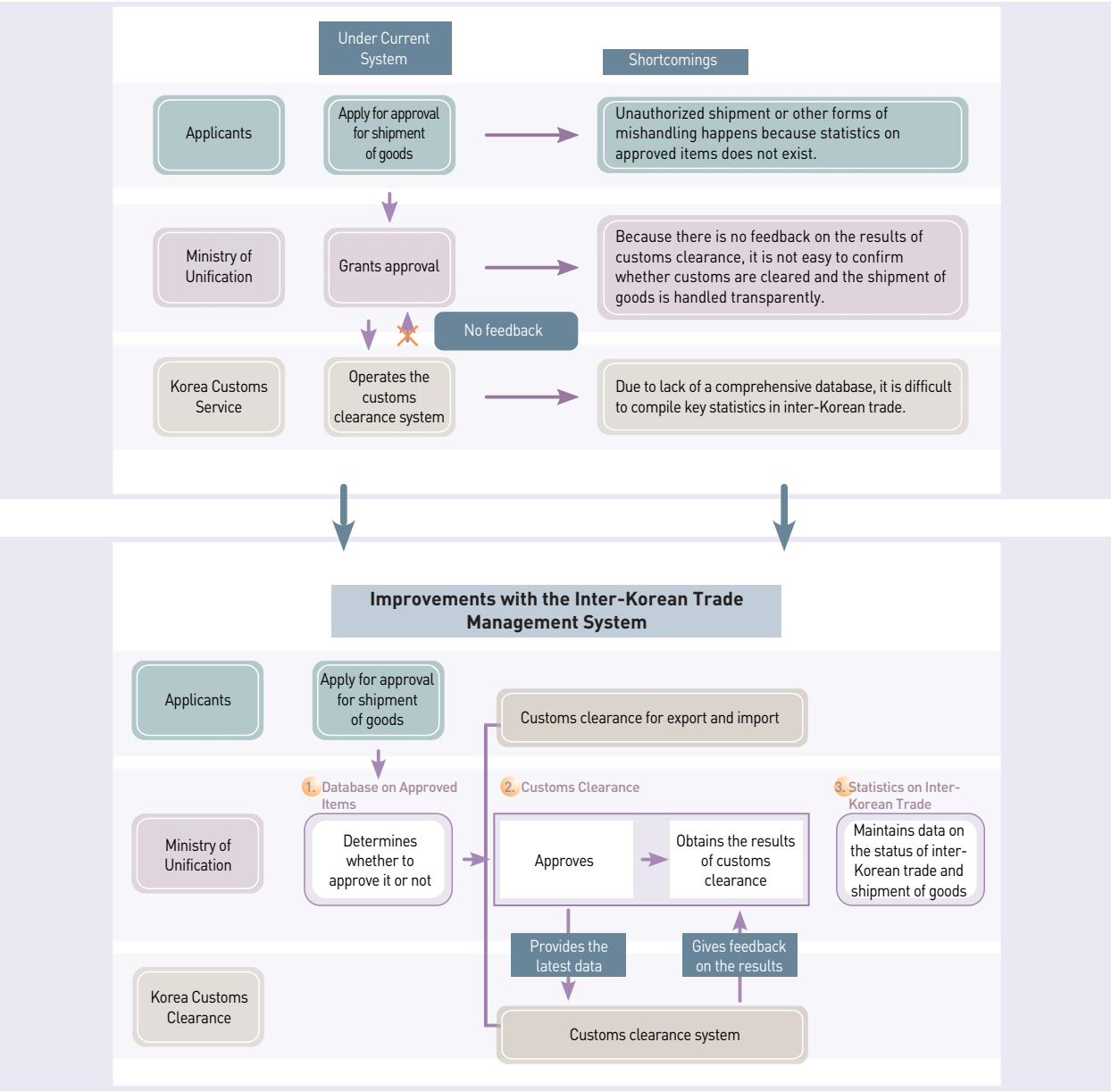
To effectively deal with changes in the trade environment and to carry out recommendations of the National Assembly and the BAI, the government embarked on a project to establish an Inter-Korean Trade Management System (IKTMS). During the 216<sup>th</sup> meeting of the Council on

Inter-Korean Exchanges and Cooperation on May 11, 2009, the Council decided to finance the project through the Inter-Korean Cooperation Fund and contracted a company through the Public Procurement Service to manage it.

The establishment of the IKTMS, which was completed in February 2010, focused on three areas: re-categorization of the items requiring individual approval, creation of an information sharing link between approval applications and customs clearance data, and establishment of a trade statistics system. The job of managing inter-Korean trade—which consists of twelve areas, including consulting on trade, preliminary screening of applications for approval, and operation of an inter-Korea trade and business database—was commissioned to the South-North Korea Exchange and Cooperation Support Association, a private corporation, for a period of one year, from September 1, 2009 to August 31, 2010.

The introduction of the IKTMS inter-linking similar systems in the Ministry of Unification and the Korea Customs Service enabled monitoring on every in- and out-bound shipment at all times. The system made it easier for trading companies to check whether an item is a strategic material and subject to export control simply by looking at its harmonized system (HS) codes and searching it on the inter-Korean trade and business database.

The Inter-Korean Trade Management System

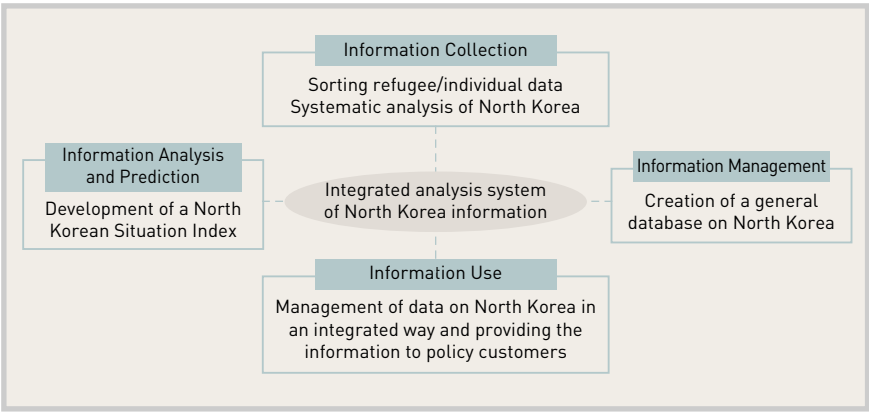


- 1. Establishment of a database on in- and out-bound shipment of items for individual approval by the Minister of Unification.
- 2. Establishment of a constant monitoring system by creating an information link with in- and out-bound shipment database at the Ministry of Unification and customs clearance information system at the Korea Customs Service.
- 3. Established an inter-Korean trade statistics analysis system to support policy development.

5. Improving the North Korea Information Analysis System

As a result of the organizational restructuring in May 2009, the Ministry of Unification was able to further strengthen its ability to analyze North Korea. To cope with the increasing volatility in North Korea and on the Korean peninsula, the ministry has pursued the establishment of an integrated analysis system to collect, manage, analyze, and use information on North Korea in a more systematic and advanced way.

Concept of the North Korea Information Analysis System



In 2010, the ministry allocated a budget for such new projects as the creation of an integrated database on North Korea, the development of North Korean situation index, and the collection and analysis of information on North Korea from interview with refugees and other personal contacts with North Koreans. The ministry worked hard to improve the management of information to make more effective use of such information in the policy realm.

### A. Establishing a General Database on North Korea

The Ministry of Unification plans to build an integrated database on North Korea by linking three smaller databases on North Korea's industry and geography, natural resources, and leadership.

The ministry embarked on the project by commissioning the creation of an Information Strategic Planning (ISP) in April 2010. The ISP was completed in the following October. The project involved analyzing advanced practices, formulating strategies for information management, and establishing specific action plans.

Following the completion of the project, the ministry built a step-by-step development plan for integrated database and embarked on the development and establishment of it in the same year.

Once the integrated database is in place, a wide range of information and data on North Korea would be managed in an integrated manner, thereby making it possible to conduct a more objective and scientific analysis of North Korea's internal situations. In addition, the ministry would be able to provide its policy customers with information on North Korea that meets their needs. The integrated database would allow the government to expand its understanding of North Korea and build its North Korea policies based on more accurate information. Furthermore, scholars and researchers in the private sector would be able to have access to more reliable information on North Korea.

### B. Developing the North Korean Situation Index

The ROK government has long tried to develop a North Korea situation index (NSI) to build an empirical model for a more objective and scientific analysis of North Korean situations and to enhance its ability to anticipate the developments in advance.

The NSI is designed to make comprehensive assessments using both quantitative and qualitative data. It reflects assessments in four areas:

political and diplomatic, economic, military, and social and cultural. The idea is to integrate these issue areas and gain a greater confidence in predicting future changes in North Korea.

The project was commissioned to research institutes in each field of North Korean studies as well as North Korea experts and specialists on data management and analysis. The contract was signed in late March 2010 with the deadline for completion in November 2010.

The ROK government worked with Korean as well as foreign experts to develop an appropriate and realistic index. The government created an advisory board composed of experts on North Korea and index specialists and invited renowned foreign specialists to seminars to support the works of the contractors.

Once developed in full, the NSI would enable us to make an objective and scientific assessment of North Korean situations and to make better predictions for the future developments. It would thereby help the government to improve the formulation and implementation of its policy toward the North.

### C. Collecting and Managing Information on North Korea from Interview with Refugees and Personal Contacts

Over the last several years, the depth and diversity of data on North Korea collected from interviews with refugees and personal contacts with other North Koreans have increased rapidly due to an expansion in the number of refugees and private exchanges between the two Koreas. Yet, it has been difficult to analyze such a diverse set of data, integrate the results and deliver them to the appropriate policymakers in a proper time span. Furthermore, the reliability of such information was often low because they were often collected by people without proper expertise in the issue areas or through inappropriate methods. This led the ROK government to launch a project to develop a more systematic way of collecting and analyzing data and information on North Korea.



6. Building a Legislative Foundation for Unification

As inter-Korean relations advance toward national unification, a need to build a legislative foundation for the conclusion of inter-Korean agreements will arise. The needs will include the enactment or revision of laws concerning exchanges and cooperation between the two Koreas and the modification of domestic laws and institutions that could become obstacles to national unification.

In this regard, the Ministry of Unification launched a project in 2009 to lay the legislative foundation for national unification, believing that it is important to think ahead and consider ways to build the legislative base to respond effectively to potential mid-term and long-term needs.

During 2009, the government focused on integrating various unification legislations that had been pursued separately and sporadically by different agencies and institutes, compiling all existing research results together and boosting new researches at universities and think tanks.

The Unification Ministry first formed the Unification Legislation Promotion Committee (ULPC). The ULPC is composed of all relevant government agencies, including the Ministry of Justice, the Ministry of Government Legislation, the Ministry of Unification, and experts from the private sector. With the creation of the ULPC, the Unification Ministry expected to share the results of research on unification legislation and related ideas among all concerned agencies and institutes so that redundant studies could be avoided while synergetic effects are created.

The ministry also supported policy research identifying the trends in the existing studies on unification legislation and their policy implications to find out the types of legislation needed to be made with mid-term and long-term perspectives to achieve national unification. In choosing the research topics, the ministry consulted with the ULPC and reflected upon the opinions of various government agencies and private experts to ensure these topics are appropriate and practical. In addition, the ministry also provided support for research activities in the private sector in an effort to

create a favorable environment for promoting studies on unification legislation.

The ministry built a database of studies on unification legislation—including those on the former communist countries—conducted within the Republic of Korea up to date. The database would help the ministry to understand the current status of the studies and find out the areas where the need for future studies lies.

In 2010, the ministry focused on making the studies more concrete and systematic based on the achievements made in the previous year. Turning to the second year of the project, it chose the topics for commissioned research that looked into more specific issues rather than the overall pictures. During the second half of 2010, it held an academic event on the occasion of the 20<sup>th</sup> anniversary of German unification and reinforced the unification legislation database by adding a great deal of new publications and other resources.

7. Settlement Support for North Korean Refugees

A. Overview

The number of North Korean refugees entering the South has steadily risen every year since 1998. After surpassing the 10,000 mark in February 2007, it reached 17,984 in December 2009, and about 19,000 in June 2010. By gender, the number of female entrants, which overtook that of males in 2002, represented about 77% of the total entrants in 2009. By age, those in their 20s and 30s accounted for 60% of the total refugee population.

The ROK government has formulated and implemented a wide range of support to help North Korean refugees successfully resettle in South Korea. The support is provided from a humanitarian and human rights perspective, and is considered important for the enhancement of Korean society, national welfare, and the future of a unified Korea.

Status of North Korean Refugees Entering the South

(Unit: persons)

Gender	-1989	-1993	-1998	-2001	2002	2003	2004	2005	2006	2007	2008	2009	June 2010	Total
Male	562	32	235	563	506	469	626	423	509	570	612	668	329	6,104
Female	45	2	71	480	632	812	1,268	960	1,509	1,974	2,197	2,259	908	13,117
Total	607	34	306	1,043	1,138	1,281	1,894	1,383	2,018	2,544	2,809	2,927	1,237	19,221

In 2009, the government amended the settlement support system from top to bottom. For instance, it revised the Act on the Protection and Settlement Support of Residents Escaped from North Korea (hereinafter “Settlement Support Act”) and the enforcement decree, as well as relevant regulations and guidelines to help the refugees strengthen their will for self-sustainability. The ROK government encouraged them to work in the farming sector by creating the legal framework to provide rewards for those finding jobs in that sector. It also provided incentives for them to live in rural areas by raising the cap of financial rewards for those who chose do so.

