

Modernization and Opening-Up of North Korean Economy: Roles and Efforts of Neighboring Countries

Edited by Kim Kyuryoon

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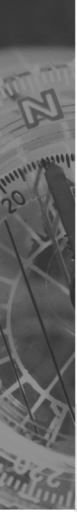
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Editor's Note

The Lee Myung-bak Administration laid out North Korea policy based on the Vision 3000 in order to promote South-North cooperation in various fields. At the same time, it also proclaimed to pursue a policy of mutual benefits and common prosperity. However, North Korea reacted with harsh words and showed strong resentment towards South Korea's new initiatives. In addition, North Korea heightened tensions on the Korean peninsula by executing nuclear-bomb test and launching long-range missiles. At the same time, North Korea tried to diffuse international efforts to solve North Korean nuclear issue by nullifying the Six-Party talks.

Since the establishment of its regime, North Korea has been obstinate to pursuing socialist and planned economic system of self-reliance, which resulted in its extreme economic crisis. As everyone knows, it is important for North Korea to be incorporated in the global capitalist economic system to recover from the crisis. However, North Korea is continuously wasting its already depleted resources on nuclear weapons and missiles development for regime survival. Thus, the revitalization of North Korean economy will be difficult should

such wrong tactics of state governance continue without fundamental changes.

North Korea faces its southern neighbor, South Korea, which has accomplished a great level of economic development in the past decades and suggests numerous proposals to aid North Korea in its hardships. If ever, the North Korean regime seeks to improve the lives of its citizens, South Korea will be leading aiding country in North Korea's revitalization. Without denuclearization of North Korea, necessary conditions will not be met for the numerous projects that may go into waste. Therefore, it is urgent for North Korea to forego nuclear development and to accept developmental aid from South Korea. In this vein, participating countries of the Six-Party talks have consistently proposed incentives for North Korea, if it were to abandon nuclear development program.

Recently, with the help of concerted efforts of the international community and South Korea, North Korea changed its course of action towards more cooperative measures. We could now forecast that another round of negotiations would be laid out in the near future.

At this juncture, Korea Institute for National Unification(KINU), along with Chinese and Japanese experts, made collaborative efforts to prepare a blueprint to ease North Korea's economic difficulty.

First, Dr. Kim Kyuryoon will analyze relationship between developmental aid and the Vision 3000. Second, Dr. Lim Kang-Taek will deal with the issue of marketization of North Korea. In addition, experts from neighboring countries will explore possible areas of cooperation between them and South Korea in opening-up North Korean economy. Finally, Dr. Park Hyeong-Jung will discuss issues related with South Korea's official aid policies toward North Korea.

Kim Kyuryoon

(Senior Research Fellow, KINU)

*Implementation of the Vision 3000: Developmental Aid Projects to North Korea**

Kim Kyuryoon

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Division of Planning and Coordination
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* This article is a revised and recomposed version of Kim Kyuryoon, "Developmental Aid to North Korea and the Vision 3000," *Controversies in Pursuing Developmental Aid to North Korea*(Seoul: Korea Institute for National Unification, 2009), pp. 154-198, translated into English.



1. Content Analysis of Vision 3000

The ‘Vision 3000’ proposal introduced by the Lee Myung-bak Administration is an initiative to provide aid to North Korea for twenty improvement projects within five sectors of the North Korean economy with the cooperation of the international community, targeting at \$3,000 per capita for the North Korean people within the next ten years. This proposal is established on the condition that denuclearization proceeds in North Korea. The twenty projects reflect South Korea’s prior policies toward the North such as the establishment of Five Free-trade zones in the North, New Kyung-yi Highway Road constructions, as well as supportive initiatives to establish educational institutions mirroring South Korea’s KDI (Korea Development Institute) and KAIST(Korea Advanced Institute of Science and Technology) to foster active reforms and openness in North Korea.

〈Table 1-1〉 20 Projects in 5 Sectors of the Vision 3000

Sector	Policy Objectives	Specific Agenda
I. Economy	Improvement of Export-Led Industries	<ol style="list-style-type: none">1. Dispatch specialized human resources for consultation in economic, legal, and financial sectors2. Establish 5 free-trade zones within North Korea3. Foster 100 firms for exports totaling \$3 million per year

Sector	Policy Objectives	Specific Agenda
		4. Support overseas network activities with government entities such as KOTRA (Korea Trade-Investment Promotion Agency)
II. Education	Promotion of Industrial Human Capital	5. Foster approximately 0.3 million human capital in the field of economics, finance, and technology 6. Establish educational institutions for technological development in 10 major North Korean cities 7. Establish institutions modeling KDI and KAIST in North Korea 8. Support educational programs in economics, finance, and trade in North Korean universities
III. Finance	Launch of International Cooperation Funds	9. Launch international cooperation funds with the World Bank and ADB for international lending totaling \$40 billion 10. Utilize South-North Exchange Cooperation Funds 11. Cooperate launch for foreign direct investment 12. Japanese funds for improving relations with North Korea
IV. Infrastructure	New Kyung-yi Highway Road Constructions	13. Energy cooperation and relief 14. Connect key communication networks and building ports, railroads, and highways 15. Build the New Kyung-yi Highway (400km) 16. In relevance to the Grand Canal Plan
V. Welfare	Welfare and Humanitarian Support for Well-Being	17. Eradicate absolute poverty through food aid 18. Support medical personnel and facilities 19. Cooperate on housing and waterworks 20. Plant trees for greenery(0.1 billion trees)

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From a comprehensive perspective, the South Korean government has thus far laid out numerous suggestions for cooperative projects aiming for mutual benefits and common prosperity. Since the 2000 Berlin Declaration in which the Kim Dae-jung Administration expressed the intent for supporting North Korea, numerous policy agendas have been presented in the past eight years for economic reconstruction of North Korea. Also in the 2007 Summit of the two Koreas, dialogues on various sectors of South-North economic cooperation were included.

Hence, the Lee Myung-bak Administration's policies toward North Korea were aimed at mutual benefits and common prosperity, framing the Vision 3000. South Korea's policies on North Korea based on mutual benefits and common prosperity have been continuously pursued since the Roh Tae-woo Administration's 7/7 Declaration, with the intent to engage in cooperation and exchanges with North Korea. North Korea has intermittently given positive response toward South Korea's consistent will and efforts. Thus intensifying security situations in the Korean Peninsula by launching missiles and nuclear experiments even during the Roh Moo-hyun Administration period, in which South Korea supported North Korea with aid and engagement in economic cooperation to the fullest.

Accordingly, the Vision 3000 primarily looks upon denuclearization as the fundamental underpinning of South Korea's

policies on the North, while at the same time emphasizing the fact that North Korea cannot receive various benefits from South Korea and the international community should it fail to denuclearize. In addition, the agenda on ‘Openness’ underlines North Korea’s economic reform and openness as a vital criteria for its economic cooperation, which can be realized through cooperation with South Korea and the international community. Therefore, the agenda implies that support for North Korea should be carried out according to international standards and customs for efficiency despite South Korea’s current complexities as a divided country. Meanwhile, the figure ‘3000’ indicates the South Korean Government’s intent to vitalize the North Korean economy to a scale of \$3,000 for GDP per capita. This implies both the generalization that South-North economic cooperation will only be its worth when the North Korean economy enters the \$3,000 per capita level, and the underlying vision that North Korea can achieve economic development of \$3,000 for GDP per capita if it pursues economic cooperation with South Korea. This figure also suggests that in order to achieve such a level of economic development, North Korea must proceed with denuclearization and set out for economic reform and openness.

While the previous Roh Administration sought to maintain peace and security by stabilizing South-North relations, the current Lee administration aims to establish new relations with North Korea by envisioning a unified Korea based on democratic ruling and free

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market economy. In this respect, policies of the current administration and the previous administration vary in the perceptions of the following three notions.

First, the policies differ in their fundamental approaches towards North Korea on whether to emphasize the peninsular framework of the North and the South in cohabitation, or to prioritize international norms and standards as a general framework for reunification policy. The previous two administrations have stressed ethnic values in their policies on North Korea, whereas the current administration seeks to carry out its policies on the North set under international framework and standards.

Second, the policies are divided between a liberalist or realistic approach regarding the maintenance and management of South-North relations. Such ideological systematic approaches on relations with North Korea require the understanding of the U.S.-led international system adaptation since World War II, of which the debates on liberalism and realism have also been shown in the United States. In particular, the U.S. foreign policy framework post 9/11 had undergone scholarly debates pertaining to liberalist international approaches and U.S.-driven realist foreign policies. These theoretical approaches are deemed important in that policies are formed within the spectrum of theoretical frameworks. While South Korea's past two administrations' North Korea policies had been slanted towards liberalism, the current administration favors a realist approach to

North Korea.

Third, the policies take separate fundamental approaches toward the systematic transformation of North Korea. In truth, the past two administrations have constructed policies on North Korea with the assumption that North Korea will be better off accepting liberal democracy and free market system. Nevertheless, the difference in policies of the past two administrations and the current one is the strategy used to induce North Korea's transformation. While the past two administrations had believed in the possibility of enlightening the North Korean citizens by expanding South-North economic exchanges and thereby transforming North Korea into a free market system, the current administration assumes that such results by economic exchanges are not feasible in the absence of North Korea's fundamental transformation. Accordingly, the current administration underlines the necessity for North Korea to choose the path of reform and openness in order for its economy and the lives of its citizens to prosper.

The current administration believes that normalization of North Korea is the first and foremost fundamental solution to its current problems. At this point in history, North Korea is the only remaining socialist country operating since World War II. Such distinct characteristics of North Korea may have been worthwhile had it guaranteed the livelihood of its citizens, but its state of widespread famine have rendered North Korea hopeless in that it

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cannot even provide its people with basic needs. Therefore, the current South Korean administration seeks to normalize South-North relations so that North Korea will become a responsible member of the international community.

While official developmental aid to North Korea should also be provided in international standards, the peculiarity of the divided situation of the two Koreas compels the South Korean administration to act in accordance with the specificities of the divide, in which it must consider that despite the current North Korean economy restricted under harsh conditions and its people not obtaining basic needs, North Korea continues to mobilize its resources for the development of its nuclear missile program. The following will draw on the fundamental approaches to North Korea policies and directions of developmental aid to North Korea by South Korea under the initiatives of the Vision 3000 policy agenda.

2. Initiatives of the Vision 3000 and Developmental Aid to North Korea

A. Internationally Approved Standards and the Uniqueness of South-North Relations

There are several entities seeking to give aid to North Korea including national governments capable of providing bilateral aid, international governmental organizations, and non-governmental

organizations. This paper explores the level of concurrence of the Vision 3000 with international standards in giving foreign aid. As developmental aid in its various forms are carried out by different entities, envisioning a logical ground to giving aid to North Korea requires the understanding of international standards applied to current aid-giving activities of major international organizations.

First, the World Bank's principles and strategies of developmental aid are as follows: The World Bank is comprised of the International Bank for Reconstruction and Development (IBRD) for providing aid to small and middle-income developing countries in the short-term, and the International Development Association (IDA) for administering concessional loans to low-income developing countries. The IBRD delivers funds with share capital of member states, loans, interest surplus, and returns from operational funds, but mainly depends on the issuing of bonds in the international financial market as well as loans from central banks and national governments. The IDA distributes funds with membership capital, endowments, transferred benefits from the IBRD, and operational funds, primarily depending on capital from membership endowments and donations.¹ Developing countries supported by the IBRD are middle and low-income developing countries with gross national incomes (GNI) below \$6,055, while countries supported by the IDA are low-income developing countries with gross national incomes below \$1,025.² The World Bank's principles in providing

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developmental aid by its comprehensive development framework are stipulated in four categories: 1) development strategies that are comprehensive and shaped by a long-term vision, 2) development agenda based on citizen participation and ownership, 3) governments, donors, civil society, the private sector and other stakeholders working in partnership led by recipient countries to carry out development strategies, and 4) evaluation of development performance on the basis of measurable results.³

Second, the United Nations Development Group(UNDG) consists of funds, programs, agencies, and offices that are governed by the agenda derived from the United Nations General Assembly, the Executive Board, and the UNDG itself.⁴ In September 2000, the United Nations declared the Millennium Development Goals (MDGs) for the 21st century, focusing on the eight goals and eighteen sub-goals for development of the following: eradicate all levels of poverty and famine, achieve universal primary education, promote gender equality and empowerment of women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, and develop a global partnership for development.

Third, the debate on the efficiency of aid is just as important as the principles of developmental aid stipulated by the aforementioned major aid-giving international organizations. Questions have been raised by the different results demonstrated by aided

countries, revealing that giving aid does not necessarily guarantee positive outcomes. In order to achieve successful outcomes through developmental aid, the international community stresses the following: ① uplifting the capacity of the beneficiary member country, ② policy coordination between the beneficiary and the contributor, ③ cooperation among contributing countries, ④ managing outcomes and enforcing mutual responsibility.⁵ In uplifting the capacity of beneficiary nations, importance is given to ownership, capacity development, governance and the role of civil society. Policy coordination among beneficiary nations and contributing nations implies that the contributor respects the beneficiary's development strategies, executing system and the process for development by sharing reports on the eradication of poverty for a common development framework. The harmony and cooperation among contributing nations is the strengthening effort to maximize overall efficiency of the aid-giving process as a whole, with the emphasis that information sharing is vital through holding discussions with the beneficiary regarding administrative burdens and also retaining consistent relations with the beneficiary government to bridge the gap on policies. Managing outcomes is done through the efforts of the beneficiary in order to underline the relevance between national development strategy and budget allocations, examining the figures for goals and achievement status, while the contributor associates national development plans and resources with certain outcomes. It

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is duly important that the beneficiary and the contributor must work in cooperation to reach national capacity and successful outcomes in a participatory manner. In addition, in order to raise the level of mutual responsibility for aid, the beneficiary and the contributor must engage in policy discussions and systematically allow a wide range of entities for participation in the process to deliver and evaluate development strategies.

The preceding principles for developmental aid by the international community were built upon the history of developmental aid. Since World War II, the international society sought to provide nations in poverty with various forms of aid for economic growth, focusing on forms and strategies of economic development for several low-income nations including the sub-Saharan African countries that continue to suffer from chronic famine and poverty. Although North Korea has had stagnant economic hardship and poverty excluding a certain period in the 1960s, it is very difficult for the international community to actively engage in provision of economic aid to North Korea, considering its adamancy in pursuing adapted socialist economy and inactivity and closed behavior toward the international community and its efforts. The peculiarities of South-North relations are also a contributing factor to the difficulty of providing international developmental aid to North Korea. As a divided state, North Korea remains conscious of the existence of South Korea. It has also continuously sought for a military-driven

state by focusing on nuclear weapons and missiles development since its establishment rather than choosing the sustaining path to enrich the lives of its people. Accordingly, it is only natural that South Korea faces difficulty in responding to North Korea's irrational national development strategies. In any event, in order for developmental aid to North Korea to be proven effective, it is essential that the international developmental aid strategies and principles mentioned above be adopted as principles and directions for the South Korean government.

B. Developmental Aid to North Korea and Inducing North Korea's System Transformation

In short, the Vision 3000 implies that South Korea will aid North Korea by increasing their GDP per capita to \$3,000 per year if North Korea seeks for denuclearization and economic openness with sincere consideration. However, research on several states with regime change experience in the past revealed that early transformation of socialist regime leads to higher efficiency in development aid. Therefore, North Korea's marketization is essential to formulating better results of developmental aid to North Korea. In addition, North Korea's willingness for economic cooperation and exchange through trade openness is vital for higher efficiency of developmental aid. In sum, developmental aid to North Korea from the international community along with the Vision 3000 will gain

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success on the grounds that North Korea succumbs to the pressure for openness and reform.

