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1

Steps Toward Peace and Economic Community: History of South-North Korea Dialogue

❖ South-North Korean Summit and Developments in Inter-Korean Relations

Historic First South-North Korean Summit in 2000

● Developments

The Kim Dae-jung administration recognized North Korea as a counterpart for reconciliation and cooperation, and pursued policy of co-existence.

The administration put forth three principles: 1) non-tolerance of any military provocation, 2) rejection of a reunification through unilateral absorption, 3) active pursuit of reconciliation and cooperation between the two Koreas.

President Kim's speech, the "Berlin Declaration," made on March 9, 2000 at the Free University of Berlin, provided a direct platform for the first South-North Korean summit: "Declaration of Reconciliation and Cooperation for Peace and Unification on the Korean Peninsula.

Following the Berlin Declaration, and after an exchange of special envoys, the first South-North Korean summit was announced on April 10, 2000.

*The Berlin Declaration was a comprehensive proposal that covered a wide range of inter-Korean issues. It called for expansion of social infrastructure and agricultural reform in North Korea as well as humanitarian assistance to North Korea. It also proposed reuniting separated Korean families, holding government-level dialogue and establishing peace on the peninsula.

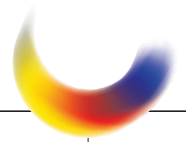
The first historic summit was held in Pyongyang from June 13 to 15, 2000.

● Outcome and significance

At the summit, the two Korean leaders reached a five-point agreement called the June 15 Joint Declaration.

Major Points of the June 15 Joint Declaration

- Resolve reunification of the Korean Peninsula through own initiative of South and North Korea
- The South Korean proposal for a confederation and the North Korean proposal for a low-level federation share common elements and reunification should proceed in that direction
- Work toward resolving such humanitarian issues as the reunion of separated families and the release of long-held political prisoners who refuse to renounce their ideological beliefs
- Balance economic development through inter-Korean economic cooperation and work together in social affairs, culture, sports, health, environment and other fields
- Hold government-level talks soon



Following the first summit, the two Koreas engaged in specific cooperation and dialogue, such as military talks, economic cooperation and ministerial dialogue between the South's Ministry of Unification and its counterpart in the North. The talks served as the central consultative body driving reconciliation and cooperation. The ministerial talks served as a forum through which the two Koreas mediated schedules and agreements for more focused talks on military, economic, humanitarian, social, cultural and sports issues.

Since the summit, three major economic projects have either begun or continued to expand:

- Reconnection of inter-Korean railways and highways
- Construction of the Gaeseong Industrial Complex
- Mt. Geumgang tourism project

2007 South-North Korean Summit

• Developments

President Roh Moo-hyun continued his predecessor's policy of reconciliation and cooperation, pursuing a policy of "peace and co-prosperity" between the two Koreas.

The goals of President Roh's policy are to augment peace on the Korean Peninsula and pursue co-prosperity between South and North Korea and in the greater Northeast Asian region.

To achieve these goals, the policy puts forth three strategies: peaceful resolution of the North Korean nuclear issue, the establishment of a permanent peace regime on the Korean Peninsula, and making Korea a Northeast Asian economic hub.

With the understanding of synergy between resolution of the North Korean nuclear issue and improved inter-Korean relations, the Roh administration continuously called for a second South-North Korean summit.

North Korea responded to the call, and the two Koreas agreed on Aug. 5, 2007, to hold the second summit.

As the summit between the two Korean leaders will be held at a time when the September 19 Joint Statement and February 13 Agreement are starting to be implemented, it is expected to contribute to the resolution of the North Korean nuclear issue as well as to the development of inter-Korean relations.

Major Points Agreed to on the 2007 Summit

- South Korean President Roh Moo-hyun will visit Pyongyang from Aug. 28 through Aug. 30, 2007.
*On Aug. 18, North Korea requested postponement of the summit because of flood damage. The two sides moved the summit to Oct. 2-4.
- The meeting will elevate inter-Korean relations to a new level and open a new phase toward peace, prosperity and reunification of the two Koreas.
- Preparatory talks for the summit will be held in Gaeseong as soon as possible.

• Significance of the 2007 South-North Korean Summit

• Starting point for era of peace and prosperity on the Korean Peninsula

The two Koreas have often sought engagement: The July 4 South-North Joint Communiqué of 1972, the South-North Basic Agreement of 1992 and the June 15 Joint Declaration of 2000 are just a few examples. The 2007 South-North Korean Summit will provide an opportunity to greatly expand these efforts to achieve peace and prosperity.

By frankly discussing how to “establish peace” on the Korean Peninsula, the two leaders will be laying an important foundation for a permanent peace regime.

In addition, the 2007 summit will offer an opportunity for the two leaders to upgrade both the quantity and quality of inter-Korean cooperation and exchanges by discussing a new blueprint for the Korean Peninsula.

• Laying the foundation for normalizing South-North Korean summits

Through this upcoming meeting, the two Koreas can take a step forward toward making the summit a regular event.

Regularizing the summit will put the growth of inter-Korean relations onto a stable and continuous footing and give the next administration the foundation to take it to a higher level.

• Synergy between South-North Korean Summit and Six-Party Talks

The two leaders’ discussion and consultation over the nuclear issue and the establishment of a permanent peace regime will contribute to the resolution of the North Korean nuclear issue.

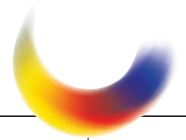
By agreeing to state their political will to fully resolve the nuclear issue, the two leaders can facilitate progress at the Six-Party Talks.

By utilizing the summit as an opportunity to heighten trust to a level allowing the two Koreas to recognize and seize opportunities arising from international developments related to the Korean Peninsula, the two Koreas can augment interdependence and move to incrementally eliminate military tension and other factors hindering better relations.

• Simultaneously achieving resolution of the nuclear North Korean issue and advancement in inter-Korean relations

The timing of the summit, coming as the September 19 Joint Statement and February 13 Agreement enter the implementation stage, will help prompt resolution of the North Korean nuclear issue and take inter-Korean relations further to a new level.

By doing so, the summit will further positively contribute to accelerating the Six-Party process of dismantling North Korea’s nuclear program.



- **Solidifying Korea's position as a main initiator to resolve pending issues**

Against the background of the fast-shifting geopolitical landscape surrounding the Korean Peninsula and Northeast Asia, the summit is expected to facilitate efforts to maximize our national interest.

By meeting face to face and discussing pending issues, the two leaders can create a vital momentum for the two Koreas to take a proactive role in establishing peace.

Major Objectives of the 2007 South-North Korean Summit (including FAQs)

- **Synergy between economy and peace**

The second summit will allow the two Koreas to seek a new level of economic cooperation, through which a mutually beneficial relationship can be built. Over the long term, the two Koreas can seek to institutionalize and structuralize economic cooperation projects relying on efficient investment and market principles.

By creating a synergetic dynamic between economic progress and peace, the Koreas will attempt to move beyond basic economic cooperation and foster profitable investment by South Korea and development of the North Korean economy, to the point that inter-Korean economic cooperation can become a new engine of growth for the South Korean economy.

Stronger economic ties can further propel and solidify inter-Korean trust. Learning from how the Gaeseong Industrial Complex and reconnected inter-Korean railway developments contributed to stronger military trust, we will seek to actively stem security concerns from adversely affecting the Korean economy.

- **Starting point of dialogue for the founding of a joint Korean economic community**

We will seek to put North Korea's human and material resources to effective use through inter-Korean cooperation projects, which will propel a more balanced economic development between the two Koreas.

We want to help North Korea become a more independent economy through expanding and deepening economic cooperation with South Korea. Such effort is expected to provide the South Korean economy with a new growth engine.

- **Pursuit of continuous dialogue by upholding existing agreements through mutual trust**

We will pursue real progress in inter-Korean relations based on previous agreements. South and North Koreas have already agreed on comprehensive and specific principles and orientations in their relationship; a political pledge that the two Koreas have made to the world.

The two Koreas will stress their commitment to upholding the July 4 Joint Communiqué, the South-North Basic Agreement as well as agreements produced by the Six-Party Talks such as the September 19 Joint Statement and February 13 Agreement. The two sides will review possible problems that could arise while implementing the agreements and discuss how to improve them.

● An epochal choice to open an era of peace and prosperity in Northeast Asia

The 2007 summit will link the inter-Korean network to the wider Northeast Asian region, providing momentum for a cooperative framework seeking peace and co-prosperity in Northeast Asia.

The summit will be a chance for South and North Korea to seek a proactive role in the process of establishing a prosperous Northeast Asia and establishing peace in the region.

The two leaders will seek to expand markets on the peninsula and beyond and enhance the potential of Northeast Asia, based on common understanding of advantageous changes in the region and mutual cooperation.

The 2007 summit will contribute to overcoming the national tragedy of division and military confrontation and, furthermore, to raise peace and co-prosperity in Northeast Asia.

The talks will accelerate exchanges and cooperation among countries in the region so that a systematic foundation can be laid for a more harmonious order and interconnected community.



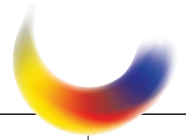
>>> Timing and Location of the 2007 South-North Korean Summit

Q Why did North Korea suddenly accept the proposal for a second Korean summit?

- The South Korean Government has persistently stressed the need for a summit to advance inter-Korean relations and establish peace on the Korean Peninsula. Also, North Korea was already in support of holding a second summit in principle.
- In addition, recent positive developments on the North Korean nuclear issue and inter-Korean relations appear to have convinced the North that a second summit at this time will serve its interests as well.

Q North Korea's Chairman of the National Defense Commission Kim Jong-il pledged at the first summit to reciprocate then South Korean President Kim Dae-jung's visit to Pyongyang by coming to Seoul. Doesn't this go against protocol for the incumbent South Korean president to visit Pyongyang again?

- The Roh administration has often said it is willing to meet North Korea for talks at any time and place.
- * "If the other party responds, I am willing to hold summit talks regardless of when and where or the agenda," President Roh said during his New Year's speech in January 2005.



- The North Korean nuclear issue has caused inter-Korean relations to suffer, but the timing of the 2007 summit is appropriate as it builds on momentum from the implementation of the September 19 Joint Statement and February 13 Agreement. It is Seoul's intention to use the 2007 summit to accelerate this implementation and thereby contribute to the resolution of the North Korean nuclear issue and enhance inter-Korean relations.
- Also, the summit will show that the leaders of the two Koreas — the primary parties responsible for peace on the peninsula and the corresponding level of co-existence and co-prosperity of the Korean people — can hold in-depth discussions in tandem with the Six-Party Talks.

Q The North Korean nuclear issue remains unresolved, and talks of a permanent peace regime haven't even begun on an international level yet. At this juncture, isn't such a discussion between the two Korean leaders premature?