The revised Settlement Support Act was promulgated in March 2010, and in June 2010, related laws and regulations were being amended to establish a preliminary school and the North Korean Refugees Foundation. Together with such institutional revisions, the ROK government has made many efforts for the stable resettlement of North Korean refugees in the South Korean society. The government operated regional adaptation facilities known as Hana Centers nationwide, hosted job fairs for refugees and companies, and subsidized non-profit enterprises that hire North Korean refugees. The government also concluded agreements with the private donors on providing medical support and sponsoring “Concert to Share Our Love” for refugees.

In 2010, the ROK government paid particular attention to enhance North Korean refugees’ ability to sustain a stable livelihood. The government expanded the scope of support offered at the regional level and made more efforts to help refugees find jobs or establish their own businesses.

B. Increasing the Quality of Education for Social Adaptation

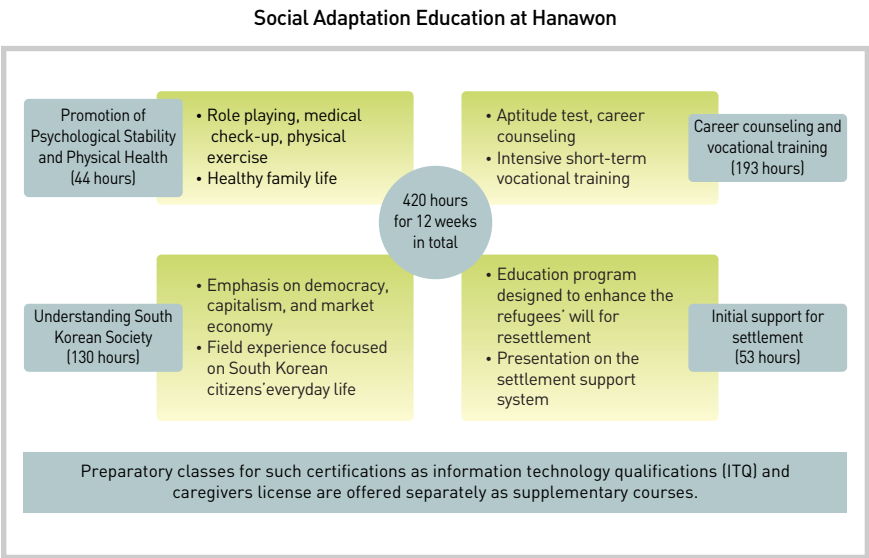
After arriving in the South, North Korean refugees go to Hanawon before they are introduced to South Korean society. At Hanawon, they receive a wide range of basic support from the government, including education for social adaptation, assistance with legal documentation such as creating their own family register, housing for when they depart Hanawon, and financial assistance. The whole assistance program is designed to help them become full members of South Korean society.

In March 2009, the government extended the length of social adaptation education at Hanawon from 8 weeks to 12 weeks to help improve the refugees’ psychological stability and physical conditions before they leave the settlement support center. Field education, which is provided after the 12-week course, was also expanded to help them better adapt to the new society.



Hanawon settlement support center

The ROK government also helps refugees become computer literate and obtain computer skill certifications. Furthermore, the government has improved gender-specific education in consideration of the increasing number of female refugees. To meet the diverse needs of the trainees, the government provides a wide range of elective and supplementary courses that are useful for daily living, including driver’s license class or preparatory courses for various other certificates which would help them find jobs in the future.



Computer class at Hanawon

In its work plans for 2010, the Ministry listed the reduction of high unemployment among North Korean refugees as one of its key tasks for the year. Subsequently, the ministry modified the vocational training program offered at Hanawon while leaving the current training period of 12 weeks as it is.

The old vocational training program had focused on exploring the kinds of jobs available in the South, but the new program provided intensive short-term training to meet the demands of small- and medium-sized enterprises, thereby preparing the refugees for immediate job placement upon completion of their training at Hanawon. The basic vocational training, launched in May 2006, helped the refugees to decide on what kind of job they would seek, but it did not provide them with adequate skills to become employed in their chosen career fields. Subsequently, the government introduced a new short-term training program designed to incorporate the characteristics and wishes of the refugees and the needs of the labor market. Individuals on the program received 76 hours of intensive training on the occupation they choose. In addition, they participated regularly in job fairs in which they could meet representatives of small- and medium-sized firms and visit companies looking to hire new employees.



Hanawon provided career advice and psychological counseling, and it operated Hana Clinic with the assistance of experts from relevant fields. In 2009, career counseling was strengthened by expanding the staff, and female health management was enhanced by establishing the obstetrics/gynecology department within Hana Clinic. In 2010, the clinic was remodeled and a nursing assistant was hired. At present, there are 13 medical staffs, seven public health doctors, and six nurses in five departments: internal medicine, dentistry, oriental medicine, OB/GYN, and psychiatrics.

For social adaptation education, external instructors are invited in areas where specialized education is needed. Volunteers from religious communities or civic organizations also assist Hanawon education programs in areas such as medicine, art performances, legal counseling, English education, and barbering and cosmetology. These programs are good for the trainees' physical and mental health, and they introduce them to regular South Korean citizens. Especially in the dentistry area, volunteer dentists, including the Open Dentists Association, are very active in providing health care services for the trainees.



Class at One and Two School



Ceremony on the 10<sup>th</sup> anniversary of Hanawon

To raise the effectiveness of education, Hanawon classifies the trainees into groups by gender and age—for instance, male adults, female adults, seniors, teenagers, children, and infants—and delivers specialized programs for each group. The settlement center operates a branch exclusive for male adults and sends teenagers to One and Two School that was opened within the center on September 30, 2009. Children attend an elementary school nearby. Since the inception of the center, a total of 17,000 refugees had completed their education at Hanawon as of June 2010.



234

10<sup>th</sup> Anniversary Ceremony of Hanawon

Hanawon celebrated its 10<sup>th</sup> anniversary on July 8, 2009. The opening of Hanawon was recognized internally every year in a quiet way, but the 10<sup>th</sup> anniversary was celebrated as a large-scale open event to reflect on the symbolic importance of Hanawon and to redefine its future directions.

The facilities were open to the media for the first time during the 10<sup>th</sup> anniversary event and the public was shown Hanawon's past role and the direction it will take in the future. The event drew a lot of media attention, and there were about 470 guests, including National Assembly Speaker Kim Hyung-o; National Assemblyman Park Jin, chairman of the Foreign Affairs, Trade and Unification Committee; Gyeonggi Governor Kim Moon-Soo; former ministers and vice ministers of unification, unification advisors, heads of social organizations, and reporters.

The 10<sup>th</sup> anniversary event began with a celebratory ritual and followed by a presentation on its history, celebratory events, tour of the facilities, and lunch. The celebration was held with the theme, "I became a citizen of the Republic of Korea." A video was shown of the first baby born to Hanawon graduates. The baby's parents met and got married after arriving in the South. Kim Cheol-woong, a pianist who fled North Korea, then gave a performance that was followed by a vocal solo and ensemble. Letters written by Hanawon trainees were recited to the whole audience, along with graduates who expressed their hopes for the future.

Later, foreign media correspondents toured the site and a medical seminar was held in recognition of the 5<sup>th</sup> anniversary of the Hana Clinic.

C. Establishing a Second Hanawon

The ministry decided to establish a second Hanawon center to prepare for a possible increase in volatility in North Korean situations that could trigger a large number of refugees to enter the South. In the meantime, the new center would be a regional hub for settlement support. The decision reflected the need to reinforce support facilities, which had been raised by lawmakers from both ruling and oppositional parties, as well as private organizations.

A site in Hwacheon-gun, Gangwon Province was selected for the second Hanawon center after a review of 24 candidate sites recommended by the provincial governments of Gyeonggi, Gangwon, North Chungcheong, and South Chungcheong provinces. The site was chosen after considering its potential for construction, access to other educational and training institutions, and the general atmosphere in the local community.

The site was purchased and design was completed in 2010. Ground-breaking is scheduled to occur in early 2011, and construction is expected to be completed in late 2012. The construction advisory committee includes experts such as college professors. The regional landmark will be energy efficient and eco-friendly with a design to help trainees maintain their mental health. The second Hanawon will have a capacity of 500 trainees.

D. Enhancing Settlement Support

Upon completing Hanawon education, North Korean refugees get a variety of assistance that encourages them to stand on their own feet. This includes financial assistance, regional adaptation education, employment support, education support, and medical support.

a. Financial Assistance

Refugees receive financial assistance so they can buy basic necessities early in their resettlement process. The assistance program, which is aimed at encouraging them to achieve self-sustainability and economic independence, has been improved by reducing the base amount but increasing the potential amount of rewards. As of June 2010, aside from the base support, rewards and benefits are provided for refugees as part of their financial assistance. The payment is given according to each refugee's personal situation and commitment to achieve self-sustainability.

The ROK government gives all refugees the base payment of 6 million won for a one-person household, or 19 million won in total if support for

housing is included. It also gives rewards for trainees getting job training, finding employment, or acquiring certifications. In 2009, the reward system was rationalized, and, as a result, the minimum requirement to receive a job training reward was relaxed from six months to 500 hours, and for an employment reward, the grace period for finding a job and receiving the reward was reduced from one year to six months. In an effort to encourage refugees to find employment instead of relying on government subsidies, the ROK government increased the reward for maintaining employment by one million won per year. Under the program, a refugee now can receive a maximum of 24.4 million won over a three-year period after leaving Hanawon.

Criteria for Reward Payments

Type	Criteria		Amount
Job Training	Up to 500 hours		1.2 million won
	500-1,220 hours		1.2-2.4 million won ( 200,000 won increase per 120 hours)
Additional Training	One-year job training course for selected career field		2 million won
Certification	One time only		2 million won
Employment	Those who have kept a job for:	More than six months but less than one year	2.5 million won
		More than one year	5.5 million won
		More than two years	6 million won
		More than three years	6.5 million won
Total (maximum)			24.4 million won

※ North Korean refugees entering the South after January 1, 2005 are eligible for the employment reward.

Since the system was introduced in 2005, the number of recipients and the payment amounts have increased every year. In 2009, 1,956 people received the reward, which represented a 71% rise from 2008.

Status of Reward Payments

(Unit: million won, persons)

Year	Specification	Job Training	Certification	Selected Jobs	Employment	Total
January-June 2010	Amount	640	696	296	2,743	4,375
	Number of Recipients	409	348	148	548	1,453
2009	Amount	884	1,040	218	2,968	5,110
	Number of Recipients	681	520	109	646	1,956
2008	Amount	629	690	188	891	2,398
	Recipients	500	346	94	201	1,141
2007	Amount	360	434	98	121	1,013
	Recipients	289	217	49	28	583

To protect the vulnerable people, benefits are given to the elderly, the physically challenged, those on long-term medication, and children of single-parent families. Those who fall under several categories at the same time can get only one type of benefit.

Criteria for Benefit Payment

(Unit: won)

Group	Criteria	Amount
Senior citizens	Age 60 or older	7.2 million
Physically challenged	Depends on the degree of disability	15.4 million (1 <sup>st</sup> degree) 10.8 million (2 <sup>nd</sup> to 3 <sup>rd</sup> degree) 3.6 million (4 <sup>th</sup> to 5 <sup>th</sup> degree)
Those on long-term medication	Patients hospitalized for more than three months due to serious illnesses	800,000 per month
Single parent	Single parents with children of age 13 or under	3.6 million

### b. Housing Assistance

When North Korean refugees complete their education at Hanawon and move into new homes, they are introduced to public rental units built by the Korea Land & Housing Corporation or by local governments and provided housing subsidies. When choosing a residential area, the government works with the refugees and considers their preferences as much as possible. If housing is unavailable in their preferred area, then they are introduced to the area of their second choice.

### c. Employment Assistance

To help North Korean refugees achieve self-sustainability and economic independence, the ROK government makes efforts to provide them job training, help with job searches, and give incentives and rewards for employment. To this end, Hanawon has operated a customized “training and employment program” since 2008 in collaboration with the Ministry of Employment and Labor, vocational training institutes, and corporations. Hanawon, for instance, offers courses on baking and confectioneries, jewelry design, cooking, and tailoring to provide consistent support from training and recruitment to employment. From January to May 2010, a total of 124 out of 189 participants found jobs through this program. Hanawon also worked with the Merry Year Foundation to support the establishment of Mezzanine I-Pack, a social enterprise, which hired 55 North Korean refugees.

In addition, the Ministry of Unification created a support system for the establishment of social enterprises in the farming sector by concluding a memorandum of understanding with Gyeonggi Province and the Korean Northern Relations Council on November 30, 2009. This was meaningful in that it represented an exemplary model for cooperation among the central government, local governments and the private sector to improve North Korean refugees’ self-sustainability and economic independence. In the



Job fair for North Korean refugees in South Seoul,  
July 16, 2009

first half of 2010, the Ministry supported the establishment of 12 pilot social enterprises for North Korean refugees. Through close cooperation with local governments, it also helped 11 refugees find jobs in ten local government offices in Gyeonggi Province.

In the 55 employment centers established nation-wide under the Ministry of Employment and Labor, employment support officers (ESOs) serve North Korean refugees to help with career development, introduce them to training institutes and refer them to companies looking to hire them. From July to November 2009, the Ministry of Unification and the Ministry of Employment and Labor co-hosted job fairs for North Korean refugees in South Seoul, Gyeonggi Province and Incheon, North Seoul, Busan, South Gyeongsang Province, Gwangju and the Jeolla Provinces. The job fairs were held to create a better environment for refugees living in provincial regions to find jobs and to encourage local communities to pay more attention to their employment needs. Out of 258 refugees who visited the fairs, 51 successfully found jobs.