North Korea's initiatives for economic openness are certainly not unfamiliar. First, North Korea sought to increase production of consumer goods and to foster local industries by adopting a local budget system since the early 1970s, allocating national budget in the division of federal and local budget. Also, it had applied self-supporting account systems and wage increase to all industries and expanded the peasants' market which had been under restriction to urban areas to resolve lack of necessities, and induced foreign direct investment from Western countries, seeking better relations with them.⁶

At this time, North Korea brought in capital goods, equipments and facilities from the West and Japan. It also took on economic loans approximating \$1.24 billion from OECD countries since the early 1970s.⁷ However, economic cooperation with the West came to a halt owing to North Korea's delayed payments due to its lack of repayment abilities, compelling it to push for export-led trade policies and foreign exchange earnings from the late 1970s. North Korea sought to increase its revenue by promoting trade policies on developing nations, thereby establishing Dae-sung Trade Corporation and Bong-hwa Trade Corporation in the late 1970s, which took exclusive charge in foreign trade, and Dae-sung Bank and Geumgang Bank for external transactions.⁸ However, such

initiatives to expand external economic relations were to no avail, and only resulted in North Korea's default.

Second, North Korea at its sixth Congress of the Labor Party in October of 1980 and the third meeting of the seventh plenary session of January 1984 sought for changes in its foreign trade policies by expanding trade volumes with capitalist economies and Third World countries. On September 8, 1984, North Korea enacted the Joint Venture Law to improve its economic relations with favorable capitalist regimes, launch capital investment, technology, and joint ventures in order to lesson pressures from its redemption of debts.⁹ In turn, North Korea's Joint Venture Law was a revolutionary legislation for its closed, self-rehabilitative economy primarily based on *Juche*.

The Joint Venture Law of North Korea consists of 5 Chapters and 26 Articles, stipulating principles of equality and favorable treatment without special restrictions on counterparts, industries, and proportions of investment. Chapter 1 specifies basic information regarding the legal intent and counterparts and the boundaries of industries, calling for counterparts of collaborative investment with foreign companies, corporations and individuals. As for foreign direct investment, citizens of Japan and the West are permitted as investors in which the Zainichi(Korean Residents in Japan) provide the largest investment line with capital supply. Chapter 2 prescribes the range of organizations of joint venture firms as well as objects of

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capital financing, allowing for cash, tradable goods, patents, and technology within a wider range of financing. Chapter 3 introduces articles on business activities, constitution of board of directors, and issues of foreign laborers, allowing companies to follow the patterns of a capitalist civil corporation under the board of directors of the firm. Chapter 4 lists details on settlement of accounts and distribution of profits, while Chapter 5 provides regulations on liquidation and dispute settlements, and taxation on the joint venture firm's profits and income of foreign laborers.¹⁰

Under the Joint Venture Law, North Korea strived for the launching of foreign direct investment, especially collaborative efforts with Choch'ongryun (General Association of Korean Residents in Japan). Nevertheless, among a hundred-some joint venture firms with Choch'ongryun, which started with investment funds totaling \$ 0.1 billion, only about twenty joint venture firms lasted until the 1990s.¹¹

Third, North Korea had designated the Najin-Sunbong Area as a Free Trade Economic Zone with Chungjin, Najin, and Sunbong Ports as free trade ports. On December 28, 1991, North Korea took the following measures according to the North Korean Bureau of Political Affairs Decision 74. First, North Korea designated 621 km² of land encompassing fourteen 'Dong's (villages) and 'Li's (Roads approximating 0.393 km) of Najin-si (City) as well as ten 'Li's as Free Trade Economic Zones. Second, the Free Trade Economic Zones

allowed for joint ventures, collaborative firms, and foreign ownership. Third, it states that there are no restrictions on the nationalities of foreign ownership, calling for protective measures by law on revenue obtained by investment capital, funds, and business operations. Fourth, it designated Chungjin Port as the Free Trade Port, which is adjacent to Najin Port and Sunbong Port located inside the designated industrial development areas. Fifth, several special measures were provided including tax reductions on corporate revenue.¹²

According to North Korea's official statements, development plans for the Najin-Sunbong District were carried out in the following 3 stages. The First Stage(1993-1995) called for the functionalities of a relay station and transport center through facility maintenances of railroads, highways, and ports, thereby creating an investment-friendly environment. In the Second Stage(1996-2000), improvements made in the First Stage would allow for the establishment of a Free Trade Economic Zone for massive transports and relays of international cargo, and at the same time, increasing the transport capability of the Najin, Sunbong, and Chungjin Ports by 50 million tons, developing manufacture industry bases for export including special industry bases turned tourism sites. In the Third Stage(2001-2010), North Korea increased cargo management capability of Najin, Sunbong and Chungjin Ports to 0.1 tons, while internationalizing the area as a specialized relay station for export,

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manufacture, operations, financial services, and tourism, enabling the functionalities of the area as a complex for international exchange. In turn, North Korea announced that it would launch foreign direct investment totaling \$69.8 billion to expand its businesses.¹³ However, such efforts to launch further foreign direct investment by establishing Najin- Sunbong Special Area were to no avail, leading to approximately \$0.12 billion until the end of 2000.¹⁴

Fourth, North Korea strived for the consolidation of the Kim Jong-il regime in the aftermath of the death of Kim Il-sung and succession of power to Kim Jong-il in the early 1990s. Despite this effort, succession of natural disasters including the flood in the mid-1990s and structural issues of its agricultural production systems restricted the regime to a great extent. Even though such economic hardships of North Korea showed signs of recovery since the late 1990s, fundamental issues had not been resolved. Accordingly, the North Korean regime faced circumstances due to its incapability of distributing food rations for its citizens, which led to a considerable nationwide famine except for the Pyongyang area. Meanwhile, North Korea's nuclear development further aggravated its situation of famine, lessening the possibilities of international economic aid. In other words, had North Korea abandoned its nuclear program, the international community may have had been able to take measures in the recovery of the extreme famine in North Korea. Nevertheless, the North Korean regime destabilized the regional

security of Northeast Asia with its nuclear program, using it as a negotiation strategy. In any case, North Korea declared its intent to take Economic Management and Improvement Measures on July 1, 2002 for further recovery of its economic situation since the late 1990s.

In a nutshell, the July 1st Economic Management and Improvement Measures (this point forward, 7.1 Measures) stipulates the match of prices of goods and services to real prices. First, the North Korean regime unified prices, wages, and exchange rates, fixing them to real prices. Due to this measure, food prices were raised to levels approximating the peasants' market prices, and transportation fees of buses and subways were also elevated. Wages were raised, and new paper bills were issued. In addition, money orders exchanged with foreign currencies were abolished. By these measures, North Korea priced its produce according to the price of goods, reflecting the supply and demand of the international market price in its real prices, thereby allowing price reform for elevated wages and foreign exchange rates. For instance, a discriminatory distribution system was applied by providing higher wages for hard labor, high-tech and skilled labor, and also for workers with high productivity. On the price of goods, the measures abolished artificially set prices not reflecting international prices and principles of supply and demand to a certain level other than production costs. In adjusting prices, the state retained the power of control and

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management of prices, but in contrast of the past fixed price system, North Korea adopted a flexible pricing system by the state in which supply-demand and demand on per unit production were reflected in price adjustments on a regular basis, and in which economic actors and the state could actively engage in negotiations and agreements for price adjustments. Also, according to the principles of socialist securitization, it adopted real prices on public services and facilities that had not been charged in the past such as social electricity, housing, and land usage.¹⁵

Second, rationing systems for daily necessities were relieved. Some have argued that the rationing system had been abolished, but it is still an ongoing process.¹⁶

Third, according to the 7.1 Measures North Korea stressed the importance of economic utilitarianism, and transferred the rights of management for firms from state officials to executives of firms for professional management, while selecting personnel for local authorities and managers by direct votes of laborers or peasants. It also took on redistributive measures for transfers of detailed economic plans and production standards, as well as management norms including prices, quality and standards of products to firms and factories.¹⁷

By taking on the 7.1 Measures, North Korea sought to launch foreign direct investment. It designated Shin-eui-ju, Gaesong, and Mount Geumgang as the new special economic zones. As for the

Shin-eui-ju special administrative district, the measures adopted the open economy system practiced by China in Hongkong and Shenzhen, and allowed for South Korea to solely develop on a lease territory in the special economic zone of Mt. Geumgang. This development in economic policy displays North Korea's efforts to adopt partial functions of the market economy within its planned domestic economy, while also implementing a capitalist market economy system in newly developed special economic zones. In the meantime, the development plans for the Shin-eui-ju special economic zone came to a standstill due to rejections of the plan by China and other factors in August of 2004.¹⁸

What is significant in the course of North Korea's efforts to launch foreign direct investment is that all projects have proved unsuccessful, with its deep-rooted failure lying in the lack of strong will for openness. North Korea's external efforts for economic openness remained meager and mediocre, due to its central focus on regime maintenance, lack of maturity in environment for launching investment, and fixation to North Korean style of economic openness measures, reluctant to implement international standards. The international society, in full awareness of North Korea's under-developed environment for investment, could not perceive the efforts for openness in a positive light so much as North Korea deeming it as revolutionary. Meanwhile, North Korea's attempt for immediate results including fast cash transfers and inflows also

served as a big obstacle to its efforts for external openness. Normally, North Korea demanded a pre-investment pattern in its external openness measures, but North Korea's moves on measures after pre-investment raised investors' doubts on whether continuous business activities would be feasible.

Thus, considering the meager attitudes on reform and openness of North Korea, setting the right directions for developmental aid to North Korea is crucial in forming a catalyst for reform and openness. developmental aid aiming at the expansion of North Korea's ongoing marketization is also an important task along with projects under the Vision 3000 Initiatives must be carried on to coerce North Korean openness.

C. Normalizing North Korean State and Developmental Aid for North Korea

As the Vision 3000 implies the need for North Korea's responsible actions as a member of the international community, it stresses the importance of the aforementioned reform and economic openness carried out by the North Korean regime as well as a demand for North Korea's normal relations and exchanges with the world as a normal state. The initiatives reemphasize the need for North Korea to elevate living standards of its citizens as its highest priority, meaning that the first and foremost task of a normal regime in North Korea is tackling issues of extreme famine. While North

Korean regime currently prioritizes the maintenance of military capability of the state through good governance, changes in policy directions are all the more important when issues of survival of its citizens only come in second.

In this context, the priorities and goals of developmental aid to North Korea should also be securing the North Koreans' right to live. In 2007, South Korea had provided the North with developmental aid, linking the provision of light industries raw material to North Korea's development of mineral resources. It is highly desirable that these types of directly linked projects take place in all sectors of society to improve living standards of the North Korean citizens, and that the developmental aid to North Korea should be carried out in the same manner.

Another issue of North Korea's normalization as a state is appeasing North Korea's belligerence and hostility. North Korea has been applying central efforts and mobilizing resources to develop nuclear weapons and missiles since the 1990s, and it is obvious that such efforts had been used by North Korea for negotiation tactics to pressure the international community for its regime survival. It is only natural that all states in the world provide national security for its citizens; however, in the case of North Korea, the regime is solely depending on a single perspective on military security for regime maintenance. That is to say, North Korea is practicing state policies extremely dependent on nuclear development, comprehending it as

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good means to compel the U.S. to guarantee regime security and compensation for economic suffrage through negotiations on nuclear issues. Such single-minded and skewed policies imply the dangers of regime instability and loss of regime legitimacy in the event of negotiation breakdowns. Therefore, following a diversified pattern for development policies as a normal state and decisions to forego its dependence on nuclear development will enable North Korea to abide by its responsibilities as a member of the international community.

3. Promotion of Developmental Aid in parallel with the Vision 3000

A. Basic Guidelines

Before proceeding with discussions on the fundamental issues in carrying out the Vision 3000 Initiatives, the necessary requirements and sufficient conditions of the developmental aid project must be discussed. The primary requirement for a successful developmental aid program for North Korea is to resolve the North Korean nuclear issues and the necessitation for reform and openness of North Korea. Considering the current nuclear talks with the North in a stalemate, developmental aid to North Korea is not likely to be a straightforward task. The North Korean nuclear issues must

be approached in a far more flexible manner, and refocusing on the core points of the nuclear issues at stake will further understanding on the following: the first issue being the characteristics of the North Korean nuclear issue. North Korea in the early 1990s had signed the Basic Agreements and the Common Declaration of Denuclearization in the Korean Peninsula with South Korea in an attempt to avoid the possibilities of an immediate regime collapse that ensued following the breakdown of socialism. However, in truth it has continued its development of nuclear weapons behind closed doors. In essence, North Korea assumes that developing nuclear weapons is the only way to securitize the existence of its regime. Second, such nuclear intent contradicts with the international society on the major principles of peaceful solutions of nuclear issues. Although the U.S. had sought to resolve the first North Korean nuclear crisis by military force, it eventually ended the crisis by diplomatic means through the Geneva Agreed Framework, and continued to adopt diplomatic procedures for the second nuclear crisis through the Six-Way Talks. In effect, such coinciding positions of North Korea and the parties relevant to the talks regarding the major principles of peaceful solutions of nuclear issues allows for the opportunity for extensive and detailed negotiation. Nevertheless, North Korea's brinkmanship of reckless behavior and statements, nuclear experiments and launch of long- range missiles is a threat to achieving a peaceful solution for nuclear issues. The third issue is the ambiguity

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of the North Korean nuclear issue. North Korea had pursued recognition as a nuclear state in the past two nuclear experiments, but the involved parties at the Six-Way Talks negotiation table and the international community refuse to officially recognize North Korea as a nuclear state. Prior to the first nuclear experiment, North Korea concealed its nuclear capability by circumambulation and ambiguity, but by conducting the first nuclear test, it risked ambiguity of its position on nuclear development, which could have been used as a diplomatic tactic. In turn, the participating members of the Six-Way-Talks responded with ambiguous positions, giving North Korea the cold shoulder while also expressing doubt on North Korea's nuclear weapons as a critical threat to their nations. In sum, the North Korean nuclear issues retain three characteristics of 1) North Korea's will for continuous nuclear weapons development, 2) mutual agreements on the peaceful solutions of nuclear issues, and 3) maintaining ambiguity surrounding North Korea's real nuclear capability. It is essential that such characteristics must be taken into consideration pertaining to the delivery of developmental aid to North Korea.

Under the willingness of North Korea, reform and openness are the sufficient conditions of the Vision 3000 Initiatives in carrying out developmental aid to North Korea. As previously mentioned, the efforts of the international community including South Korea will have no positive influence should North Korea have intent for receiving developmental aid without an earnest attitude. This raises

the issue of interpretations on North Korea's will for reform and openness, which is a matter of whether or not North Korea retains sufficient conditions for development aid, judging from its past efforts for domestic reforms and external economic openness, though such conditions will accompany future measures of reform and openness that may not sufficiently reach international standards. On this point, directing developmental aid towards North Korea's reform and openness while creating an atmosphere for North Korea's new reform and openness that will lead to transformative practices is an important assignment needing further examination.

B. Policy Directions

In order for the Vision 3000 Initiatives to be carried out in parallel with developmental aid to North Korea, directions must be set with the policies on North Korea with the incumbent administration in mind. The current Lee administration stipulates that its policies on North Korea are based on pragmatic, productive and flexible approaches while abiding by principles, nationwide agreement, and the harmonic and symbiotic cooperation between the two Koreas and international cooperation. The first principles of pragmatism and productivity are standards on nationwide agreements by South Korean citizens, results relative to cost, elevation of living standards of North Koreans, stimulation of North Korea's transformation

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towards development, and contribution to peaceful reunification. Regarding the second principles of flexible approaches, the incumbent South Korean government stresses on negotiations strictly based on principles seeking substantive results, all the while approaching North Korea with a flexible attitude. As stated in the third principles of nationwide agreements, the current administration strives for an overall convergence in agreement among South Korean citizens in order to overcome obscurity in carrying out the developmental aid project, utilizing the South-North cooperation funds with productivity and transparency. The fourth principles of harmonizing international cooperation with South-North cooperation of the two Koreas indicate the incumbent government's intent to push for policies on North Korea with other foreign policies towards universal values regarding the improvement of South-North relations. Such principles may well be aggregated into directions of the international developmental aid to North Korea and the Vision 3000 Initiatives to map out the following guidelines on developmental aid projects for North Korea.