- Achieving peace on the Korean Peninsula is directly linked to the co-existence and co-prosperity of the Korean people, thus it is very significant and important that the two leaders, as direct parties to the issue, discuss Korean peace.
- Also, we expect that frank and honest discussions by the two leaders will contribute to the implementation of the September 19 Joint Statement and February 13 Agreement and to the resolution of the North Korean nuclear issue.

>>> Neighboring Countries' Involvement, Reaction

Q Were there prior consultations with allies, specifically the United States and Japan, during the South's preparations for the 2007 summit?

- We have explained the importance and usefulness of the second summit and sought the understanding of the United States prior to the official announcement.
- We have and will continue to hold close consultations on issues sensitive to the other nations that are crucial to the establishment of a lasting peace in Northeast Asia.
- Japan and all the member countries of the Six-Party Talks have expressed their support for the summit, and we have briefed our allies on where we plan to head with it.

>>> Summit Agenda

Q What is the two Koreas' agenda for the talks?

- At the preparatory talks held on Aug. 14, both sides agreed that the two leaders will discuss a broad range of Korean issues, including achieving peace on the Korean Peninsula, co-prosperity, reconciliation and eventual reunification. We anticipate discussions on a wide range of mutual interests.
- We are also discussing issues expected to be raised by both parties and are formulating our stance. As part of this process, we are gathering opinions from various fields of South Korean society.

Q Will the subject of a peace regime for Korea come up at the summit? If so, what will the discussion focus on? Is a peace treaty or peace declaration formally ending the Korean War possible?

- The issue of peace is included in the agreement to hold the 2007 summit.
- As all talks involve more than one party, there would be a set of issues we would like to bring up, and vice versa.
- We expect that there will be a comprehensive discussion on the issue of peace on the Korean Peninsula.

Q Will the North Korean nuclear issue be discussed?

- It is our position that discussions will cover a wide range of issues on inter-Korean relations, including peace on the Korean Peninsula, as well as co-prosperity, reconciliation and reunification.
- On the denuclearization of the Korean Peninsula, we expect the discussion at this summit will flow in sync with the Six-Party Talks in a conducive way so that it can facilitate the success of the six-party process.

>>> Domestic Politics

Q Was there consideration about how the summit could influence South Korea's presidential election in December?

- The 2007 summit is to facilitate permanent peace on the Korean Peninsula as well as a new phase in inter-Korean relations, and has no bearing on the domestic political calendar.
- We need to proactively respond to the changing circumstances surrounding the Korean Peninsula. Such changes take place irrespective of the domestic political calendar.

>>> Inter-Korean Economic Cooperation

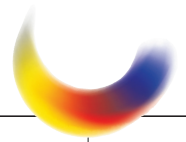
Q What is the significance of a South-North Korean economic community?

- Construction of a South-North Korean economic community was a work-in-progress even before the inauguration of the Roh administration in 2003.
- As for how it will proceed, it will be done in a way that funnels inter-Korean economic cooperation toward mutually beneficial undertakings; one that provides investment opportunities for South Korea and economic recovery for North Korea.

>>> Regional Ties

Q Are there plans for four-party talks involving the two Koreas, the United States and China, after the South-North Korean Summit?

- At this time, we know of no plans for four-party talks.



Major Inter-Korean Agreements

July 4 Joint Communiqué

Overview

The declaration coincided with changes in international relations, namely the détente between the United States and the former Soviet Union, as well as aggressive efforts for dialogue by the two Koreas.

The two Koreas began a series of undisclosed contacts in November 1971, resulting in the simultaneous announcement of the July 4 South-North Joint Communiqué in Seoul and Pyongyang the following year.

The communiqué marked the first official state-to-state contact on the principles and methods for reunification that resulted in a formal agreement since the division of the two Koreas.

Major Points Agreed to in the July 4 Joint Communiqué

- Reunification will take place without reliance on or the intervention by foreign nations; through peace, not by force — the unity of the Korean people should transcend ideologies and systems.
- Measures will be carried out to stop propaganda broadcasts against the other side, give up military aggression and prevent any military clashes.
- Institute various exchanges in the economic, social and cultural fields; cooperate in the holding of inter-Korean Red Cross talks; open a Seoul-Pyongyang hotline; and set up a South-North mediation committee,

South-North Basic Agreement

Overview

The collapse of the Cold War order in the late 1980s led the two Koreas to a common understanding on the need for dialogue. High-level talks were held on eight occasions from 1990 through 1992.

At the fifth inter-Korean talks on Dec. 13, 1991, the two Koreas adopted the 25-point Agreement on Reconciliation, Non-Aggression, Exchanges and Cooperation between North and South Korea, also known as South-North Basic Agreement. The agreement went into effect on Feb. 19, 1992.

At their eighth high-level talks, the two sides adopted three subsidiary agreements on 1) reconciliation, 2) non-aggression, and 3) exchanges and cooperation.

The agreement provided the basic framework for co-development of the Korean people through pledges of reconciliation, non-aggression and exchanges and cooperation and for gradual, step-by-step reunification.

Major Points Agreed to in the South-North Basic Agreement

- The relationship between South and North Korea is not one between two governments but a special relationship forged by the pursuit of reunification
- Recognize and respect each other's system, bar subversion and intervention, open a liaison office and uphold the existing armistice agreement until a peace regime is found
- Avoid use of military force, peacefully resolve conflicts, respect the military borders defined by the armistice agreement and the territory each side had been exercising real control over and open a military hotline
- Cooperate in the economic and social sectors; allow free contact, travel and postal exchanges; arrange reunions for families separated by the Korean War; and reconnect railways and roads

Joint Declaration on the Denuclearization of the Korean Peninsula

Overview

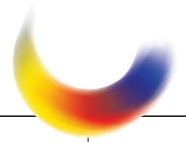
To address concerns about the North Korean nuclear issue in the early 1990s, South Korea raised the denuclearization issue at high-level talks. As a result, representatives from both sides held three rounds of talks following the fifth high-level dialogue. The two sides adopted the six-point Joint Declaration on the Denuclearization of the Korean Peninsula on Dec. 31, 1991. The declaration took effect on Feb. 19, 1992.

Under the declaration, the two Koreas held 13 rounds of inter-Korean committee meetings on nuclear control from March-December 1992.

The declaration provided the basic framework for the two sides to take the initiative for making the peninsula nuclear-free.

Major Points Agreed to in the Joint Declaration

- No testing, manufacturing, producing, registering, possessing, stockpiling, distributing or using nuclear weapons
- Use nuclear energy only for peaceful purposes
- No nuclear reprocessing and uranium enriching facilities permitted
- Permit inspection of facilities that the other party selects and agrees upon to ensure denuclearization
- Form and operate a joint inter-Korean committee on nuclear control one month after the declaration takes effect



June 15 Inter-Korean Joint Declaration

• Overview

After the “Berlin Declaration” was announced in March 2000, the two Koreas held four rounds of contacts from March 9, 2000, to April 8, 2000, through respective envoys. On April 10, the Koreas announced that they would hold the first South-North summit.

The summit took place in Pyongyang from June 13-15, 2000, after which the two leaders adopted and announced the five-point June 15 inter-Korean Joint Declaration.

The declaration was the first of its kind derived from direct negotiations between the two leaders in 55 years of division. The two Koreas proclaimed to the world that they recognized each other’s system and proclaimed self-determination in resolving Korean Peninsula affairs.

The declaration also laid the foundation to activate Inter-Korean dialogue in various fields, advance exchanges and cooperation and pave the ground for Korean peace.

Major Points Agreed to in the June 15 Inter-Korean Joint Declaration

- Cooperate to resolve Korean reunification with the other Korea, independent of other countries
- Recognize the commonality between South Korea’s proposal for a confederation and the North’s proposal for a low-level federation and pursue reunification along those lines
- Resolve humanitarian issues by holding reunions of separated Korean families and seek a humanitarian resolution to the matter of long-held unrepentant political prisoners
- Further consolidate mutual trust and balanced development of both economies through economic cooperation
- Hold government-level dialogue for expeditious implementation of the hitherto agreed points
- Chairman Kim Jong-il of North Korea’s National Defense Commission will visit Seoul at an appropriate time in the future

2

North Korea Policy and Reunification Process

Summary of South Korea's Policies Toward North Korea

Historic First South-North Korean Summit in 2000

Past South Korean administrations have worked to develop inter-Korean relations while sharing overall policy goals: 1) prevent war on the Korean Peninsula, 2) alleviate military tension, 3) promote peace, 4) expand exchanges and 5) gradually achieve peaceful reunification.

The Roh Moo-hyun administration, building on the success of its predecessor, has promoted flexible and timely policies that reflect changes in international circumstances, inter-Korean relations and public opinions.

Comparison of North Korea Policies

Discussions for reunification began long before the Roh Moo-hyun administration took office in 2003. The first official document between the two Koreas was signed on July 4, 1974. In 1988, the South announced the July 7 Declaration and the Korean National Community Unification Formula.

In the July 7 Declaration, Seoul pledged not to treat North Korea as an adversary but as a member of the “same national community.” Among other things, the government pledged to “actively promote exchange of visits between the people of South and North Korea” and “open doors of trade between the two.”

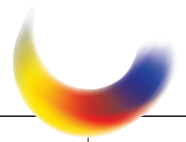
The “unification formula,” for its part, proposed a gradual, step-by-step reunification.

In 1992, the two Koreas signed the South-North Basic Agreement that set the basis for the two Koreas' relations.

During the Kim Dae-jung administration (1998-2003), inter-Korean relations rose to a relationship of reconciliatory cooperation. Through the first summit (2000), the two reached a mutual understanding on achieving peace on the Korean Peninsula.

A series of inter-Korean talks, including ministerial meetings, were subsequently held between the two Koreas, kick-starting numerous economic and other exchanges.

The Roh administration inherited Kim Dae-jung's reconciliatory policies. The Government began balancing efforts to resolve the North Korean nuclear issue with developments in inter-Korean relations. It also began to play an active role in bringing a peaceful solution to the nuclear problem. By enacting the Inter-Korean Relations Development Act (2005), Seoul paved the way for the promotion of North Korean policies based on public consensus.



❖ The Kim Dae-jung Administration's Policy of Reconciliation and Cooperation

Inheriting and improving on the policy goals and reunification measures of preceding governments, the Kim Dae-jung administration sought to establish peace on the peninsula and enhance relations with North Korea. Instead of rushing for a legal or “de jure” reunification, the administration aimed to transform the Cold War confrontation on the peninsula into a structure of “reconciliatory cooperation.”

By activating exchange and cooperation with the North, the two Koreas can broaden mutual understanding and trust, in addition to restoring the sense of being one people, thereby achieving “de facto” reunification.