Since January 2010, the Small and Medium Business Administration and the Ministry of Unification have been co-hosting the Job Fair for North Korean Refugees and Small and Medium Enterprises (SMEs). There, local SMEs conducted interviews with the job seekers. This job fair has been hosted five times, during which 430 enterprises and 854 refugees participated and 509 were hired.

The ROK government also has an employment subsidy program that pays 50% of the monthly payroll for North Korean refugee employees. Under the program, firms that hire refugees can receive subsidies of up to 500,000 won per month/per person for the first year of employment and 700,000 won per month/per person for the second year. Employers of refugees who work for two consecutive years can also receive a subsidy of up to 700,000 won per month/per person for the third year. The number of recipients of the employment subsidy began to soar in 2005. In 2009, the amount of subsidies paid increased by about 83% over the previous year. The increase appears to be a result of the revised employment subsidy policy that was introduced in 2005.

Status of Employment Subsidy Payments

Specification	2001	2002	2003	2004	2005	2006	2007	2008	2009	June 2010
Number of Companies	226	274	240	218	323	378	564	888	1,151	1,110
Number of Recipients	251	296	310	269	446	497	728	1,111	1,489	1,513
Amount (million won)	999	1,130	1,094	944	1,426	1,402	2,240	3,494	6,406	4,269

d. Education Assistance

According to ROK laws, North Korean refugees can enter universities or engage in other activities acquiring educational qualifications after they receive recognition of their educational achievements in North Korea or

other countries. To receive the equivalent of a high school diploma, they are required to pass an examination provided by the education examination committee under the provincial education office. To receive recognition of a college degree or higher, they must obtain acknowledgement by the Minister of Education, Science and Technology.

If refugees enter a tertiary education institute during the administrative support period or in less than five years after having received recognition of graduation from high school or higher, they can receive a financial stipend for enrollment in a college or university if they are 35 or younger. And for enrollment in an industrial or trades college or other education and training institute, they can receive a stipend regardless of age. The tuition fee is fully subsidized by the state for enrollment in national or public universities, and 50% is paid towards the tuition of private universities. In 2009, the ROK government paid about 1.9 billion won in subsidies to 708 refugees enrolled in private universities, and 1.3 billion won to 798 students from January to June 2010.

As the overall number of refugees entering the South rises, the number of refugee teens is also on a sharp increase. Teenagers account for 12% the total entrants. Some of them find it difficult to return to school due to cultural differences and the disruption of their schooling while fleeing the North. In consideration of this problem, the ROK government since 2006 has supported Hangeore Middle and High School, a specialized half-way school where refugee teens receive the support needed to integrate into a new society before moving to ordinary schools. As of June 2010, there were 173 students enrolled in the school. In addition, the ROK government supports about ten other institutes, protection facilities for refugee teens, and alternative schools operated by civic organizations.

e. Social Security Assistance

Social security services for North Korean refugees consist of an allowance for those whose income is less than the minimum living cost as



prescribed in the National Basic Living Security Act, and medical assistance for those living with financial difficulties as prescribed in the Medical Care Assistance Act. Furthermore, special cases for national pension payments are applicable according to Article 26.2 of the Settlement Support Act.

Criteria for Living Assistance Payments to North Korean Refugees in 2010 (Maximum Amount)

Household Size	Amount of Cash Assistance	Household Size	Amount of Cash Assistance
1 person	420,000 won	4 persons	1,140,000 won
2 persons	720,000 won	5 persons	1,350,000 won
3 persons	930,000 won	6 persons	1,560,000 won

North Korean refugees receive their living assistance unconditionally for six months after completing their education at Hanawon. But, thereafter, they begin a conditional status whereby support depends on their participation in self-sustainability projects. If all members of a household are judged to be incapable of working, the family receives cash assistance that is calculated based on the number of family members plus one.



Signing of an memorandum of understanding between the Ministry of Unification and the Korea Association of Regional Public Hospitals, November 11, 2009

The Medical Care Assistance Act designates North Korean refugees and their families as being eligible for class I medical assistance according to their income level. The criteria applied for them are 120% of those applied to average citizens. According to the memorandum of understanding on medical support between the Ministry of Unification and the Korea Association of Regional Public Hospitals, North Korean refugees can get a reduction in fees for hospitalization or surgery in 34 regional hospitals across the nation.

According to Article 26.2 of the Settlement Support Act, special cases for national pensions are applicable to North Korean refugees. Those who are between the age of 50 and 60 when they qualify for protection are entitled to receive the national pension if they have subscribed for more than five years after 60. For the average citizen, however, one must have subscribed for more than 10 years to receive pension.

f. Administrative Assistance and NGO Support

After moving into their new homes in the South, North Korean refugees receive assistance from various organizations and people in the local communities such as settlement helpers, support officers, the Association of Supporters for North Korean Refugees, the regional adaptation center (Hana Center), the regional council of support for North Korean refugees, and local NGOs.

The settlement helper system was first introduced in January 2005. It is a private, volunteer program in which “helpers” serve as “good neighbors” for the refugees so they can get accustomed to their new lives and smoothly assimilate into the community. They give refugees an introduction to the local society, listen to their difficulties, and extend a helping hand for their initial year in the South. As of June 2010, about 2,000 helpers were active in the program.

In addition to ESOs, there are administrative support officers (ASOs) and security support officers (SSOs) to assist refugees. ASOs are designated by local governments and responsible for administrative services, which can include moving one's official place of residence and establishing a family registry, registering for social security services such as living assistance and medical assistance, and acquiring various certificates. In 2010, there were about 200 local governments with ASOs. Local police stations designate SSOs who are in charge of protecting the personal safety of North Korean refugees residing in their community. There were about 800 SSOs as of June 2010.

Regional councils provide networks among various support officers, regional social welfare centers, and NGOs to collect data on the refugee resettlement process and solve various problems facing the refugees. As of June 2010, there were 26 regional councils active mainly in the regions where refugees are concentrated.

The government is committed to early and smooth settlements of North Korean refugees, but regional welfare centers, religious groups, and civic organizations are leading private sector efforts to help their settlement. These private organizations carry out various programs including psychological counseling, teenager education, and exchanges between neighborhoods.

The Association of Supporters for North Korean Refugees (ASNKR) was established under Article 30 of the Settlement Support Act. It helps refugees settle in South Korean society by providing assistance for livelihood stability and social adaptation. In 2009, the ASNKR strengthened alternative education programs, protection facilities, after-school learning and scholarship programs when refugee teen programs were placed directly under its control. The association also opened bidding for its projects to North Korean refugee organizations that year. In 2010, the association allotted refugee organizations 46 projects such as the pilot projects for personality corrections for prison inmates and shelter operations for those waiting for housing. It also fosters North Korean refugee counselors who



Opening ceremony of a Hana Center in North Seoul, March 27, 2009

provide professional counseling in the areas of psychology, healthcare, education, welfare, and employment based on their in-depth understanding of refugees. As of June 2010, there were 78 counselors active in the field.

The ROK government has been reinforcing the services at the homes of North Korean refugees. The Regional Adaptation Centers for North Korean Refugees or Hana Centers provide general services including initial adaptation support, employment support, and career counseling. Hana Centers conduct an initial intensive three-week education program for North Korean refugees and a one-year follow up after they depart Hanawon. In 2009, the ROK government operated six Hana Centers as pilot institutions, two in Gyeonggi Province and one each in Seoul, Daejeon, Daegu, and Gwangju. Based on the experience of operating these pilot centers in 2009, the government had designated a total of 30 centers in 16 metropolitan areas which began their full operations in 2010.



Share Our Love music concert for North Korean Refugees, November 13, 2009

The social perception of North Korean refugees greatly affects the overall resettlement process, including their employment prospects. In this regard, the ROK government actively carried out a campaign to improve public perception of North Korean refugees in 2009. It created a special page on its website to explain the resettlement support system and its current status. On July 8, 2009 it hosted a media tour of Hanawon and a “Concert to Share our Love” on the occasion of Hanawon’s 10<sup>th</sup> anniversary.” It held a rally for North Korean volunteer workers and contests for user-created web content (UCC), concluded an MOU on support for North Korean refugees, produced PR videos, and identified and spread successful resettlement cases or emotionally moving stories. In 2010, it published a pamphlet in Korean and English, produced a video about employment support, and openly collected videos describing the lives of North Korean refugees.

## II. Establishing Internal and External Cooperation Networks to Prepare for National Unification

### 1. Reinforcing Government-wide Cooperation on Unification Policy

To implement the government’s unification policies in fair and transparent ways and in accordance with relevant laws and public opinion, the ROK government has established various committees to institutionalize the participation of a wide range of government agencies and civilian experts.

The Inter-Korean Relations Development Committee (IKRDC) is an inter-ministerial body established by the Inter-Korean Relations Development Act to deliberate on important matters regarding the advancement of inter-Korean relations. According to the Act, the IKRDC is chaired by the Minister of Unification and composed of 9 civilian experts and 13 public officials of vice-ministerial level. By including 9 members from the private sector—seven recommended by the National Assembly Speaker and two by the IKRDC chairperson—the Committee serves as an official channel for collecting public opinions on unification policies.

In December 2008, 9 civilian members were commissioned to two-year membership in the IKRDC—from December 27, 2008 to December 26, 2010—during its second term. The new members included Kim Young-Ho of Sungshin Women’s University, Yang Byung-Kie of Cheongju University, Han Yong-Sup of Korea National Defense University, Kim Keun-Sik of Kyungnam University, Park Myung-Lim of Yonsei University, Paik Hak-Soon of Sejong Institute, Chang Young-Soo, and Park Hyun-Sun of Korea University and Lee Chung-Hee of Hankuk University of Foreign Studies. The civilian members of the committee met several times between January to June 2009 to review the basic plans for enhancement of inter-Korean relations. The committee also reviewed the government’s annual implementation plans and presented their recommendations to the government.



Up to date, the IKRDC had one round of the plenary meeting and three rounds of working committee meeting. The working committee met in March and October 2009 and January 2010 to discuss modifying the basic plans and the IKRDC finally reached a conclusion on modifications in January 2010.

The ROK government is committed to expanding the participation of related agencies and the public in the process of policy formulation and its implementation by facilitating activities of the IKRDC. The government pledges to have the committee meetings on a regular basis to keep its members updated on new developments in inter-Korean relations and consult with them frequently to reflect their opinions in the policymaking process. Through such efforts, the government would be able to enhance its capacity to implement unification policies and reinforce the nation's foundation for Korean unification.

The Council on Inter-Korean Exchanges and Cooperation is an inter-ministerial body established for the purpose of consulting and coordinating among various government ministries and agencies policies on inter-Korean exchanges and cooperation before deciding on important inter-Korean issues. Headed by the Minister of Unification, the Council is composed of 13 public officials and 5 civilian members. It was first established on March 31, 1989 by a presidential decree, i.e., Regulations for Inter-Korean Exchanges and Cooperation. The Inter-Korean Exchange and Cooperation Act promulgated in the following year provided the Council a more solid legal foundation. Since its inception, the Council met 232 times in total as of late June 2010. Twenty rounds of these meetings took place between January 2009 and June 2010. During that period, the Council deliberated on a total of 42 agenda items, including a proposal on using the Inter-Korean Cooperation Fund to assist North Korea to fight an outbreak of the H1N1 influenza virus, and a bill to revise the Notice on Items Approved To Be Carried into North Korea and the Approval Procedures. Its working committee was created in May 2008 to reinforce inter-agency coordination and consultations on agenda to be presented to the full council. The working

committee met 13 times altogether from January 2009 to June 2010.

According to the Act on the Protection and Settlement Support of Residents Escaped from North Korea, the Consultative Council on Residents Escaped from North Korea (CCRENK) was established in 1997. Chaired by the vice minister of unification, the CCRENK is composed of senior public officials from 19 different agencies. The CCRENK consults on the government's refugee policies and coordinates them among different ministries and agencies. In particular, it deliberates on matters pertinent to the protection and settlement of refugees. In three rounds of plenary meetings and five rounds of working committee meetings that took place in 2009, the CCRENK consulted on how to improve government support to help refugees settle and adjust more smoothly in South Korean society. The support for North Korean refugees requires government intervention in various areas ranging from education for social adaptation, employment, housing service, and social security to community integration. To provide such a wide range of service effectively, the CCRENK needs to play an active and leading role in coordinating efforts made by various government agencies.

In the meantime, the ROK government plans to expand the role of local governments and private organizations in supporting North Korean refugees in their local communities. To increase their effectiveness, the central government has assigned a number of administrative support officers to local governments, and supported the creation of cooperation networks among volunteer organizations such as the Association of Supporters for North Korean Refugees.



2. International Cooperation and Public Relations

The Ministry of Unification has strived to enhance the international community’s understanding and awareness of major issues on the Korean peninsula. This includes promotion activities and efforts to expand the base of support for international cooperation. A number of foreign experts have participated in various academic seminars held in South Korea. This created opportunities to assess the situation on the Korean peninsula and formulate better government policies.

Senior unification ministry officials, for instance, explained the ROK government’s policy toward North Korea to visiting foreign government officials and lawmakers and exchanged views on inter-Korean issues with them. Some important visitors to the Unification Ministry during this period included James Steinberg, U.S. Deputy Secretary of State; Kurt Campbell, Assistant Secretary of State for East Asia and Pacific Affairs; Stephen Bosworth, Special Representative for North Korea Policy; Wu Dawei, Chinese vice minister of foreign affairs; Yachi Shotaro, representative of the Japanese government; Maehara Seiji, a member of Japanese Diet; and Jack Lang, French special envoy to North Korea.



