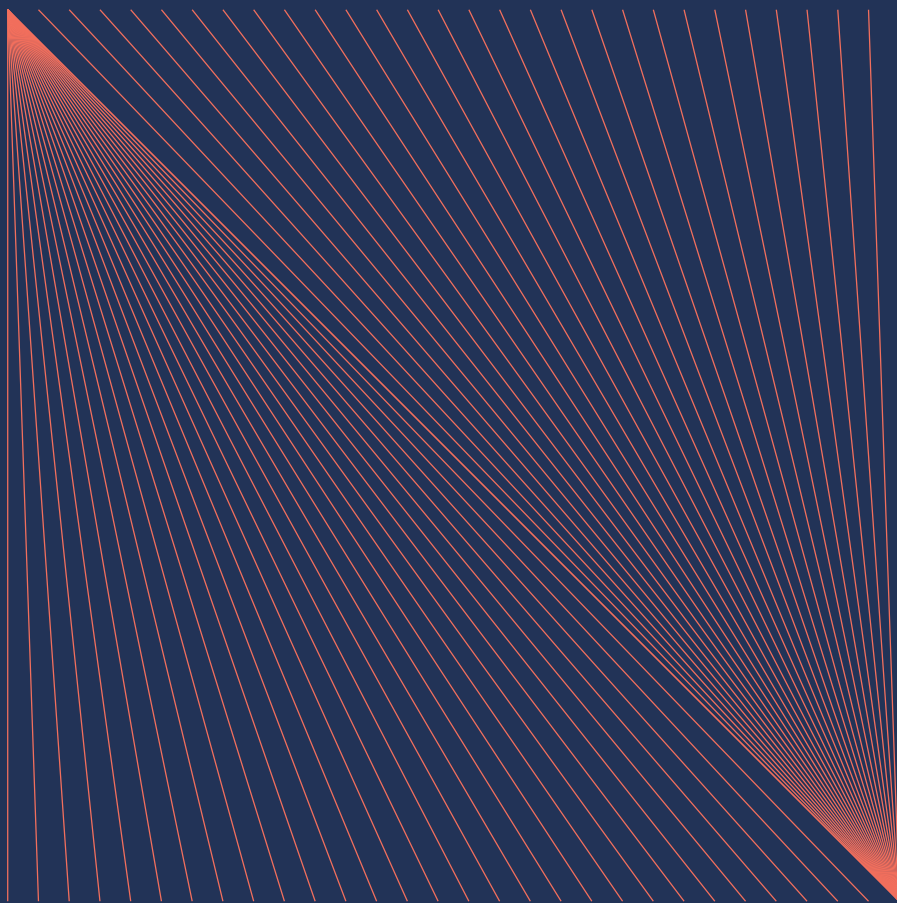


# International Cooperation for Peace and Prosperity on the Korean Peninsula

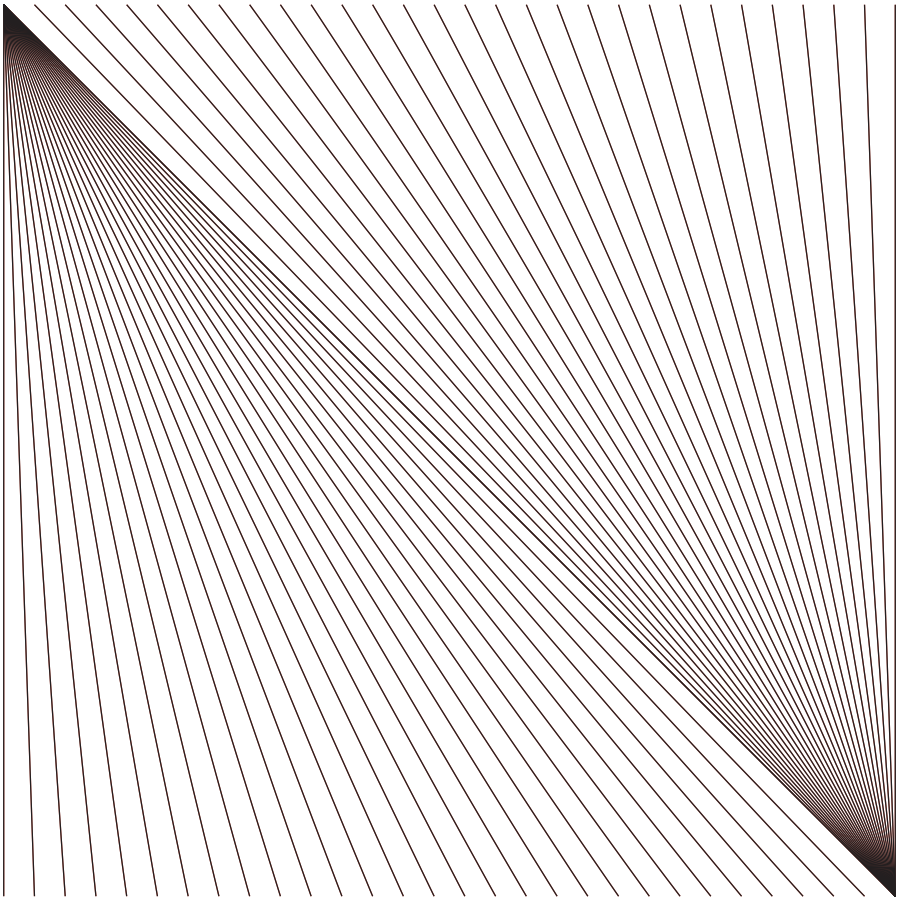
Suk-Jin Kim



# International Cooperation for Peace and Prosperity on the Korean Peninsula

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Suk-Jin Kim



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## **International Cooperation for Peace and Prosperity on the Korean Peninsula**

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Printed	August 2021
Published	August 2021
Published by	Korea Institute for National Unification (KINU)
Publisher	Yu-hwan Koh, President
Editor	Yeowon Lim, Research Associate
Registration number	No.2-2361 (April 23, 1997)
Address	217 Banpo-daero(Banpo-dong), Seocho-gu, Seoul 06578, Korea
Telephone	(82-2) 2023-8208
Fax	(82-2) 2023-8298
Homepage	<a href="http://www.kinu.or.kr">http://www.kinu.or.kr</a>
Design	Seilfocus (82-2) 2275-6894
Print	Seilfocus (82-2) 2275-6894
ISBN	979-11-6589-044-5 93340 : Not for sale

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Also available at the Government Printing Office Sales Center

Store (82-2) 734-6818; Office (82-2) 394-0337

# **International Cooperation for Peace and Prosperity on the Korean Peninsula**

This English translation is an abbreviated and edited version of the chapters written by Suk-Jin Kim from the research monograph *International Cooperation for Peace and Prosperity on the Korean Peninsula* by Suk-Jin Kim and Jea Hwan Hong (Seoul: Korea Institute for National Unification, December 2020). The analysis, comments, and opinions presented in this paper are those of the author and do not necessarily represent the views of the Korea Institute for National Unification.