Contents of the Kim Dae-jung Administration's inter-Korean reconciliatory cooperation policy:

The main principle was to disallow any kind of military provocation and exclude reunification through unilateral absorption and actively promote exchanges and cooperation. The main point of the policies was to promote side-by-side security and reconciliation at the same time and to realize peaceful coexistence. The Government also aimed to prepare the North for changes and to seek mutual benefits through various projects. Other objectives included positioning the two Koreas as the ultimate decision makers in resolving their problems while seeking international support and to promote North Korean policies based on public consensus.

Corresponding tasks included implementing and realizing the South-North Basic Agreement through dialogue, and to fortify inter-Korean economic cooperation by strictly separating business from politics. The issue of separated families was categorized as the top priority while humanitarian food aid to the North continued. The administration also aimed to effectively implement the light-water reactor project and create an environment favorable for the peninsula's peace.

❖ The Roh Moo-hyun Administration's Policy of Peace and Co-prosperity

The Roh Moo-hyun administration has consistently promoted its “peace and prosperity policies” based on the preceding government's accomplishments through reconciliatory cooperation policies. Through communication and exchanges, the Government has sought to stabilize inter-Korean relations focusing on peaceful coexistence and reconciliatory cooperation. In addition, Seoul has broadened its policy beyond the peninsula to the Northeast Asian region and expanded the contents from achieving reconciliation to securing peace and co-prosperity.

Peace on the peninsula is a precondition and outcome of inter-Korean economic cooperation. At

the same time, co-prosperity of the two Koreas through economic cooperation is the shortcut and foundation of the peninsula's peace.

The Government thereby devised strategies to establish peace and promote co-prosperity for both Koreas with the aim to create the basis for a peaceful reunification and co-prosperity in Northeast Asia.

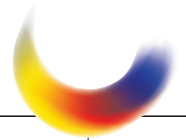
The Government also aims to peacefully resolve the North's nuclear issue, which has become the key pending security issue and to transform the unstable armistice agreement into a permanent peace treaty.

By activating exchanges and economic, social and cultural cooperation, the Government aims to create a common economic community.

"Although we could have just called it a peace policy, the reason why we inserted the word prosperity and presented a vision for Northeast Asia was a strategy to induce positive reaction to inter-Korean dialogue." (President Roh during a meeting with the Unification Ministry on March 24, 2003)

Plans for Peace and Prosperity Policy

- Goals were set to promote peace on the peninsula and to bring co-prosperity both between the two Koreas and in Northeast Asia. The boundaries and contents of the policies were expanded to encompass reunification, diplomacy and security not only on the peninsula but also the surrounding region.
- As for the principles, the Government is working to reach a peaceful solution through dialogue and build mutual trust and reciprocity. The Government is seeking international cooperation based on the principles held by the two Koreas and implement policies upon public consensus.
- Strategies include obtaining a peaceful solution to the nuclear issue that would lead to a peace regime on the peninsula and strengthen efforts to set up an economic hub in Northeast Asia. Also, the Government would like to balance out development in the economic (prosperity) and security (peace) sectors. By urging public participation and spreading consensus, the Government will further seek international cooperation.



❖ Gradual, Step-by-Step Reunification

The reunification of the Korean Peninsula requires a gradual and long-term process.

The South Korean government is pushing for a gradual and step-by-step reunification in consideration of the widened disparity between the two Koreas since division. Such a process would be possible through fortified exchanges and cooperation that narrow differences and create a sense of community. In other words, exchanges and cooperation will lead to the creation of economic, social and cultural communities that will eventually lead the two Koreas towards legitimate reunification.

“It will be best to first establish a peaceful structure and improve relations through exchanges and cooperation. Once North Korea’s capacity matures sufficiently, reunification in the sense of becoming one nation would be possible.” (President Roh at a meeting with ethnic Korean residents in Frankfurt, May 14, 2005)

A sudden reunification would not only cause confusion but also require huge financial cost to integrate the two systems. Even if reunification were accomplished, it would take a long time to truly unite socially and culturally. It is therefore most appropriate to carry out each step in a stable manner; through a predictable process for the sake of preventing repercussions from a premature reunification.

In addition, the stark economic and social gap between the two Koreas proves that an immediate reunification is not feasible. A sudden reunification would bring social confusion and immense financial burden to the South, not to mention a security threat.

*German reunification cost around 1.25 trillion euros over 15 years.

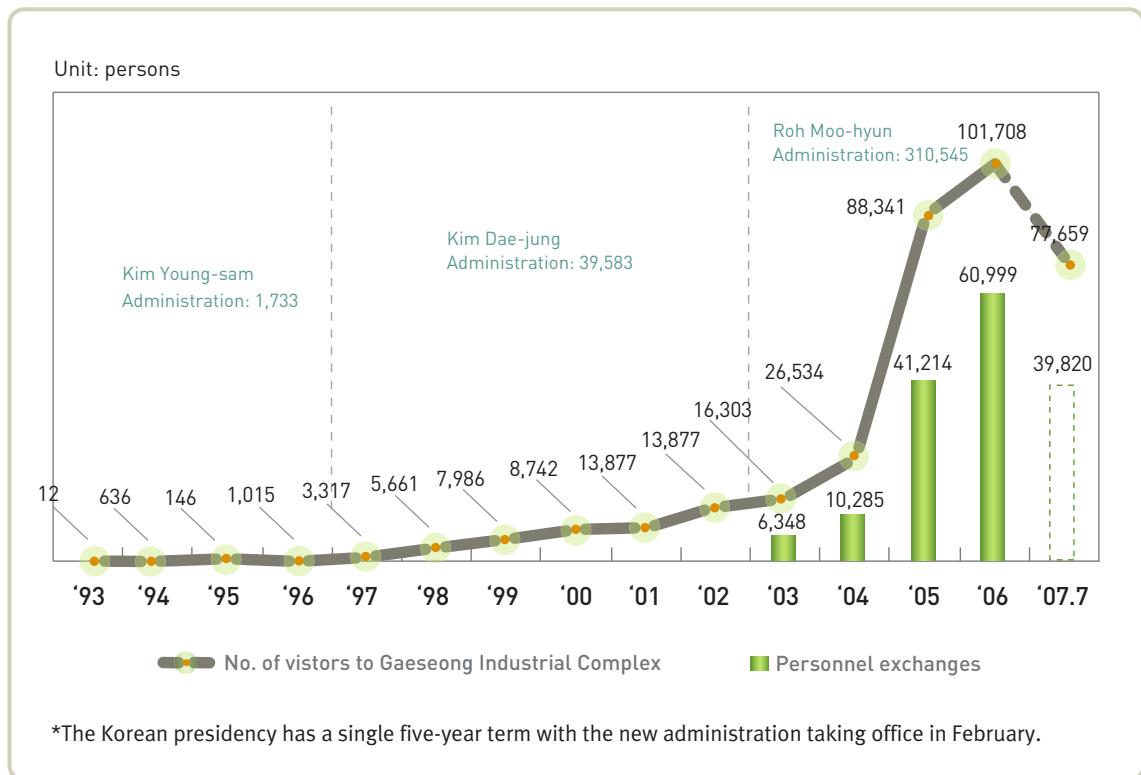
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Inter-Korean Exchanges

❖ Overview of Inter-Korean Exchanges

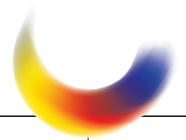
Exchange visits between the South and the North have sharply grown thanks to the reconnection of cross-border roads and the development of the Gaeseong Industrial Complex. In 2006, exchange visits broke through the 100,000 mark.

>>> Exchange Visits

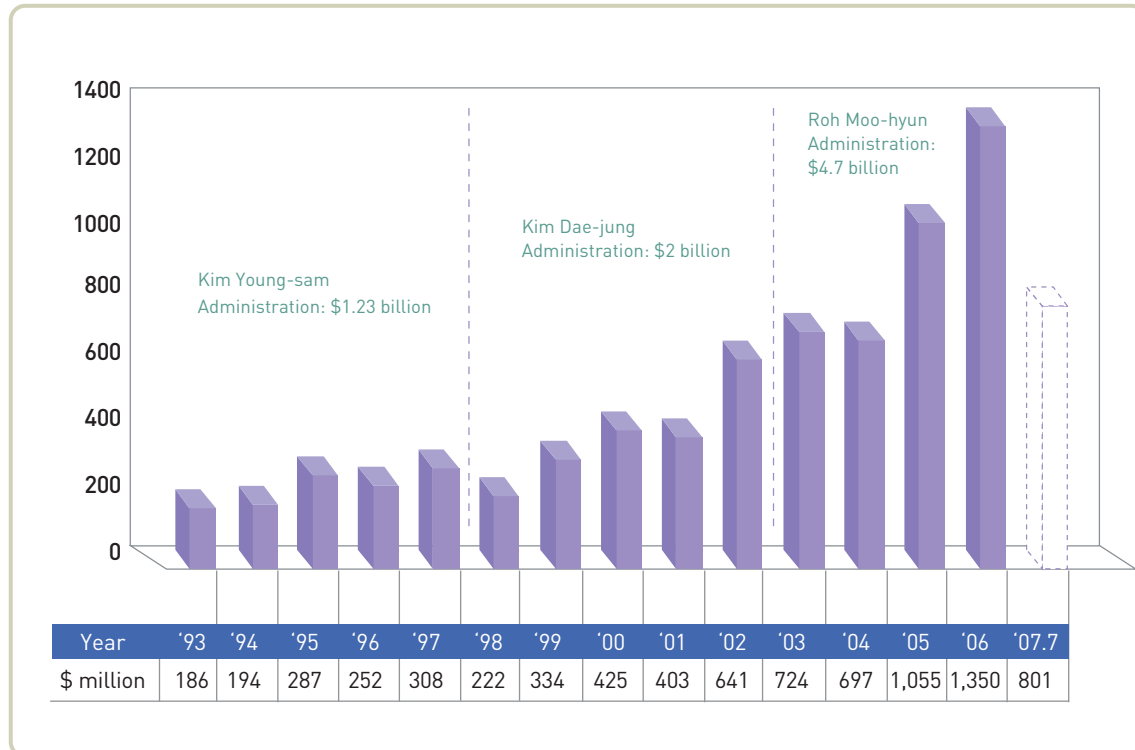


Trade between both sides has risen steadily every year to exceed \$1 billion in 2005. In 2006, the trade volume reached \$1.35 billion.

*Trade with the South also increasingly takes up a higher portion of the North's foreign trade — 19.6% in 2004, 25.8% in 2005 and 31% in 2006.



