

Building Multi-Party Capacity for a WMD-Free Korea: Economic Engagement

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Introduction

The DPRK is apparently concerned that the international community will care little about the dilapidated state of its economy once it has verifiably disarmed. Leaders in North Korea may also worry that economic sanctions in place could be used as leverage against the regime in the future to try to force unwelcome economic or political reforms. Such concern, coupled with the assumption that Pyongyang views its pursuit of a nuclear capability as a bargaining chip, suggests that any negotiated settlement on denuclearization will likely include an energy and economic assistance package for North Korea. A similar dynamic – economic benefits in exchange for disarmament – has been employed recently with some success in Libya, although the advantages for Colonel Qaddafi were more latent than they are in the case of North Korea. Similar negotiations are also underway with Iran, as France, Britain and Germany are offering economic incentives in exchange for restrictions on Iran’s nuclear program. But given the extremely dire state of the DPRK economy and Kim Jong-il’s worry that too fast of an economic opening could shake his hold on political power, the effort to implement an aid package in the North seems an especially difficult task.

The objective of this brief is to establish a framework within which to guide break-out group discussion of the implementation of a food, energy, and financial assistance package for North Korea. More specifically, the discussion should stem from this fundamental question: *what role can and should the six-party process play during the implementation of a negotiated economic assistance agreement with Pyongyang?* The desirability of some kind of coordinating role for the six-party group becomes clear when one considers the variety of players and interests that will be involved in the agreement: governments seeking nuclear dismantlement and political reconciliation, private enterprises seeking profits, international organizations seeking accountability, and NGOs seeking to relieve human suffering, to name a few.

How should we go about framing this discussion? First, it is necessary to look at some precedents for economic engagement in more detail. Fortunately, the recent history of the DPRK itself provides a good deal of information in this respect. The implementation of the 1994 Agreed Framework is particularly pertinent to the present discussion, as is the history of the World Food Program’s (WFP) activities in North Korea. In addition to the history of DPRK economic aid, efforts to engage Eastern European countries after the fall of the Soviet Union might be instructive, such as the work of the European Bank for Reconstruction and Development. There are also various think tank and government proposals from around the region that can be helpful as we try to identify the most promising approach going forward.

How can the six-party process facilitate North Korean economic development and contribute to an easing of tensions on the peninsula? Should the group establish a proprietary bank account, make decisions on collective aid and energy assistance packages, and then see them through? Or, should its role be more passive, providing guidance and oversight for existing international organizations and individual countries? Might the six-

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party group serve a different function in different areas of economic engagement? How can the group develop a consensus on priorities and an appropriate division of labor?

The following sections of this brief will discuss the context for economic aid, including the current state of the North Korean economy and the lessons-learned from past economic engagement efforts with the DPRK. This background discussion will highlight the various potential components of an economic package, such as fuel oil delivery, energy infrastructure development, private enterprise investment, the future role of international financial institutions (IFIs), the lifting of economic sanctions, and the coordination of bilateral initiatives. The final section of the brief lays out some guiding discussion topics for the break-out group. These topics stem from the question of what role the six-party process should play during the implementation of an agreement with regard to (1) setting goals, priorities, standards and procedures, (2) conducting studies of the DPRK economy, (3) evaluating short-term implementation, (4) assessing long-term success, (5) acquiring funding for the various components of an agreement, and (6) coordinating activities of the various actors involved.

The DPRK Economy

The North Korean economy today can be described as both seriously troubled and slowly evolving. It is troubled since decades of centralized planning and autarchic isolation, in addition to several natural disasters and the Asian financial crisis of the mid-1990s, have led to drastic food shortages, dilapidated infrastructure, and an uncertain investment environment, and each of these problems is exacerbated by the precarious political situation regarding North Korea's nuclear and missile programs. These difficulties have forced Pyongyang to rely heavily on outside assistance (from China and the broader international community) and to slowly increase its economic relationships with South Korea and others in the region. Pyongyang has also experimented with certain market-oriented practices to help develop its economy, but the Kim Jong-il regime has moved cautiously on this front, recognizing that too much progress too fast could undermine its hold on power. For example, the use of cellular telephones has been limited and certain restrictions have been put on foreign aid agencies operating in North Korea. Furthermore, the development of the Gaesong industrial park has been obstructed because of anxieties over the surge in South Korean visitors to the park.¹

