Future Multilateral Economic Cooperation With the Democratic People’s Republic of Korea

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Executive Summary

Economic restructuring and development in the Democratic People’s Republic of Korea (DPRK) is critical and will require cooperation and a collective effort by leading international institutions in order to be maximally effective. In particular, these organizations can provide needed objectivity, neutrality, experience, and mobilization of financial resources to support the transition to a market economy that is integrated in the regional and international economic system.

In June 2005 the Stanley Foundation brought government officials, representatives of multilateral organizations, and North Korean experts together in Berlin to deliberate on the practical challenges ahead in helping the DPRK reconstruct its economic system. Participants focused on how multilateral organizations and the international community can work together on this future economic agenda once political agreement is reached on outstanding security issues.

Four broad topics were discussed at the conference. The first was the operational needs for economic cooperation with the DPRK. The second was an assessment of the challenges interested parties will face in engaging the DPRK. Third, a sector-by-sector assessment of the current situation was carried out and ways to proceed in these areas were discussed. Among the sectors considered were: energy and transport infrastructure; agriculture and food security; education, health, and social protection; economic reform and management; and foreign trade and investment. Finally, participants identified crosscutting issues that will need to be addressed over and above these sector perspectives.

Participants then articulated a number of key messages for different audiences and offered policy recommendations that centered on the initial steps and the basic cooperative working relationships needed to underpin the more complex and larger tasks of assisting the DPRK with economic reform and development.

Operational Needs for Economic Cooperation

Opportunities for the international community to support positive changes in the DPRK are increasing, and if the Six-Party Talks (6PT) lead to a successful conclusion, expectations will be high for a rapid increase in multilateral economic cooperation. International organizations
will find it valuable to coordinate with colleagues in countries like China and Vietnam—as well as in other countries of the region with growing economic linkages to the DPRK—to share information and impart experiences from other cases.

Working group members and conference attendees identified three initial steps for development organizations to take in order to prepare themselves for cooperative efforts.

• An ongoing, informal forum designed to facilitate cooperation and consultation among multilateral organizations and other major partners should be established.

• Multilateral, bilateral, and nongovernmental organizations need to engage in dialogue with the DPRK government on development assistance and cooperation protocols and continue those dialogues that have already been initiated.

• International organizations should be engaged in dialogue with 6PT governments during the current negotiation process in order to ensure that their roles in the implementation of future economic assistance to the DPRK are well considered and feasible.

Major Challenges in Providing Assistance

The DPRK situation is unusual. Successful multilateral cooperation and development assistance must take into account a series of situational and regional complexities.

• Continuing division on the Korean peninsula and the long-term nature of the reunification process will make it difficult for international and development organizations to use a single-country client model in planning for economic engagement. It will be imperative to fully take into account the inter-Korean cooperation plans in formulating assistance strategies and implementation modalities.

• The current geopolitical situation is characterized by historical regional conflict and the emerging interconnectedness of regional economies. Understanding these rapidly growing ties will ensure that multilateral and bilateral assistance is more cooperative and complementary than duplicative or competitive.
• The current DPRK governmental structure and internal political tensions complicate the reform process and the building of effective working relationships. Having a relationship with bureaucratic leaders in the relevant government, party, and/or military institutions is indispensable for project approval and effective implementation. International organizations need to find the right officials and agencies to work with and overcome their hesitancy to share information and coordinate decision making across agencies.

• Both humanitarian aid and development organizations struggle with the lack of adequate data collection, accessibility, transparency, efficiency, and accountability, which hamper the design, implementation, and assessment of assistance programs. Information gathering and sharing among international organizations must be strengthened, and the information gathered about the DPRK must be accurate.

Major Sectoral Challenges and Recommendations
Conference participants pieced together and critically examined information from a variety of sources covering seven sectors crucial to North Korea’s development.

• **Energy.** The DPRK is operating with significantly less domestic or imported energy resources than during the Comecon era and inefficiently uses what energy sources are available. This sector will require very expensive inputs as all parts of the infrastructure are falling into disrepair. This is a priority sector above all because improving other parts of the economy depends on improvements in the energy sector. Any energy assistance will need to be carefully planned and coordinated with political agreements made through the 6PT.

• **Transportation.** Much of the DPRK’s transportation infrastructure dates to the 1930s and roads, ports, and rail lines have deteriorated significantly. The immediate opportunity for international organizations is to help improve this sector by assisting in planning and assessment in order to ensure good use of future investment financing.

• **Agriculture and Food Security.** While agriculture is a high government priority and reforms are moving forward in this sector, problems of crop waste, field losses, and low yields in dry seasons must be addressed to improve production. Agricultural improvements are also hindered by the country’s poor transportation system. Food security, however, con-
continues to be a major concern for the North Korean people and can only be resolved through a national economic development strategy that relies on increased trade to meet essential needs of the population. Prospects are good for shifting from humanitarian to development assistance and policy dialogue in this sector.

• **Education, Health, and Social Protection.** Expanded social services are greatly needed, particularly in health care and social protections. Many organizations have tried to build trust on these issues by highlighting opportunities and successes when discussing social needs and problems, but the continued political sensitivity of social protection hinders reform or even discussion of reform. Vulnerability is also changing as there are both winners and losers in the transition to market economic mechanisms. Humanitarian assistance will need to be recalibrated to respond to these emerging realities. Despite the political sensitivities, international organizations can take steps such as undertaking a comprehensive needs assessment for the provision of services and the requirements to support this transition.

• **Economic Reform and Management.** Changes to the economic system since 1998 have been well intentioned, but the impact of the reforms has been limited due to incompleteness, rising inflation, lack of financial resources for both infrastructure and enterprise investment, and a low level of economics and business knowledge in the country. The DPRK needs capital, both investment and human resource, to move forward. International organizations can support the reform efforts by training North Koreans in valuable disciplines, providing advice for design of further reform initiatives, supporting infrastructure planning and investments, and providing social safety-net assistance.

• **International Trade.** The DPRK maintains trade relationships with all of its neighbors and there is evidence of trade growth in recent years, especially with China and the ROK. Despite positive trends, analysts believe incorporating the DPRK into the global trading system will be a challenge, as it produces mostly primary products, handicapping its ability to earn money for capital improvements. International organizations can advise on economic and legal reforms that will link to future WTO membership, assist with debt relief negotiations, and support trade-related training programs.
Foreign Investment. Foreign investment in the DPRK is still very limited, with most of it coming from the ROK and China. Its current position of exporting mainly primary products while importing more manufactured goods has created a trade imbalance. Increasing FDI may be the most important way for the DPRK to correct this imbalance. International organizations can help improve the investment climate in the DPRK through advice and training, assistance for development of local markets and the development of the small- and medium-scale enterprises, and support for legal and financial sector reforms that will help overcome risks faced by investors.