>>> South-North Trade



A sharp increase in South-North exchanges via land, sea and air routes:

- Land routes: Two reconnected inter-Korean roads, one near each coast, have been in operation since December 2004. They have greatly assisted the development of the Gaeseong Industrial Complex and the Mt. Geumgang tourism project.
 - * Based on the number of departures from the South, 1,305,555 people and 187,927 vehicles have passed through the roads connecting the South and the North.
- Sea routes: South-North shipping traffic has steadily risen. After the maritime agreement went into effect on August 1, 2005, South and North Korean ships have started operating in one another's waters.
 - * The number of one-way shipments between the two Koreas, reached 26,671 from 2001 to June 2007.
- Air routes: A temporary South-North Korea air route was created over the Yellow Sea on the occasion of the 2000 South-North Korean Summit. Private airplanes now travel between Incheon and Pyongyang on an irregular basis.
 - * The number of one-way flights between the South and the North hit 625 between 2001 and June 2007.

Inter-Korean Exchanges by Sector

Socio-cultural Exchanges

The scope of South-North Korea exchanges has expanded, thanks to joint social and cultural projects in many areas, such as joint government-backed celebrations of the June 15 anniversary of the first summit and August 15 National Liberation Day celebrations; joint excavation of the remains of independence fighter, An Jung-geun; the return of the a war monument, *Bukwandaechobb*, to its original site in the North's Hamgyeongbuk-do (North Hamgyeong Province) from the South; and joint compilation of a Korean dictionary.

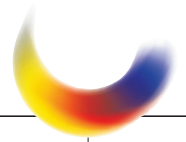
Joint South-North Korea Events

Year	June 15 celebrations by year, location and participation	Aug. 15 celebrations by year, location and participation
2001	Mt. Geumgang (June 15-16), South 450, North 200, foreign guests 20	Pyongyang (Aug. 15-21), South 337
2002	Mt. Geumgang (June 13-16), South 217, North 350	Seoul (Aug. 14-17), South 530, North 116
2003	Canceled due to SARS scare	Pyongyang (Aug. 14-17), South 339, North 400
2004	Incheon (June 14-17), South 1,200, North 200, foreign guests 20	(Pyongyang) Canceled due to controversy over expressing condolences on the anniversary of Kim Il-sung's death and North's demand to guarantee participation of pro-North organizations members
2005	Pyongyang (June 14-17), South 300, North 200, foreign guests 100	Seoul (Aug. 14-17), South 400, North 200, foreign guests 150
2006	Gwangju (June 14-17), South 483, North 147, foreign guests 145	(Pyongyang) Canceled due to flooding
2007	Pyongyang (June 14-17), South 284, North 300, foreign guests 132	(Busan) North boycotts to protest South-U.S. Ulchi Focus Lens military exercise and other reasons

On the occasion of the 2008 Beijing Olympics, the two Koreas hope to go beyond marching together at the opening ceremony and are making efforts to form a joint team.

*South and North Korean athletes marched together at the following opening ceremonies: 2000 Sydney Olympics, 2002 Busan Asian Games, 2003 Aomori East Asian Games, 2003 Daegu Universiad, 2004 Athens Olympics, 2005 Macau East Asian Games, 2006 Torino Winter Olympics, 2007 Changchun Winter Asian Games

*South and North Korea participated as one team in the 1991 World Table Tennis Championships and 1991 FIFA World Youth Championship of soccer.



Joint South-North projects: 13 cases before 1999

From 2000 to Aug. 2007: A total of 146 cases including sports (21), media/publishing (38), education/academics (16), culture/arts (37), religion (13), civic groups (6) and others (15)

South-North exchange visits contribute to enhancing mutual understanding and restoring a sense of national homogeneity.

Exchange visits in various areas such as culture, arts, religion, academics and sports help reduce a sense of heterogeneity and promote mutual understanding.

South-North Social and Cultural Exchange Visits

Year	2000	2001	2002	2003	2004	2005	2006	2007.7	Total
No. of people attending events	1,554	2,948	3,438	4,336	3,837	11,452	4,617	9,568	41,750

* The number attending all exchange visits prior to 1999 is 1,866 people.

Initially, exchanges mostly involved South Koreans visiting the North, but recently, more North Koreans have been visiting the South as well. Also, exchanges include more provincial areas in addition to key cities.

Reunions of Separated Families

The June 15 South-North Joint Declaration led to the August 15 Agreement on allowing reunions of separated families.

- Through 15 rounds of reunions of separated families and six rounds of video reunions, 3,667 families (18,626 people) have seen each other again.

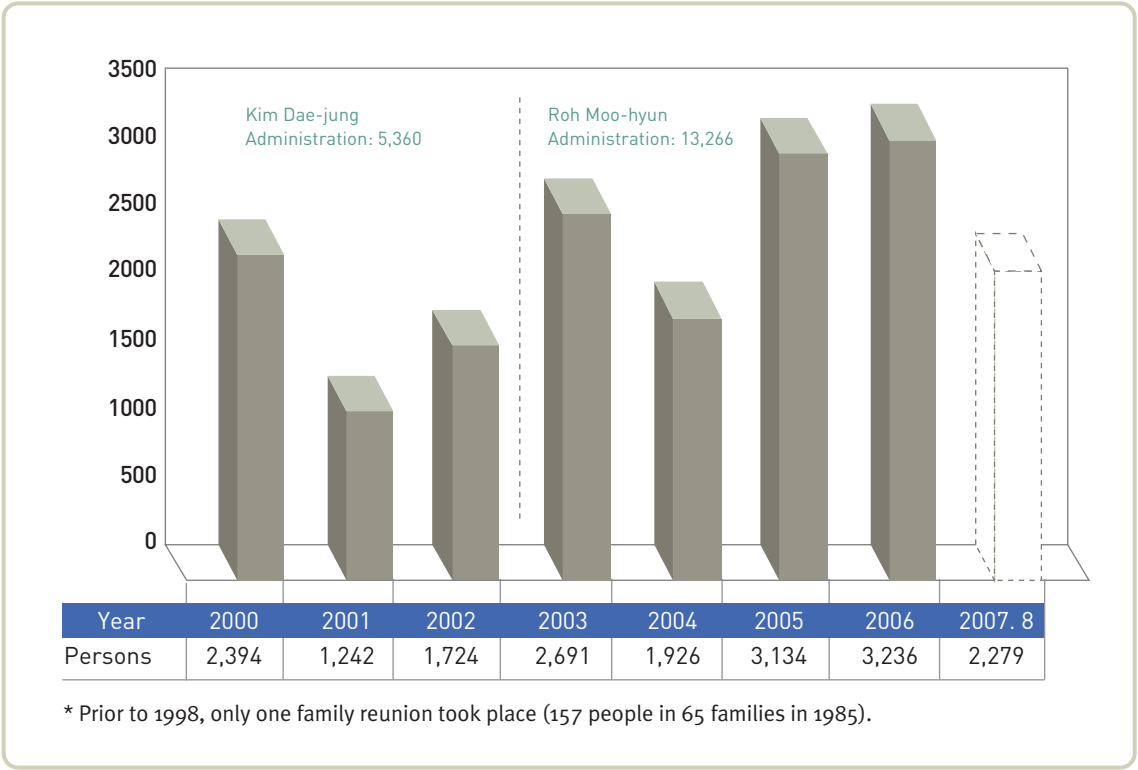
Type of reunions	South	North	Total
Face-to-face reunions (15 cases)	1,590 families (10,155 people)	1,598 families (5,226 people)	3,188 families (15,381 people)
Video reunions (6 cases)	240 families (1,966 people)	239 families (1,279 people)	3,667 families (18,626 people)
Total	1,830 families (12,121 people)	1,837 families (6,505 people)	3,667 families (18,626 people)

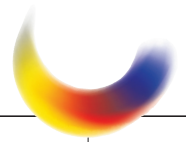
* The first reunion of separated families took place in 1985 (157 people in 65 families: South 35, North 30)

The fate of 44,835 separated relatives have been confirmed through face-to-face reunions (35,685 people), video reunions (6,883 people), and two trial rounds of identifying and confirming the life or death of separated relatives and their addresses - first round in January 2001 (1,199 people), and second round in February 2002 (1,068 people).

A total of 679 South and North Koreans exchanged letters: 600 people - 300 from each side in a trial event in February 2001 and another 79 on the occasion of face-to-face reunions.

>>> Government-backed Reunions for South Koreans with Relatives in the North



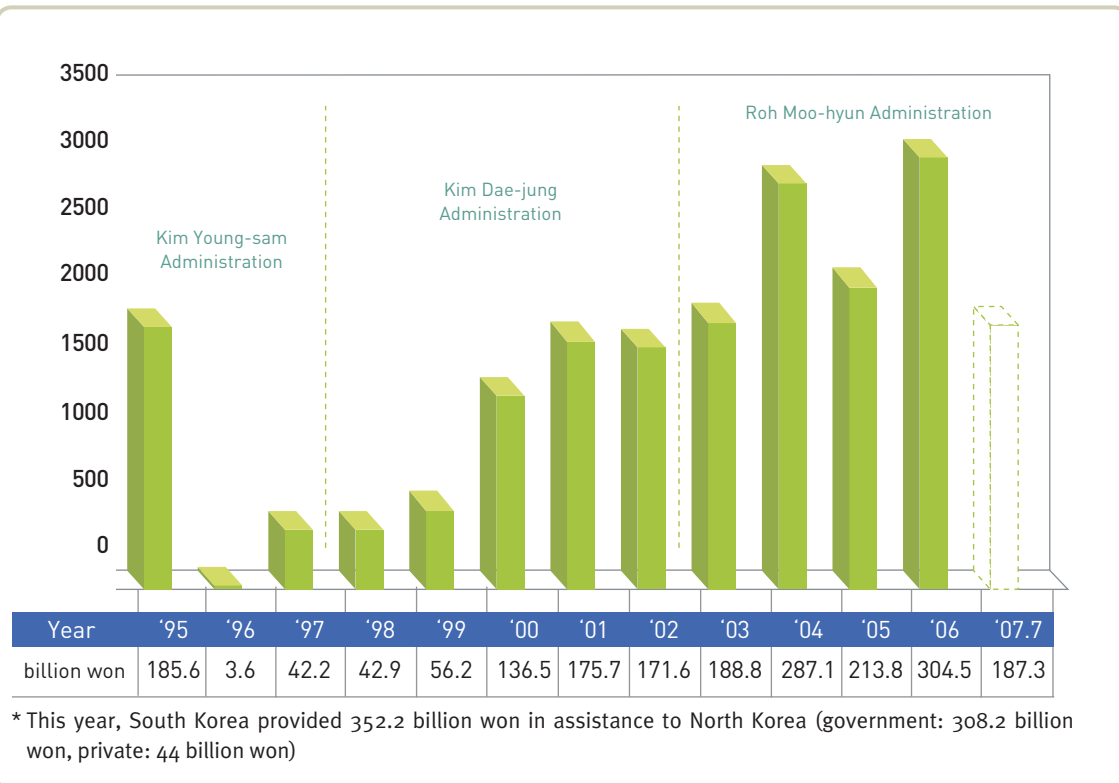


Humanitarian Aid to North Korea (June 1995-August 31, 2007)

Since the South gave 150,000 tons of rice to the North in June 1995, humanitarian aid to the North (government, private and food loans) through July 2007 has reached 2,883 trillion won.