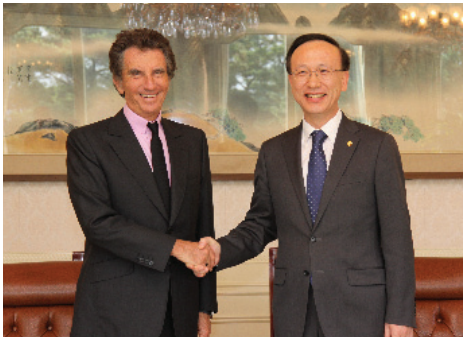
Minister of Unification meets with James Steinberg, U.S. Deputy Secretary of State



Minister of Unification meets with Wu Dawei, Vice Minister of Foreign Affairs of China



Minister of Unification meets with Yachi Shotaro, Representative of Japan



Minister of Unification meets with Jack Lang, Special Envoy to North Korea of France

Whenever there were major changes in inter-Korean relations, the Ministry of Unification explained the ROK government’s positions to ambassadors of the United States, China, Japan and Russia, as well as Latin American and European countries, through individual meetings and small group discussions. From time to time, the ministry also hosted policy briefings for working-level foreign diplomats to help them better understand developments in inter-Korean relations as well as the government’s policy toward North Korea.

In addition, Unification Ministry officials visited the United States, China, Japan, Russia and Europe to have policy discussions with foreign governments on key issues on the Korean peninsula. In particular, on the occasion of the 20<sup>th</sup> anniversary of German unification, the Ministry of Unification signed a memorandum of understanding (MOU) with the German Federal Ministry of the Interior, which is responsible for rebuilding former East German states, to have policy consultations on a regular basis. The MOU presented the ministry a systematic channel to share Germany’s experience in achieving national unification and social integration.

Efforts to expand cooperation with the international community were also made at the parliamentary level. In cooperation with the Ministry of Unification, some members of the National Assembly’s Foreign Affairs, Trade and Unification Committee visited the United States in March 2009

and Europe in March 2010. In the host countries, they met a number of lawmakers, government officials, and private experts to discuss a wide range of North Korea issues and contributed to broadening of international support for the ROK's policies.

The ministry continued its efforts to expand policy networks with foreign experts by hosting strategic dialogue on unification with local experts in the United States, China, Japan, and Russia. The ministry also co-hosted dialogue with such prominent institutions as the Monterey Institute of International Studies, the Chinese Institutes of Contemporary International Relations, the Center for Contemporary Korea Studies of Keio University in Tokyo, the Institute for Peace Science at Hiroshima University, and the Institute of Far Eastern Studies in Russia. These dialogues created opportunities to broaden the basis for cooperation with key international research institutes.

The ministry also held briefings on its North Korea policy for overseas Koreans in Chicago, Los Angeles, Beijing, Shenyang, Shanghai, Hokkaido, Fukuoka, Hiroshima, Tokyo, Kyoto, Moscow, and Almaty.

Since 2009, with the help of the unification and security attachés to the respective ROK missions, the Unification Ministry has sponsored seminars and workshops on North Korea issues in Washington D.C., Tokyo, and Beijing. Through these meetings, the ministry was able to strengthen its network with international experts and receive international feedback on its policies.

The ministry also invited a number of visiting experts to its bi-monthly International Forum. The experts were asked to make presentations of his or her views on any issues related to the Korean peninsula. The presentation was followed by open discussions, which gave many ministry officials an opportunity to increase their background knowledge and expertise on the issues at hand. Experts who have visited the ministry recently include Joel Witt, former U.S. State Department official in charge of North Korean affairs; Mark Manyin, specialist in Asian affairs at the U.S. Congressional Research Service; Okonogi Masao, professor at Keio University in Tokyo;

Jurgen Aretz, chief representative of the Thuringian Bank of Reconstruction of Germany; and Bradley Babson, former senior advisor for East Asia and the Pacific at the World Bank.

In addition, the ministry engaged in diverse promotional activities targeting the international community. It published weekly English newsletters, which provides information on recent developments in inter-Korean relations to government officials and parliamentarians of major countries, foreign diplomats in Korea, and Korea experts overseas. The Ministry subscribed to *Unification Korea* and *Korea and World Affairs*, two major English publications issued by local institutes, and distributed them in about 160 countries, including the United States, China, Japan, and Russia. Also, it published brochures and leaflets on the government's policies in English, Chinese, and Japanese and distributed them overseas as well as to foreign diplomatic missions in Seoul.

### 3. Korea Vision Forum

On the occasion of the 60<sup>th</sup> anniversary of the Korean War and the 20<sup>th</sup> anniversary of German unification, the ROK government hosted a Korea Vision Forum (KVF) under the theme of "Searching for Korea's New Paradigm" (Seoul, May 13-14, 2010). The Korea Vision Forum was an international conference to exchange views on peace on the Korean peninsula and Korean unification by bringing together prominent figures and experts in the international community.

Attended by such well-known figures as Colin Powell, former U.S. Secretary of State; Hans-Ulrich Seidt, German Ambassador to Korea; Wendy Sherman, former U.S. policy coordinator on North Korea; and Richard Haass, president of the Council of Foreign Relations; and other Korean and foreign experts, the two-day conference provided an extensive forum to present visions for peace on the Korean peninsula and Korean unification. On the first day, former State Secretary Powell and Ambassador Seidt made keynote speeches, and renowned Korean and foreign experts

started closed-door roundtable discussions. On the second day, the roundtable discussions continued, and a public conference was held, in which people from various sectors of Korean society actively participated.

Schedule for Korea Vision Forum 2010

Date	Topics	Participants
Thursday May 13	Session I: Present and Future of Korea	Discussants: Lee Hong-koo, former ROK prime minister; Gong Ro-myung, former ROK foreign minister; and Wendy Sherman, former U.S. State Department policy coordinator on North Korea
	Session II: Present and Future of Korea	Special speaker: Seidt, German ambassador to Korea Moderator: Ha Young-Sun, professor at Seoul National University Discussants: Nam Joo-hong, professor at Kyonggi University; Nam Sung-wook, director of the Institute for National Security Strategy; and Jhe Seong Ho, professor at Chung-Ang University
	Session III: Road to Peace and Stability on the Korean Peninsula	Special Speaker: Colin Powell, former U.S. Secretary of State Moderator: Hyun Hong-choo, former Korean ambassador to the United States
	Luncheon hosted by President Lee Myung-bak	Foreign guests and main panelists
Friday May 14	Keynote Speech: Promoting Peace on the Korean Peninsula: Problems and Opportunities	Richard Haass, president of the Council of Foreign Relations
	Session I: Denuclearization, Peace and Democracy on the Korean Peninsula	Moderator: Paik Jin-hyun, professor at Seoul National University Presenters: Yoichi Funabashi, Editor-in-chief for the Asahi Shimbun; Andrei Hajin, Senator of the Russian Federal Assembly; Victor Cha, professor at Georgetown University; Yuan Jian, vice president of the China Institute of International Studies Discussants: William M. Drennan, deputy director of the U.S. Institute of Peace; and Choi Kang, professor at the ROK Institute of Foreign Affairs and National Security
	Session II: Economic Vision for the Korean Peninsula: Integration and Sustainability	Moderator: Yoo Jang-hee, honorary professor at Ewha Womans University Presenters: Shin Hyun Song, professor at Princeton University; Christopher Davis, professor at Oxford University; Kim Byung-yeon, professor at Seoul National University; Chenggang Xu, professor at the University of Hong Kong Discussant: Lee suk, research fellow at the Korea Development Institute
	Session III: Sharing the Vision of Green Korea	Moderator: Yoon Deok-min, professor at the Institute of Foreign Affairs and National Security Discussants: Kang Sung Jin, professor at Korea University; Andrei Lankov, professor at Kookmin University; Kang Insun, reporter for Chosun Ilbo; Kim Heung-kwang, representative to the North Korea Intellectuals Solidarity; and Kwon Goohoon, co-head of Korean research at Goldman Sachs Group

One of the most significant outcomes of the event was that a great number of ordinary ROK citizens (about 700 a day), particularly young Koreans including college students, took part in the conference. They came to listen, but also played an active role in the discussions on unification. Participants also took part in diverse activities held on the sidelines of the event such as a quiz, surveys, and contests.

Korea Vision Forum, the first large-scale international event hosted by the Unification Ministry, was meaningful in that it provided an opportunity for opinion leaders of the international community to express their views and renew international awareness on Korean peninsula issues. It represented the first step in creating an international basis for a common understanding on unification issues. It was also significant in that Korean teenagers and university students, Korea’s future generation who will take center stage in unified Korea, took part in the event and had the opportunity to reflect on peace on the Korean peninsula and unification issues.

4. Peaceful Use of the Demilitarized Zone

Preparing for an era of unification, the ROK government has designated promoting the peaceful use of the demilitarized zone (DMZ) as one of its major policy tasks in an effort to raise the values of peace and the ecosystem in the DMZ.

In pursuing peaceful use of the DMZ, various factors must be considered such as the fact that the DMZ is governed by the Armistice Agreement, and it is affected by North Korea’s attitude and the security situation on the peninsula. Therefore, the government plans to pursue DMZ projects step by step in cooperation with the United Nations Command and through consultations with the North.

As progress was made in inter-Korean relations, various inter-Korean cooperation projects have been pursued, including reconnection of inter-Korean roads and railroads across the DMZ and cooperation projects on

shared waterways such as joint use of the Han River estuary and flood prevention of the Imjin River. For now, the ROK government will focus on carrying out projects that the two Koreas already have agreed upon, but in the long term it will pursue a variety of projects that would promote common benefits for both Koreas.

President Lee Myung-bak proposed the New Peace Initiative for the Korean Peninsula in his Liberation Day speech on August 15, 2009 saying, “only when we reduce the number of weapons and troops and redeploy them to the rear, will we be able to take a step forward to genuine peace.” His speech encouraged the formulation and implementation of a comprehensive plan for peaceful use of the DMZ because peaceful use is directly related to establishing true peace in the zone.

The Ministry of Unification identified three tasks for peaceful use of the DMZ in its 2010 annual work plan report. First, the ministry will establish a comprehensive and long-term strategic plan aimed at maximizing the value of the zone. To this end, it explored some basic guidelines by collecting diverse expert opinions in 2009, and started to commission research projects to formulate the strategic plan and establish relevant laws and regulations in 2010.

Second, the ministry decided to build an inter-Korean youth exchange center in an effort to transform the DMZ into a space that could be used to help prepare for Korean unification. The government set the basic concept of the center after listening to experts on inter-Korean exchanges and youth exchanges as well as construction and design specialists. The center would be constructed as a facility dedicated to inter-Korean exchanges as well as education for Korean and international youth. The center is expected to serve as a hub of cultural integration for teenagers of North and South Korea and as a core facility to help South Korean teenagers raise their consciousness about unification.

Third, the ministry is pursuing the creation of the Korea DMZ Council to promote the values of peace and the DMZ ecosystem to the world. Several government agencies and organizations are involved in matters

related to the DMZ since it holds diverse values. Thus, the ministry hopes to pursue the peaceful use of the zone, efficiently and systematically, by creating the Korea DMZ Council with the participation of relevant agencies, local governments, and Korean and foreign experts. Through the Council, it will share progress reports and information on DMZ-related projects among government agencies to strengthen cooperation. Also, it will promote the values of the DMZ to the world and explore ways to cooperate with the international community as well as with North Korea on the peaceful use of the zone.

III. Policy Implementation and Public Consensus

1. Public Participation and Collection of Public Opinion

The government strengthened communication with the public to build public consensus on unification policies. It sought advice on its policy direction through meetings of the “unification advisors” and other senior leaders from various sectors of society. For example, the Minister of Unification met with leaders of various religions and sought their advice on inter-Korean relations and unification policy. Efforts to seek the opinions from important social leaders helped broaden the public support for the government’s policies.

In addition, the Ministry of Unification actively carried out two-way policy discussions with the public. The ministry held policy briefings and meetings for diverse social organizations, which were attended by the Minister and the Vice Minister. The ministry’s senior officials actively participated in events hosted by private organizations or institutes to explain the status of inter-Korean relations and the government’s North Korea policy. In November 2008, the ministry started the Mutual Benefits and Common Prosperity Forum, beginning with a focus on the area of art and



culture. Moving to other groups such as the Gaeseong Industrial Complex tenants, college students, and women, the forum served as a venue for public discussions on unification and North Korea policies.

By strengthening cooperation with private organizations that promote unification movements, the ministry supported non-governmental efforts toward unification. It expanded contact with unification movement organizations such as the Association for National Unification of Korea, and the Korean Council for Reconciliation and Cooperation. The government listened to their opinions through meetings with a group of NGO chairpersons, lectures, and policy meetings in an effort to incorporate public opinion in the process of formulating and implementing its North Korea policy. By holding a plenary workshop for the entire 234 organizations registered with the Ministry of Unification, the government provided a communication and cooperation channel not only between the government and the organizations but also among the organizations themselves. Also, the Minister and the Vice Minister of Unification and senior ministry officials attended meetings of the National Unification Advisory Council, where they explained the policy direction of the government and sought ways to promote cooperation with the organization in order to broaden a

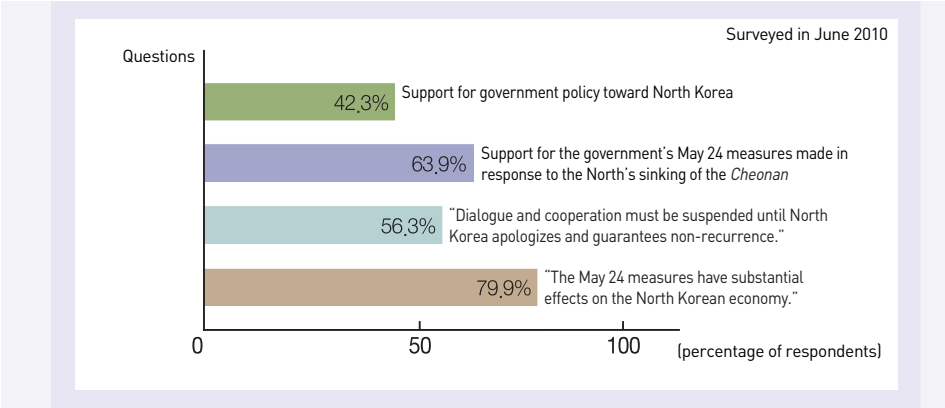


MOU workshop for registered NGOs, December 11, 2009

basis for public consensus on unification policy.