Crosscutting Issues for Future Cooperation
Six important issues cut across all sectors, each requiring careful management as planning economic cooperation between the international community and the DPRK continues. The issues identified were the importance of (1) an overall development assistance strategy; (2) coordinated aid and policy dialogues across multilateral, bilateral, and non-governmental organizations; (3) a comprehensive needs and absorptive capacity assessment; (4) more small projects, particularly those that involve capacity-building human resources development; (5) attention to best practices and development effectiveness; and (6) the linking of economic assistance to the international political, security, and human rights processes.

Conclusions
The recommendations that resulted from this conference took the form of messages that should be passed along to those involved in economic development in the DPRK including governments involved in the 6PT, multilateral organizations, bilateral donors, and the DPRK leadership.

In addition to these messages, some general principles for engaging the DPRK were agreed upon: start small; attend to good process; aim high for policy dialogue; ensure that development assistance supports and does not undermine political resolutions; use, adapt, and improve existing multilateral approaches to economic cooperation; and insist on transparency, efficiency, and accountability.

Above all, the involvement of multilateral organizations and the international community, as well as a concerted effort by the DPRK to cooperate, will be crucial to the ultimate success of economic engagement with and development of North Korea.
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A New Relationship for the International Community and the DPRK?
After the fall of the Berlin Wall and the collapse of the Soviet Union, the international community and its major bilateral, multilateral, and nongovernmental institutions embarked upon a long process of helping to integrate most of the former Comecon countries into the global economy. Other communist countries such as China, Vietnam, and to a lesser extent Cuba embarked upon open-door and reform policies. But the Democratic People’s Republic of Korea (DPRK) has been one of the last countries resisting economic change and transformation, despite a serious food crisis that came to international attention in the mid-1990s and continues to plague the lives of North Koreans today. In the past decade, the international community has been focused on two key issues, with success in the second dependent to some extent upon progress in the first: (1) how to resolve the nuclear security standoff on the Korean peninsula and (2) how to help the DPRK become food secure.

Resolution of the first issue, nuclear security, rests upon political negotiations among the regional powers. The resumption of the Six-Party Talks (6PT) in mid-2005 gives hope that a negotiated settlement is possible in the near future. Resolution of the second issue, food security, involves domestic political will, international support, and substantial economic restructuring and will be as complicated to resolve as the nuclear question.

A key question is to what extent the DPRK will allow change in its economic and social system, and will be prepared to accept resource inflows on a scale that will have not only economic but also systemic impact. The resolution of the country’s security concerns through the six-party process is probably the single most important factor in influencing DPRK attitudes in this respect.

When possible, the necessary economic restructuring will require the collective efforts of the international community. In particular, the involvement of multilateral organizations will be crucial to ultimate successes, as these organizations can provide a necessary level of objectivity and neutrality (i.e., the United Nations’ system and the international financial institutions), substantial transfer of international experiences globally and regionally, extensive staff technical expertise, the recognized ability to
mobilize resources from around the world, and the authority to coordinate aid among the full range of development partners.

The DPRK has managed to withstand pressures to relax its security posture and reform its economy for decades. In the meantime, its economic situation—and thus the health and safety of its population—has deteriorated and appears trapped in a poverty cycle. Humanitarian assistance is declining as aid appeals fail to move donors who are concerned by the DPRK’s ongoing nuclear weapons program and its continuing poor relations with some neighbors. And, while the DPRK has recently enacted a series of limited administrative and economic reforms, the general consensus by outside experts is that the reforms have not stimulated significant economic growth. The economic data is difficult to obtain, particularly as the DPRK has embargoed information for the first three years of the reforms, but observers note that structural obstacles, inflation, production and supply bottlenecks, and the onset of corruption suggest a changing pattern of poverty and vulnerability in the new economy, making for a few new winners, but also for a larger number of new losers. Consequently, the problem of food security remains unresolved for most North Koreans.

Understandably, the international community is frustrated at ten years of providing humanitarian aid without resolving the food crisis and would like to move forward toward initiatives that can help the DPRK address its fundamental problems. Indications are that some members of the governing elite are equally eager to work on reform initiatives. Should the 6PT succeed, the resulting agreement will certainly include economic incentives, perhaps providing circumstances conducive to change in the DPRK. And it will fall on the 6PT countries, other interested countries and groupings, and the global and regional multilateral institutions to implement these incentives. It is expected that at least some of the incentives agreed upon will include the development assistance necessary to support the DPRK’s fledgling economic reforms.

Thus the multilateral, bilateral, and nongovernmental aid and development organizations likely to be providing this assistance may find themselves forced to respond quickly not only to a system still unfamiliar to most of the world but also to the reality that the DPRK is already a country in transition. An example of this reality can be seen in the open markets that are now established around the country and the recently sanctioned private agriculture experiments and business activities. Yet these changes are taking...
place in a situation that is unusually complex and difficult for a number of reasons, including the extreme isolation and distortions in the North Korean economic system; the military/security issues on the Korean peninsula; the sensitivity of regime transformation and human rights issues; and the heavy influence of regional considerations including inter-Korean reconciliation, the extensive Chinese relationship with the DPRK, and historical tensions with Japan. International aid and development organizations should begin now learning the unusual social and human environment of this transition, take steps toward forging cooperative arrangements across the multilateral sector, and move toward formulating future programs and policies to strengthen the economy in order to guide it along a sustainable path and protect the lives of vulnerable groups.

To assist with this process, in June 2005 the Stanley Foundation brought together a group of government officials, multilateral organizations’ representatives, and North Korea experts for two days of conference deliberations on the practical challenges ahead in helping the DPRK reconstruct its economic system and on how multilateral organizations and the international community can work together on this future economic agenda, once a political agreement has been achieved on the outstanding security issues. The conference grew out of a larger working group brought together by the foundation in 2004 to identify the first steps toward bridging the gap between the economic development needs of the DPRK and the operational needs of the main international organizations that might be involved. During the development of the project, it became clear to the working group that this gap was not being adequately addressed by 6PT and major donor governments or multilateral organizations. Consequently, the Stanley Foundation decided this was an area where a foundation initiative could bring representatives of involved governments and institutions together to discuss these issues as well as to help strengthen the networking among the organizations and key experts who will be called upon to help implement economic cooperation with the DPRK in the future.

This report summarizes the main conclusions and recommendations of this diverse and operationally focused working group and the conference attendees, the latter comprised of specialists from Canada, China, the European Union (EU), Japan, the Republic of Korea (ROK), Russia, and the United States, with frequent input from DPRK representatives based in New York, Pyongyang, and Berlin. The working group members and
conference attendees were asked to provide broad-based and pragmatic recommendations on institutional arrangements and cooperative activities to best support the implementation phase of an assumed 6PT agreement, and to look ahead to how the international community could most effectively cooperate in assisting the DPRK’s economic development and facilitating its integration into the Northeast Asian and global economy. The DPRK did not send representatives to join the formal meetings of the working group or the Berlin conference, but were consulted and maintained informal contact with working group members and conferees throughout the process.