- Free humanitarian aid: 2 trillion won
 - *Government: 1.3267 trillion won, Private sector: 669.1 billion won
- Food loans: 2.6 million tons worth 887.2 billion won

>>> Humanitarian Aid to North Korea (Including Private Sector Aid)



Government: 300,000 tons of fertilizer (worth 107.9 billion won); flood relief aid (7.5 billion won), emergency relief aid for prevention of epidemics, including foot-and-mouth disease (3.3 billion won), pest control (1.9 billion won); contributions to international organizations (9.9 billion won); contributions to private organizations (12.8 billion won); and 400,000 tons of rice in loans (164.9 billion won)

Private: 44 billion won worth of aid, including clothes, medical facilities, briquette, agricultural plastic for hothouses

Aid to North Korea by Administration

Unit: billion won

Administration	Kim Young-sam (1993-1998)	Kim Dae-jung (1998-2003)	Roh Moo-hyun (2003 ~)	Total
Government	211.8 (direct aid 358.6, loans 256.7) grain 651.8	615.3 (direct aid 756.3, loans 630.5) grain 1,860.1	1,386.8	2,213.9
Private	19.6	240.4	409.1	669.1
Total	231.4	855.7	1,795.9	2,883.0

* Since 1995, South Korea's annual aid to North Korea has cost its citizens \$4.6 per capita (The West German government provided East Germany with \$57.6 billion over 18 years, meaning each person shouldered about \$52 annually)

Prisoners of War and Abductees

The Roh administration has regarded the issue of prisoners of war and kidnapping as a basic state responsibility related to the protection of its nationals. It has sought to resolve them fundamentally by putting them on the agenda of the 2007 summit. During the South-North ministerial meeting (April 21-24, 2006), the two sides agreed to cooperate in trying to confirm the whereabouts of people who went missing during and after the Korean War.

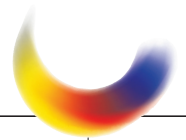
Prior to the agreement on seeking a fundamental solution to the issue, families of POWs and abductees were included in family reunions.

* 11 POWs and 14 abductees were reunited with their families between the second and 15th reunions.

The Government has been trying to create a policy environment advantageous to resolving the abductee issue through such measures as investigating probable cases of people being kidnapped to North Korea and pushing a law — to take effect in October 2007 — providing direct support for those abducted after the Korean War or aid their relatives.

Major Points of the Legislation Supporting Post-war Abductees

- Clarify the state's responsibility to resolve the abductee issue and stipulate compensation and support measures for the abducted and their relatives and support measures for resettlement
- Provide monetary compensation to families with a member being held in North Korea for more than three years, depending on the period of abduction
- Provide monetary compensation and medical fees in cases where returnees from North Korea or their relatives died or suffered injuries as a result of excessive force in interrogations (during the era of military governments in South Korea)
- Provide resettlement funds, medical aid and other support for returnees from the North, depending on their resettlement conditions and ability to earn a living



Gaeseong Industrial Complex

● Summary

As agreed to at the first South-North Korean Summit in 2000, the area around the North Korean border city of Gaeseong is being transformed into a South-North joint industrial park and supporting city. The first stage of the project commenced in June 2003, and currently a 3.3 million-square-meter area is now being developed. The second stage of the project will be carried out in phases, depending on the degree of success of the first stage.

The Gaeseong Industrial Complex (GIC) is a joint economic project that benefits both the South and the North, helps dismantle the Cold War order and promotes the Korean peace process. The project combines the South's capital and technology with the North's labor and land. The GIC offers a way out for small and medium-sized South Korean firms hoping to advance to overseas markets but struggling because of the South's high-cost, low-efficiency structure.

Comparison of Industrial Complexes in Gaeseong, China and South Korea

Working condition	Unit	Gaeseong (A)	China (B)	Korea (C)	Comparison to China (A/B)	Comparison to Korea (A/C)
Minimum monthly wages	dollar	52.5	99.28	642	0.50	0.08
Legal working hours (weekly)	hour	48	40	44	1.2	1.1
Corporate income tax	%	10~14	15	23~28	-	-
Rent per 3.3 m ²	won	149,000	480,000	407,550	0.31	0.37

* Based on data from the Korea Trade Investment Promotion Agency (Feb. 2006). China's figures are based on Chengdu Economic & Technical Development Zone.

The area around Gaeseong, which used to be a strategic military post for the North, has become a peaceful industrial complex. Every day, hundreds of vehicles transport people and goods back and forth between South Korea and Gaeseong via the Gyeongui highway, which cuts across the Demilitarized Zone.

● Development progress

Measures Taken by Companies

Aug. 22, 2000	Hyundai Asan and North Korea conclude agreement to develop 66 million square meters of land
Apr. 13, 2004	Hyundai Asan, Korea Land Corp. and North Korea conclude a contract regarding the lease of 3.3 million square meters of land at the Gaeseong Industrial Complex
May 18, 2004	Korea Land Corp. makes a public notice to parcel out 90,000 square meters of land from the model complex
Mar. 16, 2005	The Korea Electric Power Corp. (KEPCO) starts supplying electricity to model complex (15,000 kW)
Aug. 1, 2005	Korea Land Corp. makes a public notice to parcel out the first-stage 170,000 square meters of land from the main complex
Dec. 28, 2005	KT starts supplying telecom service at the industrial complex
May 31, 2006	Development of the first 3.3 million square meters of land completed
Dec. 21, 2006	KEPCO connects 100,000 kW South-North power cables
Apr. 30, 2007	Korea Land Corp. makes a public notice to parcel out the second-stage 1.75 million square meters of land from the main complex

Measures Taken by the North

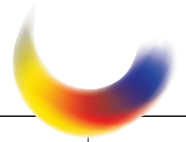
Nov. 20, 2002	Establishes "Legislation on Gaeseong Industrial Area"
April 2003	15 subordinate provisions such as "Regulation on Development of Gaeseong Industrial Area"
-July 2006	
Nov..22, 2005	North Korea's Cooperation Dep't of the Kaesong Industrial District Management Committee starts working
May 22, 2006	North Korea opens a new building for transit control

South-North Agreements

Dec. 8, 2002	Conclude agreement on customs, quarantine and communication at GIC (effective Aug.1, 2005)
Aug. 20, 2003	Four economic cooperation agreements, including South-North investment security, go into effect
Jan. 29, 2004	Conclude agreement on entrance and sojourn at Gaeseong Industrial Complex, Mt. Geumgang (effective Aug.1, 2005)

Domestic Measures and Main Trends

Dec. 27, 2002	South Korea's Ministry of Unification approves Hyundai Asan, Korea Land Corp. as partners for inter-Korean economic cooperation projects
Jun. 30, 2003	Groundbreaking ceremony for first-stage construction of GIC
Apr. 23, 2004	Ministry of Unification approves joint project involving the first-stage 3.3 million square meters
Jun. 14, 2004	Contracts concluded with 15 firms to move into the model complex
Oct. 5, 2004	GIC support organization launched
Oct. 20, 2004	GIC management committee starts
Dec. 15, 2004	GIC produces its first goods
Jun. 3, 2005	Foreign buyers start visiting GIC
Nov. 2, 2005	Korean EU Chamber of Commerce visits
Dec. 5, 2005	First group of companies moving into the main complex area start building factories
Jun. 12, 2006	U.S. Ambassador to South Korea Alexander Vershbow and other members of South Korea's expatriate community visit GIC
Oct. 31, 2006	15 companies in the model complex enter into full operation
Nov. 21, 2006	Number of North Korean employees surpasses the 10,000 mark
Feb. 22, 2007	Former U.S. Defense Secretary William Perry visits GIC
May 25, 2007	Number of North Korean employees surpasses the 15,000 mark



• Status of Progress

• Model Complex Summary

The model area was set up as a pilot project to satisfy the needs of the South's small and mid-sized firms at an early stage by examining legislation/regulations, investment environment and other issues that could arise during the operation of the main complex. Of the 3.3 million square meters of land set aside for the complex's first-stage construction, 90,000 square meters were parceled out to 15 companies, which began full operation. This process helped gauge the GIC's potential for success and identify future directions and areas for improvement.

Company	Products	Company	Products
Romanson	Wrist watches	Sonoko Kitchenware	Kitchen utensils
Samduk	Shoes	Hosan Ace	Manufacturing equipment
Teasung	Cosmetics containers	JY Solutech	Molds for car parts
Shinwon	Clothes	TS Precision	Molds for semiconductor parts
Bucheon Industrial	Electric wiring components	JC COM	Optical communication parts
Daewha Fuel Pump	Automobile fuel pumps	MagicMicro	LCD monitors
SJTech	Containers for semiconductor parts	Yongin Electronics	Transformers
Moonchang Industry	Clothes		

*Based on data from Korea Trade Investment Promotion Agency (Feb. 2006).

• Main Complex

• Summary

Size of the area: 3.3 million square meters

Business period: 2002-2007 (including preparation)

Operators: Korea Land Corp. (design, leasing, operations), Hyundai Asan (construction)

Implementation method: Lease land from the North for 50 years. After developing it into industrial complex, rent out to domestic and foreign companies and manage

• Development Status

Facility	Capacity	Construction Period
Waste water disposal	30,000 tons/day	April 2005 to June 2007
Reservoir	60,000 tons/day	Dec. 2005 to Sept. 2007
Waste landfill	61,000 m/day	Dec. 2005 to June 2007
Incinerator	12 tons/day	Aug. 2007 to April 2008 (est.)

- **Electricity**

Since June 2007, the South has been transmitting 100,000 kW over cross-border lines

* From March 16, 2005, 15,000 kW of electricity have been supplied to the model complex using power distribution

- **Communications**

South-North direct communication lines opened on Dec. 28, 2005. As of Dec. 2006, 303 lines are in use.

The Construction of a communication center (9,900 square meters) commenced in 2007. Plans are underway to supply extra communication lines before the first-stage tenant companies start operating.

- **First-stage, first-round leasing of 170,000 square meters**

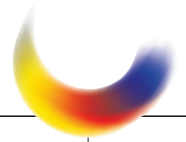
The land was leased out to businesses manufacturing textiles, weaving, clothes, leather, bags and shoes

that have a strong interest in setting up operations at GIC but have no issues concerning the place of origin or strategic materials.