To incorporate public opinion into government policies on inter-Korean relations, the Ministry of Unification took opinion polls six times from January 2009 to June 2010. Subsequently, the overall framework and direction of government policies were made fully, based on the results of these opinion polls. According to the polls, when the North unilaterally restricted cross-border passage to the Gaeseong Industrial Complex (March 9-20, 2009), 72.2% of the South Korean people said North Korea was responsible for suspending transit to the GIC (Media Research, March 17, 2009). When North Korea fired a long-range rocket (April 5, 2009), 62.1% answered that the North's rocket launch threatened ROK's national security and 68% called for coordination with the international community in taking countermeasures (Research & Research, April 5, 2009). When it comes to the GIC, the percentage of people who wanted the complex to be continued despite the North's hard-line measures (60.8%) was greater than the percentage of those who wanted to close it (22.2%) (Research & Research, May 31, 2009). Regarding the government's policy of "sticking to principles while taking flexible responses," most respondents (83.9%) were positive (Research & Research, August 25, 2009).

Public Assessment of the Government's Policy toward North Korea after the Announcement of Measures against North Korea on May 24, 2010



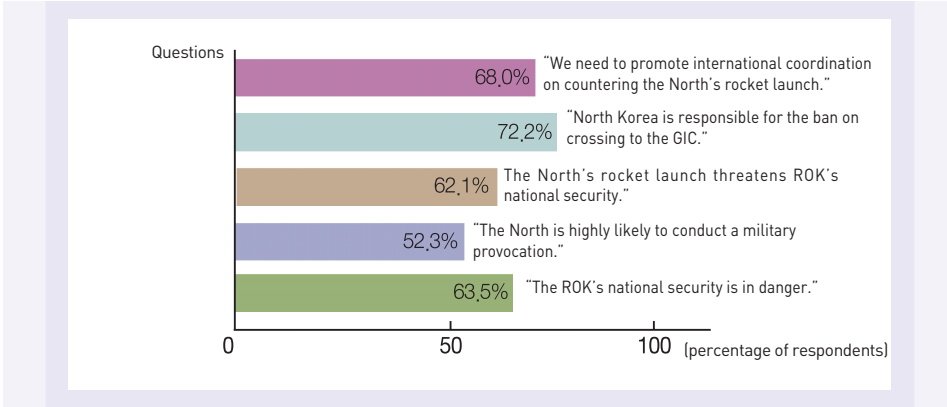
In 2010, the ministry decided to conduct polls every quarter. The surveys are made up of 12 questions, including ones on the level of support for the government’s North Korea policy and public perception on such key issues as national unification, North Korea, the Gaeseong Industrial Complex, humanitarian assistance and North Korean refugees.

The survey made in the first quarter of 2010 revealed that 47.8% of the public supports the government’s policy toward North Korea (Research & Research, March 26, 2010) while in the second quarter, the figure dropped to 42.3% (Research & Research, June 27, 2010). In addition, 63.9% approved the government’s measures announced on May 24 in response to the sinking of the *Cheonan*.

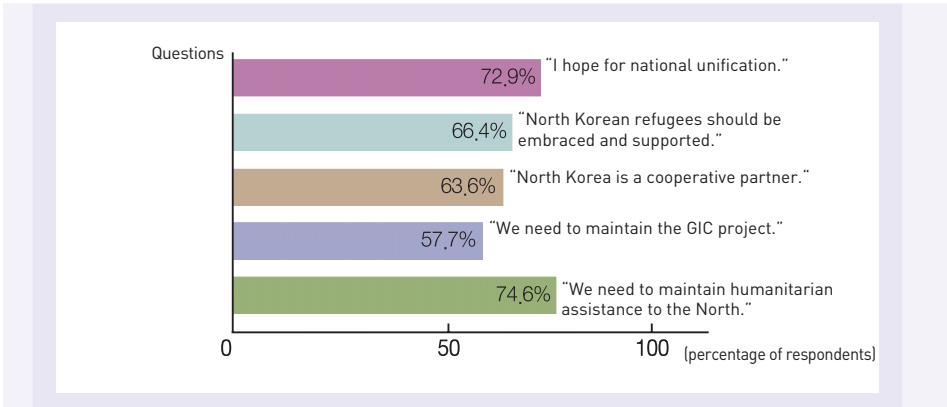
Regarding the public’s perception of North Korea, the portion of those who see the North as a cooperative partner was 63.6%, while only 11.3% perceived the North as an enemy in the first quarter of 2010. But, the former fell to 58.8% while the latter rose to 21.7% in the second quarter survey. When it comes to public aspirations for and interest in national unification, 72.9% answered in the first quarter that they want unification, and, in the second quarter, the figure remained unaffected at 71.1%.

To sum up public opinion on inter-Korean issues in 2010, it seems that South Koreans’ concern over national security has become prominent and their perception of North Korea has changed. Meanwhile, their aspirations for unification and demands for sound inter-Korean relations remained unchanged.

Public Perception of National Security and North Korea



Aspirations for Unification and Inter-Korean Relations



Surveyed from March 2009 to June 2010

2. Communication with the Public

To reinforce public understanding of the goals of its unification policy—transition to “new” relations between the two Koreas and promotion of a “new peace initiative” on the Korean peninsula—the ROK government made significant efforts to communicate with the public.


Above all, the government emphasized that it would consistently pursue the enhancement of inter-Korean relations based on mutual benefits and common prosperity by sticking to a “principled” policy toward North Korea, while exercising flexibility in its responses to the North. In this regard, the government strived to expand public consensus on establishing a new paradigm for inter-Korean relations as well as building a consensus on pending issues between the two Koreas by maintaining a balance between promoting government policies and collecting public feedback.

To reach out to the public more effectively, the government made promotional videos on visions for peace on the Korean peninsula and the enhancement of inter-Korean relations. On the occasion of the lunar New Year’s holidays in 2009, the Ministry of Unification introduced a promotional video entitled *North Korea Policy of Mutual Benefits and Common Prosperity* in major cinemas across the metropolitan Seoul area as well as on high-speed KTX trains and outdoor billboards. In 2010, the Ministry aired a new video clip entitled *New Winds on the Korean Peninsula* on national TV networks such as SBS and MBC and put it up on popular Internet portal sites, including Daum, Naver, and Yahoo. The video clip emphasized the need to resolve the North Korean nuclear problem and establish “principled” relations between the two Koreas.

Furthermore, the ministry published explanatory notes whenever a major development was made in inter-Korean relations. Some good examples of such occasions were when North Korea launched a long-range rocket and made its second nuclear test. The ministry published *Background on North Korea’s Launch of Long-range Rocket* in April 2009 and *Background on North Korea’s Nuclear Test and Other Issues* in May 2009.

It also introduced *Understanding Recent Inter-Korean Relations: North Korea Must Stop Its Hard-line Measures Immediately* in June 2009. These publications are aimed at improving the public’s understanding of inter-Korean affairs and mustering stronger public support for the government’s positions. The ministry also produced a promotional leaflet, *The New Peace Initiative on the Korean Peninsula*, which explained the idea presented by President Lee during his Liberation Day speech on August 15, 2009.

Reflecting on the second year of the Lee administration in 2010, the ministry distributed a brochure, *The Lee Myung-bak Administration’s North Korea Policy* (February 26, 2010), which provided an overview of the government’s achievements in promoting its North Korea policy, and *Harmony between Principle and Flexibility* (February 26, 2010), a compilation of essays written by Unification Ministry officials.

Advertisements in Free Newspapers	Photo
<ul style="list-style-type: none"><li>○ Resolution of the North Korean nuclear problem is the first step toward building peace on the Korean peninsula. - We will make a breakthrough on the resolution of the nuclear problem through a Grand Bargain.</li><li>○ We will establish principled inter-Korean relations. - We will develop inter-Korean relations based on mutual respect and sincerity.</li><li>○ The ROK government will strive to realize peace on the Korean peninsula and introduce a new paradigm to inter-Korean relations this year. - The Ministry of Unification opens the path toward national unification and the window to the future.</li></ul>	<div>Jeong Jun-ho, Goodwill Ambassador of the Ministry of Unification</div> 

The Ministry of Unification actively explored various niches for policy advertisement to reach out to a wider range of public audience. For example, in an attempt to provide readers with more vivid pictures of inter-Korean affairs, the ministry officials submitted articles to various forms of publications specialized on unification and national security, including *Unification* and *Unification Era*. In July 2010, the ministry used a section entitled “North Korea Now” in *The Defense Journal* for exclusive introduction of the realities on the Korean peninsula and recent changes in

North Korea. The ministry also utilized morning newspapers distributed to subway commuters for free to reach out effectively to average citizens in their everyday life. On the first anniversary of the Lee Myung-bak administration on February 25, 2009, the ministry ran a full-page advertisement on its North Korea policy in local newspapers and another one on the 10<sup>th</sup> anniversary of Hanawon. In 2010, the ministry ran advertisements in five free morning newspapers *Metro*, *Focus*, *AM7*, *No Cut News*, and *Sports Korea* in February and a public advertisement on 'New Peace on the Korean Peninsula' in *The Yonhap Yearbook* in May. In addition, the ministry sponsored an online contest for website contents to further improve communication with the public.

The ministry also used its policy portal ([www.korea.kr](http://www.korea.kr)) and other government-run media such as Weekly Gonggam to convey its positions in more detail. Its newly created live weekly show on KTV called Unification Lounge was on air 22 times from June 4 to November 1, 2009. Vice minister of unification along with 20 other senior officials and 22 civilian experts appeared on the program to explain to the public important inter-Korean issues. The ministry enhanced online communication with young people by adding North Korea Now and Unification Lounge (June 17, 2009 and July 20, 2009, respectively) as well as widgets (April 28, 2009) to its website. Other online events the ministry sponsored included a photo contest (February 2-20, 2009), a call for comments and feedback (February 19-March 6, 2009), an online quiz to name the regional center for North Korean refugees (March 10-17, 2009), the 2009 UCC contest on promoting the Ministry of Unification (June 1-July 31, 2009), a contest for the Ministry of Unification slogan (August 12-October 15, 2009), a UCC contest on North Korean refugees (August 24-September 16, 2009), an essay contest on the animation (November 9-22, 2009), and a contest on the vision for the future of united Korea (November 17-28, 2009). These events provided good opportunities for young people to become familiarized with unification issues and increase their interest in them.



*Sangsaeng reporters interviewing a newsmaker*

The ministry also utilized its blog Dream for a Unified Future. Website sections such as "Policies & Issues" and "Microscope & Telescope" featured policy papers and news articles from relevant fields, which attracted young people's perspectives on inter-Korean issues and the realities of North Korea. On the first anniversary of the blog, the ministry hosted an event to celebrate the 500,000<sup>th</sup> visitor to its online address. The event ran for about a month (September 7-October 3, 2009) in an effort to raise public interest in unification issues and the government's policies toward North Korea. The number of visitors to the blog since it went online in August 2008 has reached 840,000 by late June 2010.

To invigorate the ministry blog and encourage young people to take interest in unification issues, the Unification Ministry commissioned a group of college students as the *Sangsaeng* Reporters. The *Sangsaeng* Reporters are asked to write articles on the developments in inter-Korean relations or the events hosted by the ministry and post them on the ministry blog. Since its official launch on October 31, 2008, this corps of young journalists has greatly contributed to the ministry's communication with young people. The term for the first batch of *Sangsaeng* Reporters ended on April 30, 2009, and fourteen new students were selected for the following



year. Twenty students were chosen for the third-term *Sangsaeng* Reporters on April 30, 2010. The ministry helped the young reporters better understand the government’s policy toward North Korea, strengthened their team spirit and provided advice on setting the directions for their activities by holding joint workshops with them.

The ministry kept its policy customers updated on recent developments in inter-Korean relations through online newsletters. In 2009, it sent 308 policy letters in total, and during the first half of 2010, 206 letters. The Ministry also gave its policy advisors and other important policy customers daily updates on the North Korean situations.

In 2010, the ministry focused on new forms of media for communication popular among the younger generation. Subsequently, it opened an official Me2day account (<http://me2day.net/mouni>) on March 23 and a Twitter account ([www.twitter.com/uni\\_kr](http://www.twitter.com/uni_kr)) on June 30. To relay news from each office and bureau in real-time, the Ministry also launched a corps of Twitter reporters made up of its own officials (June 30, 2010).

3. Public Service of North Korean Resources

To help the public have a comprehensive and objective understanding of North Korea, the Ministry of Unification provides diverse resources on North Korea through its website and publications.

