

# Peace is More Profitable: Private Sector Inclusion in the Korean Peninsula Peace Process

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by Riccardo Villa

The diplomatic endeavours, initiated to resolve the Korean conflict and initialise the denuclearisation of the Peninsula, culminated in the 2018–19 incipient framework towards a potential peace process. Although the lack of diplomatic commitment to promises made during the meetings brought all the efforts and advancements to an impasse, a door for diplomacy remains open. The Moon administration has pursued détente with North Korea, believing the latter would temper its behaviour or even become partner with the South in a ‘peace economy’ – an interconnected economic zone. Firstly, pro-engagement governments have been pushing firms to invest in the North since the inter-Korean summit of 2000. Secondly, companies can apply for the inter-Korean Cooperation Fund, established in March 1991 to assist inter-Korean economic cooperation and social and cultural exchanges.

The private sector could ride this pro-engagement attitude with the North in a bid to restart and achieve a breakthrough in the negotiations for peace. Firstly, *Chaebol*, in general South Korean firms, the North Korean economy and more loosely the global stock market are deeply connected with the political environment and stability of the Peninsula. Their interrelatedness was shown in many instances, for example in January 2016 when North Korea claimed the first hydrogen bomb test and in February 2019 after the talks between Trump and Kim Jong-un abruptly ended, when stocks around the world and South Koreans primarily, witnessed a harsh drop. Secondly, the private sector has the material capacities – technical, human and managerial - to intervene in different ways, providing consultants, spaces for negotiation – the

Negotiations for the stability of the Korean Peninsula and North Korea’s nuclear disarmament are currently at an impasse, but a door for diplomacy is still open. The involvement of the private sector, mainly *Chaebol*, that could exploit the pro-engagement attitude of the Moon Administration could help bringing the economic benefits for peace into perspective and unlock the current negotiations. Under the banner of kinship and economic benefits South Korean firms could act in various ways to propose new ventures and coordinate with both Governments. Dialogue between North and South Korea brokered by and between businesspeople would bring a certain amount of pragmatism and a balancing of needs and interests of all parties, which could lead to momentum for better and more significant cooperation on the Peninsula.

value of a good setting is not to be underestimated – and lobbying among others. Thirdly, the private sector enjoys credibility, due to its influence over society, has access to conflict parties, more so than diplomats or politicians due to their pragmatic mindset.

For South Korean firms, on top of the aid that they would receive by applying to the Inter-Korean Cooperation Fund North Korea has location-specific advantages. Namely, proximity to home country, low-cost labour, low energy costs and low raw material costs. South Korean businesses could undertake horizontal investment - market oriented - to gain market access

more easily by establishing operations in the main commercial hub of the receiving country, such was the behaviour of Korean firms at Mount Kumgang or the Kaesong Complex. This type of investment benefits the investor and the host country's local market by increasing local production – market size, economic growth and low transportation costs are invaluable factors. South Korean firms, by undertaking vertical investment – resources oriented - could acquire resources not available at the national level such as cheap unskilled or semi-skilled labour and the North's natural resources. South Korean firms could reap advantages by seeking vertical investment because the industrial structure of the South has been shifting from labour-intensive to high-technology manufacturing. Chinese lower labour costs have proven dangerous for South Korean SMEs, that could benefit from perusing the even lower North Korean labour and transportation costs.

North Korea geostrategic positioning is expected to be advantageous for South Korean investors that pursue the creation of energy and transportation networks that connect the whole of Northeast Asia. Such projects could create business opportunities for business firms and increase regional integration. The North can help the South reduce the costs of building the network and bring concomitantly economic benefits to its own economy through the creation of a solid economic infrastructure. Primary examples are the Kyongui and Donghae rail and highway projects, that would benefit both countries, by reducing the costs of inter-Korean logistics and boost operations at Kaesong and Mt. Kumgang when reopened. The economic benefits for investors and the boost to the North's economy are shown by using Kaesong as an example. During the 2007-2014 period, not only South Korean firms with subsidiaries operating at Kaesong showed average annual 8% increase in revenues, 26% in fixed assets and 11% in profits. Also, the hard currency receipts generated for the North possibly surpassed \$100 million a year at the peak of operations.

The private sector could provide direct monetary support via provision of credit, to businesses in North Korea, highlighting the opportunities that globalisation could offer to the DPRK's economy.

For South Korean investment into North Korea to be sustainable over time, private businesses must find investment opportunities in the North to be profitable beyond non-economic incentives. Private businesses' contribution to the peace process should be acknowledged as part of corporate social responsibility (CSR). Businesses can benefit society while boosting their brands. There have been many instances of private businesses that have benefited from getting involved in social issues. One of such companies is KT, South Korea's largest telecommunications company, that has expanded its nationwide 5G network to Daeseong-dong, the Freedom Village. This endeavour has received extensive media coverage and has been deemed greatly helpful toward the improvement of the life and safety of the residents and recognised as a small but significant step to contribute to peace on the Korean peninsula.

On top of monetary capability, the private sector has strong convening power. Companies can play an important role in securing popular support for a peace process in a politically charged atmosphere through overt advocacy. High-profile campaigns to mobilise citizens' support for a call for immediate negotiations leading to a peaceful end to the conflict could be organised and funded by these same enterprises, especially under rapprochement-averse presidencies. These initiatives could be a launchpad to explain the socio-economic benefits of the peace dividend - the economic rationale for peace, its importance for economic growth and prosperity. Example of high profile private diplomatic initiatives is the founder of Hyundai Chung Ju Yung's visit to North Korea. Mr. Chung on the 16th of June 1998, led a convoy of 50 trucks filled with 500 head of cattle through Panmunjom, in an effort to create a cornerstone for North-South rapprochement. This endeavour showed that investment coming from South Korean firms could be based on a sense of kinship and necessity to help the North.

The biggest asset of the private sector is knowledge, related to labour market, global standards and the inhibitors to economic development, including increased security costs for the private sector and damage to the tourism industry. Forays into joint

ventures and investments the Peninsula – 651 government approved projects as of December 2019 – helped to reduce tensions on the Korean Peninsula and to improve the investment environment in the North. North Korea’s modern labour market dates back to the 2002 Economic Management Reform Measure. This reform that included common market prerogatives – the right to arbitration, respect for the rule of law, investments’ protection and other standards – was drafted during the joint-Korean negotiations over Mount Kumgang and Kaesong and presented to the North Korean government for approval.

Given these factors, the role businesses can play must be outlined within a broader strategy of negotiation and mediation. Eventually, the inclusion of the private sector could prove propaedeutic towards the balancing of need, interests, values and pragmatism, if the engagement is carefully analysed,

planned and implemented. For example, a package of mutual steps, planned via the inclusion of private sector representatives, could generate momentum for the frozen peace talks through economic rapprochement. Businesspeople involvement could insulate any joint venture from political tensions, even though not fully. Private sector involvement could prove a buffer from these risks, will be propaedeutic to loosen economically inefficient controls that constrain ventures on a regular basis. Dialogue between North and South Korea brokered by and between businesspeople would direct feasibility assessment and provide better control over hiring, training and higher protections for workers hence improving the fairness, efficiency and output of the Complex. This would create an *exemplum maximor* for peaceful cooperation.

## ABOUT THE AUTHOR



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