It is difficult to assess raw economic numbers for the DPRK due to its self-imposed isolation and the highly secretive nature of the ruling regime. Thus, the following figures are rough estimates. The country is certainly aid-dependent, averaging roughly \$1 billion a year in food and energy assistance from China, South Korea, Japan, the United States and the European Union. Recent figures put the DPRK's GDP at \$29.6 billion, its real growth rate at 1 percent, and per capita GDP at \$1,300 for 2003.² In 2004, the DPRK exported \$258 million worth of goods to South Korea, while importing \$439 million.³ The North's largest trading partner, however, is believed to be China, with 2003 estimates putting

¹ *Korea Times*, "NK Worried About More Southern Visitors," January 12, 2005.

² Statistics from the CIA World Fact Book, accessed at <http://www.cia.gov/cia/publications/factbook>.

³ Statistics from the Bank of Korea, accessed at <http://www.bok.or.kr>.

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DPRK exports to China at \$395 million, and imports at \$628 million.⁴ Japan is North Korea's third largest trade partner, with exports to the DPRK at about \$174 million and imports at \$92 million.⁵ The DPRK also maintains significant trading relationships with Hong Kong, Thailand, and Russia. Trade and other financial relations with the United States have been cut off since 1950.

The first stirrings of economic reform in North Korea began in 1998 at the height of its economic duress. Since then, legislation has passed with respect to economic opening and reform, including the Law on Foreign Investment, the Joint Venture Law, the Foreign Currency Law, and the Copyright Law. The most notable changes came with the so-called July 1 reforms in 2002, which liberalized prices and wages, relaxed the state planning mechanism, and fostered a stronger material incentive system for the encouragement of labor productivity.⁶ These reforms led to soaring inflation rates, necessitating further liberalization of farming practices and other areas of the economy. For example, farmers' markets were converted into "consumers' markets" in April 2003, allowing the public to buy and sell food and other goods in a more market-oriented structure.⁷

A recent *Financial Times* article discussed the noticeable development occurring on the ground in Pyongyang, stating that "restaurants and computer cafes are springing up...and farmers will soon be allowed to grow more food for their families."⁸ Interestingly, a North Korean team was even sent to Ireland with the goal of studying its economic development. Other significant endeavors include the creation of special economic zones (SEZs) such as the Gaesong industrial park, the Mount Kumgang tourist attraction, and the restoration of the Trans-Korea Railway. Despite the progress that is being made, however, it seems likely that the DPRK "is not deliberately introducing the market system but is only tolerating market elements out of necessity."⁹

Lessons Learned from Past Efforts at Economic Development

The most salient precedent here is the Korean Peninsula Energy Development Organization (KEDO), established after the signing of the Agreed Framework in the mid-1990s to implement some of the terms of that agreement. KEDO's leadership included the United States, Japan, and South Korea (and later the EU), and was designed to implement the energy provision portions of the Agreed Framework. Specifically, through KEDO North Korea was to be provided with two light water reactors (LWRs) with a generating capacity of 1,000 megawatts each, as well as 500,000 metric tons of heavy fuel oil (HFO) annually to compensate Pyongyang for the electricity-generating capacity it gave up by

⁴ Statistics from the Korea Trade-Investment Promotion Agency (KOTRA), accessed at <http://www.kotra.or.kr>.

⁵ Ibid.

⁶ Jong-Woon Lee, "North Korea's Economic Reform Under an International Framework," *Korea Institute for International Economic Policy* (Working Paper 04-09, November 25, 2004) Accessed at <http://www.kiep.go.kr>.

⁷ Ibid., 12.

⁸ Anna Fifield, "Pyongyang Reaches Out to 'Invisible Hand,'" *Financial Times*, January 6, 2005.

⁹ Suchan Chae and Hyoungsoo Zang, "Interim Development Assistance for North Korea: A Multilateral Approach," *International Journal of Korean Studies*, Vol. 6 no. 1 (Spring/Summer 2002).

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freezing its nuclear reactors. Although KEDO achieved some success in this daunting task, the obstacles it encountered are important to note.