The North Korean broadcasting section on the ministry website provides contents of North Korean TV broadcasts on a daily basis. It provides a window through which we can glance at daily life in North Korea. A section entitled “Weekly on North Korea” shows a selection of important broadcasts of the week in more detail.

The ministry publishes *Who’s Who in North Korea by Agency* and *Who’s Who in North Korea by Institution*, which contain information on important individuals in North Korea’s Workers Party, the military, and various other institutions. *The Directory of North Korean People* reports key



MOU North Korea Information Center

leaders’ activities. These publications are distributed to relevant agencies and organizations. An annual publication, *Leadership Structure of North Korea*, displays the organizational structure of key North Korean agencies and organizations, and *Annual Schedule of Events* published, in the form of a leaflet, shows North Korea’s important political events and national anniversaries.

The ministry strengthened cooperation with research institutes, organizations, and individual researchers in the area of national unification and North Korea studies by sharing information on North Korea by e-mail and hosting meetings to assess situations in North Korea and exchange views on them.

In July 2009, the ministry relocated the North Korea Information Center, which was established in Gwanghwamun, Seoul on May 22 in 1989 to help the public better understand North Korea, to the National Library. The center at the new facility is much more spacious and provides better service to the public.

The center houses about 96,000 items altogether, including 65,000 books, 10,000 issues of periodicals, 3,000 computer files, 8,000 audio and video tapes, and 6,700 documents produced by the Ministry of Unification. Its collection of original North Korean materials is described in the table below.

Collection of Original North Korean Publications and Materials (As of June 30, 2010)

Types	Books	Periodicals	Audio & Video Tapes	Others	Total
Amount	19,456	3,786	4,032	6,278	33,552

Since 1989, the ministry has held forums on North Korea where North Korea watchers, college students, members of civic organizations and North Korean refugees participate and discuss the realities of the North and the lives of average North Koreans. In 2009, almost 3,000 people in total took part in 31 sessions. By late June 2010, a total of 530 sessions had been held with the participation of 51,340 people altogether.

The information center possesses about 2,200 North Korean movies. Since 1990, it has shown North Korean movies to the public once a month on a regular basis (2:00 p.m., every last Friday of the month). Since 2006, the movies have been available in nine different places across the country, including Mt. Odu Unification Observatory near the DMZ, Incheon, Changwon, Jeju, Busan, Gwangju and the Cheongju Unification Observatory. In 2009, about 79,000 people watched North Korean films at 716 screenings in total. The aggregate numbers of North Korean film presentations and viewers since 1990 stood at about 7,500 times and 1.26 million people as of late June 2010. The center disclosed 30 non-ideological videos including North Korean art movies to the public after declassifying them in 2009.

Along with the Education Center for Unification, the North Korea Information Center also shows North Korean television programs. Anyone who wishes to view the North Korean broadcasts can choose from the program listing of the [North] Korean Central Television on the information center’s website.

The center has sought agreements on information and resource exchanges with research institutes and organizations in the ROK. As a result, it had concluded cooperation agreements with 16 organizations as of June 2010.

Agreements on Information Exchanges with the North Korea Information Center

Year of Conclusion	Name of Organization
2003	National Assembly Library
2004	Institute of Foreign Affairs and National Security
2004	Korea Institute for National Unification
2004	Institute for Far Eastern Studies, Kyungnam University,
2005	Asiatic Research Institute, Korea University
2005	Institute for Korean Unification Studies, Yonsei University
2006	Ewha Institute of Unification Studies, Ewha Womans University
2006	Institute for the North Korean Studies, Dongguk University
2007	Institute for Unification Studies, Seoul National University
2007	Center for Northeast Asian and Inter-Korean Affairs, Gyeonggi Research Institute
2007	The Institute for Peace Affairs
2008	Institute of North Korean Studies
2008	Center for Korean Archival Science, Myongji University
2008	Institute of Northern Districts, Daejin University
2009	Center for Northeast Asia and North Korea Transport Studies, the Korea Transport Institute
2009	Institute for Korean Unification, Inje University

The center operates a mail service whereby patrons can borrow video materials on North Korea regardless of their location in the ROK. Schools and regional public libraries have borrowed the video materials through the postal service, thereby enhancing the quality of the center’s public service.

The center also laid an online groundwork to provide more efficient and systematic services. It installed a radio frequency identification system, built an original database, installed a search engine, and launched a mailing service and a short message service. Since 2000, it converted materials on North Korea into e-book form so that users can conveniently access the resources online. In 2000, it made 371 e-books, and by late June, 2010, it has produced a total of 1,888 e-books.

The North Korea Information Center website (unibook.unikorea.go.kr) has a variety of contents, including an introduction to North Korean movies and cartoons. The number of registered website users has continued to rise, reaching 130,000 in 2009.

IV . Management and Operation of the Inter-Korean Cooperation Fund

1. Creation and Operation of the Fund

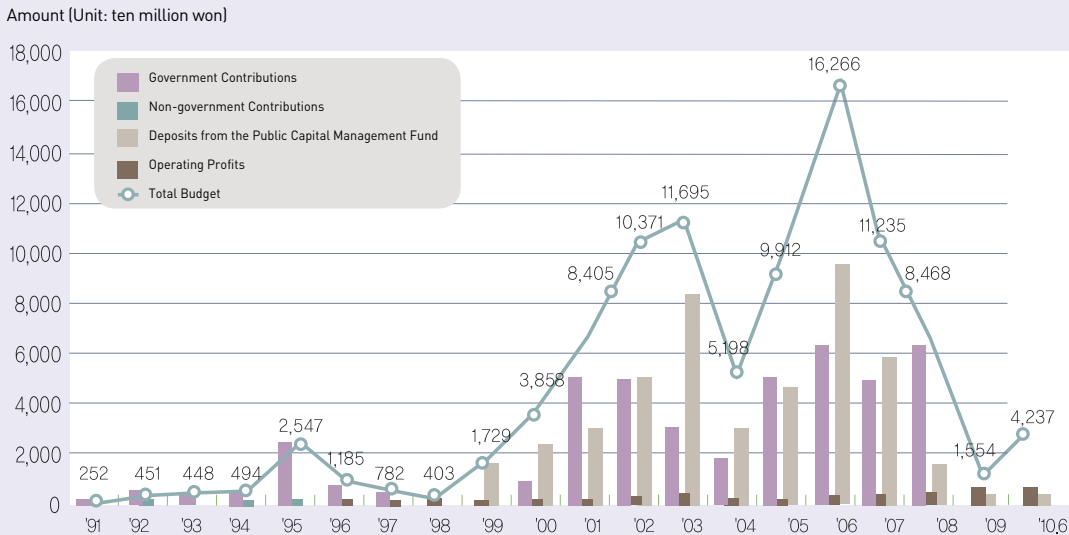
A. Budget

The budget for the Inter-Korean Cooperation Fund (or “the Fund”) for 2009 was 1.5 trillion won, and 1.39 trillion won was allocated to various inter-Korean cooperation projects, while 115.7 billion won was allocated to the light-water reactor project. The Fund consists of 520.6 billion won accrued from within the government (350 billion won in government contributions and 170.6 billion won in deposit from the Public Capital Management Fund), 827.5 billion won in recovered surplus funds, 11.9 billion won in property revenues, 28.1 billion won in redeemed loans, and 4.8 billion won from other miscellaneous sources. The light-water reactor project was financed by 87.4 billion won in deposits from the Public Capital Management Fund (PCMF), 27.5 billion won in recovered surplus funds and 0.8 billion won in property revenues. The planned amount of 520.6 billion won in government contributions to inter-Korean cooperation projects and deposits from the PCMF was not allocated as the frequency and amount of expenditures began to decline beginning 2009.

The budget for 2010 is 2.23 trillion won in total, of which 1.32 trillion won has been allocated to inter-Korean cooperation projects, and 904.4 billion won to the light-water reactor project. The Fund plans to finance various inter-Korean cooperation projects with 417.9 billion won from the

government account (350 billion won in government contributions and 67.9 billion won in deposit from the PCMF), 844.1 billion won in recovered surplus funds, 16.7 billion won in property revenues, 38.6 billion won in redeemed loans, and 6.2 billion won from other miscellaneous sources. The light-water reactor project will be funded by 895.1 billion won from the PCMF, 9 billion won in recovered surplus funds, and 0.3 billion won in property revenues.

Financing the Inter-Korean Cooperation Fund



B. Expenditures

In 2009, 1.12 trillion won from the Inter-Korean Cooperation Fund was allocated to various inter-Korean cooperation projects: 253 billion won to the operation of surplus funds, 17.1 billion won to the redemption of interest and principal to the PCMF, and 4.6 billion won to management of the Fund. As of late December 2009, 100 billion won out of the 1.12 trillion won

allocated to projects was spent. In the area of humanitarian assistance, a total of 31.5 billion won was spent: 1.3 billion won on family reunions held during Chuseok, 0.7 billion won on the maintenance and management of the reunion center for separated families, 7.8 billion won on assistance to North Korea through NGOs, and 21.5 billion won on assistance to North Korea through international organizations. With regard to building a foundation for economic cooperation, 65.5 billion won was provided in total: 41.5 billion won in grants, 8.6 billion won in loans, and 15.4 billion won in loans for trade and economic cooperation capital. For social and cultural exchanges, 3 billion won was spent: 2.9 billion won for the compilation of the Grand Dictionary of the Korean Language, and 0.1 billion won for the Manwoldae excavation in Gaeseong. For the light-water reactor project, 111.2 billion won was allocated for the redemption of interest and principal to the PCMF, and 4.5 billion won was allocated for the operation of surplus funds. Of these planned expenditures, 110.2 billion was used to repay interest and principal to the PCMF.

In 2010, 1.12 trillion won from the Fund was allocated to inter-Korean projects: 132.9 billion won to the operation of surplus funds, 68.3 billion won to the redemption of interest and principal to the PCMF, and 3.4 billion won to management of the Fund. For the light-water reactor project, 5.5 billion won was allocated for the operation of surplus funds and 898.8 billion won was allocated for the redemption of interest and principal to the PCMF. As of late June 2010, a total of 33.4 billion won was spent for projects. Nineteen billion won was carried over from 2009 when expenditures did not take place within the year. Of these funds, 11.3 billion won was spent on the purchase of medicine for the H1N1 influenza virus, 1.4 billion won for assistance to North Korea through NGOs, 0.4 billion won for maintenance of the family reunion center at Mt. Geumgang, and 5.9 billion won for grants in the economic cooperation area. As of late June 2010, a total of 33.4 billion won was spent for projects—0.9 billion won for social and cultural exchange projects, 0.5 billion won for exchanges of separated families, 12.7 billion won for humanitarian assistance projects,

8.6 billion won in grants in the area of economic cooperation, 1.6 billion won for loans, and 9.3 billion won in loans for trade and economic cooperation capital. For the light-water reactor project, 402.9 billion won was spent to repay interest and principal to the PCMF.

2. Execution of the Inter-Korean Cooperation Fund by Project

A. Humanitarian Assistance

a. Humanitarian Assistance

Humanitarian assistance to North Korea is provided directly by the ROK government or indirectly through NGOs or international organizations.

The ROK government offered to provide 50,000 tons of corn aid in May and June 2008, but since North Korea did not respond, government-level assistance was not delivered until December 2009 when the ROK government provided emergency assistance to help deal with the outbreak of the H1N1 influenza virus. At the 227<sup>th</sup> meeting of the Council on Inter-Korean Exchanges and Cooperation (December 15, 2009), the ROK government decided on emergency aid worth 17.88 billion won—17.7 billion won in medicine and 0.18 billion won in logistics and incidental costs. Accordingly, it delivered 400,000 doses of Tamiflu, 100,000 doses of Relenza, and 200,000 liters of hand sanitizer to the North on December 18. For this aid, the government spent 8.8 billion won and 1.6 billion won for the purchase of Tamiflu and Relenza, respectively, 0.7 billion won to buy hand sanitizer, and 0.1 billion won in incidental costs.



Assistance to North Korea to Prevent the Spread of H1N1 Influenza Virus in 2009

(Unit: million won)

Item	Approved Amount	Actual Expenditure	Details
Medicine	17,700	11,092	400,000 doses of Tamiflu, 100,000 doses of Relenza, and 200,000 liters of hand sanitizer
Incidental Costs	180	91	Logistics costs, administrative, and other miscellaneous costs
Total	17,880	11,183	

During meetings between August 3 and October 22, 2009 (the 218<sup>th</sup> through 222<sup>nd</sup> meetings) the Council provided 15 NGOs with 4.52 billion won for their support projects to assist vulnerable groups in North Korea such as infants and children, pregnant women, and the physically challenged.