<Prioritize Projects for Augmenting North Korean Peoples' Living Standards>

In consideration of the North Korean citizens' suffering from chronic and extreme famine, developmental aid to North Korea must first and foremost focus on easing living conditions for North

Koreans. Also, as North Korea has been focusing on heavy industries for its economic development strategy and the consequent underdeveloped light industries and production of daily necessities, developmental aid to the North must fill in these deficiencies in the economic structure.

〈Promote Conformity with International Standards〉

The two Koreas after their first round of Summit Meetings have actively engaged in economic cooperation and exchanges, but progressive parties within South Korea have shown little success in strategic thinking for transforming the North Korean regime according to the ‘Exchanges first, transformations second’ policy. Bearing this in mind, developmental aid to the North in the future must be accompanied by conformity with international standards as well as stimulation to bring about North Korea’s transformation. For these steps, developmental aid must be planned out to increase communication with the direct recipients of aid in North Korea, and in addition, transparency differing from that of the past policies must be maintained throughout the process.

〈Improve Self-Sustained Capability in North Korea’s Economic Recovery〉

One of the most important directions common to development aid to North Korea and the Vision 3000 Initiatives is the

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improvement in capacities of the recipient state. At a time when North Korea is at stalemate due to structural difficulties leading to chronic economic issues, development aid that will increase North Korea's capacity to revitalize its economy is becoming all the more important. On this matter, issues regarding electricity supply will be key factors for North Korea's recovery and must be considered in developmental aid to North Korea.

〈Contribute to Ease North Korean Hostility〉

In accordance with the directions for developmental aid, contributions to easing North Korean hostility must also be taken into consideration. Such directions for developmental aid to North Korea imply the lessons learned from past policies on the North that solely 'gave' without substantive results, and ultimately aided in North Korea's incorporation into the rest of the world. This means that by accepting developmental aid from the international community, North Korea's hostility in its external relations must be fundamentally changed. Without such assumptions, developmental aid to North Korea will not be as successful and efficient as it should be in the long run.

C. Sectoral Plans

According to the aforementioned directions to execute developmental aid to North Korea in parallel with the Vision 3000

Initiatives, the following projects for cooperation and exchange are to be implemented. The twenty projects encompassing five sectors in the Vision 3000 Initiatives are to be conducted with the principles of the Millennium Development Goals set by the international community, the four Major Principles in the Paris Declaration and the peculiarity of the North Korean issue with the following core tasks.¹⁹

The first assignment is to relieve energy deficiency through cooperation. As the Vision 3000 Initiatives retains comprehensive action plans for alleviating North Korea's economic suffrage on the condition that North Korea pursues denuclearization in the consideration that North Korea should ultimately abandon its nuclear programs. As nuclear development can be used in purpose for production of weaponry as well as for production of electricity, proposing ways to produce energy to North Korea is a central factor in compelling the North to withdraw its intent to develop and strengthen nuclear capability. This is on the same logic regarding improving North Korea's spontaneity for economic recovery as well as enabling the exchange of nuclear programs for energy support. Thus, cooperation to relieve North Korean energy deficiency is very much relevant to improving North Korea's spontaneity and easing North Korean hostility in the four major directions of developmental aid to North Korea.

Second, eradication of absolute poverty by relieving famine is

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needed. This is in relevance to the first goal of eradicating poverty in the UN's Millennium Development Goals, which gives priority to the elevation of living standards under the directions on development aid to North Korea. Domestically, as North Korea has been making a case for its economic suffrage by putting the blame on U.S. hostility on North Korea to its citizens as a political propaganda, developmental aid from South Korea and the international community may ease these tensions and hostile attitudes of the North Korean regime through the relief of extreme famine. Diminishing absolute poverty will require a guarantee on basic healthcare, which is also a proposed requirement addressing the need to dispatch medical personnel and improve medical facilities, mentioned in the Vision 3000 Initiatives specific agenda. The Millennium Development Goals deserve full attention as they provide macro insights regarding public health and medical care coinciding with the Initiatives.

Third, with the inclusion of environmental sustainability in the Millennium Development Goals, the Vision 3000 Initiatives indicate planting trees for greenery as one of the objectives of the project. The vegetation effect is not immediately visible, but is considered to be a crucial task to alleviate famine and is in accordance with the elevation of living standards of the North Koreans, which is in line with the development aid project for North Korea.

Fourth, the Vision 3000 Initiatives supports economic education and the creation and management of skilled industrial

personnel in North Korea, as it is a stressed component by the international community and also included in the Paris Declaration. For best results of developmental aid from benefactors, the capacity of the reciprocity must reach a certain level. In this sense, economic education in North Korea is a significant task supporting the spontaneity for economic recovery.

In the following, the projects of the Vision 3000 Initiatives will be addressed with a focus on international standards of developmental aid and preceding directions in parallel with developmental aid to North Korea. These ideas are to be delivered in the elaborated format of Basic Guidelines and detailed directions of plans.

(1) Cooperation for Relieving Energy Deficiency

〈Basic Guidelines〉

As much as North Korea's deficiency of energy is a major contributing factor to economic destabilization along with famine and shortage of foreign exchange, South-North cooperation for relieving North Korea's energy stress is highly desirable. Since North Korea depends mainly on electricity and coal for energy while South Korea's primarily relies on oil and gas, cooperation on electricity must be the primary focus. However, from an energy security perspective, there are concerns on the usage of energy for military purposes, as well as worries that providing energy to North Korea may cause problems in South Korea's energy supply. Therefore,

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directions of plans should be catered towards a systematic and gradual supply of electricity along with singular coal with crude oil.

First, energy aid must progress gradually in line with easing tensions of the North Korean nuclear crisis through the Six-Way-Talks and overall agreement from the South Korean citizens on the scale of aid. The first ideal steps to launching energy aid would be to start projects in parallel with the ongoing South-North economic cooperation and model projects for North Korean civilian sectors, and at the same time reach towards the middle of the project, expand the existent model projects for civilian sectors and add new energy projects linked to additional establishment of special economic zones.

Second, in the event of an assurance on North Korea's disbandment of its nuclear program, improvement of North Korea's energy production may be viable through South-North energy cooperation aiming at supply and demand balance with an overall renovation of North Korean mines and thermoelectric power plants.

Third, in relation to the success of these two projects, the establishment of a South-North Energy Cooperation Committee is essential for delivering energy aid. Comprehensive plans on energy aid to North Korea could be constructed in association with the existent Team for Energy and Economic Practices under the Six-Party talks.

〈Detailed Directions of Plans〉

In consideration of these Basic Guidelines for South-North energy cooperation, the following projects must be carried out with a focus on developmental aid. Preparing for projects that will be conducted in the beginning stage – in which identifying whether or not North Korea has given up its nuclear program altogether or the will to give up its nuclear programs – is necessary for the enthusiasm towards developmental aid. Thus, before the aforementioned South-North energy cooperation of supply of crude oil and electricity takes place, model projects of the following need to be carried out in detail in accordance with the Millennium Development Goals and this developmental aid spirit.

First, projects on household fuel are needed. Due to North Korea's priority on heavy industry, it has yet to pay attention to the living condition and quality of its people, especially heating improvements in individual households. Since the North Korean people residing in areas outside of Pyongyang are logging and contributing to deforestation as a means to prepare for household fuel, it is a primary task to let them prepare for heating at a low cost with the provision of briquette boilers - supply of briquettes in the beginning may be considered. When such projects bring about results that are identifiable, support for building a briquette factory for the expansion of North Korea's self production capacity would be necessary. It is important to allow North Korean technicians to

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learn from South Korean technicians the know-how of producing briquette boilers during this process, thereby expanding the capacity of the beneficiary as stressed by the international entities for developmental aid.

Second, education for North Korea's energy experts in parallel with the first project is highly desirable. In order for this to happen, relations between the two Koreas must improve; nonetheless, it is an important step in energy cooperation projects for developmental aid. In this context, the exchange projects of light industry raw materials for underground resources in the South-North Economic Cooperation Project in 2007 deserve attention. In these projects, South Korea provided North Korea with the desired light industry raw materials in exchange for North Korea's abundant underground resources. During a project, South Korean heavy industry technicians visited the region of Danchun where underground resources were highly concentrated and South Korean light industry technicians visited North Korea to transfer technology and knowledge. These kinds of projects must be continued in the future for North Korea's spontaneity in economic recovery.

(2) Eradicating Absolute Poverty through Alleviation of Famine

〈Basic Guidelines〉

North Korea's agricultural grounds are on the verge of destruction due to constant economic suffrage along with energy

deficiency, lack of fertilizers, and continuous natural disasters. The South Korean government along with international organizations sought to alleviate North Korea's food shortage by delivery of food free of charge or attached with conditional loans, but the overall assessment on these efforts was that they are not pivotal to reaching out to the famine of the weak. Despite such circumstances, North Korea is retaining its position in declining all types of food aid from South Korea. Therefore, coming up with a cost and benefit strategy within a universal humanitarian approach is needed to alleviate extreme famine in North Korea.

First, the request for gain of access to the beneficiary site to secure transparency in food distribution is required. Reinforcing monitoring mechanisms that have continuously raised questions is needed for the basic living of those most influenced by the famine in North Korea, and corresponds to the goal of Vision 3000 Initiatives and international standards of delivering developmental aid.

Second, developmental aid to North Korea in the form of development cooperation accompanied by exchange of personnel is necessary. Thus far, North Korea has shown active response toward projects that require establishment of facilities and aid of goods, while being reluctant to foster projects on personnel exchanges and technology education. In the future, technology transfer must be included in aid projects for the practitioners of the two Koreas to address the fundamental concerns of North Korea.

Third, conducting developmental aid matching international standards rather than the limited knowledge of the North Koreans is desirable. Thus far, South Korea has prioritized projects in response to the North's demands in a passive manner, but future projects will need to retain principles in an advanced method to eradicate absolute famine.

〈Detailed Directions of Plans〉

As North Korea perpetually reveals severe conditions regarding food shortages and deficiency of nutrition for their people, these components will be treated as objectives, as those mentioned in the Millennium Development Goals are required for North Korea. Since North Korea has a very weak agricultural production ground, most of its agricultural work is done manually in the absence of a systematic management of seeds, consequently leading to a loss of food approximating 1 million tons. In addition to this, North Korea's stages of production, processing, and storage of food is highly inefficient. Therefore, even if North Korea's grain production is set to maximum quantity, the 6.5 million tons of grain in demand will be deprived of that additional 1 million tons which can be a contributing factor to the famine and malnutrition of the weak. Also, due to the cleavages of food distribution in the preference of social status and positions in organizations, around 25% of North Koreans are exposed to consistent famine owing to the differences in their

ability to acquire food in this imbalanced food rationing system.²⁰ Under such conditions, food aid to North Korea must be carried out in the universal format designated by the international community to relieve extreme famine.²¹

First, food aid must reach distanced regions to eradicate poverty and famine by designating the targeted populations and groups. Delivering food aid to the groups of people exposed to high dangers of famine should be the first priority to rid North Koreans of the threatening factors to basic living. Also, basic medical kits with medicine and vaccine should also be supplied in line with this project.

Second, under the ‘reinforcing capacity of the beneficiary’ motto of the international community, motivating citizen participation and activities to improve the weakened food supply and demand system must be applied to the North Korean case. For this to happen, directions must be set for unconditional food aid must be accompanied by gradual work of the citizens. In this regard, model projects on North Korea’s relatively comparative advantage in agricultural goods and herbal plants in the form of contractual plantation may be necessary. In addition, food aid in packages for delivery to the most stricken provinces is desired to alleviate extreme famine of North Koreans. Also, public health and medical support to continue basic living and work along with food aid is required. Meanwhile, medical aid will produce better results if the

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project for improvement on housing and waterworks are conducted in parallel with the Vision 3000 Initiatives.

Third, in regards to humanitarian assistance, a partnership between the two Koreas must be constructed for technology transfers on the aforementioned projects. For this to happen, a labor-intensive project must be carried out with exchanges of personnel and goods, providing the North Koreans with a sense of ownership and independence in improving their living standards. Thus, the aforementioned projects should begin as model projects, so to expand throughout North Korea with the spread of shared knowledge and development of manuals of administrative and technical standards.

(3) Support for Planting of Trees for Greenery

〈Basic Guidelines〉

It is widely known that North Korea's forests are very much desertified due to indiscriminate land clearing and reclamations to expand limited cultivated land. North Korea's deforestation is a detrimental factor in the event of massive floods, which may cause further harm to overall industrial development and production. Thus, there is an urgent need for projects on North Korea's greenery. Also, projects on greenery can be conducted firsthand since there is not a high level of political pressures on the initiatives of the project.

First, rather than a singular approach, a comprehensive and

systematic framework that looks out North Korea's forestry in the coming 20-30 years is essential.

Second, designating agricultural regions adjacent to the borders of the two Koreas for South Korea to assist North Korea greenery projects will be an ideal approach. With positive results from such projects, gradual expansion of the targeted regions for greenery will occur.

Third, building regional tree nurseries for immediate research on North Korean soil and climate will be needed, while projects for reestablishing a systematic management of damages by blight and harmful insects should be conducted in the long run.

〈Detailed Direction of Plans〉

The greenery project is also relevant to the goals for environmental sustainability in the Millennium Development Goals, which is deemed necessary to prevent environmental disasters and to expand the grounds for agricultural production as well as restore cultivative land in North Korea so that goals will be achieved in the short term. This is a priority for South-North cooperation as also mentioned in the Vision 3000 Initiatives. The greenery project is also important for long-term restoration of ecosystems throughout the Korean Peninsula. The recent death of a South Korean due to the discharge of streams of the Imjin River Dams from North Korea was a wake up call for South-North cooperation and the importance of

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preserving greenery. Thus, the two Koreas should work in cooperation for greenery in North Korea focusing on adjacent regions.

First, the expansion of tree planting projects that were held before is essential. This development could be pursued by centering on the areas adjacent to the borders such as the Gaesong Industrial Complex and Mt. Geumgang District through the activities of civil organizations in consultation with their North Korean counterparts.

Second, as preservation is just as important as the addition of greenery, South-North cooperation for preventing epidemics is an urgent assignment for the two Koreas. A joint prevention of epidemics may include the simple delivery of tools and medical kits to the North in the short-term and locating areas of frequent damages by blight and harmful insects for a systematic prevention in the long-term.

Third, in promoting the project for greenery, supporting the planting of fruit trees may bring about prevention of natural disasters as well as economic benefit for North Korea. Such projects are deemed important for reinforcing its capacity and for future contribution to its food production.

(4) Economic Education and Fostering Industrial Personnel in North Korea

〈Basic Guidelines〉

What appeared to be a common trait in the regime shift of the former socialist economies in the Eastern European region was the added importance of industrial personnel - economists, experts, and executives. North Korea is not an exception, as it has been segregated from the outer world and the global economy for a substantial amount of time, and is not prone to economic management based on market capitalism principles. Under these circumstances, providing the North Korean personnel with education for the understanding of economy is an urgent task.

First, as North Korea is retaining its system of planned economy, building career paths on individual attitudes and abilities is difficult; moreover, much of the focus on education is on ideology rather than consistent development of skills and training. Thus, diversified support and cooperation that will enable North Koreans to be incorporated within the changing trend of the international society in terms of vocation and career paths is highly encouraged.

Second, North Koreans possess a low level of labor skills due to comprehensive issues of inadequate technical education, insufficient facility and equipments, and harsh conditions of educational environment. In this regard, developmental aid to North Korea should focus on improving the overall labor and job skills of

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the North Koreans.