In late 1997, the DPRK began to issue complaints about the implementation of the 1994 Agreed Framework. They claimed that, against the letter and spirit of the agreement, economic sanctions had not been lifted or eased, delivery of HFO had been delayed, and construction of the LWRs by KEDO was not on schedule.¹⁰ The LWR construction project ran into numerous logistical and contractual roadblocks that slowed progress. Some were caused by North Korea, and others were common to large-scale multinational building projects. At one point, the ROK had difficulty fulfilling its significant financial commitments to KEDO, due in no small part to the Asian Financial Crisis of 1997, thereby creating a gap in financial requirements that the United States would not fill. In testimony given before Congress in 1998, Charles Kartman described the nature of the problem: “we have not been able to persuade enough others to make substantial contributions [to KEDO]. Money is now dangerously short, and we must find a way for KEDO to deliver on our Agreed Framework commitments.”¹¹

There were many reasons why the Agreed Framework ultimately fell apart (not least of which was the apparent North Korean admission of a uranium program in October of 2002), but the implementation problems KEDO faced along the way probably played some role in undermining trust between the DPRK and the other parties. This suggests that mechanisms and procedures for implementation can be almost as important as political will when it comes to designing a successful agreement. KEDO’s own dispute resolution mechanism (governing the LWR project) was used frequently, for example, but the Agreed Framework itself never had such a structure, so there was no way for the parties to reconcile differences at the political level within the overall context of the broader agreement.

Another relevant multilateral precedent is the UN Development Program’s (UNDP) work in the Tumen River Basin in the early 1990s. The official members of this project were South and North Korea, China, Mongolia, and Japan, with the Asian Development Bank (ADB) participating as an observer. In 1991, investigation teams were sent to North Korea, China and Russia, preceding a meeting of government aid coordinators in Pyongyang. The UNDP distributed a mission report to representatives from South and North Korea, China, and Mongolia suggesting options for the Basin’s development. A pre-investment phase was called for during the meeting, which would fund planning and research aspects of the project. The formation of national working groups and a Program Management Committee (PMC) was suggested. The first PMC meeting was held in Seoul in 1992 and consisted of discussion on the legal, financial and technical aspects of the project. Three working groups were established, focusing on (1) legal, institutional and financial matters, (2) macroeconomics and trade, and (3) infrastructure and technical feasibility.

¹⁰ David G. Brown, “North Korea in 1998: A Year of Foreboding Developments,” *Asian Survey* 39 (1) (1999): 130.

¹¹ Testimony of Charles Kartman, U.S. Representative to KEDO, before the House International Relations Committee, Washington, D.C., September 24, 1998.

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The project was ultimately derailed by the first North Korean nuclear crisis, showing that implementation of a multilateral development project can be undermined by disintegration of political relationships across borders. Two of the main problems with the Tumen project, according to Euikon Kim, were divergent strategies on the part of national governments and the lack of international capital to finance the project.¹²

The shortcomings of KEDO and the Tumen River project teach some valuable lessons. They both show the inherent connection between the integrity of a political agreement and the back-end implementation of its terms. They also show the potential adverse effects of exogenous factors on an agreement. A primary task for the six-party process might be to devise mechanisms for the maintenance of front-end political will if serious problems are encountered on the back-end, and vice-versa.

Yet another important endeavor to take note of is the Rajin-Sonbong SEZ in the northeast corner of the DPRK, near the border with Russia. This area was designed to encourage foreign investment, by allowing outside companies to own all of the capital assets they invested, to repatriate their profits, and to have guarantees against the nationalization of their assets.¹³ However, this promising project ultimately failed because of poor infrastructure in the DPRK, long distances between Pyongyang and other areas, high wage rates, and general frustration with political and economic conditions on the ground.¹⁴ One scholar has pointed out that “since the Rajin-Sonbong region was confronted with poor transportation service, insufficient infrastructure, and low domestic consumption, it was assessed to lack the foreign investment environment required for a potential SEZ.”¹⁵ This precedent might be important to examine if the six-party group plays some role in setting priorities for economic development.