Support Projects through NGOs

(Unit: million won)

Specification	Name of NGO	Description of Project	Approved Amount	Actual Expenditure
1 <sup>st</sup> Round (August 3)	South-North Sharing Campaign	Supply of fortified foods and support for growth	486	325
	Lighthouse Foundation	General welfare services for disabled North Korean children	630	630
	The Korea Association of People Sharing Love	Nutritional improvement, welfare and public health support	208	123
	Korean Sharing Movement	Food, public health and medical support for the vulnerable	540	540
	Eugene Bell Foundation	Tuberculosis elimination and support for TB hospital	630	-
	Won Buddhism	Support for the vulnerable	101	101
	National Reconciliation Committee, the Catholic Archdiocese of Seoul	Supply of raw materials for production of nutritional supplement tablets	198	-
	Korea Association of Health Promotion	Support for children's public health	69	62
	JTS Korea	Food, public health and medical support for the vulnerable	560	-

Specification	Name of NGO	Description of Project	Approved Amount	Actual Expenditure
2 <sup>nd</sup> Round (October 22)	Medical Aid for Children	Supply of medical and pharmaceutical products and medical apparatus for children's hospitals in Pyongyang	102	101
	Green Doctors	Medical support through the Green Doctors Hospital in Gaeseong	66	66
	Okedongmu	Public health and medical services for children and nutritional improvement	291	221
	Nanum International	Disease eradication	75	75
	Child Fund Korea	Health promotion for children	302	137
	Rose Club Korea	Epilepsy treatment	134	134
Policy Projects (December 28)	The Korea Association of People Sharing Love, JTS Korea, Okedongmu, Child Fund Korea	Supply of nutritional foods for children, daily necessities and basic medicines	3,500	-
	Green One Korea	Prevention of blight and harmful insects, and supply of saplings for reforestation	1,980	421
	Korea Foundation for International Healthcare	Support for production of basic medicines and good manufacturing practice (GMP) training	500	250
Project Management Costs		Monitoring and other management jobs	207	133
Total		15 projects	10,579	3,508

In addition, at the 228<sup>th</sup> meeting on December 28, 2009, the Council decided to provide 6.06 billion won to six private aid organizations after considering the spillover effects and the mid- to long-term sustainability of their proposals. Their projects included: support for vulnerable groups, reforestation, and basic medicine production. Consequently, 3.5 billion won was provided out of the Inter-Korean Cooperation Fund.

At the Council's 21<sup>st</sup> meeting on April 7, 2009, the ROK government decided to provide US\$1.07 million for the malaria prevention project that had been carried out through the World Health Organization (WHO) since 2001. It delivered supplies to the North in two batches (June 12 and July 24, 2009), and the North provided details on the distribution of the supplies. For

this aid, 1.4 billion won was spent from the Fund on the delivery of mosquito nets and medications for treatment and prevention.

In order to maintain pure humanitarian assistance to those marginalized in the North, the ROK government decided at the 228<sup>th</sup> Council meeting on December 28, 2009 to provide US\$13.11 million for the WHO’s infant and children project, and US\$3.98 million for a similar project under the United Nations Children’s Fund (UNICEF). For this aid, 15 billion won was provided from the Fund for the maintenance and repair of public health and medical facilities, and for education and training through WHO. Furthermore, 4.7 billion won was spent on the supply of vaccines and public health, and on nutritional supplements through UNICEF.

Support Projects through International Organizations

Organization	Project	Amount Provided
WHO	Malaria prevention	\$ 970,000
	Maintenance and repair of hospitals, supply of apparatus and medical and pharmaceutical products, technical support, HR training, translation and publication, and monitoring	\$13.12 million
UNICEF	Vaccinations, health care for infants and children, nutritional support, and multiple indicator cluster survey	\$3.98 million

b. Support for Exchanges of Separated Families

The ROK government has been committed to expanding exchanges of separated families and considers it a top-priority. Using the Inter-Korean Cooperation Fund, the ROK government supports face-to-face reunions and video reunions of separated families hosted on the government level, as well as exchanges pursued in the private sector.

Support for Reunion of Separated Families during the 2009 Chuseok Holidays

(Unit: million won)

Purpose	Specifics	Approved Amount	Actual Expenditure
Preparation	Planning and coordination	57	57
	Safety and security	4	4
	Education	1	1
Reunion	Fee for accommodation in the South	84	71
	Cost of travel and sojourn	684	675
	Shared meals	419	416
	Monitoring room and press center	47	38
Reserve		20	0
Total		1,316	1,262

According to the agreement reached at the inter-Korean Red Cross talks held in August 2009, the reunion of separated families was resumed after two years on the occasion of Chuseok. Consequently, the ROK government decided to approve 1,315.94 million won for the reunions at the 220<sup>th</sup> meeting of the Council on Inter-Korean Exchanges and Cooperation on September 16, 2009. A total of 1,262.79 million won was spent, including 62.49 million won for preparatory work, 675.5 million won for travel and sojourn costs, 401.38 million won on meals for the separated family members.

Since inter-Korean exchanges on the government level have been suspended, the ROK government raised the level of support for exchanges of separated families through private sector exchanges in third countries.<sup>4)</sup> At the 213<sup>th</sup> meeting on January 21, 2009, the Council resolved to allocate

4) The ROK government revised the *Guidelines on Support for Separated Family Exchange Costs* to raise the amount of support from 800,000 won to 1,000,000 won for the confirmation of family member’s fate. For family reunions, the amount was raised from 1,800,000 won to 3,000,000 won, and from 400,000 won to 500,000 won for the continuation of exchanges.

297.6 million won and provided 54 separated family members with 76.26 million won.

The ROK government has maintained the family reunion center at Mt. Geumgang in the North to be prepared for prospective reunion events. The facility was completed in July 2008 and has been maintained by a contractor since then. The government pays the costs for minimum maintenance on an annual basis. It decided to provide 674 million won in 2009 at the 216<sup>th</sup> meeting of the Council on May 15, 2009, and spent 616 million won from January, 2009 to June, 2010.

Following the completion of the family reunion center, the government decided to spend 4.2 billion won on procurement, supplies and installation of fixtures at the Council’s 207<sup>th</sup> meeting on July 3, 2008. Also, as the two Koreas agreed to hold reunions over Chuseok in 2009, it purchased supplies worth 59.6 million won and delivered them to the center for use during the reunions.

Support for Mt. Geumgang Reunion Center (Unit: million won)		
Purpose	Approved Amount	Actual Expenditure
Cost of maintenance and management	674	733
Support for cost of fixtures and supplies	-	59.6

B. Assistance for Inter-Korean Economic Cooperation

a. Establishment of the Gaeseong Industrial Complex

*Support for the Building of Infrastructure*

For stable maintenance and the development of the Gaeseong Industrial Complex (GIC), the ROK government has supported the construction of the GIC’s internal infrastructure, including a water supply

system, a wastewater treatment system, a waste landfill, roads, a municipal water system, and landscape architecture. The decision to provide this support was reached at the 133<sup>rd</sup> meeting of the Council on Inter-Korean Exchanges and Cooperation on September 8, 2004. From January 2009 to June 2010, the government spent 344 million won on GIC infrastructure, including landscape architecture surrounding the wastewater treatment facility, commissioning surveys on and designing the waste treatment facility, and managing landscape architecture of the complex.

*Support for Construction of a General Support Center*

The ROK government decided to establish a general support center that could provide administrative services and serve as a venue for exhibitions and sales when the Council held its 171<sup>st</sup> meeting on April 27, 2006. The center is a 15-story building with a basement and a total floor space of 30,911 square meters. The facility was built on a site of 39,669 square meters. From January 2009 to June 2010, the ROK government spent 23.655 billion won on interior and exterior construction, landscape architecture, facilities for electricity, telecommunications and heating, and site supervision.

*Support for Construction of a Daycare Center*

Out of 43,000 North Koreans working in the GIC, female workers represent 82% of the workforce. Therefore, the ROK government decided to build a day care center within the complex so that women workers would be able to balance both work and their childcare needs. Accordingly, at the 211<sup>st</sup> meeting on November 18, 2008, the Council decided to provide 900 million won from the Inter-Korean Cooperation Fund for the construction of a day care center. Construction began on September 24, 2009 and was completed on December 26 the same year. The center is housed in a two-story building with total floor space of 858 square meters on a site of 4,506

square meters. It can accommodate about 200 children and has ten playrooms, staff rooms, bathrooms, and a kitchenette. In 2009, the government allocated 750 million won for its construction, 9 million won for supervision, and 75 million won for purchasing equipment and furniture.

*Support for Construction of a Fire Station*

In June 2010, 121 factories were running within the complex and 17 more were under construction. Sixty-six percent of the tenants are engaged in textiles, sewing, and chemicals, which are all susceptible to fires. Most facilities are engaged in labor-intensive production and are situated in dense apartment-like buildings. Despite the risk of a fire inflicting massive damage and casualties, there are only three fire engines and 21 personnel for firefighting and rescue work. Thus, there has been an urgent need to reinforce fire prevention measures. The ROK government drew up a plan to build a fire station and decided to utilize 5.07 billion won from the Inter-Korean Cooperation Fund to support the construction of a fire station and purchase of fire trucks at the 225<sup>th</sup> meeting of the Council on November 27, 2009. The GIC was scheduled for completion in December 2010 and will have a total floor space of 2,181.82 square meters on a site of 3,305.8 square meters. The station has the capacity for eight fire trucks and auxiliary facilities such as an examination room, education and training facilities, bedrooms, and a cafeteria. As of June, 2010, the ROK government had concluded contracts on the purchase of the site, architectural design, and the procurement of equipment. The government spent 627.2 million won to purchase the site for the fire station.

*Lending to Tenant Companies for Economic Cooperation Capital*

In June 2009, the GIC tenant company association appealed to the ROK government for urgent loans for operating capital, citing the operational difficulties caused by the restrictions taken by the North on

December 1, 2008. The ROK government conducted a survey into their operational conditions and, based on the survey results, decided to extend loans for operating capital for 20 firms that had started business in the complex after the second half of 2008. The Council decided at the 224<sup>th</sup> meeting on November 12, 2009 that companies could borrow up to 500 million won each, with a cap of 6 billion won for the loan program.<sup>5)</sup> In addition, the government deferred payments of principal and interest for six months in the cases of 28 firms with outstanding loans if they were experiencing difficulties such as a decline in revenue from the previous year.

*Lending to KIDMAC for Operating Costs*

The ROK government has supported the Kaesong Industrial District Management Committee (KIDMAC), which provides public services and handles management and operation of the GIC. At the Council's 213<sup>th</sup> meeting on January 19, 2009, the government decided to approve a loan of 8.91 billion won for KIDMAC's 2009 operating costs with a five-year grace period and a ten-year repayment period at an interest rate of 1%. Of this amount, 8.59 billion won was provided—3.39 billion won for personnel costs, 4.04 billion won for maintenance and management, and 1.15 billion won for the procurement of commuter buses. At the 220<sup>th</sup> meeting on January 22, 2010, the Council approved a loan of 3.76 billion won for the 2010 operating costs with a five year grace period and a ten year repayment period at an interest rate of 1%. As of June 2010, a total 1.55 billion won had been spent—817.69 million won on personnel cost and 733.62 million won on maintenance and management.

5) The ROK government provided loans of 7.6 billion won from the Inter-Korean Cooperation Fund to 28 companies from 2004 to 2006. The loans were extended in consideration of the poor business environment during the early stage of the complex. Loans from the Fund were suspended in 2007 as the Economic Policy Coordination Meeting decided to provide loans to GIC tenants through credit guarantee institutions in June 2006. Accordingly, in 2009, the ROK government applied for special guarantees to the credit guarantee institutions first to extend loans through those institutions or from the Fund in the case of companies not guaranteed by the credit institutions.



Due to the unique location of the complex, KIDMAC conducts significant work for the government such as providing personal protection for South Korean citizens, transit support, business registrations, authorization and approval for hiring workers, environmental protection, public health, industrial safety, and tax services. So far, KIDMAC has supported the costs incurred in providing these services with loans from the Inter-Korean Cooperation Fund. The ROK government decided to give a grant of 5.14 billion won for KIDMAC costs at the Council’s 229<sup>th</sup> meeting on January 21, 2010. As of June 2010, a total of 1.82 billion won had been spent—897.19 million won for the cost of personnel who handle government-related services and 784.29 million won for project costs.

**b. Cooperation Projects by Area**

*Support for Improvement of the Military Telecommunications System in the Joint Management Area*

North Korea requested materials and equipment needed to improve military communication on May 8, 2008 after the military telecommunication lines that had been utilized for cross-border travels were severed by a technical glitch in the West Sea area on May 5. Since the military communication lines are necessary for cross-border travel, the ROK government decided to begin improving the inter-Korean military telecommunication system at the 204<sup>th</sup> Council meeting on May 22. The first batch of materials and equipment was delivered to the North on May 30, but the second delivery was postponed due to worsening relations following the shooting death of a South Korean tourist at Mt. Geumgang in July 2008.

Considering repeated requests from the North in October and the need to address the inconveniences of South Korean citizens traveling to the GIC, the ROK government delivered the rest of the materials and equipment for an optical cable link in five rounds of delivery from October 28 to November 19, 2009. Subsequently, the North and the South completed the

construction and installation in their respective areas and began normal operation of the telecommunication lines on December 26. In 2009, out of 3.1 billion won approved, 468.12 million won was spent for purchase of materials and equipment and for the construction of optical cable lines on the South side.

Despite the ROK’s repeated calls to return construction equipment after the communication lines began operating, the North unjustly has postponed returning them. This incurs a cost of about 30 million won in monthly rental fees to the equipment owner. To minimize the loss in tax revenue, the ROK government concluded a deal with the equipment owner and bought the equipment on June 14, 2010. This decision was reached by a resolution at the 232<sup>nd</sup> Council meeting on June 11, 2010. However, the South will continuously urge the North to return the equipment, and, if it does, the government will sell the equipment and return the proceeds to the state coffer.

*Support for Establishment of a Traded Goods Management System*

As inter-Korean trade expanded in terms of quantity and as items became more diverse, there has been a greater need to establish a management system for inter-Korean trade in order to improve managerial efficiency and the convenience for citizens. Accordingly, at the 216<sup>th</sup> meeting of the Council on Inter-Korean Exchanges and Cooperation on May 11, 2009, the ROK government decided to provide 2.36 billion won from the Inter-Korean Cooperation Fund for a project to establish an “Inter-Korean Trade Management System” and commission the management of traded goods to a private entity. The main purposes of the project are to adjust the items subject to individual approval, establish a linkage between information on delivery approvals and customs clearance information, manage the status of personnel crossings, and build a trade statistics system. In 2009, the government spent 620 million won (26.3%) in service fees for system development and the commissioning of work for the project. The

system was completed on February 16, 2010. In 2010, 1.97 billion won was spent for system development costs and the commissioning of work as of late June 2010.