While the working group and conference focused on the medium-term future, participants found it difficult to think beyond the immediate constraints and challenges hindering better cooperation with the DPRK. Thus the policy recommendations that emerged from the discussion centered on the initial steps and the basic, cooperative working relationships underlying the more complex and larger tasks of assisting the DPRK with economic reform and open-door policy.

Operational Needs for Economic Cooperation: Recommended First Steps for International Aid and Development Organizations

Despite the political and military tensions surrounding the DPRK, economic integration in the region is growing rapidly—even without strong regional economic cooperation mechanisms—and opportunities for the international community to support positive changes are increasing. As the government moves to reform its economy, it is more likely that the changes will follow a similar pattern to those that have taken place in China and Vietnam than they will resemble those that took place in the former Soviet Union or the other Comecon countries after 1989. Thus international organizations will find it valuable to coordinate with colleagues in countries like China and Vietnam—as well as in the other countries of the region with growing economic linkages to the DPRK—to share information and impart experiences from other cases.

Underlying these new opportunities is the question of how outside actors today can play a meaningful role in finding solutions to the DPRK’s economic problems. For example, can the international community agree upon a collective vision for next steps in assisting the growth of the economy? Under what auspices can multilateral, bilateral, and international
nongovernmental organizations (NGOs) coordinate in bringing information and resources together into a working partnership designed to address these specific problems? To address these questions and help prepare organizations to take advantage of any opportunities for supporting economic change, working group members and conference attendees identified three initial steps for development organizations.

Step 1: Create a Multilateral Forum for Cooperation and Consultation

The first step is the establishment of an ongoing informal forum designed to facilitate cooperation and consultation among multilateral organizations and other major partners in future multilateral economic cooperation with the DPRK. This should include the UN system, International Monetary Fund, the World Bank, Asian Development Bank, European Commission (EC), Korean Peninsula Energy Development Organization (KEDO), and the Tumen River Commission. The forum should also include governments and agencies from the 6PT, substantial donor countries, and international NGOs working in the fields of humanitarian aid, sustainable development, and social service assistance.

The forum would provide a regular mechanism for information-sharing, including recording the experiences of agencies already active in the DPRK and knowledge about evolving North Korean administrative structures and procedures. This information would help multilateral, bilateral, and nongovernmental organizations in planning and coordinating their activities prior to the establishment of formal aid coordination mechanisms, which will be needed in due course if the political talks lead to a significant development assistance effort by the international community. A more ambitious undertaking for the forum would be to cooperate on a systematic and comprehensive needs and absorptive capacity assessment for all sectors. The eventual goal of the forum would be the crafting of an integrated strategy for the DPRK’s transition from being a recipient of humanitarian aid to a partner participating in development assistance programs.

Step 2: Dialogue Between the International Community and the DPRK Government

The second step, which has already been initiated in a limited sense, is for multilateral, bilateral, and nongovernmental organizations to engage in dialogue with the DPRK government on development assistance and cooperation protocols. The dialogue is necessary for a number of reasons,
including the building of support within the DPRK for the transition from humanitarian aid to development assistance. The government needs to be encouraged to start planning for this transition and to make the policy changes necessary to facilitate cooperation with the multilateral agencies in particular. DPRK officials have little experience working with the international community on economic development. International organizations experienced at structuring human resource development and capacity-building projects will be invaluable during the shift from a humanitarian to development relationship. A dialogue with the DPRK on the operational processes involved in development assistance, emphasizing those areas of difference from earlier relationships surrounding the provision of humanitarian aid, will be a strategic step in this process. The dialogue is also necessary to impress upon government elites the necessity for assessment and background data for effective assistance programs. Adding to this, the dialogue should promote the importance of transparency, efficiency, and accountability in all cooperative activities. Finally, the dialogue should remind government officials that membership in the international financial institutions (IFIs) will follow established procedures and cannot be bargained through back-door deals.

Step 3: Dialogue With the 6PT Governments
The third step is to engage in dialogue with 6PT governments throughout the coming negotiation process. The role of the dialogue is to highlight that the recent economic changes are strategic on the part of the DPRK government and not simply tactical or propaganda maneuvers meant to enhance their standing in the negotiations. The 6PT governments need to know that economic reforms are small first steps that, if encouraged, could provide an opportunity for the international community to support positive change consistent with the goal of a safe, prosperous, and peaceful Korean peninsula. The dialogue should also encourage 6PT governments to consult with relevant implementation specialists before finalizing negotiations on particular incentive programs, so as to ensure that the agreed-upon assistance will be operationally feasible within the promised timeline. In the past, some promises were made that could not be fulfilled on time, which led to a loss of confidence and trust in the overall process of negotiation and conciliation.

In addition, the dialogue should promote the inclusion of training programs and small development projects as useful early incentives in any agreement with the DPRK. Training programs are eagerly sought by the
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DPRK and are easier to implement in the early stages of a relationship. The areas most in need are foreign languages (English in particular), economic management, project administration, energy policy and management, legal framework and public administration, rural development policy and management, and international relations and diplomacy. Small projects are easier to undertake quickly and, by providing tangible benefits, help improve the success of later activities. Finally, this dialogue should endorse an implementation timeline that sequences early rewards and provides a clear assessment schedule. This will assist international organizations in giving effective, timely, and targeted assistance to the DPRK.

Major Challenges to International Organizations in Providing Assistance to the DPRK
Special efforts will need to be taken to address the unusual features of the DPRK situation and regional context in designing strategies for future multilateral cooperation and development assistance. The challenges are considerable.

Continuing Division on the Korean Peninsula and Reunification Process
First, the Korean peninsula is a divided homeland with a dangerous border, though both North and South Koreans aspire for reunification. Already the two Koreas have embarked on joint economic projects and efforts to facilitate a process that can lead to deepening economic integration over time. The inter-Korean relationship will be new for international and development organizations used to a single-country client model. It will be imperative to fully take into account the inter-Korean cooperation plans and mechanisms when formulating assistance strategies and implementation modalities.

Geopolitical Situation in Northeast Asia
The larger Northeast Asian geopolitical situation provides a second challenge to future multilateral economic cooperation. There is a long history of regional conflict and nation-state rivalry that must be taken into account in policy planning. Offsetting this rivalry, though, is the emerging interconnectedness of the vibrant economies of the region. This economic trend suggests that collaboration with and cooperation from the DPRK’s neighbors will facilitate more cost effective and successful reforms, and perhaps contribute to building more trusting and peaceful relations among the regional actors. Development organizations will need to know what planning the regional governments have done for the inte-
gration of the region and what this means for shaping the future of the North Korean economy. Non-regionally based organizations may not realize the strong linkages already existing among the Northeast Asian countries in economics, the sciences, education, and the environment. Understanding these rapidly growing ties will ensure that multilateral and bilateral assistance is more cooperative and complementary than duplicative or competitive.