The Energy Sector

A new agreement with North Korea will likely contain provisions for providing the DPRK with energy assistance. However, formulating a six-party role in providing energy aid is complicated by several questions. First, will North Korea be permitted to maintain a peaceful nuclear energy program? For the United States, the answer at this point is a definite “no.” During the third round of the six-party talks in June 2004, the United States revealed its preference on this matter by offering only to begin a study to determine how North Korea’s energy requirements can be met by non-nuclear programs. Second, is there a role for KEDO in providing energy assistance to the DPRK? Today KEDO has an uncertain future. The U.S. Congress eliminated all funding for KEDO in FY2004, and it retained a long-standing provision inhibiting direct assistance to the DPRK in its FY2005 foreign operations appropriations bill. Others have championed a potentially revised

¹² Euikon Kim, “Northeast Asian Energy Cooperation: The Irkutsk Pipeline Project,” Department of Political Science and International Relations, Inha University, Incheon, Korea, October 2004.

¹³ Michael O’Hanlon and Mike Mochizuki, “Economic Reform and military downsizing; a key to solving the North Korean nuclear crisis,” *Brookings Review*, Vol 21 no. 4, (Fall 2003).

¹⁴ *Ibid.*

¹⁵ Jong-Woon Lee, “Economic Opening of the Hermit Kingdom: Current Status and Future Tasks of the New SEZs in North Korea,” *Journal of International Economic Studies*, Vol. 8 No. 2 (December 2004), 132.

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KEDO. KEDO Executive Director Charles Kartman noted that, even if the LWR project “is ultimately driven into termination, KEDO should continue to be kept alive as it could play an important role in DRPK energy support.”¹⁶

Issues for discussion could revolve around potential six-party roles in light of answers to each of these two interrelated questions. Thus, if North Korea is permitted to maintain a peaceful nuclear energy program in the form of the two LWRs (or some alternative), should KEDO or a six-party organization oversee and implement the project? Should KEDO be incorporated into a six-party organization and be responsible for implementing the project, with the six-party group adopting an oversight role? If North Korea is not permitted to keep a peaceful nuclear energy program, should KEDO or a six-party organization oversee and implement non-nuclear forms of energy assistance to the DPRK? Whichever organizational form is adopted for the provision of energy aid to the DPRK, determining roles for Russia and China will be important, considering that neither participated in the KEDO project.

Food Aid

Another key aspect of any negotiated agreement with Pyongyang will be food aid for a hungry population. In late January 2005, the BBC reported that food rations to the North Korean population was being cut to one-half the WFP recommended amount - from 300 grams of cereals a day to 250 grams. Some have argued that this may be an attempt on the part of the Kim regime to stimulate interest in privately-run farmers' markets.¹⁷ The main issue here from a six-party perspective is the monitoring of food distribution so that it is not disproportionately allocated to the military and other government agencies, as has often been the case. The WFP currently monitors its own distribution activities, but lacks access to roughly 15 percent of the country.

One aid group working in North Korea has reported that the DPRK distributes half of its food aid from foreign donors to the military, with 30 percent going to the People's Army and 10 percent to special organizations, factories and companies that produce weapons.¹⁸ Another recent report tells of DPRK soldiers putting on civilian clothes and effacing vehicle identification numbers to evade UN surveillance personnel.¹⁹ Thus, topics for discussion here might center around what role the six-party group can play with regard to monitoring food distribution, reassessing priorities for that distribution, and securing more funding to feed the North Korean people until their economy can provide for them. Should the six-party group oversee and/or facilitate the work of the WFP and other NGOs engaged in distributing food aid? Or, should it simply be informed by WFP and NGO reports?

¹⁶ Charles Kartman, interview with the *Asahi Shimbun*, December 9, 2004.

¹⁷ *BBC News*, “North Korea slashes food rations,” January 24, 2005, accessed at <http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/asia-pacific/4200861.stm>.

¹⁸ *Yonhap News Agency*, “Foreign Food Aid Goes to N. Korean Military: NGO,” January 18, 2005.

¹⁹ “ROK Civic Group Reveals How Foreign Food Aid is Distributed in North Korea,” *North Korea Today Newsletter*, January 15, 2005, FBIS Document ID: KPP20050117000041.