*Support for Inter-Korean Agricultural Cooperation*

The ROK government pursued joint agricultural projects in cooperative farms in Samilpo and Geumchon-ri, which are in the Mt. Geumgang area, and another in Songdo-ri, near Gaeseong. These pilot projects are funded by the Inter-Korean Cooperation Fund through the Korea Peninsula Agro-Fishery Co-work. The joint projects focused on increasing food production, strengthening the North's agricultural foundation, technology improvement, people to people exchanges, and the development of income sources for the region. The three-year projects in the Mt. Geumgang area were conducted from 2005 to 2007, and maintenance and repair work was carried out in 2008. The project in Gaeseong was conducted from 2007 to 2008 but was temporarily suspended in 2009 as the provision funding was suspended following the North's nuclear test in May.

Thus, the 2008 budget was carried over to 2009 and then spent for the procurement and delivery of goods needed to maintain the cooperative infrastructure which previously had been built. Of the 280 million won spent, 138 million won was used for projects in the Mt. Geumgang area and 139 million won for the project near Gaeseong.

*Support for the South-North Korea Exchanges and Cooperation Support Association's Operations, Research, and Surveys*

The North and the South signed the Agreement on the Inter-Korean Cooperation for the Development of Light Industries and Underground Resources, thereby agreeing to designate organizations to oversee the implementation of cooperation projects pursued under the Agreement. Accordingly, the ROK government designated the South-North Korea

Exchanges and Cooperation Support Association as the South's implementation organization. On May 28, 2007, the ROK government concluded a contract on the inter-Korean cooperation project for the development of light industries and underground resources. At the 213<sup>th</sup> meeting of the Council on Inter-Korean Exchanges and Cooperation on January 21, 2009, the government decided to provide 700 million won to the Association for its operating costs and its research and survey regarding the development of resources in North Korea.

The operating costs are composed of the following: maintenance and operation costs incurred in the pursuit of the inter-Korean cooperation projects for the development of light industries and underground resources commissioned by the ROK government, economic assistance and the supply of energy equipment and materials under the Six-Party Talks, the supply of materials and equipment for the improvement of the communication system between the military authorities in the joint management area, and personnel payroll. As of June 2010, 983 million won had been spent

The funding of research and surveys was needed to pursue the cooperation project on the development of resources in North Korea. This research is necessary to formulate strategies for joint development of resources in the North and the drafting of measures to facilitate investment, to establish measures to develop mines in Dancheon, and to pursue the creation of special cooperation districts for resource development. A total of 100 million won was provided for research and surveys. The Association commissioned the research and survey projects to institutes such as the Korea Resources Corporation and the Korea Energy Economics Institute, which specialize in this type of research. Total expenditures were 950 million won.

In 2010, 292.42 million won had been spent as of June on cooperation projects commissioned to the Association for the development of underground resources, equipment and materials for energy assistance to North Korea, and improvement of the communication system between the military authorities in the North and the South.

### c. Loans and Insurance for Private Companies Working in the Areas of Inter-Korean Trade and Economic Cooperation

#### *Loans to Private Companies*

Inter-Korean trade and economic cooperation are riskier than normal trade transactions and most firms involved are small with insufficient capital. Therefore, many of these companies experience difficulties in securing support from commercial financial institutions. Under these circumstances, the ROK government provides loans from the Inter-Korean Cooperation Fund to companies trading with or investing in North Korea.

The loans are used to pay for the in-bound delivery of North Korean goods and to buy equipment and raw materials for processing-on-commission production in the North. In 2009, a total of 14 firms received 8.2 billion won in renewed loans, and one firm received a new loan of 200 million won. In 2010, eleven companies had received renewed loans of 6.8 billion won as of June.

Loans extended for the purpose of economic cooperation projects provide financial support for those companies approved for economic cooperation projects. According to the Inter-Korean Exchange and Cooperation Act, these firms must report the form of their investment, their operating capital, social overhead costs, and industrial site purchases. In 2009, a total of 48 companies received loans of 235.2 billion won from the Cooperation Fund, and 21.3 billion won was redeemed as the loans matured. In 2010, 46 firms received loans of 237.8 billion won, and 28 billion won was repaid as of late June.

#### *Insurances for Private Companies*

The insurance system that covers inter-Korean trade and economic cooperation was set up to compensate private companies through the Inter-Korean Cooperation Fund for part of the losses they might suffer in the

process of pursuing inter-Korean trade and economic cooperation. Compensation is given when losses are caused by emergencies for which firms cannot be held accountable, or by credit default on the part of contract parties in the North. Specific coverage is determined by calculating the amount of losses within the insurance contract that occurred prior to occurrence of the risk. As of late June 2010, 145 contracts valued at 496.2 billion won have been concluded. However, no insurance payments have been made since there have been no cases that meet the requirements.

On December 12, 2008, North Korea implemented restrictions on travel to the GIC, which made it difficult for GIC tenants to continue their operations. As a result, the ROK government revamped the insurance system through a resolution issued by the Council. In July 2009, the government raised the gross insurance amount to 700 billion won and the cap for an individual company to 7 billion won. It also reduced the requirement for insurance payment from three months of business suspension to one month. In August, it added raw material export insurance<sup>6)</sup> and performance guarantee insurance<sup>7)</sup> to the trade insurance system, thereby reducing the risk that the tenants seek large-scale insurance payouts.

<sup>6)</sup> Raw Material Export Insurance applies to property expropriation, war, civil war, default on contracts, and North Korean travel bans or other restrictions. The maximum insurance payment is no more than 70% of the total value of raw materials and processing fees, up to 1 billion won per company.

<sup>7)</sup> Performance Guarantee Insurance applies to property expropriation, war, civil war, default on contracts, and North Korean travel bans or other restrictions. The maximum insurance payment is no more than 10% of the contracted amount for delivery, up to 500 million won per company.

### C. Assistance for Social and Cultural Exchanges

The Grand Dictionary of the Korean Language project is a joint undertaking where the North and the South compile words of the Korean language used in the North, the South, or abroad into a dictionary. The Council allocated 3.06 billion won to the project at the 213<sup>th</sup> Council meeting on January 22, 2009. So far, 2.92 billion won has been spent for project assessment, organizational operating expenses, and actual compilation work. In 2009, four rounds of joint compilation meetings were held during which the selection of entries was completed and the compilation work proceeded to finish about 51% of the work. In 2010, at the 229<sup>th</sup> Council meeting on January 29, the Council allocated 1.67 billion won from the Fund for the project.

The joint archeological excavation project at Manwoldae in Gaeseong was pursued after the 17<sup>th</sup> Inter-Korean Ministerial Talks in December 2005 reached an agreement to cooperate on the registration of Gaeseong historical remains as World Cultural Heritage artifacts. The total cost of the project is 510 million won, and in 2009 111 million won was spent: 49 million won for photography, 4.45 million won for recordings, and 57 million won for travel and sojourn. Consequently, the South-North Joint Examination Committee has held meetings at the Korean Central History Museum in Pyongyang, and the two sides are pursuing the construction of a storage facility to house the 4,500 relics unearthed at the Manwoldae site. The funding has enabled the photography and recording of 3D images of important items unearthed at the site.

### 3. Assessment of Inter-Korean Cooperation Fund Management and Directions for Improvement

#### A. Assessment of Fund Management

The Lee Myung-bak administration has strived to use the Inter-Korean Cooperation Fund for meaningful purposes such as the maintenance of humanitarian assistance to vulnerable groups in North Korea. The administration has maintained this position even though the North has implemented hard-line measures against the South and inter-Korean relations have cooled as a result.

The ROK government has been committed to using the Fund to develop inter-Korean relations in a positive way while not being obsessed with records and conventional uses of the Fund. Instead, the government has tried to ensure that the Fund is used to realize common prosperity on the Korean peninsula through sound inter-Korean exchanges and cooperation.

According to the government's position to continue pure humanitarian assistance regardless of the political and military situations, it decided to allocate a total of 50 billion won from the Fund to supply anti-viral medication and hand sanitizer to help combat the H1N1 influenza virus in the North. The government has also used the Fund to provide assistance for the vulnerable, including infants and children, through NGOs and international organizations such as the WHO.

When the North imposed restrictions on transit to the GIC and detained a South Korean worker, the ROK government used the Fund for a variety of measures to tackle the difficulties facing GIC tenants. Despite the difficulties, the government maintained its firm position that the complex should continue stable development. It provided emergency operating capital for companies with difficulties stemming from the transit restrictions and decided to defer repayment of principal and interest of their loans. In an effort to seek ways to develop the complex further with the North, it conducted a joint study tour to overseas industrial complexes.



In the area of inter-Korean economic cooperation, the government delivered the materials and equipment needed to improve inter-Korean military communication lines, which had been in disrepair and causing inconveniences for South Korean citizens when traveling to the North. The communication links now are operating normally. The ROK government also established a traded goods management system to expedite the approval procedures for transporting goods between the two Koreas.

The ROK government used the Fund consistently to improve the support regime for companies pursuing inter-Korean trade and economic cooperation. For instance, several measures were taken to revamp the trade insurance system. The government introduced raw material export insurance and performance guarantee insurance, and improved the economic cooperation insurance system by reducing requirements for insurance claims and increasing the maximum insurance amount. Furthermore, the credit system was improved by expanding the number of borrowers eligible for loans.

In the area of social and cultural exchanges, the ROK government is trying to lay the groundwork for understanding the current language usage and social issues in the North and South so the Koreas do not lose national homogeneity. Subsequently, the government is supporting the Grand Dictionary of the Korean Language project and is expanding academic exchanges through the joint project to excavate cultural and historical remains at the Manwoldae excavation site in the North.

Inter-Korean relations were strained severely in 2010 as the North dealt a blow to relations by freezing and confiscating the South's properties at Mt. Geumgang in March and by its attack on the *Cheonan* during the same month. By late June 2010, only 33.4 billion won was spent from the Fund, which represents only 2.9% of the planned expenditure of 1.17 trillion won. Most of the planned expenditures had been carried over from 2009.

The ROK government had designated greater transparency in the use of the Fund as a policy task, and it consistently has improved the institutions related to the Fund. The government also has moved from a mid-term to a

long-term perspective in managing the Fund and has improved how it is managed. For example, it has introduced a fund assessment system by creating an assessment index and manual, and by establishing a fund information management system. Also, it decided to publish the *Inter-Korean Cooperation Fund White Paper* on a regular basis, and disclosed the records on the creation, execution, and use of the Fund on its website and published a working handbook on the Fund.

B. Directions for Development

a. Expanding Financial Resources for the Inter-Korean Cooperation Fund

The Inter-Korean Cooperation Fund is operated as a single-year, non-cumulative account, so it is not possible to keep its financial resources in reserve.<sup>8)</sup> Also, the Fund is excessively dependent on government contributions. As a result, it is allocated mainly for single-year projects: it is very limited in terms of mid- to long-term policies or unification.

To overcome these problems and to solidify its function as a financial resource for unification, the government must find a way to accumulate fund resources in a reserve account while minimizing the possible effects on the state budget. There is also a need to prepare financial resources gradually instead of waiting until there is a sudden need for massive financial resources to deal with unification.

8) The Inter-Korean Cooperation Fund is a single-year, non-cumulative account so any unused funds are carried over to the next year's budget and do not accumulate in reserve.

### b. Operating the Fund Effectively and Responsibly

The Fund is mainly created by public tax revenues. Therefore, the ROK government is committed to guarantee that it is used effectively and responsibly. The process of fund provision, project assessment, and expenditure assessment all must be managed systematically to expand public support improve the effectiveness of the Fund. To achieve these aims, the government introduced a fund assessment system and a fund information management system to improve the fund provision process. The ROK government will strive to raise the credibility of statistics and the analysis of the fund information management system for an effective operation of the fund provision process. Also, it will seek greater transparency in the distribution of the fund, for example, by strengthening monitoring activities, which will help institutionalize the concept of project assessment and improve how the Fund is used.

### c. Improving the Support System with the Inter-Korean Cooperation Fund

The Intern-Korean Cooperation Fund has been a source of loans and insurance, which have been a necessary foundation to promote investment in North Korea and facilitate economic cooperation. GIC tenants and others have called for improvements in the lending and insurance systems, especially after inter-Korean relations increasingly have become more uncertain since 2008. Thus, the ROK government has made significant efforts to address these requests. For instance, it introduced raw material export insurance and performance guarantee insurance policies. As the North Korean nuclear problem remains unresolved and uncertainty lingers in inter-Korean relations, it is critical to lay a stable foundation so that companies can maintain their operations when pursuing inter-Korean economic cooperation.

The Inter-Korean Cooperation Fund support system needs to be improved based on a comprehensive consideration of equal treatment of companies as well as the status of inter-Korean relations. The ROK government will focus on improving how the Fund is used for loans and economic cooperation project insurance. These changes should reflect reality while creating a stable business environment for companies pursuing inter-Korean economic cooperation, and they should be implemented with a long-term view to assure the effectiveness of inter-Korean agreements.

In the future, the ROK government will consistently strive to induce changes in North Korea and build a proper framework for inter-Korean exchanges and cooperation by using the Fund in just ways, and thereby contribute to peace and stability on the Korean peninsula.