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# 1

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## Introduction





The initiative of establishing a ‘peace economy’ on the Korean Peninsula makes up one of the main pillars of policy on the Korean Peninsula of the Moon Jae-in government.<sup>1)</sup> In his Address on Korea’s 74<sup>th</sup> Liberation Day in 2019, President Moon urged both South and North Korea to “establish a peace economy in which prosperity is achieved through peace.”<sup>2)</sup>

The speech read that “The peace economy begins with the efforts to continue dialogue and cooperation so that North Korea can choose economic prosperity over nuclear program upon the foundation of complete denuclearization of the Korean Peninsula.” However, the initiative is not a mere intention to provide economic aid in return for denuclearization. The address stated that “Our intention is not to unilaterally assist North Korea. Rather .... The plan is for the two Koreas to contribute to the development of the global economy. ... We will create new economic growth engines through the peace economy.” The initiative is grand in that President Moon pledged to “open the door to a new Korean Peninsula by pouring all we have into the peace economy.”

What is then required of realizing a peace economy? Inter-Korean economic cooperation policies of the previous governments of the Republic of Korea (ROK) can all be interpreted as policies for a peace economy. Some of them have been implemented but many of them have failed to do so. Many policy makers, researchers and enterprises have come up with business plans in various areas, most of which have yet been put into action.