Third, in order to carry out these projects, obtaining real data regarding North Korea's personnel development and human resources would be an imminent project to work on. Retrieving relative information on personnel training and related facilities and equipments through contact and exchange with relevant organizations of North Korea is a must, and issues on sector developments for aid must be discussed with North Korea. Also, a dispatch of training personnel and advisory groups for cultivation of human resources should follow, enabling North Korean trainees to receive training either on site in North Korea, Yanbian(China) or other training facilities in South Korea.

〈Detailed Directions of Plans〉

It is notable that while South Korea seeks to deliver its educational aid to the North within the boundaries of overall education, North Korea prefers the format of aid in facilities and equipments. Accordingly, the primary support of educational aid to the North will have to be based on sponsoring facilities and equipments, but a gradual move to compel North Koreans to adopt South Korea's advanced technical training would be ideal.

First, in nurturing North Korea's industrial personnel, on-site training at South-North economic cooperation sites including the Gaesong Industrial Complex would be a good option. This is especially

the case since the level of technology and functionality will have direct effect on the quality and productivity of the goods manufactured in the Gaesong Industrial Complex, and will also benefit the South Korean firms to a great extent.

Second, it is important to retain neutrality and an apolitical stance in the course of vocational training. In the beginning phase, training given to North Koreans by South Korean experts are recommended, but in longer terms, enabling North Korean experts to transfer this knowledge to the rest of the North Korean laborers will prove to be important.

Third, the establishment of educational organs sponsored by South Korea(i.e., the Pyongyang University of Science and Technology which is in its present stage of planning) will be required in the near future for the educational training programs to function properly. Once the Pyongyang University of Science and Technology successfully starts running programs, South Korea should strive to transfer technology and knowledge to North Korean laborers with the support of facilities and equipments required for vocational and technological training.

4. Conclusions and Policy Implications

This study proposed the detailed plans and directions of prioritized projects in the Vision 3000 Initiatives under the policies

on North Korea by the Lee Myung-bak Administration, encompassing four areas on resolving energy deficiency, eradicating absolute poverty and famine, supporting greenery and planting of trees, and providing education on the economy and training for industrial personnel in North Korea. In essence, the study reveals that providing the North with briquettes and boilers for developmental aid in line with the support of the same content in the past will relieve shortage of energy. Also, in regards to uplifting the capacity of the North Koreans, the study emphasized the need for training North Korean energy experts while continuing with exchange projects of South Korean light industrial raw materials for North Korea's abundant underground resources.

On the second project with focus on eradicating absolute poverty and famine, the study underlined the importance of strategic approaches to the provision of aid by targeting the most devastated population groups by these adverse conditions. The study also pointed out the benefits of conducting this project in line with medical support and improvement on housing and waterworks mentioned in the Vision 3000 Initiatives for higher efficiency and more desirable outcomes. In sum, the study finds that in order to eradicate absolute poverty of North Koreans, South Korea must help in increasing food production and support the North Koreans with aid packages designed to improve overall living qualities of its citizens. Also, to reinforce North Korea's capacity, a South-North

cooperative framework and partnership between the benefactor and the recipient of developmental aid was emphasized for better effects of aid.

Third, for the project on expanding greenery and planting trees, detailed projects on expanding the existing programs for planting trees in the short-term as well as a joint South-North cooperation to prevent damage to forestry and the extermination and prevention of insect breeding in the long-term. Also, planting of fruit trees to secure food for North Korea's economic benefit was also advised in relevance to this project.

Fourth, on training of industrial personnel, the study's emphasis was on the expansion of on-site training at a South-North economic cooperation site for immediate effects of vocational training. So that in the short-term training for North Korean laborers provided by South Korean experts will lead to long-term transfer of knowledge and technology by North Korean experts the rest of the North Korean laborers. In addition, the early establishment of Pyongyang University of Science and Technology which is currently in planning is highly desired along with the need for the establishment of science and technology institutions and vocational training centers in major industrial regions of North Korea.

Since the establishment of its regime, North Korea has been obstinate in pursuing socialist and planned economic system of self-containment, which resulted in its extreme economic crisis. It is

important for North Korea to be incorporated in the global capitalist economy to recover from the crisis. However, North Korea is continuously wasting its already depleted resources on nuclear weapons and missiles development for regime maintenance. Thus, the revitalization of the North Korean economy will be difficult should such wrong tactics of state governance continue without fundamental changes.

North Korea faces its southern neighbor, South Korea, which has accomplished a great level of economic development in the past decades and suggested several proposals to aid North Korea in its hardships. If ever, the North Korean regime seeks to improve the lives of its citizens, South Korea will be the leading aiding country in North Korea's revitalization. In this regard, South Korea should work towards a fundamental remedy with persistence and persuasion towards North Koreans for the grounds of its economic revival, rather than solely pursuing developmental aid to North Korea in the absence of strategies.

Also, one must seriously take notice of the fundamental difficulty of North Korea's economic revival, which lies in North Korea's pursuit of nuclear development. Without denuclearization of North Korea, necessary conditions will not be met for the several aforementioned projects that may go into waste. Therefore, immediately foregoing nuclear development and accepting development aid from South Korea and the international community

would be an urgent task for North Korea to complete.

In conclusion, should North Korea decide not to give up its development of nuclear weapons, receiving aid from South Korea and the international society will not be feasible, and Kim Jong-il's intent for realizing a 'Big and Powerful Country in 2012' will be deemed impossible. In the meantime, North Korea must adhere to the policy suggestions under the Vision 3000 Initiatives, as they contain projects that provide North Korea with the window of opportunity.

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- 2_ *Ibid.*, p. 7.
- 3_ *Ibid.*, pp. 47-49.
- 4_ *Ibid.*, pp. 74-82.
- 5_ Park Hyeong-Jung et al., *Theory and Practice of Developmental Aid in the International Community* (Seoul: Korea Institute for National Unification, 2008), pp. 59-62.
- 6_ Chung Ju-hwan, "North Korea's Joint Venture Law," *Journal of Danguk Law*, Vol.3 (1993), pp. 305-306.
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- 15_ Kwon Young-kyoung, "North Korea's Economic Trends and Reform-Openness," *Understanding North Korea 2008* (Seoul: Education Center for Unification, 2008), pp. 158-160.
- 16_ Kim Young-hoon, "Expectation Effects and Tasks in the Agricultural Sector in the aftermath of the 7.1 Improvement Measures for Economic Management," pp. 151-153.
- 17_ Kwon Young-kyoung, "North Korea's Economic Trends and Reform-Openness," p. 157.
- 18_ *Ibid.*, p. 164.
- 19_ In September 2000, the United Nations General Assembly adopted the Millennium Development Goals (MDGs) comprising of the eight following goals: ① eradication of extreme poverty and hunger, ② achievement of universal primary education, ③ promotion of gender equality and empowerment of women, ④ reduction of child mortality, ⑤ improvement of maternal health, ⑥ combat HIV/AIDS, malaria, and other diseases, ⑦ ensure environmental sustainability, and ⑧ develop a global partnership for development. The five major principles of the Paris Declaration on Aid Effectiveness are the following: ① Ownership by countries, ② Alignment with countries' system and policies, ③ Harmonization of donors' actions, ④ Managing for Results, and ⑤ Mutual Accountability.
- 20_ Kim Kyuryoon et al., *Realizing Policies of Cohabitation and Prosperity through the Vision 3000* (Seoul: Korea Institute for National Unification, 2008), p. 184.
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*Current Status and Future Prospects
for Marketization of
North Korean Economy*

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1. Raising the Issue

North Korea has been reporting strengthened control over street markets along with their more conservative approach towards its economic policies.

As a new year's resolution, North Korea has declared to solve its issues of survival and salvation by internal efforts, stating that "Self-salvation is the path towards becoming a prosperous and powerful nation. We must build upon strengths within our superiority in resources, technology, and systems in order to broaden this road to victory." Even though North Korea had pursued "Open Self-salvation" since 2000, based on practical policies for science, technology, economic development, and cooperation, it has now taken a step backwards. The reasons for such retreat are the need to relieve pressure of economic difficulties exerted by the global economic crisis and aggravated relations with South Korea due to reductions in economic aid, various economic developments, and cooperation.

The North Korean government is once again pursuing to revive its 50-year-ago mass movement, "1000-mile Horse Great March,"(with its second attempt in 1999) in order to accomplish self-salvation by consolidating nation-wide support. The aim of this effort is to strengthen ideological solidarity in political, military, and social disciplines, which was loosened by the recent spread of

marketization in the country. One specific example of this is the “150-day Battle”. On May 4th 2009, North Korea’s central newspaper Rodong Sinmun asserted, “Our party has appealed to the people to fight earnestly for the 150-day Battle,” in furtherance of mobilization of the masses. According to past records, North Korea frequently used the designation “OO-day Battle” to achieve short-term economic goals through complete mobilization of national resources, as well as to fortify its control over society.

In general, the North Korean government has implemented censorship and purge within society as justification for the successful implementation of the “150-day Battle”. In particular, it is reported that supervisors are dispatched to various organs of the party to ensure the practice of ideological discipline. Such setback is limiting domestic economic activities. Although extreme measures such as closing general markets have been revoked, Pyeongsung Market, the largest wholesale market in the nation, was still forced to close down. Rather, the central government ordered the Department of Commerce to supply department and retail stores in Pyongyang with Chinese imports. According to an informed source, a North Korean government official said, “The market system has to be removed. However, appeasement must be used since a coercive measure will receive strong opposition from the people. Therefore, we need people to focus on the mobilization movement, so that we can discreetly transform the market system.”

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2. Problems of Marketization of Socialist Countries

A. *Meaning of Marketization in Socialist Economic System*

'Market' in a socialist economic system generally refers to the economic activities outside of the boundaries of the traditional system. The terms describing markets in a socialist system include parallel, informal, underground, black, shadow, illegal, criminal, and second. These variations in terminology imply that market-related activities are actually quite complicated and multi-dimensional. Pérez-López used the term, "Unregulated Economic Activity" to define economic activities outside of the formal economy. According to Pérez-López, the unregulated economic activities are of three types: informal economy, underground economy, and second economy.¹ The Informal Economy consists of economic activities related to everyday survival and can be found in developing countries in South America. The Underground Economy refers to the illicit practices of unaccounted economic activities. Lastly, the Second Economy pertains to economic activities conducted outside of the centrally planned socialist economy. This article will mainly focus on the Second Economy.

The Second Economy is unregulated economic activities apart from the centrally planned First Economy. The Second Economy would play a role of rectifying partly the rigidity of the socialist economic system, and provide opportunities to survive for individuals,

families, companies, and even the state. Considering the limited political freedom in the socialist society, the Second Economy not only implies economic deviation, but also political resistance to the system. Accordingly, most of the Second Economy activities are stipulated as illegal in the central planning economic system, and governments at times use harsh measures to eliminate this economy. However, in actuality, many socialist regimes attempt to utilize the Second Economy, provided that it does not undermine the power of the political leadership.

In his research regarding the Soviet economy, Grossman defined the Second Economy as “where production and exchange often take place for direct private gain and just as often, violate state law in some non-trivial respect.”² Holmes in his study of the corruption in communist regimes, defined the Second Economy as “part of the economy over which the state has the minimum amount of control,” and divided this economy into legitimate and illegitimate activity. In addition, he asserted that the minimum amount of control can be assessed in terms of price control and integration with the government’s central plan.

B. Domains of the Second Economy

Pérez-López classifies the four domains of the Second Economy in terms of the relationship between the state control and legality of

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the activities.³ The vertical axis in Figure 1 ranks activities as being under public or private control and whether the produced income is for public or private gain. Similarly, the horizontal axis discerns activities as being legal or illegal. The lower left quadrant represents the ideal situation for a socialist central planning economy in which the gain from all activities accrues to the public and every activity falls within the legal framework. Movement out of this quadrant in any direction denotes a shift into the Second Economy. Each movement furthering away from the ideal economy of the Central Planning Economy is a definite clarification that the activities involved correspond to a second economy.

〈Figure II -1〉 Interaction between First and Second Economies:
Control versus Legality

	Private	The legal 2nd economy outside of the centrally planned economy	The illegal 2nd economy outside of the centrally planned economy
Control	Public	The legal 2nd economy within the centrally planned economy	The illegal 2nd economy within the centrally planned economy
		Legal	Illegal
		Legality	

The first quadrant in the <Figure II-1> can refer to legally contracted private economic activities within the state enterprise, an example being the ‘8.3 People’s Daily Necessities Production Movement’ in North Korea. The activities in the second quadrant include illegal production within the state enterprise and underground businesses taking place in the wholesale and retail stores. An example for the fourth quadrant includes the cultivation of private land. Lastly, the black market activities and smuggling belong to the third quadrant.

C. Types of the Second Economy Activities

Feldbrugge presented seven different types of the Second Economy.

The first type is ‘the diversion of state property’ such as selling construction materials for private consumption.⁴

The second type is ‘the private use of state property.’ In this case, focus is on the use of property, not the property itself. Examples involve state-owned transportation and other facilities.

The third being ‘ultra vires of administrative power,’ such that the Soviet economy was supposed to be operated by the central government in a mechanical manner and ensure that each organ of the administration is well-balanced. However, several state enterprises overused their power to achieve these goals.

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The fourth type of second economy is 'private trading' in which the consideration of individuals' trading property as speculation is restricted.

The fifth variety is 'professional activities in the aspect of production, distribution, and services.' These activities are technically restricted, but are permitted to a certain extent in daily life such as private farming, fishing, handcraft manufacturing, and tutoring.

The sixth type is 'private enterprise.' The only way to run private a enterprise in a socialist economy is to have protection from the government or to work underground.

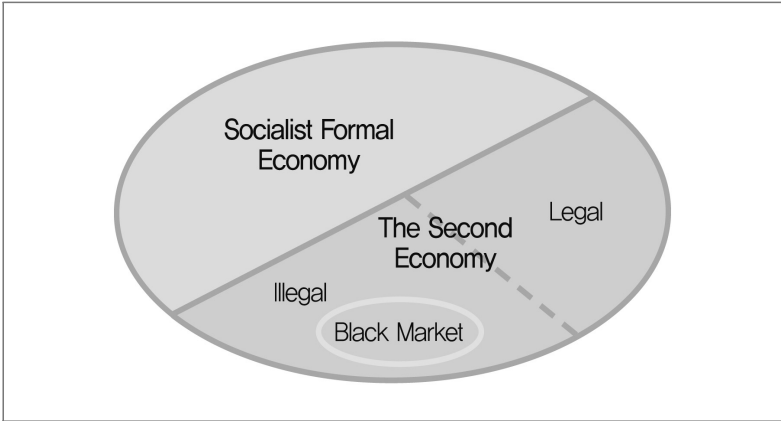
The seventh is 'bribery' which does not solely take place in a socialist economy, but rather functions to lubricate the general network of the Second Economy working as a common element of the Second Economy.

D. The Relationship between Formal Economy and the Second Economy(Market Economy)

The formal economy and the second economy regularly work under the central planning economy. Depending upon the country, these two economies can either be closely related or isolated from each other. Another perspective of the relationship is that the failure within the formal economy results in the creation of the second economy.⁵

<Figure II -2> explains this relationship between the formal economy and the second economy in the socialist system. The national economy is the combination of the socialist formal economy and the second economy. The formal economy represented by the left side of <Figure II -2> is part of the central planning economy strictly controlled by the state. Ownership, allocation, production, and distribution of the national resources are determined by the central plan. The right side of <Figure II -2> represents the second economy consisting of legal and illegal activities.

<Figure II -2> Socialist Economy and the Second Economy



Source: Jorge F. Pérez-López, *Cuba's Second Economy: from behind the scenes to center stage*(New Brunswick(U.S.A.) and London(U.K): Transaction Publishers, 1994), p. 26.

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When one part of the economy makes an effort to use its counterpart, the relationship between these two economies becomes complicated. Ideally, the second economy complements the formal economy and is able to avoid competition. For instance, legal private businesses (such as repairing cars and houses) where individuals comply with regular working hours, are not normally provided by the formal economy.