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The Private Sector

The role of private sector investment from outside sources could be important for the North's recovery. One scholar has identified common threads across several case studies of private sector development in the DPRK. The most common issues included a long period of time between initial contact and ultimate implementation of an investment project, the occurrence of several failures before success was achieved, frustration in working with North Korean officials who were ignorant of certain basic business practices, and the importance of personal relationships between contracting parties.²⁰ A six-party organization can potentially alleviate some of these drawbacks. For instance, it could fund programs to train DPRK bureaucrats in investment laws and development strategies in order to overcome some of the hurdles that have typically been encountered by foreign investors. Furthermore, it could sponsor symposia for bringing those foreign investors together with North Korean businessmen to discuss current and future projects.

The Importance of Special Economic Zones

There are several important economic developments currently taking place in the DPRK that are noteworthy, and they may spur some thought on possible roles for a six-party group in advancing their progress. The development of SEZs in North Korea, asserts one scholar, "is regarded as the most pressing policy measure for opening the North Korean economy."²¹ In September 2002, North Korea revealed plans to develop the Shinuiju district into an SEZ. The Shinuiju district has its own legislative, administrative and judicial system, and other key features of the area's Basic Law includes the unrestricted movement of foreign exchange, tax breaks on corporate investment, reduced tariffs, and increased autonomy of labor management by foreign enterprises. While it remains to be seen if these elements will be fully implemented by Pyongyang, the significance of Shinuiju lies in its high level of autonomy and a legal structure attractive to foreign investors.²²

Similarly, the primary goal of the Gaesong industrial park is to promote direct investment from South Korea.²³ To achieve this goal, Pyongyang will have to create an investment environment more attractive to foreign enterprises than that offered by competing SEZs in China and Southeast Asia.²⁴ This will require improving local infrastructure and transportation links, since the dilapidated state of these two elements contributed to the failure of the Rajin-Sonbong project. It is also noteworthy that Gaesong and Shinuiju are in close proximity to the borders of South Korea and China, respectively. Thus, there is potential for these two emerging zones to create "a unified economy with neighboring regions."²⁵ Might China and South Korea together spearhead a working group within the

²⁰ Richard Tait, "Playing by the Rules in Korea: Lessons Learned in the North-South Economic Engagement," *Asian Survey* Vol. XLIII, No. 2, (March/April 2003), 305-328.

²¹ Jong-Woon Lee, "Economic Opening of the Hermit Kingdom: Current Status and Future Tasks of the New SEZs in North Korea," *Journal of International Economic Studies*, 8(2) December 2004, 121-144.

²² Lee, "Economic Opening of the Hermit Kingdom: Current Status and Future Tasks of the New SEZs in North Korea," 124-125.

²³ *Ibid*, 126.

²⁴ *Ibid*, 134.

²⁵ *Ibid*, 132.

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six-party framework that would oversee SEZ development in North Korea? If successful, these SEZs can serve as engines that will help drive the rejuvenation of the larger DPRK economy. The importance of maintaining their development for Pyongyang's long-term economic success is therefore apparent, and might be a task taken up by the six-party group in some form.

Another particularly interesting development has been Pyongyang's granting of exclusive business development rights to the Chinese company Chaohua Youlian Cultural Exchange Co. Ltd. (CHYL).²⁶ CHYL's mandate is to facilitate PRC investment in North Korea by conducting symposia and initiating visits to Pyongyang.²⁷ CHYL will serve as a lobbyist of sorts for the North Korean economy, advertising recent reforms and marketing its promise for future development. The PRC media has reported that CHYL's efforts have elicited positive responses and that its projects include an oil refinery and road construction, among others.

A Marketplace of Ideas for Multilateral Engagement

The United Nations recently released a report entitled "Investing in Development," authored by the prominent Columbia University economist Jeffrey Sachs. The most germane finding of the report for the six-party group was that development aid to countries lacking adequate governance is ultimately wasteful:

For countries like the DPRK where the problem is the will of the political leadership, there is little case for large-scale aid. Aid should be directed to humanitarian efforts or through NGOs that can ensure delivery of services on the ground. Any aid directed through the government should be conditional on significant improvements in human rights and economic policies.²⁸

This recommendation presents a potentially pivotal question for the six-party process going forward. Would international funding for DPRK development be better off in the hands of an institutionalized six-party group? Should the group oversee the distribution of funding to various NGOs that possess particular areas of expertise? Or, should the group monitor the use of international financial assistance by the Kim regime?