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1) The Ministry of Unification, *White Paper on Korean Unification 2018* (Seoul: Ministry of Unification, 2018), pp. 19~33 (in Korean).

2) President Moon Jae-in, “Address by President Moon Jae-in on Korea’s 74<sup>th</sup> Liberation Day,” August 15, 2019, <<https://english1.president.go.kr/briefingspeeches/speeches/638>> (Accessed April 6, 2020).

The peace economy initiative has not been fully exercised not because of scarce ideas on economic cooperation, but because of the failure of nuclear negotiations due to disagreements over the terms of the deal. The failure of negotiations is often attributed to North Korea's lack of will for denuclearization. However, a lack of policy proposals from South Korea, the U.S., and the international community also stands as an obstacle since specific proposals for realizing a peace economy, enough for North Korea to have faith in, are not presented in great detail.

The policies for a peace economy on the Korean Peninsula should be based on the vision and experience of the international community to promote peace and prosperity in the world. In that way, the peace economy initiative will be more persuasive. It can also convince South Korean people and the international community that the initiative on the Korean Peninsula is rooted on universal norms and practices. It will send a message to North Korea that it is not just a transitory policy of a certain ROK government, but a long-term, sustainable, and reliable policy guaranteed by major stakeholders, such as the U.S., China, and the UN.

Moreover, the initiative should go beyond inter-Korean cooperation and requires cooperation with major parties of the international community, including governments and international organizations. North Korea's nuclear issues are not only inter-Korean issues but also grave international security issues that threaten the current world order. Thus, the complete denuclearization and lasting peace can neither be achieved nor be maintained through inter-Korean reconciliation and cooperation alone. It can only be realized when combined with sufficient cooperation with the international community. Learning the experiences of the international community

for peace-building and economic development is thus crucial to enhance the persuasiveness and effectiveness of the initiative.

This study aims to delineate joint tasks required to realize the peace economy on the Korean Peninsula involving South and North Korea and the international community. It emphasizes the significance of cooperation not just between South Korea and the international community but also between North Korea and the international community. Most of inter-Korean bilateral issues are out of this study's scope: bilateral issues—the alleviation of inter-Korean military tensions, arms control, the institutionalization of exchange and cooperation, investment in North Korea by South Korean private enterprises—are not addressed in this study.

The tasks of international cooperation for the peace economy presented in this study are two-fold. The first is to reach a peace agreement and trade and investment agreements. The peace agreement on the Korean Peninsula should include economic issues, the primary importance of which is to provide North Korea with economic incentives for denuclearization. In addition, it is necessary to help North Korea reach trade and investment agreements with other major countries so that it can normalize external economic relations.

The second is to promote international cooperation in development assistance to North Korea. The international community, including the UN and other international organizations, has an international cooperation architecture that enables support for economic development and peace-building in developing countries. This architecture could also play an important role in the development of North Korea.



# 2

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## **The Peace Agreement on the Korean Peninsula and North Korea's Opening-up**



The nuclear negotiations must be concluded first to develop a peace economy on the Korean Peninsula. The denuclearization-peace process will highly likely be a long-term complex process—multi-dimensional, multi-phased. Thus reaching an agreement will not be done at once but will take multiple steps. During the process, documents specifying the points of agreement may be released in various names, such as ‘declaration,’ ‘statement,’ and ‘agreement.’ Parties to the agreements may vary (South Korea–North Korea, U.S.–North Korea, South Korea–North Korea–U.S.–(China), six parties, and multiple parties) as well as the status of the signatory (the rank of the head of the state, prime minister, minister, and vice-minister). The legal nature and binding force of the documents may also be interpreted differently.

This paper examines how to address economic issues in these documents that affirm the points of agreement of nuclear negotiations. In other words, it outlines what economic proposals should be made in nuclear negotiations to establish a vision for peace and prosperity on the Korean Peninsula.

## **A. Economic Provisions in Past Agreements**

To get ideas about economic proposals, we need to review how economic issues have been addressed in various agreements with North Korea over the past three decades. The agreements of the past were a result of the grueling negotiation process that reflected the respective parties’ political and economic situations and their interests. Even though significant changes so far took place, such as North Korea’s nuclear sophistication and its economic recovery to some degree, it does not change the basic fact that North Korea is



an under-developed, internationally-isolated country. Therefore, it may be possible that the main contents of the previous agreements might once again be in the limelight of future negotiations.