Nevertheless, some argue that the success of the second economy naturally exposes the formal economy weakness; inducing people to work in fields competitive within the state.⁶ Thus, the second economy can often aggravate the national economy and weaken the formal economy's output. Once people are involved in the second economy, they lose focus in their formal economy jobs and may begin to steal property from work in order to make a profit from the black market.

3. The Conditions of North Korea's Marketization

North Korea is experiencing an inconsistent process of legalization and illegalization of the second economy activities. Such changes are often found in the experiences of the Soviet Union and previous socialist countries in mid-Eastern Europe. In North Korea's case, after the '7.1 measure' in 2002, marketization was allowed or implicitly tolerated for three years, and in 2005, as the spread of

marketization seemed to undermine the regime, restriction was put on private economic activities once more.

A. The Legal Second Economy

(1) The Legal Second Economic Activity Outside the Boundaries of Formal Economy

The most important legal economic activity in the second economy is commercialization of agricultural products produced in the state-owned farms or small paddy fields by several members of different associations. The problem of private production activities is that it often crosses the line of legal acceptance in order to create more profits, such as the illegal obtainments of fertilizers. This led to ownership of paddy fields in mountains and fields be returned to the associations as of this year, and private farming can only be done in fields connected to households.

Another significant example is the ‘8.3 People’s Daily Necessities Production Movement’ in 1984 within the manufacturing industry. The meaning of the movement is that daily necessities are produced at home by using wastes, residual products, and idle materials generated during the manufacturing process. This work is usually done by house wives, senior citizens, and the handicapped. Also, working groups directly under the plants, villages, and families⁷ who manufacture the products that can be sold at the ‘8.3 People’s

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Daily Necessities Stores' and direct sales stores are operated independently. The total revenue is divided according to the amount of investment and 5~10% of the sales revenue is paid to the government as purchase taxes. In 2008, the volume of production and the volume of distribution reached 184% and 246% of the goals respectively. The number of items produced is now a few thousands which is 19 times more than that in 1984, increasing 1.2~1.3 times annually.⁸

(2) The Legal Second Economy within the Formal Economy

Determining the domain of the legal second economy under the formal economy is a quite complicated matter. The second economy's relationship with the formal economy is vague and uncertain in many cases. The most common example is the private economic activities within the general market permitted by the central government. Private, corporate, or associate tenants in the general market are required to pay rental fees and taxes to the governments. In its early stage, the government built a management office, but later the office was operated in the form of a national corporation. Thus, the general market became part of the formal economy.

The aforementioned '8.3 People's Daily Necessities Stores' and direct sales stores are also working within the boundary of the formal economy, which can be interpreted as second economy

activities under the formal economy. Therefore, these activities cross the border between the formal and second economy.

B. The Illegal Second Economy

Similar to other socialist countries, the illegal second economy in North Korea also has a larger and more complicated sphere than its legal one. Since the 1990s, as North Korea's formal economy had failed to provide basic necessities, the second economy's domain quickly expanded. There are two kinds of second economy activities. Those being the illegal second economy within the formal economy, and outside of the formal economy.

(1) The Second Economy Activities outside of the Formal Economy

Unregistered private production and sales, black markets, and smuggling belong to the second economy activities outside of the formal economy. For example, even though food production is controlled by the government, many people are illegally involved in this sector, especially those in city markets. In particular, several items that are not allowed for sale at the general markets are made available in black markets. However, as the government continues to suppress illegal businesses, the role of black markets becomes more crucial. Extremely poor merchants who cannot afford the lease

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in the general markets sell items near these markets, known as “grasshopper markets”, skillfully avoiding police crack downs. Therefore, merchants in these grasshopper markets are able to avoid paying fees and taxes to the government.

Smuggling, the most common being bartering, usually takes place near China’s border. North Koreans exchange colored metals, agricultural products, and drugs for food and daily necessities from Chinese merchants. Foreign currency and real estate are also dealt with in the black markets. The North Korean government built a foreign currency exchange office in order to provide currency exchange services at the rate used by black markets, which reportedly decreased a considerable amount of these illegal foreign currency exchanges. Housing transactions are allowed only to a limited extent in North Korea. There are two types of housing: old type which is traditional houses, and new type which is newly built houses subsidized by the “private housing fund”. Even though both types are state-owned which limits their transaction, covert transactions are able to take place due to the current workplace shift and economic crisis.

(2) The Illegal Second Economy Activity under the Formal Economy

One example for illegal second economy activities under the formal economy is the transaction of raw materials. When the

amount of raw materials does not meet the demand in the formal economy, the second economy compensates the difference.

Another activity is the procurement of goods by raising capital through state enterprises, corporations, or markets, causing illegal dealings among corporations and interested high officials. Contracting ‘ghost employees’ is another form of illegal second economy activities in which a ghost employee is registered on the list, but pursues his or her own business.⁹

An extreme example of second economy activities under the formal economy is the secret operation of underground plants disguised as state enterprises or plantations.¹⁰ Covertly hoarded state enterprise raw materials are provided to underground plants to produce goods in shortage.

Lastly, embezzlement is part of illegal second economy activities such as stealing products, equipment parts, and raw materials from work and at the distribution process. The actors involved in embezzlement are not only staff but also high officials. Stolen items are regularly sold in markets or used in households for craft manufacturing.

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4. North Korea's Control on Street Markets

A. The Crackdown on Personal Plantations

In the latter half of 2006, the North Korean government announced that personally owned rice paddies will be recollected and transformed into state plantations starting from 2007 due to the increased pollution of fields and forests by individual farmers' rice paddy farming. Consequently, the following announcement in 2008 stated that no rice paddy farming will be allowed starting from 2009.

The government began the size registration of individual paddies after the farming season ended in 2008, and issued the official order, "Removing Paddies" on February 3, 2009. Although the official rhetoric is to protect the fields and forests, these actions are meant for the government to regain confidence in the food situation. However, many conflicts occurred during the paddies collection and tree planting in April.

B. Restriction of the Markets

Several market forms were established after the government issued the '7.1 Measure' in 2002 and the 'Market Promotion Measure' in 2003. The '7.1 Measure' allowed people to open street markets for daily survival, and the 'Market Promotion Measure' authorized the operation of large-scale general markets including

commodity markets.

Consequently, the development of marketization in North Korea caused the central government to be cautious of this movement, and so began to strengthen its control over formal and informal markets through inspections and regulations. The government introduced ‘Food Monopolism’ in October 2005¹¹, and continued to expand control and restrictions on sale items and operation hours of stores, which aimed to deter marketization. The government alleviated such strictness after December 2006, but still prohibit men over the age 17 to sell their 700-gram-food ration at the street markets.

Since 2007, the North Korean government’s efforts to control the market system had intensified. In particular, after President Roh Moo-hyun’s visit to North Korea in October 2007, age limit and restrictions were increased on certain items and prices. By doing so, the government was able to convey its message that “Markets are no longer places where people can enjoy the convenience of commerce but have become an anti-socialist den of destruction for all social orders. They will destroy our way of socialism and force us to advance towards capitalism,” in an internal document titled, “Have the Right Perception of Markets and Stop Anti-socialist Activities.”

The North Korean government’s control over the markets reached its peak when it announced that regular markets will be shut down and restored to the previous farmers markets starting

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from January 2009. Food, industrial products, and imports have to be dealt by state-owned stores. Also, regular markets will be allowed to open once every ten days. Although the actual implementation is being postponed in consideration of the response received by citizens, it seems that the government will continue to enforce its crackdown on markets.¹² Pyeongsung Wholesale Market, one of the largest wholesale markets in North Korea, was closed in mid June 2009. Since then, merchants involved in this location are now scattered and operating in small sizes. On March 15, the government made another official announcement regarding restricted items, a warning for strong control over markets.¹³

〈Table II-1〉 List of the Prohibited Items at the Markets

Type	<ul style="list-style-type: none"> ○ Imports from USA and ROK, products made in joint-venture companies such as Kaesong Industrial Complex, and goods and medicines provided by US ○ Military items such as uniforms and rations
Distribution	<ul style="list-style-type: none"> ○ All items imported by trading companies ○ Imported home appliances ○ Imported toys ○ Items produced by state enterprises ○ Publications, handcrafts ○ Agricultural products from collective farms ○ Large-size furniture made by individuals ○ Medicines ○ All automobile parts ○ Foods made by individuals, unpackaged foods
Individual Items	<ul style="list-style-type: none"> ○ Imported home appliances: TV, VCR, recorder, semi-conductor radio, mp3, blank CD, rice cooker, heat blanket,

	<ul style="list-style-type: none"> refrigerator, washing machine, fry pan, etc. ○ Building materials: iron doors, iron-bar windows ○ Toys: Toy weapons, sound-installed dolls ○ Publications and handcrafts: books published by the state, text books, computer-printed publications, foreign books, ID certificates, handcrafts made by individuals ○ Large-size furniture: sofa, chest, bed, sponge blanket, large-size mirror ○ Medicine: anti-smoking pill, abortion pill, all medicines made by state enterprises ○ All seafoods, all items produced by the local industrial plants(bean paste, soy sauce), agricultural products made from collective farms, jewel paintings, Chosun paintings, glasses, necklaces and rings made with gems, imported bag, imported cigarette, imported watch and electric watch
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Source: North Korea Intellectuals Solidarity, *Exclusive News*, March 17, 2009, <<http://www.nkis.kr>>.

The above listed ‘restricted items’ include virtually most of items that are being sold at the street markets. Even unrestricted items are almost impossible to sell due to price control. For example, the prices of grain, egg, tofu, chicken, pork, and bean oil are fixed by the government. The sale of food items are prohibited at the markets after May 8 2009. Individuals engaged in foods at these markets have resorted to selling them in the country side.

The North Korean government’s perception of the market is well expressed in its recent speeches, stating that the “Market is where anti-socialism grows and the home of capitalism.”¹⁴ The types of phenomena that the central government is cautious about

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are as follows.

- Shift in board trade and wholesale trade
- Sale of items restricted by the state
- Sale of items at the periphery of the market
- Encouragement from corporations and agencies for individual vendors to sell
- Trade implementation by the corporation
- Sale of items by young women
- Transformation of Pyeongsung Market as a wholesale market
- Construction of Stores by the market itself
- Increase in handcarts

Another important aspect is that the government is also enforcing restriction on trading companies since they are the provider of goods to markets. The government implemented a firm control beginning in May 2009, especially over companies earning foreign capitals, that trading companies are unified under the state trade agency and operated based on the central plan.¹⁵ The communist party directly manages those foreign capital earning trading companies, and the national defense committee uniformly handles the foreign capital earning companies under the special agencies.

Trading companies that were operated by various agencies, plants, and corporations are now controlled by the province party. The North Korean government's strengthening control over the

trading companies represents its will to dominate the foreign capital earning core groups. North Korea's restriction of those trading companies is another means of preventing a deviation in society because those companies are mainly involved in illegal financial activities which induced the anti-socialist economic environment.

5. Prospects for North Korea's Marketization

A. *Short-term Prospect*

In consideration of North Korean government's resentment against marketization, it is expected that the increasing control over the market systems will continue, but the people's reliance on markets for daily survival makes it difficult to unilaterally implement such measures. Also, unless internal and external circumstances improve so that supply capability increases, the complete closedown of markets will prove to be impossible. Therefore, the degree of control on markets by the North Korean government will negatively influenced by its own supply capability which is determined by domestic economic conditions, trade, and economic aid. Also in respect to current issues of nuclear weapons and severe economic failure, the recovery of supply capability in a short-term period is indefinite and will therefore restrain the government's ability to control markets.

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It is highly unlikely that the central government will take an even more extreme measure to control markets, but they will definitely continue their efforts of restriction, which in turn will expand illegal economic activities in these markets. If the government attempts to prohibit previously allowed market activities, those who were dependent on these markets will be forced to participate in illegal economic activity. Such development of illegal economic activities in black markets will provide a more hospitable environment for bureaucrats who have been illegally accumulating wealth. Also, cracking down on markets will only make ordinary people suffer in terms of daily survival. If the situation continues to be aggravated, there will be an increased chance of conflict and opposition on the local level.

B. Mid- to Long-term Prospect

Without securing an adequate economic supply, the North Korean government will face strong opposition towards its enforced restriction on markets. The government understands that continuing a strong control over markets will be impossible because economic aid is needed from the international society but will require internal reform. At the same time, it will insist on the continuing control over these markets to a certain extent since marketization is still perceived as a threat to the regime. Therefore, this control over market activities

will continue to increase until the North Korean government is able to completely overcome the threat of marketization in which this condition can generate a momentum for bottom-to-top reform.

Assuming that North Korea does not collapse and it face the change of its surrounding environments, full-scale opening and reform can take place-scale mid-to long-term prospect, which will legalize and institutionalize market activities. If such opening and reform succeeds, the role of markets will slowly supersede central planning and will allow the coexistence of the market system and central planning. In the mid-to long-term prospect, the ‘socialist market economy system’ will be the best model for North Korea where the market actively distributes resources and the government continues to manage the macro-economy.¹⁶

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1. Jorge F. Pérez-López, *Cuba's Second Economy: from behind the scenes to center stage* (New Brunswick (U.S.A.) and London (U.K): Transaction Publishers, 1994), pp. 7-13.
2. Leslie Holmes, *The End of Communist Power* (New York: Oxford University Press, 1993), p. 74.
3. Jorge F. Pérez-López, *Cuba's Second Economy: from behind the scenes to center stage*, pp. 14-15.
4. F.J.M. Feldbrugge, "Government and Shadow Economy in the Soviet Union," *Soviet Studies*, Vol. XXXVI, No. 4 (October 1984), pp. 30-31.
5. Jorge F. Pérez-López, *Cuba's Second Economy: from behind the scenes to center stage*, p. 25.
6. Trembl, Vladimir and Michael Alexeev, "The Second Economy and the Destabilizing Effect of its Growth on the State Economy in the Soviet Union: 1965-1989," *Duke Economics Working Paper #95-33*, p. 8, <www.econ.duke.edu/Papers/other/Trembl/2ndecon.ps>.
7. Homecraft manufacturing began in North Korea in June 1953 when the Labor Party Central Committee decided to develop the local industry. Homecraft manufacturing is managed within each province, city and district. A chief manager is dispatched to the homecraft manufacturing location, distribute orders, and after production, collects the final products.
8. *The Chosun Shinbo*, February 28, 2009.
9. The main reason for various kinds of illegal activities in the industry sector is the lack of clarity of the government's guideline. Most bureaucrats find the government's guideline too vague to understand. Therefore, they do not use it as a standard to can make decisions, but rather simply forge the results for reports.
10. Gregory Grossman, "The 'Second Economy' of the USSR," *Problems of Communism*, Vol. 26, No. 5 (September-October, 1977), p. 31.

11. On October 10, 2005, North Korea declared to resume 'National Distribution System' and prohibited food trading in the markets, but could not continue the distribution for more than two months due to food shortages.
12. Networks for North Korean Democracy and Human Rights, *North Korea Info* Vol. 20 (September 15, 2009), <<http://www.nknet.org>>.
13. *Exclusive News*, March 17, 2009.
14. Good Friends, *Today's News on North Korea*, Vol. 278 (May 12, 2009).
15. North Korea Intellectuals Solidarity, *Exclusive News*, June 1, 2009.
16. A typical case for a successful transition from central planning economy to market economy is China's 'Socialist Market Economy.'

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*The Possibility of
Japan-South Korea Cooperation in
Assistance towards North Korea*

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1. Introduction

When conceptualizing a Northeast Asian economic community, Japan, South Korea and China are the countries that are envisioned at its centre. This is the logical result after considering factors related to population, size of economy and international standing. Japan, South Korea and China are all members of the G20, and are respectively positioned second, fifteenth and third in world economy standings. Also in terms of population size, there is a far greater concentration of the populace compared to Mongolia or the far east territory of Russia, as Japan has approximately 130 million inhabitants, South Korea about 50 million inhabitants, and China 1.3 billion inhabitants. Among these three states, Japan and South Korea can be regarded as especially close nations. They share features such as democracy and rule of law, as well as being advanced capitalist economies. Both states are enacting no-visa entry systems in respect to each other's citizens with personal exchange estimated at around 5 million annually. Such characteristics are nonexistent between Japan and China as well as between South Korea and China.