Therefore, China, Japan, the ROK, and Russia all need to be engaged by development organizations in a meaningful way in the planning stages of any assistance programs. Each of these countries will be balancing its multilateral role with a bilateral agenda. For example, China is simultaneously coordinating with multilateral institutions on particular activities, providing bilateral aid, and participating in economic relationships unreported to other agencies. In another example, Russia is currently an important source for raw materials and a destination for North Korean labor, even if it is no longer a primary supplier of economic capital. How central a relationship Russia will have in the future is an open question, but many observers of regional dynamics suggest that Russia is striving to rebuild a closer relationship with the DPRK and may once again strengthen its influence. The fact that Russia built much of the supporting infrastructure in the DPRK means that development organizations may find themselves in the position of needing Russian assistance with the rehabilitation of some facilities. Indeed, Russian influence has been vital to the development of much of the DPRK's economic, technical, and political structures. Like all the 6PT countries, Russia maintains an active strategic and economic interest in the peninsula. And, like China, Russia is also already training many Koreans in economics, business, and law.

The DPRK Political System
The third major challenge for outside organizations is understanding how to work with the uniquely closed DPRK political system. The experiences of those who have conducted relief, training, or development work in the DPRK suggest that having a cooperative relationship with bureaucratic leaders in the relevant government, party, and/or military institutions is indispensable for project approval and effective implementation. Important issues include determining which ministries or officials are relevant and appropriate to moving forward with development assistance activities and how to obtain decisions and other commitments that will be needed to advance a larger, more complex development assistance agenda than the
DPRK authorities have experienced in the past. Furthermore, international development organizations will not be dealing with a blank slate when engaging in discussions and planning with North Korean counterparts. Some conference attendees stressed that government officials have learned in the past decade that cooperation with the international community is not an easy or constructive process. Thus finding the right officials or agencies to work with is one part of the challenge, and convincing them to “wade back into the pool again” and cooperate with outside entities is another part.

Internal Dynamics of Reform
A fourth major challenge for outside development institutions will be deciphering the internal tensions surrounding the reform process. Conference attendees noted that the DPRK government has not made up its mind what kind of economy it desires, let alone how it will manage any future integration into the global economy. Others warn that international organizations must be cognizant of the increasing competition, reinforced by the reforms of July 2002, between the different ministries. One example is the increasing military involvement in business activities. Outside organizations must widen contacts within the different levels of the government to where “the real players are” and get beyond dealing exclusively with the Ministry of Foreign Affairs. While current internal reform attempts are producing change in some sectors of the economy, and important officials and agencies in the government are genuine in their desire for change and growth, there are nonetheless powerful factions within the ruling elite who oppose reform. Government, party, and military bureaucracies remain closed to outside scrutiny and identifying which individuals or agencies support the reform policies and which do not is difficult for outsiders, as well as for the majority of North Koreans today.

Information and Transparency
Finally, the challenge that bedevils both humanitarian aid and development organizations is that the lack of adequate data collection, accessibility, transparency, efficiency, and accountability hampers the design, implementation, and assessment of assistance programs. Getting accurate information necessary to determining economic development needs will be a serious issue should reforms progress. For example, a detailed evaluation of the social sector will be required for effective assistance planning, but a strong tradition of compartmentalization and the government’s fear of data being manipulated for political purposes have hindered the collection of
even basic statistics on key indicators. The importance of timely, accurate, and complete data is still not well understood by government officials.

The problem of information collection and management is two-sided, and international aid and development organizations also need to be careful of their own practices in this regard. Agencies should begin their projects aware of the work that has preceded them. They should be aware that their own information management techniques can influence North Korean perceptions of the relative importance of this issue. As one conference attendee commented, “Unless multilateral organizations get this right, they are open to challenges and criticism, and they will be unable to do what they want to do ultimately.” In fact, more data—although often of questionable quality and reliability—may be available from DPRK sources than supposed, but many outside organizations themselves, generally operating in an emergency mode, have not been in a good position to systematically organize such data they may have received or have avoided doing so because of DPRK sensitivities in this area. Some observers caution that many organizations working in the DPRK are not keeping adequate records, something that DPRK officials have noticed as well. Reflecting a decade of experience, one attendee said, “There is no point in talking about economic cooperation with the DPRK in the future unless there is some sort of requirement for transparency, efficiency, engagement, sincerity, and accountability.”

What working group and conference participants anticipate is that dialogue among all the relevant actors will reveal that the DPRK and the international community face different challenges in coming to grips with the priority tasks ahead in every major sector. As will be seen in the next section, there are implications for strategies of shifting from a humanitarian to a development assistance approach that are different for each sector, and there are differences in the relative roles to be played by different multilateral organizations in the building of partnerships for development effectiveness.

Major Sectoral Challenges and Recommendations
The current economic situation is difficult to assess as political, cultural, and institutional factors in the DPRK make communication and information collection extremely difficult. Nonetheless, working group and conference participants pieced together and critically examined information from a variety of sources covering seven sectors crucial to North
Korea’s development: energy; transportation; agriculture and food security; education, health, and social protection; economic reform and management; international trade; and foreign investment. Each of these sectors will be briefly described below.

Energy
The DPRK is operating with significantly less domestic or imported energy resources than during the Comecon era. This sector will require very expensive inputs as all parts of the infrastructure are falling into disrepair. In 1996 many of its hydroelectric plants were damaged in floods. Thermal power plants are in poor condition and power transmission lines are seriously degraded, to the point where a nationwide grid no longer appears to operate. Recent trends include power sold or given by China and the ROK, the cessation of KEDO heavy fuel oil deliveries, and perhaps the building of off-the-grid small power plants. Energy imports are still assumed to be low given the overall trade and financial position of the country, even as cross-border trade in oil may have picked up in recent years. In 2000 the Nautilus Institute estimated that imports of electricity from China only amounted to about 1 percent of generation. Energy is so restricted that new economic activity appears feasible mainly in low-energy areas such as light industry, the service sector, and labor-intensive agriculture. Factories are idled lacking energy, and residential energy is shifting to local sources, such as mini-hydropower and biomass.

In addition to the problems listed above, the DPRK also is not maximizing the energy resources available to it. Energy efficiency is extremely poor due to bad management and deteriorated infrastructure, so conservation is an immediate imperative. The Nautilus Institute estimates that energy conservation programs could reduce energy use by 25 to 30 percent—perhaps even as much as 40 percent. From those savings, and with limited investments, aid organizations could provide the DPRK with far greater energy resources.