Inter-Korean agreements of the past warrant special attention given that they contain plenty of economic contents. They are all based on the same basic principle of “expediting economic and personnel exchanges and cooperation...to promote integrated and balanced development of the national economy,” including the 1991 Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation between the South and the North (hereinafter referred to as “the Basic Agreement”) and its Affiliate Agreements; the South-North Joint Declaration on June 15, 2000 (at the first inter-Korean summit); Declaration on the Advancement of South-North Korean Relations, Peace and Prosperity on October 4, 2007 (at the second summit); Panmunjeom Declaration on Peace, Prosperity and Unification of the Korean Peninsula on April 27, 2018; and Pyongyang Joint Declaration on September 19, 2018.<sup>3)</sup>

While the Basic Agreement and the South-North Joint Declaration of June 15, 2000 only pledged to promote economic cooperation in abstract and principled terms, declarations made in 2007 and 2018 explicitly included specific development projects. Projects affirmed in those agreements can be categorized into three: (a) connecting transportation networks between the two Koreas, such as Gyeong-ui Line, Donghae Line and modernizing North Korean lines, (b) developing special economic zones and industrial clusters, such as Gaesong Industrial Complex (GIC), Mt. Geumgang

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<sup>3)</sup> Inter-Korean agreements can be downloaded from the website of Office of Inter-Korean Dialogue. See Inter-Korean Dialogue Information/Inter-Korean Agreements of the website (in Korean), <[https://dialogue.unikorea.go.kr/ukd/c/cb/usrtalkmanage/List.do?tab=5&major\\_talk\\_yn=Y](https://dialogue.unikorea.go.kr/ukd/c/cb/usrtalkmanage/List.do?tab=5&major_talk_yn=Y)> (Accessed May 15, 2020).

Tourist Region, and Special Zone of Peace and Cooperation in the West Sea, and (c) facilitating other cooperative projects, such as in the agriculture, healthcare, and environmental protection. What is equally as important is that in the October 4 Declaration of 2007, it was agreed to operate a Joint Committee for Inter-Korean Economic Cooperation, headed by deputy prime minister-level officials to facilitate economic cooperation, which is a reaffirmation of the pledges made in the Basic Agreement.

When viewed from the perspective of pressing goals of North Korea's denuclearization, U.S.-North Korea and Six-Party Agreements, which directly dealt with nuclear issues, could provide more significant implications. In the first North Korean nuclear crisis of 1994, North Korea and the U.S. reached an important agreement to settle nuclear issues in Geneva, which is called the "Agreed Framework."<sup>4)</sup>

North Korea promised to first freeze and later dismantle Yongbyon nuclear complex (Graphite Moderated Reactor) while the U.S. promised to organize an international consortium to provide the North with 2000 megawatt light-water reactor nuclear power plants by 2003 and to work toward normalizing bilateral relations. In other words, the gist of the Agreed Framework between the U.S. and the DPRK was to work toward the normalization of the U.S.-DPRK relations while addressing North Korea's power shortages.

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<sup>4)</sup> "Agreed Framework between the United States of America and the Democratic People's Republic of Korea" (October 21, 1994). Downloaded from the section of foreign policy/North Korean nuclear issues at the Ministry of Foreign Affairs, <[http://www.mofa.go.kr/www/brd/m\\_3973/list.do](http://www.mofa.go.kr/www/brd/m_3973/list.do)> (Accessed May 27, 2020).

However, the Agreed Framework became invalid in 2002 when the U.S. raised suspicion about the uranium enrichment facility of North Korea. The second nuclear crisis originating from this incident was addressed not within the boundary of the U.S.-North Korea negotiations but within the six-party format (involving South and North Korea, the U.S., China, Japan, and Russia). The crisis came to an end as a result of the ‘Joint Statement of the Fourth Round of the Six-Party Talks’ (hereinafter referred to as “Six-Party Agreement”) held in Beijing on September 19, 2005, and the Initial Actions for the Implementation of the Joint Statement of February 2007—measures for the initial stage for the implementation.<sup>5)</sup> While the economic provisions stipulated at the 2005 Six-Party Agreement were the extension of the 1994 Agreed Framework, they were not specific enough.