- Leased out to 23 companies and one organization: factories (17), co-op complexes (6), on-site residence factory (1)
- As of Aug. 2007, 11 factories in operation and two factories under construction
- Construction of on-site residence factory completed in August

- **First-stage, second-round 1.75 million square meters leased**

On April 30, 2007, Korea Land Corp. leased the remaining plot from the first-stage site of the Gaeseong Industrial Complex en block (1.75 million square meters of factory plots)



Type of Lease According to Factory Plot

Structure Designation	Area	Parcels
Factory plot	1.193 million square meters	129
Onsite-residence factory	130,000 square meters	6
Co-op complex	133,000 square meters	9
Frontrunner companies plot	187,000 square meters	6
Foreign companies	110,000 square meters	6
Total	1.753 million square meters (530,000 pyeong)	156

* Excluding already leased land (430,000 sq. meters), plots for public facilities (804,000 sq. meters for roads, greenbelts, etc.), plots for supporting facilities (115,000 sq. meters), reserved plots (233,000 sq. meters)

On June 19, 2007, 182 companies selected to move into Gaeseong (contracts concluded June 25-29) were announced.

After submitting factory designs and securing approval from South's Ministry of Unification, the selected companies can start building their factories. Some of the companies are set to begin operations as early as at the end of 2007 or early 2008.

Business Support System

● Overhaul of legislation to support corporate activities

The GIC is a testing ground for integrating South and North Korean legislation; a legal infrastructure that is market-friendly and still tailored to the North's unique political system.

The South and the North have agreed to create an internationally competitive investment environment. The two sides also stipulate and support business rules that reflect their agreement. They enforce 13 agreements, one of which stipulates South-North Korean investment security.

The South and North discuss, legislate and enforce the Gaeseong Industrial District Law and 16 subordinate clauses. In all, they have legislated and put into effect 33 business regulations based on South Korean law, including one on auditing.

The South is discussing 11 additional regulations with the North.

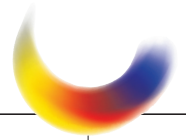
Inter-Korean Agreements and North Korean Laws

Type of Agreements	South-North Korean Agreements or Regulations	Date Signed
South-North agreements related to the GIC (all effective Aug. 1, 2005)	Agreement related to communications in the GIC	Dec. 8, 2002
	Agreement related to customs in the GIC	Dec. 8, 2002
	Agreement related to quarantine in the GIC	Dec. 8, 2002
	Agreement related to entrance/exit and sojourn in the GIC and Mt. Geumgang tour area	Jan. 29, 2004
Four inter-Korean business agreements (all effective Aug. 20, 2003)	Agreement on investment security	Dec. 16, 2000
	Agreement on preventing double taxation on income	Dec. 16, 2000
	Agreement on the procedure to resolve business disputes	Dec. 16, 2000
	Agreement on liquidation settlements	Dec. 17, 2000
Gaeseong Industrial Complex Law and 15 subordinate clauses (North Korean laws)	Gaeseong Industrial Complex Law	Nov. 20, 2002
	Regulation on GIC development	April 24, 2003
	Regulation on launch and operation of businesses	April 24, 2003
	Regulation on taxes	Sept. 18, 2003
	Regulation on labor	Sept. 18, 2003
	Regulation on establishment and operation of management organizations	Dec. 11, 2003
	Regulation on entrance/exit, sojourn and residency	Dec. 11, 2003
	Regulation on customs	Dec. 11, 2003
	Regulation on foreign exchange management	Feb. 25, 2004
	Regulation on advertising	Feb. 25, 2004
	Regulation on real estate	July 29, 2004
	Regulation on insurance	Sept. 21, 2004
	Regulation on accounting	July 15, 2005
	Regulation on corporate finance	July 15, 2005
	Regulation on accounting inspection	Oct. 28, 2005
	Regulation on automobile management	July 25, 2006
	Regulation on environmental protection	Nov. 21, 2006

● Improving investment conditions for tenant companies

Efforts are being made to resolve difficulties faced by tenant companies in cooperation with the management committee, development operators and related organizations:

- Operate a tenant company representatives committee, a GIC business council, and a committee backing tenant firms
- Promote simplification of passage, customs procedure as a priority agenda
- Allow people related to GIC businesses to visit without the North's invitation, number of visits per day to be increased to 23 from six



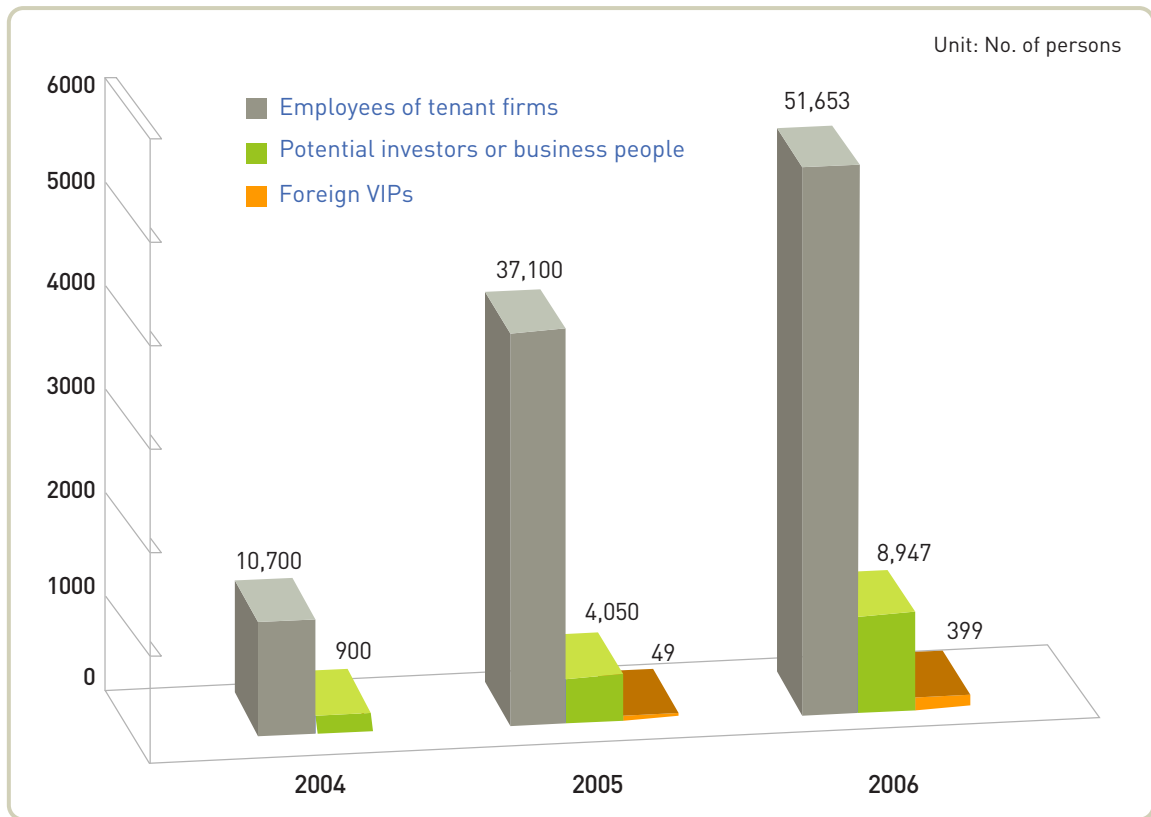
- Try to introduce a year-round regular identification system using RFID technology
- Support tenant companies' market expansion
- Make efforts to have Gaeseong-made goods recognized as "Made in South Korea" through free trade negotiations
 - * Gaeseong-made products are recognized as "Made in Korea" in states where FTAs have been concluded - Singapore (Nov. 2004), European Free Trade Agreement (July 2005), Association of Southeast Asian Nations (July 2006)
 - * Korea and the United States have agreed on the feasibility of having Gaeseong-made products recognized as "Made in South Korea" at bilateral free trade talks (April 2007) and will prepare a basic system.
- Support participation of tenant companies in domestic and foreign exhibitions: Preview in Seoul 2006 (Sept. 6-8, 2006), Busan Int'l Footwear and Leather Show 2006 (Oct. 30 – Nov. 2, 2006), Preview in Shanghai (March 26-29), Korea Int'l Retailing & Wholesaling Industry Fair 2007 (May 23-26)
- Construction of a technology education center for training North Korean workers and supporting manufacturing and sales activities begins (Jul 24, 2005)
- Plans to build a comprehensive support center (design completed)

● Support for visits to attract investment

The Government has been trying to raise understanding of GIC project and attract investment through personal visits by potential investors and VIPs from within and outside South Korea.

- Frequent visits have been made by investment inspectors from business organizations and small and mid-sized firms
- Visitors include expatriate groups (June 12, 2006, 80 people), foreign corporate investment inspectors (June 22, 2006, 130 people), the Organization for Economic Co-operation and Development secretary-general (Sept. 23, 2006) and former U.S. Defense Secretary William Perry (Feb. 22, 07)
 - * June 12, 2006, U.S. Ambassador to Korea Alexander Vershbow
 - * Sept. 23, 2006, OECD Secretary-General Jose Angel Gurría Trevino
 - * Nov. 30, 2006, U.S. Rep. Jim McDermott
 - * Jan. 22, 2007 Former U.S. Defense Secretary William Perry

>>> Visits to Gaeseong Industrial Complex



Status of North Korean Workers

• Employment situation

- 17,608 North Korean employees working (compared to about 800 South Koreans):
- 14,984 tenant companies, 2,624 construction/engineering/maintenance work/etc.

• Composition of human resources

- Average age 32, male: female ratio of about 2:8
- Education background: high school graduates (80%), college or community college graduates (20%)

• Wages

- Minimum monthly wage: \$52.50 (\$60.40 with 15% social insurance fees included).