Current political and economic realities make it unlikely that the development of light water nuclear power plants will continue. But other projects may be more pressing in the near future. The restoration and repair of existing power plants and the upgrading of the transmission and distribution infrastructure are required to operate the system already existing or to make practical use of energy provided from outside sources. In addition, the DPRK’s coal production could be made more efficient using
available and relatively inexpensive local resources. Developing renewable and alternative energy sources will further enhance resources available to the DPRK while promoting experience and interest in sustainable energy alternatives. Finally, energy integration and planning in coordination with the bordering countries of China, the ROK, and Russia are a necessary step toward more effective regional energy use. In particular, ongoing China-DPRK and future ROK-DPRK energy cooperation projects may prove key to this process. In all of these areas multilateral, bilateral, and nongovernmental organizations could provide assistance and advice.

The main opportunities for quick but sustained improvement in this sector’s performance rest with better training and planning. Outside observers have found DPRK energy professionals to be well-grounded in the fundamentals of their system and aware and knowledgeable about the national energy situation. What energy specialists lack is experience or information about how a modern power system is controlled, including even basic comprehension of waste control and energy efficiency. These officials are keen to improve their management skills, and this suggests assistance with training and planning would lead to some short-term improvement in energy services.

Currently, training of energy specialists is ongoing in China, Russia, and some EU countries through a few projects undertaken by international NGOs. But more training of managers and technicians is urgently needed and is a high priority for assistance to this sector. Particular needs are for training power plant and grid managers in energy efficiency methods, modeling, data collection, and management practices.

As for planning, this is a priority not only for more effective energy management but also because improving other parts of the economy depends upon the creation of a national energy strategy. Multilateral development organizations have experience developing umbrella plans for energy that also include the linked, vital sectors of transportation and agriculture. The DPRK critically needs help with energy planning for security, growth, environmental sustainability, and emergencies. If international politics ever allow, the IFIs can help not only with financing but also with risk protection and technology transfers that will undergird eventual implementation of an energy strategy while multilateral and nongovernmental organizations can work together with regional governments on energy integration and coordinated planning.
Nonetheless, development of this sector is closely related to sensitive regional security issues and therefore assistance will be highly dependent upon real progress in the 6PT.

Transportation
Much of the DPRK’s transportation infrastructure dates to the 1930s and roads, ports, and rail lines are deteriorating significantly. There is a serious problem of waste in the current infrastructure and of “lovely roads leading nowhere.” Regional disparities in infrastructure quality and quantity are great and need to be addressed to better link resource areas and markets. The DPRK has almost no container transport capacity in its ports. Much transportation is done by over-road vehicles, but large tonnage is handled by railroad, and is often moved at night. In recent years foreign observers have noticed a substantial increase in the number of transport vehicles. Load data is not available from government sources, and estimates by foreign observers and ROK research institutions are not comprehensive enough to provide reliable statistics. Like energy, transportation remains a sensitive political and security issue. In fact, the army builds and maintains the transport infrastructure, while local communities are assigned sections of roads to maintain.

There is a great need for investment in the transportation sector, some of which may come from private or regional sources as the DPRK opens its economy more. China and the ROK are investing privately and publicly in some roads and railroads, especially in border regions and around special economic zones. Entrepreneurs in China and the ROK hope to build roads to connect Chinese and South Korean markets through the DPRK. China is also interested in access to North Korean ports. There is evidence that transshipment between China and other countries is happening already. As the plans materialize, these countries will need to agree upon common standards for linking their roads, railroads, and other transportation networks. The involvement of multilateral institutions could prove helpful to regional governments in this process.

The main immediate opportunity for the international community to help improve the DPRK’s transportation sector is through assistance with planning and assessment that can ensure good use of future investment financing. To improve the transport infrastructure, a national or master plan will be needed (or revised, should one exist). The first step in preparing that plan will be to undertake a thorough assessment of the current capacity.
and needs (building and repairing). Again, as in the energy sector, intemational and regional political realities would need to be changed to allow for enougn openness in this sector for outside agencies to be effective.

Working group and conference attendees did not discuss the related communication issues, other than to note that there are great needs in this sector as well, and that the communications sector needs to be linked to infrastructure planning.

Agriculture and Food Security
As in other sectors, more data will be required for effective management of future agriculture and food aid programs. A recent redeployment of unemployed industrial workers to work in the agricultural sector has increased labor inputs and raised yields, but some observers remain pessimistic about the DPRK’s food security situation in the near future. Currently, those with access to the new markets, those with hard currency, and those with access to productive land are mostly food secure. But most North Koreans are food insecure and certain sectors of the society—such as unemployed industrial workers or women or the elderly or regions of the country, such as the Northeast area—are more vulnerable than others. A combination of factors is responsible for this situation, including the continued high unemployment and underemployment in the industrial sector, economic reform measures and associated inflationary pressures, and the lack of an adequate social safety net in case of famine or during lean seasons. Problems of crop waste and loss in the fields or through the marketing system that have plagued the agricultural sector are yet to be addressed. The poor transportation system contributes to these problems and hinders agricultural improvements.

Worse, many analysts believe that the long-term situation looks gloomy due to reports of the progressive deterioration of North Korean soils. Soil fertility management and environmental degradation issues are still not adequately addressed, and crop yields are reportedly going down again, although this declining production on the good lands may be masked by the recent good weather, completion of several large-scale irrigation projects, increased labor inputs, and increased use of marginal lands.

A new food crisis would be a step backward for the DPRK and demoralizing for the governments and aid organizations that have collaborated on food security issues over the past decade. Another food disaster could
have negative implications for the 6PT because, as one attendee put it, “the DPRK diplomats’ horizon will shrink down in the middle of a food crisis, and they will be less willing and able to compromise or see a long-term solution.” While the ruling elite are obsessed with agricultural self-sufficiency, agricultural specialists have contended for years that the DPRK is not properly situated to be a self-sufficient agrarian country given its population base, and that it should instead focus its policymaking toward improving its commercial and industrial sector to provide the economic security necessary to import food. A serious hindrance to international aid and development agencies in consistently sending this message to the government is that, in the event of another crisis, China and the ROK are likely to provide food to the DPRK, without necessarily coordinating with other agencies working on agricultural and food security projects. Thus greater multilateral and regional cooperation on developing a comprehensive agricultural development and food security strategy is needed to make significant improvements in this area.

The government’s policy agenda has targeted agriculture as a top national priority, which some analysts believe is an encouraging trend for further reforms in this sector. Other positive trends in recent years include the granting of more autonomy to local level officials, the increased authority allowed farm managers, and the shift to family-managed farming in some areas. All of these pilot projects are similar to what China did in its early stages of rural reforms in the 1970s. The new cash crops resulting from the freedom to plant has generated more prosperous farmers. But it is unclear how widespread the agricultural reform program is and what plans the government has for its future.