This paper will discuss how the conditions for a Northeast Asian economic community can be set up through bilateral co-operation between Japan and South Korea, close neighbors, both of which are deeply concerned with the formation of a regional community. Japan and Korea may also address how both states can

contribute to resolving the North Korean issue which has become a stumbling block in establishing any cohesive Northeast Asian community.

2. Establishing a Northeast Asian economic community and solving the North Korean issue.

A. What is the North Korean issue?

Generally when North Korean issues arise in discussion, North Korea's nuclear crisis or missile problems are what come to mind. These issues indicate that remnants of the Cold War have not completely vanished from the Korean peninsula. This paper however does not aim to deal specifically with the remnants of the Cold War or the North Korean nuclear crisis and missile problems itself, but rather discusses the issues that must be addressed after those problems are resolved. I do not think that the essence of the North Korean issue is in the nuclear crisis and missiles but instead is based largely on the fact that remnants of the Cold War still remain on the Korean peninsula and to a further extent within the Northeast Asia region. Also related to the residual effects of the Cold War is the problem of North Korea's low level of economic development. In other words, the crux of the issue has its origin in North Korea's unimproved economic productivity.

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B. North Korea's Current Economic Situation

Since North Korea's notable economic struggles are quite apparent, there is relatively little need to further elaborate on additional or special explanations about its lagging economy. According to the Bank of Korea, North Korea's nominal GNI in 2008 was 1/37.7 of South Korea, while GNI per capita was only 1/18.1 of the same.¹ If this low-growth condition is left as it is, not only will it become an obstacle to Korean unification but it may also detract from the prospect of economic cooperation within Northeast Asia. The urgency of this issue is evident as the people of North Korea live with dire poverty and hardship because of harsh economic conditions.

North Korea is attempting to overcome this situation through economic policies oriented towards technological modernization and self-regeneration.² However, introduction of the latest technology and establishment of a new industry requires more than domestic investment, that is, there must be an increase in foreign trade³ and foreign investment.⁴

North Korea's economic problems contribute to its people's living conditions, thus violating their human rights as well as stopping them from active participation and membership in the Northeast Asian economic bloc. Therefore, Japan and South Korea should help to improve North Korea's economic condition and encourage them to participate in the Northeast Asian community for both the sake of the country and its population.

C. Present problems to be solved

With this in mind, among the many problems of the North Korean economy at hand, which one should Japan and South Korea concentrate on? Several issues appear at the forefront of this discussion such as ① improving the living conditions of North Korean residents to a certain degree, and ② arranging conditions (substructures) that enable North Korea to participate in the Northeast Asian community(development assistance) as a more viable member. Nevertheless, before the North Korean nuclear crisis and missile problems are resolved, it will be politically troublesome for both states to give extensive development assistance to North Korea.⁵ Taking these points into consideration, this paper will first discuss possible ways of cooperation between Japan and South Korea in helping to resolve the problems regarding the quality of life (QOL) of North Korean residents.

3. Assistance policy of Japan and South Korea

In this section, I will discuss the similarities of Japan and South Korea's assistance policies as well as the possibility of cooperation by comparing these policies to average international assistance of both states.

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A. Japan's Official Development Assistance(ODA) policy

To elaborate on the details and changes to Japan's assistance policy, we will examine the background of the amendment and the contents of the general provisions which show the direction of Japan's ODA, passed by the cabinet on the 29th of August, 2003.

(1) The purpose of ODA

The purpose of ODA stated in the new ODA general provision is "to contribute towards peace and development of international society and consequently serve to secure stability and the prosperity of Japan." Although the phrase "national interest" has not been used here, in comparison to the former general provision passed by the cabinet on the 30th of June, 1992, which read, "Even now many people in developing nations, which forms a majority of the world, suffer from famine and poverty, and the international community cannot fail to notice this from a humanitarian point of view," it can be seen to have affected national interest.

ODA to Japan, who has "been indebted to the international trade community and depends heavily on foreign natural resources, energy and food" is deeply related to "guaranteeing stability and the prosperity of Japan and promoting its people's interests."

Furthermore, the Asian region is presented as the target area since "planning economic solidarity and revitalizing various kinds

of interchange with Asian nations that are in close relationship with Japan are indispensable,” yet there is no specific mention in the purpose with regards to which region within Asia should be given greater emphasis.

(2) Basic guidelines

〈Basic concept〉

The basic policies of ODA are grounded in ① supporting self-help efforts of developing countries, ② promoting the “human security” standpoint, ③ guaranteeing equity, ④ utilizing Japan’s experience and knowledge, and ⑤ providing assistance to help establish solidarity in the international community.

Among these policies, “training talent which is the basis for development of the state, building a legislative system and order, and improving economic social infrastructure” to make “good governance” possible are the most important criterion to Japan’s ODA, which also insists on respecting the recipient country’s autonomy. At the same time, the policy stresses its priorities in supporting, “efforts towards peace, democratization, ensuring human rights” and “attempts towards economic and social structural reform.”

Moreover, with regards to ④ utilizing Japan’s experience and knowledge, it is suggested, “highly sophisticated technology, knowledge, human resources and systems which Japan possesses

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put to practical use” to “make Japan’s experience of economic and social development and economic cooperation helpful to the progress of developing states” can be utilized. Human resources are a vital component supporting assistance, further testifying to the importance of participation from NGOs, volunteers, and local public entities in addition to the central government. Henceforth, cases involving NGOs, volunteers, and local public entities are likely to account for a regular proportion of Japan’s ODA.

Policy ⑤ emphasizes assistance and solidarity within the international community: “strengthening ties between Japan’s ODA and international institutions which hold professional knowledge and political impartiality” while reflecting Japan’s policies in the operations of these institutions is highlighted. Furthermore, this policy advocates support for “wide cooperation extending over many countries” which accompanies collective action within a regional cooperative framework advancing the message that “Japan actively promotes South-South cooperation through acting in concert with developing nations, in Asia and elsewhere, where development is under way.” This stipulation is provided with the ASEAN region in mind, although it is an idea that can also be applied to cooperation within Northeast Asia.

〈Preferential areas〉

Preferential areas of ODA are specified as follows: “the Asian region which has a close relationship with Japan and can have a huge influence on its security and prosperity is a preferential area.” Also specifically noted is the importance of, “giving priority to and promoting strategic fields and subjects.” In particular, the ASEAN region is given more weight than others in Asia since “ASEAN and the southeast Asian region are trying to enhance their regional competence by strengthening coordination while sustaining economic growth in an environment where economic interdependence is extended and intensified in recent times.” It can be noted that there is no special reference made to China and North Korea. Additionally, the direction of assistance to South Asia, Central Asia, Africa, the Middle East, Latin America, and Oceania in accordance to each region’s distinctive characteristics is elaborated on.

〈Preferential field〉

There are four key components comprising ODA: ① poverty reduction, ② sustainable growth, ③ efforts towards addressing global issues, and ④ peace building. Poverty reduction highlights that the necessity “to eradicate destabilizing factors such as terror campaigns towards the international community,” as well as stressing that “cooperation in fields such as education, health care and welfare, water and sanitation, and agriculture” are of the utmost importance.

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Also duly noted is the importance of coordinated efforts towards sustainable growth of the economy, increased employment, and enhancing quality of life.

Furthermore, it is written that in the case of sustainable growth, “efforts should be made to consolidate Japan’s ODA collaboration with relation to funds other than those generated within the ODA. Such sources may include trade insurance, imports and exports financing, and encouraging private economic cooperation by fully utilizing and promoting energy and money from the private sector.”

(3) The principles of executing assistance

The principles included in the UN charter, especially in regards to sovereignty, equality and nonintervention have been valued when executing assistance. It is simultaneously specified that ① compatibility of environment and development, ② avoidance of using assistance for military purposes or aggravating international conflict, ③ nonproliferation of terror and weapons of mass destruction(WMD), and ④ consideration for promoting democratization, efforts to introduce market economy systems, and ensuring basic human rights and freedoms in developing nations should be observed. In regard to ③, “the trend of the developing nation’s military expenditure, manufacture of WMD and missiles, export and import of weapons” are taken into serious consideration.

B. South Korea's ODA policy

(1) The basis of South Korea's ODA policy

South Korea concentrates on aiding projects that correspond to the demands of the developing nation with the intent of sharing lessons learned from Korea's development experience, as well as consolidating the recipient's independent ability(ownership) to fight against poverty. Concrete examples of these efforts include supporting common goals of the international community such as MDGs and the Paris Declaration, reinforcing international disaster recovery and reconstruction aid. Korea aims to boost its own status as well as increase amity and cooperation with developing nations through ODA activities.

(2) Subjects and items stressed by South Korea's ODA Mid-term Strategy(2008-2010)

〈Bilateral assistance〉

In regard to bilateral assistance, South Korea's policy is to maintain the tone of priority assistance to the Asian region, while extending humanitarian aid focused on achieving MDGs in Africa. Selective assistance will be made to Latin America after taking into account the diversity of regional development demands.

In selecting and assisting priority recipients, intensive support is made in accordance with the 'Country Assistance Strategy(CAS)'

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set up for states that need strategic foreign aid. South Korea's selection standards for offering bilateral assistance include developmental and humanitarian factors, the bilateral relationship, and the recipient state's behavior as well as its competence.

〈Multilateral assistance〉

South Korea's multilateral assistance is offered to countries that are greatly constrained in respect to promoting bilateral assistance, the African region in particular. Extending the scale of multilateral assistance in comparison to bilateral assistance has become the most urgent business, and South Korea is involved in replenishing funds for the 'Multilateral Debt Relief Initiative(MDRI)' driven forward by the international community. In addition, fulfilling promised payments and donations to various international institutions and establishing additional trust funds at the World Bank and the European Bank for Reconstruction and Development (EBRD) are underway.

The strategy for each area of assistance is to offer aid in priority to those fields that correspond with achieving MDGs; are high priority in terms of the developing nation's development strategy; and in which South Korea occupies relatively predominant position. More specifically, these fields include human resource development, health care, administrative systems, information and communications.

C. Similarity and heterogeneity in Japanese and South Korean ODA policies

As we have examined above, similarities in Japanese and South Korean ODA policies can be found in the fact that both had focused on Asian countries that are deeply related to themselves as major targets, but more recently have been attaching importance to MDGs, while responding to the trends of international assistance.

The basic ODA policies also have many common aspects that include stressing the developing nation's self-help efforts, an emphasis on "human security," utilizing their own experience and knowledge, and cooperating and collectively responding within the international community.

Nevertheless, Japan's ODA policy expresses its concept of pursuing national interest to ensure its security and prosperity in stronger ways than South Korea. Furthermore, economic interest as well as universal human rights, and good governance in assistance policies are stressed by Japan.

4. Conclusion

When examining the general assistance policy of Japan and South Korea, it becomes readily apparent that there is little difference in regards to the purpose, subject, and content of the assistance

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policies upheld between them. This indicates that there is common ground between the two countries in executing humanitarian aid and drawing up blueprints on developmental aid for the future, and that the possibility of cooperation is remarkably high.

Needless to say, Japan's foreign economic cooperation emphasizes the progress made by the recipient state in becoming less of a threat politically, democratization in terms of its system, and the application of market principals economically in order to induce stable development. The current South Korean government's North Korean policy also basically seeks to induce change from North Korea and the presupposing the continued coexistence of both North and South Korean states. This does not seem to be much different from the direction of Japan's assistance policy.

Seeing as how North Korea is an Asian state, promoting North Korea's military, political, and economic stability can be seen as contributing to the Japanese and South Korean goals of establishing a Northeast Asian economic community led by Japan, South Korea and China. Despite North Korea's unresolved nuclear crisis and missile issues, it is crucial for both states to offer humanitarian aid based on the general and universal guiding principles they have set up, to enhance the quality of life of the North Korean people and cooperate in drawing up a blueprint for future development assistance. It will be advantageous to Japan and South Korea to allow the North Korean people to understand the fundamental values we

share by actively addressing North Korea's economic problems. It would be especially effective to resolve the people's humanitarian issues through close cooperation between both states. Japan and South Korea should solidify their leadership roles in forming a Northeast Asian economic community through joint efforts in assistance towards North Korea.

1. The Bank of Korea, "Gross Domestic Product of North Korea, 2008," <<http://www.bok.or.kr>>.
2. Kim Dong-sik, "The Basic Direction and Principles for the Construction of an Economically Strong Country in the Present Day DPRK," *ERINA REPORT*, Vol. 83 (september 2008), pp. 13-16.
3. Jang Myong-ho, "The Fundamental Principles which the DPRK has consistently Been Upholding in the Construction of a Socialist Economically Strong Country," *ERINA REPORT*, Vol. 89 (september 2009), pp. 72-74.
4. Kim Ji-hyok, "The DPRK Tax Regimes for Foreign Invested Enterprises and Foreigners," *ERINA REPORT*, Vol. 89 (september 2009), pp. 75-78.
5. "Address by President Lee Myung-bak on the 64th Anniversary of National Liberation" *The Chosun Ilbo*, August 15, 2009, <http://news.chosun.com/site/data/html_dir/2009/08/15/2009081500297.html?Dep0=chosunnews&Dep1=related&Dep2=related_all>.

*Cooperation between China and
South Korea in Promoting
North Korea's Opening-Up and Reform*

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1. Introduction

Opening-up means exchanging resources with other countries through a free market without any blockades and embargos. North Korea announced Joint Venture Law in September 1984 and established free trade zones in Najin and Sunbong. In 2002 they also made Sinuiju Special Administrative District in September and Geumgang Mountain Tourism Special District in November. This opening process continued until June 2003 when Gaesong Industrial Complex was built, however, since when the process has been drastically strained.

The cause for such a collapse in cooperation can then be attributed to the fundamental aspects of North Korea's problems. The essential issues are those of security, development, and unification. The problem of security is the most crucial as it is the major obstacle to the development. The current state of North Korea can be analyzed in terms of the four main factors, which are often used when analyzing the rise and fall of the Chinese dynasties. The first factor is that of leadership. For the leadership of North Korea, it is inevitable to pursue both Military First policy and Open and Reform policy. The second factor is that of government officials or party members. They have been divided into two factions, reformists and conservatives, the struggle to find a balance between the Military First policy and the Open and Reform policy. The third factor is that

of citizens. The North Korean people are generally hesitant to the opening and reform because only a limited number of people have been exposed to the benefits of the opening and reform. Most North Korean citizens still tend to prefer the old system. Lastly, the fourth one is the external circumstance which has always been poor. Throughout its history, North Korea has been under the potential and real pressure of blockades and sanctions by the great powers. Thus, North Korea has always had to deal ad toione nal and external naleats to its security, which will continue to prohibit its development. In addition, the traditional confrontation between the two Koreas makes little room for South Korea to influence the opening of North Korea. It seems a bit too early for North Korea to move toward opening. However, the cooperation between China and South Korea can help open North Korea to a certain extent although it may not bring about a dramatic change in structure. Therefore, China and South Korea should continue their efforts to find a common ground in cooperation to promote North Korea's opening.

2. Prerequisites for the cooperation between China and South Korea to Promote North Korea's opening

A. Perception of North Korea

China and South Korea have different perceptions of North Korea. Therefore, they need to narrow down such difference.

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(1) Justification for North Korean Regime

It is crucial to understand North Korea's extreme discomfort in hearing the expectations of other countries that it hopefully makes a soft landing for the sake of minimizing the shock from its collapse. China and South Korea need to endorse the North Korean Regime and provide it stability in order to justify the process of opening up. In other words, it is necessary to treat North Korea as an equal partner.