The Six-Party Agreement was more extensive than the Agreed Framework in that the six parties pledged “to promote economic cooperation in the fields of energy, trade, and investment, bilaterally and/or multilaterally,” and the five parties “stated their willingness to provide energy assistance to” North Korea.<sup>6)</sup> However, what was lacking in the agreement was an explicit promise of detailed projects except for that (as stipulated in “Initial Actions” of February 2007) of assistance up to the equivalent of 1 million tons of heavy fuel oil provided to North Korea as a step for the initial stage. Detailed implementation plans were not agreed

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<sup>5)</sup> “Joint Statement of the Fourth Round of the Six-Party Talks” (September 19, 2005); “Initial Actions for the Implementation of the Joint Statement” (February 13, 2007). Downloaded from the section of foreign policy/North Korean nuclear issues at the Ministry of Foreign Affairs, <[http://www.mofa.go.kr/www/brd/m\\_3973/list.do](http://www.mofa.go.kr/www/brd/m_3973/list.do)> (Accessed May 27, 2020).

<sup>6)</sup> Article 2 of “Joint Statement of the Fourth Round of the Six-Party Talks.”

upon even though discussions were made mostly on how to address power shortage issues as follows: North Korea argued for its right to use nuclear energy for peaceful purposes; South Korea reaffirmed its promise to provide electricity to North Korea; and it was agreed to discuss providing light-water reactors to North Korea later.

When compared to other peace agreements worldwide, past inter-Korean, U.S.-North Korea, and Six-Party Agreement shared explicit promises of much larger economic assistance. Another similarity is the emphasis on the need for expanding and normalizing North Korea's external economic relations including inter-Korean economic cooperation. What is lacking, however, is the prospects of North Korea's own reform of policies and institutions to advance external economic relations. If North Korea's proactive efforts are lacking, it would not be easy for North Korea to reap economic benefits simply by entering the international economic arena even if the international community, including major advanced countries, allows building economic relations with North Korea.

In addition, existing agreements lack an overall strategy and sectoral tasks necessary for North Korea's economic development. Cases of international peace agreements suggest that the international community would provide adequate assistance under the condition that the recipients, the fragile and conflict-affected countries should take the lead in reform and development. However, agreements with North Korea were more of a trade-off that focused on providing economic aid in return for North Korea's abandonment of nuclear weapons program.

Past agreements with North Korea have thus become invalid without continuous implementation. Even if the projects pledged were implemented, those must have been far short of realizing a grand vision for peace and prosperity on the Korean Peninsula. Those agreements did not include measures for creating an institutional mechanism for the full-blown development of inter-Korean economic cooperation. This requires normalization of not only inter-Korean relations but also of North Korea's external relations, which means North Korea's full opening-up to the international economy. The development of export industries will be the most promising route for North Korea's economic development. This, too, requires full-scale reform of North Korea's foreign trade regime and policies.

Past agreements probably may not have been satisfactory for North Korea either, which, at an inferior position in terms of overall national and military power, has sought out nuclear development as one of its key policies to maintain the regime. Therefore, North Korean leaders must have been thinking that they need much larger rewards in return for abandoning their nuclear program. Rewards should include both security assurances and economic benefits.

Economic aid suggested by past agreements would have been of help to some extent but have not been enough for North Korea to become an economic powerhouse. In addition, those suggestions must have taken years before reaping the benefits. If North Korea, the recipient, would not follow universal rules of the international economy, its development would not likely be successful regardless of how much aid South Korea and the international community are

willing to provide. In other words, if North Korea would embrace international norms and be cooperative with South Korea and the international community, the economic rewards that it would earn will be much bigger. However, it is not easy to persuade North Korea who has long been isolated and has thus far not been accustomed to international rules, norms, values, and practices.