Another interesting proposal has come out of South Korea, which recently suggested that South Korean corporate assets in the DPRK could serve as collateral for loans from IFIs. South Korean companies can now borrow money from banks by mortgaging their buildings, machinery, and the rights to their real estate in the DPRK.²⁹ A six-party organization could potentially serve as a forum for harmonizing domestic investment rules and other regulations pertaining to economic interactions with North Korea, so that, for

²⁶ The company's website can be accessed at <http://www.chyl.com.cn>.

²⁷ "PRC Firm Said to Attract Chinese Investors to North Korea," *FBIS Report*, December 4, 2004, FBIS Document ID: KPP20041214000239.

²⁸ UN Millennium Project, Overview Report for *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (2005), 43, accessed at http://www.unmillenniumproject.org/reports/index_overview.htm.

²⁹ *Korea Times*, "Assets in NK Recognized as Collateral," February 3, 2005.

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instance, a Russian company's assets in the DPRK could also be treated as collateral by a South Korean, Russian, or even an American bank.

A comprehensive discussion of multilateralism and North Korean economic reform published by the Korea Institute for International Economic Policy stresses the importance of building a multilateral regime, one which includes the participation of governments and international organizations, to oversee economic engagement with Pyongyang.³⁰ The report sets out differing roles for different countries with interests in the DPRK economy. Not surprisingly, each member of the six-party talks is mentioned. For example, the report calls for South Korea to focus on implementing the Four-Point Agreement for the Inter-Korean Economic Exchange, signed in December 2000. To facilitate this initiative, the terms of the agreement need to be further specified and detailed, necessitating the creation of a stable negotiation and dialogue channel. The report does consider the nine meetings that have been held since January 2001 of the North-South Economic Cooperation Promotion Committee, but points out that it is a temporary body that meets irregularly, making discussion of diverse issues related to inter-Korean economic affairs difficult. The report suggests that to overcome this problem, "it is critical that a more regular-based and sustainable inter-Korean economic council be established."³¹ Might the six-party process evolve into just such a council?

The United States, for its part, could focus on easing economic sanctions, and the ROK and Russia could deal with regional infrastructure development projects. This conceptualization of North Korean reform under an international framework suggests the possibility that members of the six-party group might function in some ways as a coherent unit, but that individual countries could take the lead with regard to particular areas of economic reform where they are most invested.

The role of IFIs and their interaction with a six-party group is another important dynamic to consider. Pyongyang applied for ADB membership in 1997 and 2000, and received a fact-finding mission from the IMF in 1998.³² Some possibilities for financial assistance include the Poverty Reduction and Growth Facility fund of the IMF, the International Development Association fund of the World Bank, and the Asian Development fund of the ADB.³³ Two main goals for IFIs vis-à-vis the DPRK are to reduce the size disparity between the economies in the North and South, and to facilitate the integration of these two very different economies over the long-term.³⁴ IFIs can also help the North gradually adapt to market mechanisms in order to facilitate international trade and investment,

³⁰ Lee, "North Korea's Economic Reform Under an International Framework," 137.

³¹ *Ibid.*

³² In May 2005, South Korean Finance Minister Han Duck-soo asked the ADB to consider providing aid to North Korea. Chosun Ilbo, "Han Asks ADB to Look Kindly on North Korea," May 5, 2005, available at <http://english.chosun.com/cgi-bin/printNews?id=200505050007>.

³³ Chae and Zang, 10.

³⁴ Bradley O. Babson, "The International Financial Institutions and the DPRK: Prospects and Constraints," *North Pacific Policy Papers*, no. 9 (Program on Canada-Asia Policy Studies, University of British Columbia, April 2002), 6.

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provide transparent reporting of economic trends, evaluate economic development, and supervise the implementation of multilaterally-funded projects.