(2) Possibility of Opening-Up North Korea

We need to admit that North Korea has tried opening and reform whilst still maintaining its Military First policy. Their effort has been stranded due to the domestic and international factors, but they clearly understand the necessity of opening and reform. After announcing Joint Venture Law in 1984, North Korea has announced 38 foreign economic regulations in total and built free trade zones in Najin, Sunbong, Geumgang Mountain Tourism Special District, and Gaesong Industrial Complex. 26 regulations out of 38, which represents 72% were all made or revised after 2002.¹ If these 26 regulations are effective, we can expect a lot more progress in the opening of North Korea.

There are certainly problems for North Korea to advance toward opening and reform. North Korea is putting its foremost effort on building a wealthy country and a powerful army by 2012.

In the process of recovery, the domestic economy is considered more important than external economic development and cooperation. For the sake of recovery of domestic economy, some foreign investment is flowing into North Korea but it is by far insufficient to afford full-scale opening and reform. However, once North Korea is guaranteed security from the United States, it is likely to move forward in opening up its economy and cooperation with international community.

B. The Common Benefits for China and South Korea in Dealing with North Korea

If there are no common benefits for China and South Korea in dealing with North Korea, it is impossible to expect any cooperation between the two countries to open up North Korea. It is a common goal for China and South Korea to promote North Korea's stability and development. China is pursuing "Three-Neighbor" policy in order to maintain stability around its borders: peaceful neighbors, stable neighbors, and wealthy neighbors. The unstable North Korea is also a burden for South Korea. Therefore, North Korea's opening and reform will stimulate the economic development and cooperation in Northeast Asia, which will certainly benefit China and South Korea. Considering the geographical positions of China, South Korea, and North Korea, the economic cooperation among three countries is crucial in order to achieve the greater mutual

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benefit for Northeast Asia. But the isolated North Korea is physically cutting off the link of the three countries' cooperation.²

Thus, the mutual trust between China and South Korea is the first step toward the cooperation among the three countries. Especially, South Korea needs to alleviate its caution against China through talks.

One of the most critical reasons for the difficulty in enhancing the relation between South Korea and North Korea is North Korea's excluding South Korea in their foreign economic policy due to the resentment against South Korea. This can be clearly seen in their Economic Special District plan which is major part of the foreign economic policy.

〈Table IV-1〉 North Korean Economic Special District Goals

	Name	Short-term goal	Long-term goal
1	Gaesong Industrial Complex	Introduce South Korean capital and technology	Aiming for European capital and technology
2	Geumgang Mountain Tourism Special District	Targeting South Korean tourists	Targeting Japanese tourists
3	Sinuiju Special District	Targeting the 3 districts in northeastern China	
4	Najin and Sunbong	Targeting far east Russia	

China can play a constructive role with South Korea to promote North Korea's opening and reform, which will ultimately contribute to the cooperation among the three countries.

3. Challenges for China-South Korea Cooperation in Promoting North Korea's Opening-Up and Reform

The above mentioned are the long-term cooperation plans which are unlikely to be realized in a close future. From South Korea's stand point, if China accepts South Korea's suggestion to pressure North Korea to open and reform, North Korea will certainly do so. However, such coordination between China and South Korea is also highly doubtful. Therefore, I will discuss more realistic solutions.

A. Promoting North Korea's Opening-Up and Reform through China's Liaoning Coastal Economic Belt Development

The Liaoning Coastal Economic Belt Development Plan which the Chinese central government is currently pushing ahead with will naturally help North Korea's opening and reform. The 2900-kilometer-coast is the only gateway to the ocean from the three northeastern provinces. The region includes Dalian port, Jinzhou port, Yingkou port, Huludao port, and Dandong port connecting with 140 ports worldwide. The Liaoning coast is the most convenient way to Asia Pacific from Northeast Asia.

On July 1st 2009, the Chinese central government passed "The Liaoning Coastal Economic Belt Development Plan" in order to elevate the openness of the northeast of China by actively par-

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ticipating in international economic cooperation. They planned to consolidate the resources of the coastal areas and optimize the industrial structure by upgrading the systems of distribution and services in order to forge a modern industrial system based on advanced manufactures. They came up with a unified plan for regional development and the agricultural industry through restructuring the systems of traffic, energy, water, and information. The plan addressed the issues of sustainability such as saving natural resources and environmental protection. It also touched upon practical interests of the mass people regarding the development.

The Liaoning government actually started to develop the coastal area in 2005 which initially covered 582.0km², but now it is up to 701.11km². The total amount of fixed investment has reached 73.25 billion yuan. The coastal economic belt zone has already established shipbuilding, advanced equipment making, and high technology industries. The investment was up to 437.59 billion yuan by the first quarter of 2009 in 756 areas, annually producing 30.62 billion yuan.³

The Liaoning Coastal Economic Belt Development Plan is closely related to the Northeast Asia's economic development which is part of the overall plan of China's economic development and cooperation. Building Dalian Shipping Center of Northeast Asia will certainly help North Korea's economic development and cooperation.

In conclusion, the Liaoning Coastal Economic Belt Development Plan will serve as a good chance not only for China and North Korea, but also for South Korea and Japan to promote Northeast Asia's economic development and cooperation. In other words, the strategic value of the Liaoning Coastal Economic Belt Development Plan is ultimately to promote the Northeast Asia Economic Community by improving the economy of China's northeastern region and Northeast Asia economic development and cooperation. Therefore, China and South Korea's efforts to cooperate in the Liaoning Coastal Economic Belt Development Plan will eventually stimulate North Korea's opening and reform.

B. Effects of the Change in Dandong on North Korea

As the geopolitical comparative advantage of northeast China, since the railroad is built, it has become the gateway to the ocean. Thus, Dandong has become a district of the most modernized port located on the coast of northeast China as illustrated in <Figure IV-1>.

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〈Figure IV-1〉 The Most Modernized Port Located on the Coast of Northeast China



As the Liaoning Coastal Economic Belt Development Plan kicks off, the Lingang Industrial Complex in Dandong also greatly improved. The Dandong Lingang Industrial Complex is a crucial part of the plan.⁴ The region lies between Yalu River and Yellow Sea. Dandong decided to build “One Port and Five Bases” in the Lingang Industrial Complex. “One Port” is to make Dandong the most important hub in Northeast Asia that connects the Korean peninsula and inland of China. It will also become a new gateway to ocean and help upgrade the old industrial bases in the northeast China. “Five Bases” means building Lingang Industrial Complex Base, Advanced Equipment Manufacturing Base, Imports and Exports Products Manufacturing Base, High Technology Development Base, and

Modern Service Industry Base. As a result of such efforts, Dandong's economic development and cooperation are being revitalized. Dandong is currently trading with about one hundred countries and regions all over the world. It is also actively trading with North Korea. According to the statistics, 60% of the China's total trade with North Korea occurs in Dandong. The trade volume with North Korea is increasing 15% annually. The methods of trading are also becoming more diverse such as cash, processing, and bartering, which used to be only done by spot trading. Therefore, the National People's Congress in 2006 suggested making Dandong a China-North Korea Friendly Special Economic Zone which later can evolve into China-North Korea United Bonded Zone. The economic development and cooperation in Dandong will greatly influence North Korea's opening and reform. North Korea's opening and reform will also have an enormous impact on Dandong. Thus, South Korean companies' entering Dandong will promote North Korea's opening and reform, which should be strategically considered.

C. Cooperation to Help North Korea's Expanding Foreign Investment

The success of China-South Korea investment cooperation will be a great help for expanding North Korea's foreign capital and companies. The South Korean companies that moved to China are the beneficiaries of China's open and reform policy and they at the

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same time also encouraged China to build a free market system and to attract Korean capital. In order to attract Korean capital, many regions in China tried to improve their own comparative advantages. For example, Shenyang had the four advantages. First, Shenyang used complementary economic cooperation as prerequisite when attracting Korean capital. It was the motivation for the investment, and Shenyang served as a base for long-term cooperation. Second, Shenyang is located close to Korea not only geographically, but also culturally as well. Third, as China's opening and reform progressed, Shenyang became more and more powerful in its economic capability and potential. Fourth, Shenyang has earned a reputation of Northeast Asian region for hosting expos, which has become Shenyang's brand power. These comparative advantages motivated Korean companies to invest in Shenyang. The above mentioned advantages are simply resources. The success of attracting investment lies in transforming such resources into marketable items or products which the Korean companies can find profitable. The goal of attracting investment is to transform the ideas into an action. In order to be ready for the transformation, the government in advance should continue to find more comparative advantages and optimize the environment for investment by utilizing the regional autonomy and by providing proper benefits to the companies willing to invest and help them become strong companies. Nurturing these companies is the final stage of investment attraction, which is the

only way to create a long-term investment strategy. The China-South Korea investment cooperation will continue and accumulate successful cases, which will eventually promote North Korea's economic development and cooperation and attracting foreign capitals.

D. China-South Korea Cooperation to Improve North Korea's Infrastructure

The factors mentioned above are all important as they are indirectly and abstractly helping North Korea's opening and reform. Direct help should start with improving North Korea's infrastructures. Of course, it can only start when North Korea has begun to reform its internal system. There are clearly voices within North Korea that propose reform in order to attract foreign capital. For instance, North Koreans are using high ways free of charge and do not even have an idea of a toll road. In fact, the policy makers in North Korea are actually studying how to build a new legal system suitable for foreign investment. The internal reform of North Korea is utmost important in order to achieve North Korea's opening and reform, but the foreign capitals must be injected at the same time. In this regard, China and South Korea should cooperate to improve the North Korean infrastructure for the foreign capitals to survive. One possible option is to make an international fund for the North Korean infrastructure, which can ease the concerns that one country has against another by including many countries worldwide.

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4. Conclusion

When Wen Jiabao visited North Korea last October 4, he signed a series of MOUs in economic and technical cooperation as well as agreeing to build a bridge over the Yalu River. North Korea responded by promising to participate in the Six-Party talks. After all the recent engagements with North Korea such as Clinton and Hyun's visits and North Korea's condolence visit to the South, This is a major breakthrough in terms of the possible North Korean opening and reform. What North Korea needs the most for their opening and reform is a greater flexibility, and at the same time maintains the principle of reciprocity to the South. For example, the exchange does not have to be symmetrical in terms of the categories. Economic aid can be reciprocated with political assistance. The timing for the exchange also does not have to be symmetrical. The reciprocation for the current economic aid can be delayed. The effects of the exchange can also be uneven. The aid to North Korea may not change the elite class, but it can make a difference in North Koreans' minds. In conclusion, it is important to provide a right environment for North Korea's opening and reform as well as to expect North Korea to change. Therefore, the cooperation between China and South Korea should realistically focus on creating such an environment.

1. North Korea Economic Development and Cooperation Committee, *Investment for Democratic People's Republic of Korea*, 2005.
2. Yoon pointed out that the disconnection of the space for economic activities due to the isolation of North Korea is the most fundamental factor that undermines the economic cooperation among the three countries. The disconnection is four kinds: disconnection of physical space, disconnection of economic growth, disconnection of international division, and disconnection of market; Yoon Deok-ryong, "Role of China, South Korea, and North Korea in Regional Development in Northeast Asia," *Challenges and Prospects for Revitalizing the Economic Development and Cooperation among South Korea, North Korea, and China* (The Liaoning Academy of Social Sciences and KIEP international seminar, September 26, 2002).
3. Wang and Jun, "The development of China's most northern coastal areas, help to promote the revitalization of the Northeast (中國開發最北沿海地區助推東北振興)," *Xinhuanet*, July 1, 2009.
4. The Liaoning Province Committee and the Liaoning government in 2006 proposed a strategic plan for "Five Points and One Line" in order to develop the coastal economic zone. "Five Points and One Line" refers to Dalian Changxingdao Lingang Industrial Sector, Liaoning Coastal Industrial Base, Liaoxi Jinzhouwan Coastal Economic Sector, Liaoning Dandong Industrial Base, Dalian Huoyuan Industrial Complex which create one line of coastal economic zone. The Chinese Central Government on July 1st 2009 upgraded the plan to "Liaoning Province Coastal Economic Belt Opening and Development Strategy".



*South Korea's Official Aid Policy
to North Korea:
Objectives, Types, and Political Debates*

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1. Introduction

This paper will review and analyze the objectives and types of South Korea's official aid policy to North Korea along with relative political debates ranging from the nation to the international community.

Enduring through administration transitions and foreign diplomacy fluctuations, South Korea's aid policy agenda to North Korea has remained cohesive, in which six initiatives continue to be prominent: ① promotion of inter-Korean economic cooperation, ② restoration and unification of national community, ③ compensation for denuclearization, ④ reduction of inter-Korean military tensions, ⑤ management of inter-governmental relations, and ⑥ alleviation of humanitarian crisis.

In addition, six major stakeholders have been influencing political and policy arguments regarding South Korea's official assistance to the North: South Korean liberals and conservatives, North Korean regime and its 'people', as well as hardliners and moderates from the international community. Also at this time, South Korean rice farmers have proven to be strong protagonists in favor of humanitarian assistance to North Korea.

However, the diversified objectives of those various groups have been the source of conflict for aid policy to the North. A prime example being humanitarian assistance given to the North Korean

Government to improve inter-Korea relations, the response to those relevant policies range in skeptical criticism about whether or not humanitarian aid should be delivered directly to North Korean citizens under supervision.

With the recognition of its roots forming in 2004-2005 in the South Korean community, the concept of developmental aid is currently widely accepted by several NGOs and pundits, even though it has yet to succeed in transforming the current administration's policy initiatives regarding assistance to North Korea.

The Lee Myung-bak Administration has established two principles regarding its assistance policy framework to the North. First, it is essential that humanitarian assistance be parallel to humanitarian principles. Second, large-scale economic aid must be provided in alternating steps with progress in North Korea's denuclearization.

Section Two of this paper examines the multiple objectives and four major policy initiatives by emphasizing on the combination of these objectives on the provision of aid to North Korea. Section Three illustrates domestic and international conflicts in relevance to this aid, and Section Four will provide a summary and evaluation of these conflicting policy perspectives.

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2. Four Major Policy Initiatives on Aid to North Korea

Irrespective of transition in governments, South Korean assistance to the North has been consistently embedded in six policy objectives: ① facilitation of inter-Korean economic cooperation, ② restoration and unification of national community, ③ compensation for denuclearization, ④ reduction of inter-Korean military tensions, ⑤ improvement of inter-governmental relations, and ⑥ humanitarianism.

In consideration of various combinations and priorities among the aforementioned objectives, three major policy initiatives regarding assistance to the North have been devised: ① formation of an inter-Korean economic community, ② compensation for denuclearization and ③ humanitarian assistance. The prospective fourth major policy initiative will be the concept of developmental assistance.

An administration's liberal or conservative approach influenced its emphasis on certain objectives and its priority determination of the previously stated three initiatives. As for a liberal approach, the government had a stronger tendency to utilize aid to North Korea as an instrument for maintaining favorable relations with the North. In contrast, a conservative government had often required reciprocity for delivering aid to North Korea, a prominent condition being guaranteed progress in denuclearization.

In the following, the three aid policy initiatives, commonly

adopted by past Korean Governments, will be investigated, and thereafter the South Korea's reception of the concept of development aid will be reviewed.

A. Assistance for the Formation of Inter-Korean Economic Community

Formed during the Roh Tae-woo Administration, the concept of economic cooperation between the two Koreas became one of the main pillars of the South Korean Government's initiatives on aid to the North. Inter-Korean economic cooperation has been perceived as easier to facilitate in comparison to its political or societal counterparts in which the first is mutually beneficial, and the others may provoke new conflicts. So in light of this, South Korean administrations pursued to further inter-Korean economic cooperation, striving to reestablish an inter-Korean economic community in the long run. The development of inter-Korean economic relations would facilitate cooperation in other areas, including reduction in military tension and allowance of political and social exchanges. To reach this goal, however, South Korea first had to provide assistance to the North.