Opportunities for international aid and development institutions to help the DPRK reform and strengthen the agricultural sector are plentiful, and the government is generally open to policy dialogues on these issues. Nonetheless, as mentioned earlier, donor interest has flagged in recent years concerning the DPRK’s food security and agriculture production. The DPRK government also has not responded well to recent initiatives along these lines, for reasons not entirely clear to outsiders. Reviving interest and cooperation on all sides will require an improved political situation and greater confidence in the economic reform process.
Education, Health, and Social Protection
As in all other sectors, data is difficult to get from government agencies, and the data provided to outside agencies is often not in a form amenable to analysis. So understanding the exact educational, health, and social protection needs of the population is difficult. These issues are sensitive for the government, and its need for control and its low level of trust of outsiders hinders external organizations in assistance planning and implementation. Many organizations working in the DPRK have tried to build trust on these issues by highlighting areas of opportunities and successes when discussing social needs and problems, but the continued political sensitivity of social protections hinders reform or even discussion of reform. Outside human rights interventions have not been successful. One bright spot for improving dialogue is the relative independence of the DPRK National Red Cross Society and the recent establishment of semigovernmental organizations, such as the Korean Association for Support of the Disabled (KASD). Like similar organizations set up in China in the 1980s, these associations might provide an entry point for multilateral and international NGOs to assist and support good work in the DPRK. There is also some evidence that projects based on the county level have a better chance of getting official cooperation. Nonetheless, domestic political issues are the main obstacle to development assistance in this area.

The DPRK offers free education and literacy rates are very high, but education suffers from outmoded teaching methods, subject limitations, and overreliance on political education. Institutionalization of children at a young age is widespread, and families (mothers) are not as involved in child care as in most other countries. The DPRK’s isolation, communications restrictions, infrastructure decay, and poor quality of services pose serious challenges for all sectors, including education and health care. There is no Internet access for educators or medical professionals to use in updating their professional knowledge. Some observers propose that educational exchange might be a fruitful area for opening relations with the country while, at the same time, building human resource capacity. The government is clearly not interested in sending out students, but is interested in sending mid-career professionals to training programs abroad. In fact, many are already being sent to China, Russia, and the EU. A conference attendee quoted a government official as saying, “We want to send 10,000 officials to Europe.”
The DPRK has more doctors per capita than China or Vietnam and the network of doctors is well distributed around the country, which is very helpful for outside organizations working on public health issues. But doctors lack equipment, medicine, and training in new techniques and therapies. The ratio of nurses to doctors is also very low, leading to significant gaps in the care-giving system. In the past decade, there has been a worrisome increase in some diseases like tuberculosis and malaria, and new threats to confront, such as SARS and avian influenza. Much of the North Korean population remains dependent upon humanitarian aid for medicines and vaccines. The government is very good at cooperating with international aid organizations by mobilizing its population for specific, short-lived activities, such as vaccination campaigns, but its capacity for sustained improvement in health care is seriously constrained. The population’s high literacy rates also help outside organizations when structuring health projects. One bright spot is that there has been a marked improvement in childhood nutrition due to strong public health work in this area, mainly in cooperation with outside agencies.

The government has been seeking to develop or redevelop a national capacity for medicine and vaccine production but a pharmaceutical joint venture established in recent years has not been doing well. Initially, it was expensive to get any form of production going, and when production began, the company could find only a very limited internal market for its products. The joint venture had hoped that international aid agencies would buy the medicines, but aid agencies don’t tend to purchase medicines in this way. This is again an area where multilateral institutions and international NGOs might be able to assist the government in finding effective partnerships in this area.

Another issue area of serious concern for outside observers is that of political rights for North Koreans. Individual liberties are curtailed severely and political and civil rights extremely limited. The DPRK is not a classless society; all members of the society are given class labels that can be inherited. Political loyalty is the most highly prized characteristic. This class labeling system leads to severe inequalities in the allocation of all state resources. At the moment, the DPRK’s political situation makes it impossible to address this issue area adequately and numerous outside organizations struggle with how best to improve the rights of the North Koreans while maintaining provision of desperately needed humanitarian and development aid.
Even with the restricted domestic and complex international political situations, there are steps international aid and development organizations can take while operating under the larger humanitarian umbrella, including developing a strategy for the transition from humanitarian aid to economic development aid and, as part of that process, undertaking a comprehensive needs assessment for provision of services and the assistance required to support this transition. Many specialists believe that the DPRK cannot afford to continue supporting its centralized system of welfare provision; indeed, that its system of social protections is currently bankrupt, held together only through humanitarian aid. If true, then attention to the provision of a safety net during the transition will be vital to protecting lives during times of economic change.

Economic Reform and Management
The DPRK began preparations for limited economic and administrative reforms in 1998. The first reform policies were announced in July 2002 with further policies introduced in 2003 and 2004. The changes have been mostly microeconomic, including price reforms, salary adjustments, and the legitimatization of the newly emerging, independently managed enterprises. The most significant of these was to bring some product prices into line with market prices; for example, rice. The substantial increase in the prices of some commodities was coupled with an increase in official salaries, but the supply of commodities remained limited. In 2003 the first independently managed companies appeared in Pyongyang and elsewhere. These were the fruits of another important new reform policy in the decentralization of state sector decision making, including financial management. This was accompanied by a cut in state subsidies to state-owned enterprises. At the macroeconomic level, the government initiated reforms in the adjustment of exchange rates, in attempts to curb inflation, and attempts to attract foreign direct investment (FDI).

As in all other sectors, relevant data is limited, so the overall impact of the reform policies is unclear. From anecdotal evidence, we can construct a general picture of the difficulties of transition. Government institutions remain weak and laws and regulations are not transparent. Foreign observers have noted that official corruption may be emerging as a result of the reforms. There has been some inflation. Human capital is still seriously underdeveloped and few managers and policymakers in the DPRK have training or experience in a market economy. Observers note that a gap may be growing between the rich and poor and some suggest that the

In 2003 the first independently managed companies appeared in Pyongyang and elsewhere.
country is developing a form of *mafia capitalism*. Others maintain that the recent reforms are mainly a monetization rather than a true marketization that would result in more fundamental change. Economists suggest that the DPRK has entered into the classic poverty trap in that the aggregate income of society is not sufficient to replace depreciating capital. The continued degradation of capital stock foretells that each year the economy will be worse than the last.

Nonetheless, one conferee observed, “This engine for change is strong and sustained.” A longer-term view of the reform process indicates to many analysts that the impulse for making substantial economic changes has been powerful for many of the country’s ruling elites, even in the face of global and regional security tensions and internal political wrangling.

What are the underlying motives of these reforms? It is not clear, but experience from other countries suggests that reform, once started, develops a momentum of its own, whatever the original intention of the reformers. It then becomes a matter of directing the reforms in the proper way. Also, if priorities for the allocation of state resources were to become more firmly focused on economic—as opposed to political—needs, the process of economic and infrastructural decay could be perceptively slowed down, though hardly reversed.

