

# **A Futuristic Solution to the North Korean Dilemma: An Economic Perspective**

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**Abstract.** The October 2006 North Korean nuclear bomb test startled the international community for its provocative boldness in light of its starving population. A partial answer to the question of how and where North Korea had obtained the resources necessary to finance such an expensive project might be found in the South Korean economic aids given to North Korea. The North Korean tactic of threatening the international community, particularly South Korea, may work in the short run, but not in the long run. A viable long-run solution to North Korean economic development should be found. The Kaesong Industrial Complex can be an excellent starting point.

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## **1. Introduction**

Ever since North Korea (NK) tested a nuclear device on October 9, 2006, the world has recognized both the seriousness of the nuclear threat posed by a rogue nation, and the urgency that something must be done to remove that threat. Given NK's extensive history of arms sales as a means of earning hard currency, the possibility of terrorists obtaining a nuclear device with which it can threaten the world has come closer to reality.

A puzzle for many economists and politicians is how NK was able to garner the means to carry out nuclear research and development in light of its starving population and dire economic condition. South Korea's (SK) role in providing the means, even if indirectly, is questioned and thus, the financial dealings between North and South Korea have to be examined. Unfortunately, however, NK's secrecy on all matters related to its politics and economy has resulted in a dearth of data on this interaction. With this lack of published data, the truth regarding this interaction may never be known. The extent of this cross-border relationship, however, must be investigated, even with incomplete data. The arrangements that made the North's nuclear program possible may be the means by which the nuclear threat is reduced.

This paper examines the financial relationship between NK and SK, using published sources, with a particular emphasis on the role of the Kaesong Industrial Complex (KIC). We argue that the interactions between the Koreas such as KIC may be the only viable means by which the nuclear threat is reduced.

There are 4 additional sections in this paper. Section 2 presents basic background information about the contentious relationship among SK, NK, and surrounding countries. Section 3 explains the various projects that reveal what role SK plays in supporting and sustaining the NK economy. Section 4 elaborates the potential role of the KIC in sustaining the NK economy and thus, its regime, which may possibly reduce NK attempts to extort the international community via such threats as a nuclear weapon. Finally, Section 5 draws a conclusion that summarizes a futuristic solution to the NK dilemma.

## **2. Background**

Since the cessation of hostilities of the Korean War in 1953, the U.S. has had a very significant role in maintaining the tenuous truce, and has acted as a peace keeper for the Korean peninsula. This role, however, has been questioned in recent years by the new generation<sup>2</sup> of South Koreans who did not directly experience the devastation of the Korean War or the damage inflicted by NK. The younger generations have begun to view the U.S. forces in SK as occupiers rather than as peace keepers. This nationalistic view is a direct byproduct of the rapid economic growth SK has experienced since the 1970s. Increased national wealth has brought about a self-confidence that was lacking among the previous generations. Furthermore, the independent-minded labor union movement since the 1980's brought about self-confident younger generation Koreans who believe in the unification of two Koreas.

These young Koreans point to former President Kim Dae Jung's visit to NK on June 15, 2000 as evidence that SK and NK, if left alone, could work out their differences and create a common good. The joint declaration of peaceful coexistence to the world by Kim Dae Jung and Kim Jong Il was a major breakthrough that was in stark contrast to the announcement by President George Bush two years later that NK is a member of the Axis of Evil. In Mr. Bush's view, a nation that is starving its own citizens while funding a massive military is evil on its face. In NK's view, however, it was an unnecessary provocation on domestic issues. What more evidence of the deleterious effect of the U.S. presence on the peninsula is needed, say the young?

The NK announcement that it possesses a nuclear weapon on February 2005, followed by an attempted missile launching on July 2006 and finally a nuclear bomb testing on October 2006, were belligerent acts condemned by the rest of the world. The fact that NK was secretly developing a nuclear bomb in light of its repeated international denials, a large throng of still malnourished citizens, and stagnant economic growth made the international community doubt the sanity of NK leaders, especially that of Kim Jong Il<sup>3</sup>. Consequently, international focus turned to the

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