Relational Peacebuilding Initiatives

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RPI's Suggestions for a Possible Bilateral Free Trade Agreement (BFTA)

Generally, bilateral trade agreements are agreements between two countries to promote trade and commerce. They agree to eliminate tariff barriers, or agree a timeline to eliminate tariff and non-tariff barriers. This proposed Bilateral Free Trade Agreement would have a number of distinct features:

1. The agreement would be not between two countries but should be regarded as between two parts of one country, that have been divided since 1945. However, as the two Koreas are now distinct political entities they are referred to in this trade agreement as the two parties to the agreement.
2. The aim of this trade agreement would be not only to promote economic growth, but also to start the process of building relationships of trust between the parties. This objective would be set out clearly as part of the initial founding document.
3. There is currently no trade between DPRK and ROK due to sanctions on the former. This trade agreement would not open up all sectors of the economy simultaneously, but only one sector at a time, cumulatively, over a seven-year period. So it would not be necessary to negotiate across all sectors of the economy before starting to implement the agreement.
4. Since this agreement would only be between two parties which are within one country, exceptions to sanctions should be granted, at least for the initial phase where trade would be limited to goods that could not undermine the purpose of the sanctions.
5. Gradually, as trust builds up between the international community and DPRK/ROK, requests would be made by DPRK/ROK to lift sanctions further for trade in tandem with the expansion of sectors to be covered under this agreement. Additional coverage of the trade agreement would require US, China and other countries in the UN to give their support to these further sanctions' exemptions being granted to the two Koreas step by step.
6. The first sector to be opened up under this trade agreement might best be the agricultural sector (defined to include livestock, marine products and forestry products) in terms of both outputs and necessary inputs.
7. The reasons for starting with the agricultural sector are:
    i. It would maximise multiplier effects to the wider economy, such as to the textile and construction sectors,
    ii. It would help to release labour for growth in other sectors where there would be increased demand due to rising agricultural incomes,
    iii. It would help to alleviate immediate humanitarian need, and would be most likely to attract support for sanctions exemptions,

iv. It would have important environmental benefits, such as increased reforestation in DPRK,

v. It would be most likely to attract support for the necessary sanctions exemptions.

8. To facilitate trade, it would be important to reduce health risks associated with the transfer of goods, given the prevalence of the Covid virus in East Asia. Therefore, products and equipment for the health sector should be included in the first year of the agreement, which would also help to address other health issues in the peninsula.
9. The DMZ would stay in place. There could be UN inspectors as well as national inspectors from the two Koreas on each side of the border, to ensure that the terms of the trade agreement are observed, and thus maintain international support for sanctions' exemptions to stay in place.
10. The parties would agree to use a mutually-agreed unit of account such as the SDR, which might be referred to as an 'Inter-Korean Won', against which both parties' currencies would be valued. Payment of trade would then take place in the exporting party's currency based on the unit of account. Starting initially with a swap, payment would take place electronically and would be administered by the DPRK and ROK Central Banks. Using this unit of account would give further assurance to the international community that any surpluses could not be diverted to the purchase of materials for the nuclear program.
11. Along with payment records, trade flows would be recorded on an IT platform and made available as public information to ensure transparency on all sides and build international confidence in the importance and usefulness of the agreement. (This would of course only remain in place as long as the agreement is still felt to be necessary).