It is important to realize that the non-lending functions of IFIs may be just as important as their ability to mobilize capital. One report notes that “partnerships with UN organizations, the European Commission, bilateral donors, and NGOs will be critically important for the IFIs to leverage their own capabilities with those that others can bring to the complex and challenging situation in the DPRK.” A first priority might be economic assessment while a second would involve education and training. One proposal calls for an initial assessment to be made by the IMF, World Bank, and ADB (possibly reporting to a six-party group), and asserts that the *process* of preparing such a report would help develop important relationships between officials of the DPRK and the IFIs.³⁵ After the report is issued, a priority agenda would need to be developed.

In the near-term, the perception of IFIs as “honest brokers” and “neutral partners” may prove critically important, given the mistrust and political enmity between Pyongyang and Washington.³⁶ Also noteworthy is the suggestion that “a formal aid coordination mechanism will need to be developed once there is a shift from humanitarian to development assistance by the international community. These ideas raise several questions in terms of the role a six-party organization might play along with the IFIs. For example, might a six-party group become a clearinghouse for IFI development projects and loans? Would a six-party group act as a *de facto* IFI, maintaining its own bank account? Furthermore, how might the role of a six-party group evolve over time as development requirements change on the ground?

Another group of commentators has declared that it would be wise to establish an “Interim North Korea Development Assistance Group (INKDAG) that would consist of major donor countries and international organizations.”³⁷ However, they note that the DPRK is currently unable to effectively absorb private investment because of poor infrastructure and that it cannot access international private loans because of its default status on external debt. Therefore, public assistance will be necessary in the form of grants and concessional public loans. One multilateral measure might be to establish a trust fund for North Korea that could provide technical and financial assistance before DPRK entry into IFIs. Precedents for this type of fund include those used in Bosnia and Herzegovina, the West Bank and Gaza, East Timor, and Kosovo.

INKDAG could become a multilateral policy dialogue mechanism that can be useful in preventing aid duplication and in assuring transparency in the use of resources provided. Again, the biggest obstacle to development in North Korea is poor infrastructure, including dilapidated railroads and phone lines. The Taechang spring water project provides an example of this dilemma. In this case, a South Korean company invested in the DPRK in

³⁵ Ibid, 20.

³⁶ The Asian Development Bank may therefore be an appropriate IFI to take a leading role in the near-term, as organizations such as the IMF and World Bank are sometimes perceived as being heavily influenced by Washington.

³⁷ Chae and Zang, 8.

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1996, but had to build a railroad with its own resources. The company ultimately went bankrupt due to poor returns and the amount of money it had to invest upfront. This example supports the idea that some sort of public-private partnership will be necessary to rebuild the DPRK economy. It should be the public sector's responsibility to provide basic infrastructure, and INKDAG could be used as an instrument to provide the infrastructure necessary for facilitating private investment in the DPRK.³⁸ The obvious question here is how an institutionalized and functional six-party group might take on the suggested role of INKDAG.

Questions/Topics for Consideration

- What role should a six-party organization assume with respect to delivering economic and energy aid to North Korea? Should it keep track of the totality of economic assistance provided to the DPRK, and possibly play some coordination role? Should it conduct feasibility studies to help prioritize projects and possibly send evaluation teams to measure the effectiveness of international efforts, and follow-up with recommendations? Or should it more proactively coordinate and manage projects, possibly even establish a bank account to receive contributions from governments and international organizations?
- Should North Korea participate in all of the discussions concerning an economic and energy assistance package?
- Should KEDO be maintained as an independent organization, or should a six-party organization incorporate KEDO and oversee the LWR project if the DPRK is allowed to maintain a peaceful nuclear energy program? Should a six-party organization oversee non-nuclear forms of energy aid if North Korea is not allowed to maintain any nuclear energy facilities?
- Should a six-party organization serve as a forum for harmonizing individual national aid contributions, so that all aid disbursements, including those from China and South Korea, are tied to DPRK progress in meeting its dismantlement obligations?
- Should a six-party organization fund the training of DPRK bureaucrats in market economics, investment law, and other issues necessary for the establishment of market mechanisms? Should it sponsor symposia to bring together North Korean businessmen with foreign investors?
- Should a six-party organization set up a working group involving all or some of its members, to oversee the development of SEZs in North Korea?

³⁸ Chae and Zang, 17.