Although the long-term goal is to restore the inter-Korean economic community, the preferred short and med-term objectives of facilitating inter-Korean economic exchanges have diverged among administrations. The Kim Dae-jung Administration sought

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to expand inter-Korean economic exchange while the Roh Moo-hyun Administration expressed that the best way to generate peace on the Korean peninsula was through the active promotion of economic cooperation through South Korea's assistance. In contrast, the current Lee administration regards the increased economic cooperation as a reward for North Korea's abandonment of nuclear weapons.

B. Assistance for Compensating Denuclearization

The Roh Tae-woo, Kim Young-sam, Kim Dae-jung, Roh Moo-hyun, and Lee Myung-bak Administrations promised to provide large-scale economic assistance if North Korea was to abandon its development of nuclear weapons programs which in most cases implied that the delivery of economic assistance would be provided in phases along with the progressive abandonment of nuclear programs. In contrast, the Roh Moo-hyun Administration provided aid in advance to persuade North Korea to give up its nuclear weapons while the current Lee Administration places priority on the resolution of the nuclear issue prior to the provision of aid.

The aim of President Lee's aid policy to North Korea is represented in the 'Vision 3000' proposal stating that the abandonment of nuclear weapons will be met with massive economic aid. The initiatives agenda underlining "true change and opening up of

the North, improvement of inter-Korea relations, and peace and stability on the Korean Peninsula and in Northeast Asia,”¹ cannot be achieved without the resolve of the nuclear issue. Hence, by resolving the nuclear issue, North Korea can be an eligible partner for the Inter-Korean Economic Community Cooperation Agreement. The Vision 3000 proposal, accompanying the phases of denuclearization, “would open the North Korean economy and transform it to an export-led market economy under five major projects (economy, finance, education, infrastructure, and living conditions).”² First, free economic zones will be established to transform North Korea to an export-led economy. Second, a total fund of 40 billion USD over a period of ten years will be provided and its sources will be the inter-Korean Cooperation Fund, loans from international financial organizations, foreign investment, and Japan’s contribution for diplomatic normalization with North Korea. Third, sector development and phase-by-phase cooperation will be implemented including railways, roads(New Kyung-yi Highway from Seoul to Shineuju, a North Korean border city to China etc.), ports, communications, and energy. Fourth, the establishment of a vocational training center, exchange of economic study groups, and the nurturing of North Korean economic experts through international organizations will be essential. Fifth, in order to elevate the living standards of North Korean citizens, assistance will be implemented through cooperative work of NGOs and government agencies,

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comprising of health, medicine, housing, water supply, drainage systems, agricultural cooperation, and forestation.

C. Assistance for Humanitarian Alleviation

The idea to provide humanitarian assistance to alleviate dire economic conditions in the North emerged during the Roh Tae-woo Administration as a means to persuade the North Korean authorities to improve inter-Korea relations, and continues to be perceived in these terms.

In addition, this concept was not seriously challenged by the succeeding administrations of Kim Young-sam, Kim Dae-jung, and Roh Moo-hyun. The Kim Young-sam Administration provided the North with 150,000 tons of rice in 1995 as humanitarian aid without determination of target group and no obligation for the monitoring process. For the Kim Dae-jung Administration, humanitarian aid was also a tool implemented to achieve the following three political and diplomatic goals³: ① deliver humanitarian assistance as compatriot support to the North, ② deem the cost for humanitarian assistance as payment for peace maintenance and enhancing inter-Korean reconciliation and cooperation, and ③ organize favorable foreign investment environments for the recovery of the South Korean economy. Overall, the Kim Dae-jung Administration's goals for "humanitarian aid" to North Korea were

rather complex intertwining humanitarian aid with political and diplomatic goals.

In regards to the Roh Moo-hyun Administration, assistance in the form of food aid was provided to the North due to humanitarian concerns with the intent to encourage a change in North Korea's behavior. Although President Roh considered food aid to be humanitarian assistance and did not directly link it with the nuclear issue, he emphasized that the aggravation of the nuclear situation could indirectly influence food aid and inter-Korea economic cooperation.⁴ However, according to an official document released May 2003,⁵ which explains the objective of South Korea's food assistance to the North, does not use the term "humanitarian aid." Instead, the document set forth four reasons for providing food aid to North Korea. First, the assistance strengthens the preservation of inter-Korea dialogue and cooperation so that apprehension of a crisis caused by the nuclear issue will not spread at home and abroad. Second, it encourages North Korean participation in inter-Korean dialogue enabling South Korea to take the lead. Third, it promotes reform and openness in North Korea which is set as the mid to long-term strategic goal. Fourth, with delivery of food to North Korea, the South would have more powerful means to influence North Korea's external behavior such as those pertaining to nuclear issues.

In contrast to previous administrations, the current Lee Admin-

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istration departs from this kind of humanitarian aid delivery to the North. First and foremost, the Lee Administration shelved the annual aid of 400,000-500,000 tons of rice and 300,000-350,000 tons of fertilizer. The following principles for humanitarian assistance to North Korea were made public June 2008⁶. First, provision of humanitarian aid in parallel with the universal standard of humanitarianism and fraternity is essential. Second, South Korea will directly assist the North instead of using international agencies, while strengthening transparency in distribution on behalf of those North Korean citizens in need. Along with this, the South Korean Government will review whether to respond positively, upon official request of humanitarian assistance from the North. Third, national consensus regarding the severity of food shortage or natural disaster will be weighed considerably in deciding food aid delivery. Fourth, in response to receiving South Korea's humanitarian assistance, the North should be willing to resolve South Korea's humanitarian concern for separated families reunion and returning of abductees and prisoners from the Korean War. In 2009, the Lee Administration devised a budget so that rice, which had been provided as a loan before, is provided as a grant aid, while being firm in securing transparency in its distribution⁷. In September 2009 three principles for humanitarian aid⁸ were publicized: ① North Korean aid, based on fraternity and humanitarianism, will be provided regardless of the political situation, ② aid will be targeted to the people in

need, including infants and pregnant women, and ③ reinforcement of distribution transparency. Moreover, these principles have two implications. First, on the condition that North Korea accepts humanitarian aid from the South, it must also observe the rules for humanitarian aid. Second, humanitarian aid will be delivered for humanitarian purposes only, and will not be used as a means to persuade or engender the normalization of inter-Korea relations.

D. Still in the Making: Assistance for Development

The term ‘developmental aid’ in regards to North Korea only emerged in 2004-2005 in South Korean society. Initiated in 1995, aid to the North marked its tenth anniversary by 2005 and provided an opportunity for the two Koreas to reflect upon their efforts over the past decade.

The most notable aggravation coming from the North in September 2004, North Korea refused to adhere to the UN Consolidated Appeals Process for humanitarian aid, and instead requested developmental aid from 2005. In September 2005, the North Korean government officially notified the UN that it would no longer accept humanitarian aid but only developmental aid from 2006. Furthermore, it demanded UN organizations based in Pyongyang and representatives of international NGO offices to terminate all humanitarian aid projects by the end of the year.

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Also, the South Korean NGOs aid community sought to modify aid patterns to the North to accommodate for developmental aid. At this time, as aid fatigue emerged due to the continuous exhaustion of emergency humanitarian aid provided to the North, development assistance was recognized as a self-sustainability opportunity for North Korea, and was preferred to dissipated food aid.

Although the concept of developmental aid was well known to South Korea's ODA related officials and institutions, it was still not a coined term among the community of inter-Korea relations experts. Since 2005, NGOs and pundits established a study towards the concept of development cooperation of aid to the North and the learning process over the following five years researched this new concept and the method of application to inter-Korean aid relations and economic cooperation. Hence, a general consensus starting with the North Korea aid community has formed pertaining to developmental aid being the dominant method of aid delivery to the North.

Despite progress, the concept is still considered unorthodox to the Korean public alongside most politicians and policy makers focused on inter-Korea relations. At best, the objective of promoting development aiming to provide "economic and social advancement and support to reduce poverty"⁹ has been implicitly included in the previous and current official initiatives agenda for massive aid to the North with includes the promotion of inter-Korean economic com-

munity, denuclearization compensation, and humanitarian alleviation. Furthermore, the Lee Administration's 'Vision 3000' policy objectives promote economic growth in North Korea, and expresses the sole aim for 'humanitarian assistance' rather than 'development assistance'.

3. Conflicts at home and abroad surrounding South Korea's aid to the North

In relation to South Korea's policy of official aid to the North, there have been conflicts of humanitarian aid within domestic politics, and the Korean Government with the international community in which the crux lies in the difficulty of catching two birds with one stone; transforming the behavior of the North Korean authorities while helping those North Koreans in need.

As used by past administrations under Kim Dae-jung and Roh Moo-hyun, aid to the North has functioned as a political tool to improve inter-Korea relations by encouraging North Korea to change its behavior and thereby ease tensions between the two Koreas. Thus, this motive is the justification for directly providing aid to North Korean authorities. Two prominent examples of aid being a behavior changing tool for North Korea are the following. First, assistance was utilized as compensation for North Korea's mitigation of its provocative behavior and continuous participation

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in talks between the two Koreas. Second, used as an economic incentive, large-scale economic assistance would be provided by South Korea if the North were to abandon its nuclear programs. In addition, the concept of direct aid to North Korean authorities would prove to be an effective method to expand South Korea's indirect influence into North Korea's society, such that by increasing contacts between the two Koreas under appropriate toleration of those authorities will thereby facilitate reform and openness in the North.

Outside of political objectives, these two past administrations also regulated aid as a means to assuage humanitarian sufferings and spark economic growth in North Korea. Hence, if these were considered as major initiatives of aid provision to the North, then it is essential that this type of aid is parallel to international humanitarian and development assistance policies.

However, the contradiction between aid as a political instrument for managing inter-Korea relations and alleviating humanitarian suffering has been conspicuous with South Korea's rice deliveries to the North as humanitarian assistance. The Kim Young-sam Administration provided 150,000 tons of rice to the North as humanitarian aid in 1995. The Kim Dae-jung and Roh Moo-hyun Administrations delivered 400,000-500,000 tons of rice six times as loans (from the period of 2000-2007, except for 2001 and 2006).

With rice aid, the three administrations sought to achieve two conflicting objectives simultaneously. The official or more apparent goal was to provide humanitarian assistance to relieve the sufferings of North Koreans greatly affected by the food crisis, and at the same time, the implicit yet more important goal was to encourage North Korean regime's change in behavior, particularly to persuade cooperation to improve inter-Korean Governmental relations.

In order for aid to be administered as humanitarian assistance, it must fulfill two criteria. First, the target beneficiaries must be the people and regions in need, rather than aid provision made accessible only by the North Korean Government and its designated delivery locations. Second, a well-monitored and transparent channel for ensured delivery to target beneficiaries is needed.

Therefore, if these two conditions were not met, then aid may not be categorized as humanitarian aid. The South Korean Government's attempt at 'humanitarian aid' by food delivery to the North was deemed unsuccessful, as it sent directly to the North Korean authorities instead of target beneficiaries, and did not properly manage the final destination of food supplies.

The South Korean Government's two birds-one stone strategy created an imbalanced relationship between the two conflicting objectives in which more emphasis on one goal caused the other to be less viable, and vice versa. For instance, if the Korean Government's focus revolved around the alleviation of humanitarian sufferings of

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North Koreans then negotiation with North Korean authorities on identifying the target beneficiaries and monitoring the process of delivery must take place. As a result, this type of assistance would not benefit Northern authorities. In the case that the Korean Government delivered supplies to North Korean authorities directly, and refrained from securing monitoring, then the latter may distribute those supplies to loyal groups instead of those in need. Consequently, this would directly profit North Korean authorities.

As for the Kim Young-sam Administration, the process of rice aid distribution was not deliberated, but in the consideration that this was a one-time event, serious concerns were not raised in South Korea. However, food assistance during the Kim Dae-jung and Roh Moo-hyun Administrations was executed six times over a period of eight years, and placed the subject on the domestic political table. Yet neither of these two administrations sought to monitor the use of food aid in the North, and focused on defending their method of aid delivery and its contribution to preserving normalized inter-Korea relations.

In conclusion, political rather than humanitarian goals of the food aid were of greater priority for the Kim and Roh Administrations. In particular, the Roh Administration separated food aid from humanitarian purposes, and justified its management of inter-Korea relations. In short, the administration's approach was clearly for political and diplomatic objectives.

The food assistance agenda of South Korea's Government became the object of criticism in the international community. Some criticized the South Korean government for strengthening North Korean dictatorship through generous aid, while others scrutinized excessive food aid from the South as having an adverse influence weakening the negotiating powers of the World Food Program (WFP) on food distribution monitoring. In fact, a sharp contrast in the level of monitoring food distribution made by the Korean government and the WFP was revealed. In 2004 and 2005, the WFP provided 366,000 tons and 215,000 tons of rice, respectively, to North Korean citizens in dire need during which monitoring visits of food distribution on an average were conducted 440 times per month in 2004, and 388 times per month in 2005. Meanwhile, South Korea provided 400,000 and 500,000 tons of rice, respectively, but on-site visits to monitor the food distribution were made on only ten occasions in 2004, and twenty in 2005.

4. Conclusion

The two significant features of the South Korean Government's aid to North Korea are the multiplicity of objectives and stakeholders. The six main objectives of giving aid are the following: ① promotion of inter-Korean economic cooperation, ② restoration and unification of national community, ③ compensation for denuclearization, ④ easing

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of military tensions between the North and South, ⑤ maintenance and management of relations between the two authorities, and ⑥ alleviation of humanitarian suffering. Along with this, multiple stakeholders include South Korean liberals and conservatives, North Korean Government and people in need, and hardliners and moderates of the international community. Additionally, as extensive rice supply in the South Korean market became more serious, rice farmers have proven to be strong protagonists in favor of 'humanitarian' assistance to the North.

The Korean Government's aid to the North has often caused conflicts at home and abroad for two reasons. First, the objectives of aid to North Korea were diverse often colliding in aim. Second, conflict among different stakeholders regarding proclaimed purposes and delivery methods occurred on a regular basis.

The Kim Dae-jung and Roh Moo-hyun Administrations sought to maintain favorable relations with the North, and relied on direct assistance to Northern authorities by implementing 'humanitarian assistance' to the North as their prominent tool of influence. This type of aid delivery satisfied South Korean liberals, North Korean authorities, and in addition, the Chinese government with its similar methods of aid distribution to North Korea. On the contrary, South Korean conservatives, a part of the international community, and most likely, North Korean citizens in need did not approve of this particular aid delivery.

In contrast, the Lee Myung-bak Administration holds a different stance in regards to its policy initiatives agenda, announcing that South Korea's humanitarian assistance will be parallel to international norms of humanitarian aid giving. In a nutshell, humanitarian aid is no longer a means of managing inter-Korea relations, and the current administration expects to use aid as a compensation for North Korea's good behavior for taking measures towards denuclearization and openness. However, divided perspectives and conflicts regarding 'humanitarian aid' or any type of aid to North Korea are still present in these various stakeholders, in which Korean conservatives and international community approve of this proposal and others including policy makers in the government and politicians in the ruling party pursue steadfast utilization of this aid to normalize inter-Korea relations.

The notion of developmental aid was recognized in 2004-2005 by small number of South Korea's North Korean policy experts. The immediate impetus originated in the North demand for development assistance in 2005, and in the critical reflection within the South that emergency assistance prolonged for an extent of time will not provide any noticeable long-term results for the eradication of North Koreans' suffering.

In South Korea, discussions on developmental aid are still limited only to some pundits and NGOs. Though previous South Korea's aid initiatives included assistance for economic growth in

the North, the main objective was to persuade the latter to change behavior rather than to boost development. A prime example being the Lee Myung-bak Administration's 'Vision 3000' Initiatives proposal, it anticipates large-scale assistance for promoting economic growth and enhancing living standards of the people in the North, but the norms and principles of development cooperation, advocated by international aid community, are not clearly recognized and embedded in the initiatives agenda. This circumstance prevails in spite of the fact that, in contrast to past administrations' emphasis on the 'uniqueness of inter-Korea relations, the Lee Administration adamantly proclaims to adhere to international rules and principles in its policy and assistance to North Korea.

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