What can outside organizations do to support this process? Analysts suggest that the DPRK needs an improved international environment before any real reform or open-door policy will be possible. And the international environment depends upon the political and security agreements enacted by the 6PT countries. Then, for the DPRK to move forward, it needs capital, both investment and human resource. Even in the current political climate, multilateral institutions and international NGOs can help with the improvement of human capital through training in foreign languages, economics, and business management. Some of this training is being done already, but more programs are needed. Chinese observers of the situation suggest that the most important contribution outsiders could make toward ensuring the success of the reforms is to promote activities—especially international travel—that open the minds of high- and middle-level officials. This form of cadre training by international delegation was undertaken very successfully in China during the early years of its own reforms, and thus Chinese reformers are aware of the great value this can have for bringing about the necessary administrative mindset to support economic changes.
The international community and multilateral organizations can help support these reforms in a number of other ways as well. For example, the DPRK needs to better understand and develop those sectors of the economy where it has comparative advantage and export earning potential, such as in low-end textiles, seafood, and gold and other minerals extraction (mining). In addition, multilateral institutions, if a political climate were in place to allow such activities, could assist with some of the infrastructural needs mentioned above as well as provide social safety-net assistance targeted at helping the population adjust to the transition of the economic management system.

International Trade
Available DPRK trade figures are mainly outside estimates with a considerable inherent margin of error. These figures, however, show that the trend is of increasing trade after the sharp drop from 1998 when Comecon collapsed, although there were dips again evident in 2003 and 2004. Recent activity has been carried out mainly with China and the ROK. Inter-Korean trade grew from $13 million in 1990 to $700 million in 2004. The DPRK enjoyed a trade surplus with the ROK until 1997, and then a deficit after 1998. In 2003 it recorded an overall trade deficit of $150 million but this number excludes noncommercial transactions that are estimated to represent a surplus roughly equal to that amount. Thus the existence of noncommercial transactions (as well as non-recorded commercial transactions) might explain how the DPRK can maintain chronic foreign trade deficits.

The DPRK’s major export items are live animals (32 percent), base metals (16 percent), machine and electrical (12 percent), and textiles (11 percent). Its imports are spread fairly evenly (each about 9 to 10 percent of total) among chemicals and plastics, minerals, vegetables, wood, textiles, precious metals, base metals, machine and electrical, and vehicles and equipment.

The major trading partners for the DPRK are China (36 percent in 2004, up from 28 percent in 2001), followed by the ROK (19 percent in 2004). Trade with Japan has suffered in recent years (only 6 percent in 2004, down from 18 percent in 2001) due to political sensitivities and consumer boycotts that grew out of public concern over the issue of North Korea’s kidnapping of Japanese citizens. The DPRK has very limited trade with EU and other countries outside Asia, but trade with Russia and Thailand, while small, has been increasing steadily.
The border trade with China is changing from the import into the DPRK of food, oil, and basic consumer items to the import of manufactured and higher input items. There has also been a growth in the border services trade, including prostitution, gambling, entertainment, and tourism. A market in secondhand items imported from China is a growing area of commerce. The gray economy is growing, including shuttle trade, smuggling, and transshipment and relabeling of goods from other countries.

China’s bilateral trade with the DPRK is about $700 million annually, but this figure does not include all the existing trading, barter, and transfer relationships that are supposed to exist. For example, since 1990 the Chinese border city of Dandong has seen its trade with the DPRK grow steadily at about 20 percent annually. In the early years of trading, the commodities exchanged were oil, food, and basic consumer items, but recently this has expanded to Chinese sales of electronics, textiles, and chemicals. In 1995 only two Dandong companies were involved in the border trade, but now there are more than 200. Including production-style enterprises, there are altogether 400 Dandong companies doing trade with the DPRK.

While these signs are encouraging, analysts see huge challenges incorporating the DPRK into the global trading system. Most of the items that it has to trade are primary products, handicapping its ability to earn money for capital improvements. Its nonperforming external debt is a key hindrance to expanding trade. International organizations could help improve the DPRK’s trading position in various ways, such as by advising on how best to link economic reforms to future WTO membership, assisting with debt relief negotiations, supporting training projects in international trade, and guiding the development of the required legal structures for trade.

As is clear for every sector, the DPRK’s ability to improve its trading position is dependent upon the peaceful resolution of the serious international political and security issues facing the region. At the same time, it needs to establish unequivocal market opening policies and practices and a reputation for honoring its debts before it can easily convince the international community that it is ready to take the necessary steps for fair and full participation in the global trading system.
Foreign Investment
Foreign investment in the DPRK is still very limited, with most of it coming from ROK sources, followed by China. As in every other sector, statistical data is difficult for outsiders to obtain, but researchers have compiled data using figures available from countries providing the FDI. There has been some increase in FDI as a result of the revised joint venture laws, but activities are very limited. This is critical as the DPRK needs FDI to improve its manufacturing capability and, consequently, its trading position. Its current position of exporting mainly primary products while importing more manufactured goods has created a trade imbalance. Increasing FDI may be the most important way for the DPRK to correct this imbalance.

ROK private sector investments are mainly limited to the Kaesong special economic zone and inter-Korean tourist projects. The light water nuclear reactor project has also brought investment capital from the ROK. Analysts suggest that in its attempts to attract FDI, the DPRK should carefully watch economic policy in the ROK and try to match needs across the two economies.

Chinese investment patterns are changing in two ways: (1) most investments started on a small scale but they are getting bigger and are moving from service sectors into industry and mining (iron, gold) and (2) early investment started from provinces neighboring the DPRK, but now it is coming from other provinces as well, including Zhejiang and Guangdong. In the past, China’s investment came mostly from ethnic Koreans living in Northeast China. Although accurate statistics are difficult to get, there is strong evidence that this source of investment is still growing and that most of it is in small-scale service industry projects like restaurants, saunas, department stores, and entertainment. But non-Korean investors from other parts of China are moving into the region including, notably, companies from Wenzhou in Zhejiang province. The Panda Electronics Group in Nanjing also recently formed a joint venture with a computer company in the DPRK.

Another area that has seen some positive results is in small microfinance projects. There are three or four micro-credit projects ongoing from the International Fund for Agricultural Development, Switzerland, and Australia. The general experience of outside organizations has been fairly positive. The loans given are small, recycled quickly, and have contributed
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to an increase in economic activity and employment, with a low failure rate. This is an important area for international aid and development organizations to endorse, especially as there is a strong educational component which accompanies this kind of investment.

Nevertheless, economists caution that the two main motivations for FDI anywhere are market scale and relative costs. The DPRK does not have a large market and, while its labor costs are low, the cost of infrastructure improvements will be high. So conditions are still not ideal for extensive FDI in the DPRK. And investment will face the problem of technology transfer, which the DPRK desperately wants, of course, but which might pose perceived security risks for other countries under current circumstances.