*50~100% extra pay for overtime or holidays worked

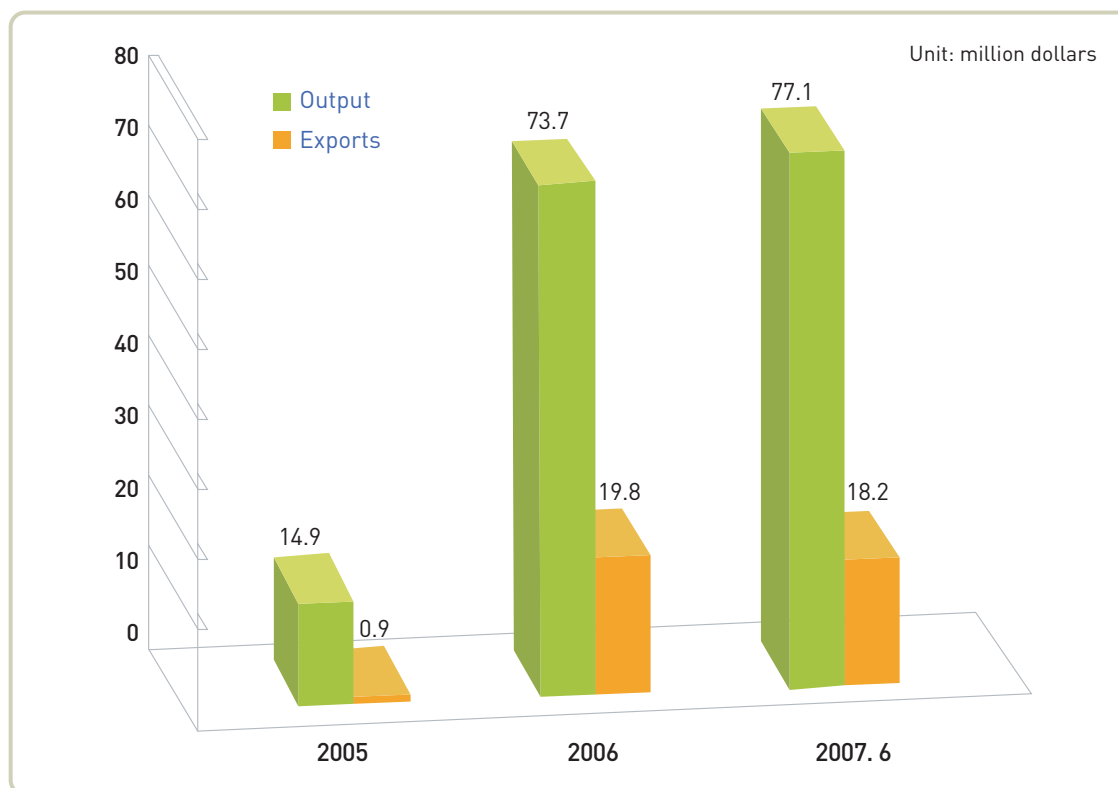


● Working environment

- 48-hour workweek
- Report to work at 7:30 to 9:00 a.m., punch out at 5 to 7 p.m.
- Lunch is brought from home, with tenant companies offering soup for lunch

Production and Exports (2005~June 2007)

- Total accumulated output of \$166.1 million
- Total accumulated exports of \$38.9 million



Linking Inter-Korean Railways and Roads

● Road connection

Construction of South-North roads (the Gyeongui Line highway on the west coast to the GIC and Geumgangsang highway on the east coast) began Sept. 2002. Since Dec. 2004, they have been in normal operation, serving the needs of the Gaeseong Industrial Complex and Mt. Geumgang tourism.

Use of the road is based on the “Provisional Agreement for Military Assurances on Passage via the Administrative Areas of the Two Koreas on the East and West Coasts” (effective Jan. 27, 2003).

● Railroad connection

Construction for re-linking railroads began in Sept. 2002 and was completed in Dec. 2005. On May 17, 2007, simultaneous test runs were successfully carried out on the western Gyeongui Line and eastern Donghae Line.

The railway test runs took South-North transportation restoration a step further. Efforts will be made to start service in phases, according to present demand in connection with the GIC and Mt. Geumgang tours.

- 1st phase: Transport of GIC-made goods, commuter trains for North Korean GIC workers (Gyeongui Line) and Mt. Geumgang tourists (Donghae Line)
- 2nd phase: Transport of South Korean workers to GIC and participants in joint South-North events
- 3rd phase: Regular operation and expansion of railroads in restored South-North areas

Renewed railroad service is expected to slash logistics costs and hence stimulate inter-Korean economic projects.

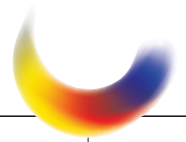
**Railway transport is 80 percent faster and cheaper than maritime shipping.*

When South-North overland transportation operations begin to run at full-scale, inter-Korean rail lines will connect to the Trans China and Trans Siberian Railways. Highways will also serve as arteries bringing goods and people in and out of the peninsula through a new East Asian economic cooperation network.

Mt. Geumgang Tourism

- Nov. 1998: Mt. Geumgang tourism kicks off (via sea route)
- Feb. 2003: Temporary Donghae Line (Mt. Geumgang) Highway opens, from September the same year, tourism via land route starts.
- June 2007: Regular Naengeumgang (Inner Geumgang) tours begin. Since July, around 200 people a day have been visiting the inner slopes of the famous mountain.
- No. of tourists

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007.7	Total
Tourists	10,554	148,074	213,009	57,879	84,727	74,334	268,420	298,247	243,446	140,440	1,530,090



- With the Mt. Geumgang tours as a guide, tourism expansion is planned for Gaeseong, Mt. Baekdu and other North Korean spots.
- While South and North Korean private businesses have agreed to promote tourism in Gaeseong and Mt. Baekdu, complications in South-North relations have caused full-scale service to be delayed.

Systemizing Inter-Korean Economic Exchanges

- As Part of the 2000 South-North summit, an economic conference group, the South-North Economic Cooperation Promotion Committee, was formed.
- Inter-Korean economic cooperation was discussed and resolved during 13 rounds of meetings from Jan. 2001 to July 2007
- The South's National Assembly has passed 13 inter-Korean economic cooperation agreements expected to strengthen the systematic base for promoting such cooperation: investment security, prevention of double taxation, resolving business disputes, liquidation procedures, marine transport, entry/exit and sojourns.
- On Oct. 28, 2005, for the first time since Korea's division, a joint government organization, the Inter-Korean Economic Cooperation Conference Office, started operating in Gaeseong, North Korea. The office arranges meetings between South and North Korean businesses, offers consulting and information on inter-Korean economic cooperation and serves as a liaison between South and North Korean economic authorities.

4

Efforts to Resolve the North Korean Nuclear Issue and Create a Peace Regime for the Korean Peninsula

❖ Korean War Armistice Agreement

Summary

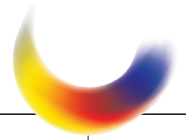
The commander-in-chief of the United Nations Command, the supreme commander of the (North) Korean People's Army, and the commander of the Chinese People's Volunteer Army signed the Armistice Agreement on July 27, 1953. The Armistice Agreement requires the complete cessation of hostilities and all acts of armed forces in Korea until a final peaceful settlement is achieved.

Limits of Armistice Agreement

The Armistice Agreement contains structural and systematic problems as well as other hindrances. First, on the structural side, the agreement only established grounds for suspending hostilities and all acts of armed forces while failing to bring out a solution to the division of the Korean Peninsula. South Korea was also left out of the agreement — a point the North still continues to raise to claim that the South cannot be its direct counterpart in peace treaty negotiations.

Systematically, the agreement fails to identify what constitutes a violation of the ban on hostilities and subsequent punishments. With commander-level officials having signed the agreement, it is difficult for a figure of such limited seniority to take charge of all related tasks to maintain peace on the Korean Peninsula.

Lastly, throughout the years under the Armistice Agreement, North Korea has incessantly carried out measures that have virtually negated the agreement, making certain parts of it appear irrelevant. For instance, the North Korean delegation and the Chinese representatives unilaterally withdrew from the Military Armistice Committee in April 1994 and Dec. 1994, respectively. The North Korean authorities then forced out the Czech and Polish representatives stationed on the North Korean side of the Neutral Nations Supervisory Commission in April 1994 and Feb. 1995, respectively. Following the expulsion, the North installed its own office of the Korean People's Army at *Panmunjeom* in May 1995. By April 1996, the North announced they were forgoing their obligation to follow the armistice.



❖ Stance on Establishing a Peace Regime on the Korean Peninsula

More than half a century has passed since the end of the Korean War, but the unstable ceasefire situation persists. Despite landmark progress made in inter-Korean relations as well as on military fronts — such as the removal of propaganda facilities and materials along the MDL (Military Demarcation Line) — the military confrontation remains. Furthermore, security threats heightened following the North's nuclear test and missile launches.

The South Korean government aims to introduce a solid peace regime by alleviating tension and enhancing credibility between the two Koreas. Both sides had already agreed in 1992 through the South-North Basic Agreement to join efforts toward “changing the Armistice Agreement into a firm and solid peace treaty.”

At the Six-Party Talks, the two Koreas, among other relevant countries, agreed to continue discussing the issue of a peace regime for the peninsula both in the September 19 Joint Statement in 2005 and in the February 13 Agreement in 2007.

In accordance with the February 13 Agreement, Seoul will continue to resolve the nuclear issue while forming a separate forum with parties directly concerned to change the Armistice Agreement into a peace agreement.

On a bilateral level, the Government will continue to try and build trust politically and militarily and to establish substantial peace by developing exchanges and cooperation. Also, with the cooperation of our allies and other friendly countries, Seoul aims to support Pyongyang's participation in international community and, ultimately, end the Cold War confrontation in order to solidify the foundation of peace on the peninsula.

❖ Efforts to Resolve North Korean Nuclear Issue through Six-Party Talks

North Korean Nuclear Issue and the Six-Party Talks

● Background

Suspicions over a secret North Korean highly enriched uranium program began to surface after then U.S. presidential envoy James Kelly visited North Korea (Oct. 3-5, 2002).

South Korea, the United States and Japan, announced on Oct. 17, 2002, that North Korean officials had admitted to developing nuclear weapons. The spokesman for North's Foreign Ministry announced on Oct. 25, 2002, “We have told them (U.S.) that we will not only have nuclear weapons but something even greater.”

● Progress in the Six-Party Talks

Before the establishment of the Six-Party Talks, North Korea, the United States and China held trilateral talks on April 23-25, 2003. This was the result of North Korea's constant demand to talk one-on-one with the United States. These three-way talks later expanded to include South Korea, Japan and Russia.

Since the first round of the Six-Party Talks (Aug. 27-29, 2003), the North Korean nuclear issue has been discussed within the multilateral framework. The latest (sixth) round of the Six-Party Talks was held on March 19-22, 2007.

During the fourth round of the Six-Party Talks (Sept. 13-19, 2005), the parties adopted the September 19 Joint Statement. The talks, however, suffered a long setback after the fifth round (Nov. 9-11, 2005) due to North Korea's demand for a transfer of its funds frozen at Banco Delta Asia (BDA) after Washington blacklisted the Macau bank for suspected money laundering regarding North Korean accounts.

The situation grew markedly worse following North Korea's missile launches (July 5, 2006) and nuclear test (Oct. 9, 2006). The U.N. Security Council strongly denounced North Korea's missile launches nuclear detonation, and adopted the Resolution 1695 against the North on July 15, 2006, and Resolution 1718 on Oct. 14.

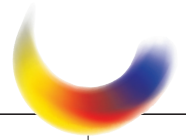
Still, the parties managed to gather for the third session of the fifth round of the Six-Party Talks (Feb. 8-13, 2007) and sign the Feb. 13 Agreement, specifying the preparatory steps towards implementing the September 19 Joint Statement. The nuclear issue finally entered the action-for-action stage, effectively opening pragmatic steps toward nuclear dismantlement. Although the Banco Delta Asia issue delayed the process, the resolution of North Korea's nuclear issue has been able to reach the implementation stage.

So far, North Korea has shut down its Yongbyon nuclear facilities (July 14, 2007), while International Atomic Energy Agency inspectors have visited the sites, and South Korea has completed the initial shipment of 50,000 tons of heavy fuel oil (Aug. 2) as the first-step incentive.

Chief delegates of the Six-Party Talks gathered again in Beijing on July 18-19, 2007, and reaffirmed their determination to implement the required steps. They also agreed to discuss the next steps of getting North Korea to declare and disable its nuclear programs through the designated working group talks.

The economy and energy cooperation working group met at the truce village of *Panmunjeom* on Aug. 7-8, the denuclearization working group in Shenyang, China, on Aug. 16-17, the Northeast Asian peace and security working group in Moscow on Aug. 20-21, the U.S.-North Korea normalization of relations working group in Geneva on Sept. 1-2, and the Japan-North Korea normalization working group in Ulaanbatoor on Sept. 5-6.

At the U.S.-North Korea talks, the two sides agreed that Pyongyang will disable its nuclear programs by the end of the year and that the United States will offer political and economic incentives.



● South Korea's role:

The Government has enthusiastically participated in the Six-Party Talks, presenting breakthrough proposals such as the July 2005 offer to send two million kilowatts of electricity that eventually helped bring about the September 19 Joint Statement and the February 13 Agreement.

The Government remains committed to the followings: the nuclear problem must be resolved peacefully, North Korea cannot have a nuclear program, and the Joint Declaration on the Denuclearization of the Korean Peninsula must be abided by. Under these principles, Seoul continues to urge a prompt implementation of the September 19 Joint Statement and the February 13 Agreement.

The Government continues to encourage resolution of the nuclear issue in inter-Korean meetings, such as the ministerial talks, bilateral discussions with the North within the Six-Party Talks and through channels in Beijing and New York.

It is the basic position of the Government to strategically promote the Six-Party Talks and inter-Korean dialogue in parallel to further the conjoined processes of resolving the North Korean nuclear issue and expanding inter-Korean relations.

● Prospects

Each step towards the declaration and disablement of the North's nuclear program is a difficult challenge, but a nuclear-free peninsula is the prerequisite for solid inter-Korean relations.

Efforts by every member of the Six-Party Talks are necessary to accomplish denuclearization at an early date. Seoul aims to continue efforts to see substantial development in the nuclear issue through the positive cycle of Six-Party Talks and inter-Korean dialogues. In that respect, the upcoming summit is expected to play a positive role in achieving denuclearization at the talks.

September 19 Joint Statement

● Outline:

The Six-Party Talks produced the September 19 Joint Statement in 2005 during their fourth round. The agreement came about through the mediating efforts of China as well as the South Korean government's active role, such as the electricity transmission proposal that effectively broke the negotiation stalemate.

The declaration was the first agreement to come out of the Six-Party Talks since they began in Aug. 2003. It is significant in a sense that the six parties shared an understanding of the North's nuclear dismantlement and the need to end the Cold War confrontation on the Korean Peninsula and in Northeast Asia.

● Contents:

North Korea pledges to dismantle all nuclear weapons and existing nuclear programs and to return promptly to the Nuclear Non-Proliferation Treaty and the International Atomic Energy Agency. The North and the U.S. agree to take measures to normalize relations; North Korea and Japan also agree to normalize relations.

The six parties also pledge to expand economic cooperation in the fields of energy, trade and investment, with the five countries promising the North energy aid. South Korea in particular reaffirmed its offer to provide two million kilowatts of electricity.

Other components include joint efforts to establish permanent peace and stability in Northeast Asia and for the parties to create a separate forum on establishing a peace regime on the Korean Peninsula.

All these agreements will be implemented in line with the principle of “commitment for commitment” and “action for action.”

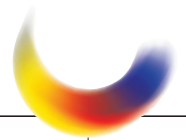
February 13 Agreement

● Outline:

During the fifth round of the Six-Party Talks (Feb. 8-13, 2007), the parties agreed on first-step measures for implementing the Sept. 19 Joint Declaration. The agreement came after the confrontation between North Korea and the United States over Washington’s financial sanctions against BDA, which effectively froze North Korean funds. The two countries also disagreed over about the proper format for their dialogue.

A breakthrough came when the United States and North Korea met one-on-one in Beijing on Oct. 31, 2006, providing a way for the talks to resume. Not only did the North Korean nuclear issue jump from the commitment for commitment stage to the action-for-action stage, it was a full-fledged start toward nuclear dismantlement.

The agreement also provided ground for securing a peace regime for the Korean Peninsula and Northeast Asia by arranging bilateral working groups between North Korea, Japan and the United States and the ministerial talks of the six parties.



● Contents:

The agreement pledges that the first-step measures will be completed within 60 days, including shipment of the corresponding first delivery of energy aid worth 50,000 tons of heavy fuel oil.

The North will shut down and seal for the purpose of eventual abandonment of the Yongbyon nuclear facility, including the reprocessing facility, and invite back IAEA personnel to conduct all necessary monitoring and verification.

The North will also discuss with other parties a list of all its nuclear programs as described in the Joint Statement.

The talks to normalize relations between North Korea and the United States will begin, in which they will discuss removing the designation of the North as a state-sponsor of terrorism and advance the process of terminating the application of the Trading with the Enemy Act on Pyongyang. Bilateral talks between North Korea and Japan will also begin.

The parties agree to form five working groups on the following special topics: 1) Denuclearization of the Korean Peninsula, 2) Normalization of North Korea-U.S. relations, 3) Normalization of North Korea-Japan relations, 4) Economy and energy cooperation and 5) Northeast Asia peace and security mechanism.

The agreement also specifies that for the next denuclearization step, the North will receive energy and humanitarian assistance up to the equivalent 1 million tons of heavy fuel oil (950,000 tons if excluding 50,000 tons pledged by South Korea).

The next phase also requires the North to completely declare all of its nuclear programs and disable all existing nuclear facilities, including graphite-moderated reactors and reprocessing plants.

5

President Roh Moo-hyun's Words: 'Peace and Economic Community'

❖ On the South-North Korean Summit

President Roh Moo-hyun has always been consistent in reaffirming that a "South-North Korean Summit could take place anytime, anywhere."

"In order to solve a difficult problem, I think it's important to meet in person without precondition and have dialogue. I don't care about the form and ceremony of the encounter, but I am willing to meet him (Kim Jong-il)."

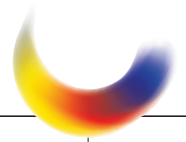
(CNN interview with President-Elect Roh, Jan. 24, 2003)

"As long as North Korea is willing, I'm ready for talks regardless of place, time and topic. ... I have every intention to propose the meeting if there's a chance."

(President Roh at a press conference, Jan. 1, 2005)

"Regardless of my term, I believe a good time would be when the Six-Party Talks are well on (their) way to implementation and when we can be sure that a summit will contribute to cementing this progress."

(AP interview with President Roh, May 31, 2007)



❖ On the Synergy Between the South-North Korean Summit and Six-Party Talks

The summit is the first in seven years between the two Koreas and will serve as an occasion to normalize inter-Korean relations, which have been strained by the North's nuclear program.

More than anything, the summit will contribute to further solidifying peace and stability on the Korean Peninsula while advancing common South-North prosperity.

It is important to make substantive progress rather than merely exchange views or make declarations.

The meeting is also expected to help the Six-Party Talks make progress, while facilitating development of multilateral ties beneficial for the future of Northeast Asia.

"I have faith that every concerned member of the Six-Party Talks will follow through on the September 19 Joint Statement and February 13 Agreement in good faith."

(President Roh at the 62nd Anniversary of Korea's Liberation, Aug. 15, 2007)

At a time when the Six-Party process is entering a new phase, the Six-Party process and inter-Korean dialogue should be managed in a way that they can reinforce one another in a positive cycle.

"Progress in the Six-Party Talks is enlivening the dialogue between the two Koreas. Inter-Korean dialogue, in turn, accelerates the success of the multilateral talks. If the Six-Party Talks advance even more successfully, they will lead to the establishment of a peace regime on the Korean Peninsula."

(President Roh at the 62nd Anniversary of Korea's Liberation, Aug. 15, 2007)

❖ On an Inter-Korean Economic Community

Pursue systemization and structural development of economic cooperation between the two Koreas to boost mutual interests and establish an economic community

Push beyond temporary, one-time economic assistance; establish a complementary and harmonized economic community, that could become a new growth engine for the two Koreas.

The second summit will contribute to solidifying peace and stability on the Korean Peninsula and help accelerate prosperity in the region.

"As far as economic cooperation is concerned, I feel we need to start discussing the formation of an inter-Korean economic community. From now on, the two sides need to develop inter-Korean economic cooperation into collaborative, productive investments and two-way cooperation. In this way, the South will have more investment opportunities, while the North will have a chance to make an economic turnaround. We intend to make progress one step at a time from those areas where it is possible."

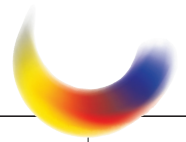
(President Roh at the 62nd Anniversary of Korea's Liberation, Aug. 15, 2007)

❖ On Prosperity and Peace in Northeast Asia

President Roh Moo-hyun has proposed a goal of an "era of peace and prosperity for Northeast Asia." He has devoted himself to ending the Cold War confrontation within the region and establishing a new order of coexistence.

"In order to bring about a genuine Northeast Asian Era, a structure of peace must first be institutionalized on the Korean Peninsula. It certainly is most unfortunate that the peninsula still remains the last legacy of the 20th century's Cold War. In the 21st century, we have to transform the peninsula into a land that sends out messages of peace to the rest of the world. It should be reborn as East Asia's gateway of peace, connecting the Eurasian landmass with the Pacific Ocean."

(President Roh at his Inauguration, Feb. 25, 2003)



The Roh administration has pursued three major strategies to achieve such a goal: balanced and pragmatic diplomacy, cooperative and self-reliant national defense and a North Korea policy marked by trust and engagement.

When the armistice is transformed into a peace regime and the South and North join hands to bring forth a new economic era on the peninsula, Korea will live up to its title as a hub for the Northeast Asian economy.

“Without a successful framework of peace and prosperity in Northeast Asia, it is difficult to bring about a stable peace on the Korean Peninsula. This ambitious aspiration also reflects our awareness and willingness to proactively pioneer our destiny by taking the initiative to usher in the Northeast Asian Era within that framework.”

(President Roh at the 62nd Anniversary of Korea’s Liberation, Aug. 15, 2007)

“We need to establish a permanent peace on the Korean Peninsula and open a more prosperous future for both Koreas. No matter how much the Northeast Asia region achieves economically, it could never become a major (global) economic hub without first establishing a peaceful community. This requires cooperation not only in the logistics and energy sectors but also in free trade, currency and finance — to the point of realizing a Northeast Asian economic community as a whole.”

(President Roh at the official launch of the 13th National Unification Advisory, July 19, 2007)