To promote an improved investment climate in the DPRK, international organizations might usefully focus on small enterprise development in urban and rural areas, provide small loans and microfinance projects in key areas for growth, and provide education and training for future investment projects. Should the international political and security situation allow, multinational institutions could also assist the DPRK in finding investment in machinery, equipment, and technology in order to develop its manufacturing sector and encourage investment that supports the flexibility of local markets and seeks to develop and enlarge them. Additionally, the development of legal structures will be an essential step for the DPRK to become a more attractive investment destination. This is an area where multilateral institutions in particular are well placed to provide assistance.

Crosscutting Issues for Future Economic Cooperation With the DPRK

Working group and conference participants highlighted six issues cutting across all sectors as important for careful management while planning economic cooperation between the international community and the DPRK. The issues identified were the importance of (1) an overall development assistance strategy; (2) coordinated aid and policy dialogues across multilateral, bilateral, and nongovernmental organizations; (3) a comprehensive needs and absorptive capacity assessment; (4) more small projects, particularly those that involve capacity-building human resources development; (5) attention to principled multilateralism and development effectiveness; and (6) the linking of economic assistance to the international political, security, and human rights processes.
Issue 1: Overall Development Assistance Strategy
A strategy is needed for the international community to move from the provision of humanitarian to development assistance for the DPRK. This strategy will have to include humanitarian assistance configured to address the social safety-net needs of the population groups made newly vulnerable by economic reforms.

In developing this strategy, the United Nations should reassess its own activities in the DPRK and strengthen the role of UN development organizations, especially the UNDP. A joint effort by UNDP, the IFIs, and the EU should be undertaken to develop a strategy that also makes the best use of the comparative advantages of the multilateral organizations. In the process it will be important to adapt and improve multilateral approaches by taking lessons learned from the experiences of humanitarian aid organizations working in the DPRK over the past decade. It will be important that the proposed multilateral mechanisms foster objectivity and be results-oriented in pursuit of development effectiveness in the North Korean context.

Issue 2: Coordination of Aid and Policy Dialogue
The DPRK must not be treated in isolation from the major bilateral interests of its neighboring countries, which are the DPRK’s largest aid and trade partners. Multilateral organizations formulating economic assistance strategies in the DPRK will need to factor into their plans inter-Korean economic initiatives; Chinese aid, trade, and investment activities; improved DPRK-Japanese relations; the DPRK’s developing political, economic, and social ties with Russia; and the possibility of expanding energy and transport links across the region.

Creative thinking about partnerships will be important, especially in the early stages of expanded economic cooperation with the DPRK. It will be useful for those multilateral organizations that have developed good working relations with the government—such as the UNDP, the EC, and KEDO—to be imaginative in developing their relationships and partnerships with each other, with bilateral donors, and with the NGO community. The UNDP’s role in aid coordination for development assistance should be particularly strengthened and incorporated into any development strategy. For example, effective cooperation across multilateral, bilateral, and nongovernmental organizations can be carried out if those organizations with a strong local presence assist those without one or
those new to the scene by orienting them to the realities on the ground. Such cooperation could also help pave the way for future involvement by the IFIs in the DPRK. Integrating the Tumen River Commission program and its processes of cooperation, together with the activities of other multilateral organizations, also should be considered.

Finally, in developing partnerships within the DPRK, aid and development organizations should aim high for policy dialogue by involving both the relevant government officials/agencies as well as the senior officials who need to understand the implications of any policy choices.

Issue 3: Comprehensive Needs and Absorptive Capacity Assessment
Assessment of needs and absorptive capacity for aid should be undertaken in each sector by multilateral organizations working in partnerships with each other, with the 6PT and major donor countries, international NGOs, and the DPRK authorities. Assessments are vital for the energy and transport sectors to prepare for the sizeable infrastructural investments and management improvement programs necessary for upgrading the agricultural, trade, and investment sectors. While more information and assessment work is available for agriculture, this needs to be integrated with the general economic reform and strategy for long-term food security. A health sector assessment is also an urgent priority to guide future international assistance efforts and provide better protection for vulnerable citizens during the transition phases.

Issue 4: Small Projects and Capacity-Building Activities
A general principle for working with the DPRK is to start small. The learning curve is particularly important in this country and engagement on the ground in the practical issues of development is critical.

Training and educational activities for capacity-building should be expanded and coordinated. There is need for extensive training of government officials and enterprise managers and for educational opportunities, such as overseas visits, for senior policymakers. More interactions are needed among the multilateral, bilateral, and nongovernmental organizations to plan, finance, and manage these expanded training activities.

Issue 5: Best Practices and Development Effectiveness
A general principle for working with the DPRK is to attend to good process. The process will be as important as the product, especially in the
early stages of working with new partners. Thus outside organizations working in the DPRK need to insist on principled approaches to cooperation. This means being scrupulous about accessibility, transparency, efficiency, and accountability considerations in data collection and in the planning and implementation of economic cooperation. This also means looking to major donors to take leadership roles in ensuring that these processes are respected and flow smoothly.

Multilateral organizations should advocate the best practice principles of harmonization and alignment adopted by the Organizations for Economic Cooperation and Development’s Development Assistance Committee in all aid and development assistance.

The DPRK poses opportunities as well as challenges in applying the lessons learned from global development experiences. Donor governments should press for the adoption of best practices by bilateral and multilateral agencies to promote aid efficiency and effectiveness while building North Korean capacities and national systems.

Issue 6: Linkages with International Political, Security, and Human Rights Processes
All development assistance activities should support and not undermine ongoing efforts to resolve the still outstanding international political, security, and human rights issues. Historical precedent and current trends suggest that the DPRK will increasingly open its economy and begin to engage the rest of the world. Limited economic reform is already taking place within the DPRK, alongside gradual trade and investment opening encouraged by its neighbors in the region. Dialogue and cooperation—in a way that puts politics aside—can help improve the situation for the Korean people. Better jobs, more freedom, and improved education and health care for its citizens will strengthen human rights inside the country as well as promote peace in the region.

Conclusions
The recommendations that resulted from this conference took the form of messages that should be passed along to those involved in economic development in the DPRK including governments involved in the 6PT, multilateral organizations, bilateral donors, and the DPRK leadership.
In addition to these messages, some general principles for engaging the DPRK were agreed upon: start small; attend to good process; aim high for policy dialogue; ensure that development assistance supports and does not undermine political resolutions; use, adapt, and improve existing multilateral approaches to economic cooperation; and insist on transparency, efficiency, and accountability.

Above all, the involvement of multilateral organizations and the international community, as well as a concerted effort by the DPRK to cooperate, will be crucial to the ultimate success of economic engagement with and development of North Korea.