## **B. A Vision for Co-prosperity on the Korean Peninsula**

It is necessary to find lessons from past failures and to present a more advanced initiative for peace and prosperity in the future negotiations. In short, economic provisions much advanced and forward-looking should be included in the negotiation proposals and draft agreements, and compelling arguments should be crafted so that North Korea would accept such proposals. In particular, a comprehensive initiative is required that integrates peace-building and economic development agenda. Although the economic development herein refers primarily to that of North Korea, the vision of economic development in the Korean Peninsula, and Northeast Asia as a whole could also be included as there will be new growth opportunities for South Korea and Northeast Asia with the expansion of North Korea's external economic relations.

In that case, the first principle that should be stipulated in the agreements is respect for North Korea's economic sovereignty. South Korea and the international community could provide massive economic aid once the denuclearization process of North Korea progresses. However, the intervention of external actors should proceed with the recognition that the ownership of development policy lies in North Korea. The North Korean government should

take the initiative in making important decisions, such as establishing a development strategy and reforming its own economic institutions. South Korea and the international community, even with good ideas, massive capital, and advanced technology, cannot dictate the direction of the development of North Korea. Whoever carries out the projects in North Korea in whichever way, North Korean authorities' approval, management, and coordination must take precedence. Therefore, the recognition that North Korea should be the leader of its development has to be the first overarching principle above all else.

At the same time, it is desirable to stipulate the principled promise in the agreements that North Korea shall abide by international rules in external economic relations. Ever since its foundation, North Korea has always sought a self-reliant development path which is based on energy and food self-sufficiency and localization of raw materials and equipment. However, such a passive self-reliance is not likely to put North Korea in a status of 'economic powerhouse.' A genuine self-reliant economy is an active economy capable of competing within the international economy and earns enough foreign currency by exporting goods while importing goods needed in the domestic market. Such a genuine self-reliance is recognized as the universal model in the world. If North Korea refuses to embrace such a model, the economic benefits it can gain will be limited.

In external economic relations, a country has no choice but to trade not on its own terms but in coordination with counterparts and in consideration of their terms. Since universal rules on international trade have been established, North Korea must also comply with such rules to advance external relations. This is very

crucial not just in commercial relations such as trade and investment, but also in non-commercial relations including acceptance of development aid.

On the other hand, inter-Korean economic cooperation will play a crucial role in the economic development of North Korea, the Korean Peninsula, and more broadly, Northeast Asia. As the 1991 Inter-Korean Basic Agreement states, inter-Korean relations, “not being a relationship between states, constitute a special interim relationship stemming from the process towards unification,”<sup>7)</sup> which underpins the spirit of the Constitution of the Republic of Korea, which seeks a peaceful unification. Therefore, efforts are required to create an inter-Korean economic community in line with the spirit of national independence. At the same time, it is desirable to establish the principle that the inter-Korean economic community is not a closed economy of the two Koreas but an open economy interacting with the world.

A vision for the development of economic relations between other stakeholders and North Korea should also be described in the agreements. Normalizing relations with the U.S., among others, is of primary importance, yet specifying a vision for normalizing relations as extensively as possible will be needed, since relations with major advanced countries such as the EU and Japan along with other developing countries are as equally important. Therefore, one desirable option would be that the representatives of major countries would participate as the parties or observers to the peace negotiations and co-sign the agreements.

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<sup>7)</sup> “Agreement on Reconciliation, Non-aggression, and Exchanges and Cooperation between the South and the North,” December 1991, <[https://dialogue.unikorea.go.kr/ukd/c/cb/usrtalkmanage/List.do?tab=5&major\\_talk\\_yn=Y](https://dialogue.unikorea.go.kr/ukd/c/cb/usrtalkmanage/List.do?tab=5&major_talk_yn=Y)> (Accessed May 15, 2020).



In conclusion, economic provisions of the peace agreement on the Korean Peninsula could contain (a) the recognition of North Korea's economic sovereignty and the support for its autonomous economic development, (b) a large scale assistance pledge from South Korea and the international community for North Korea's economic development, (c) inter-Korean cooperation plans for establishing a national economic community, (d) a schedule of normalizing North Korea's external economic relations, and (e) North Korea's commitment to follow international rules in external economic relations.

### **C. Economic Incentives for North Korea's Denuclearization**

What kind of proposals would persuade North Korea into abandoning its nuclear arsenal? In other words, what kind of rewards would be enough for North Korea to give up its nuclear weapons? Those rewards can largely be classified into two categories: security assurances and economic incentives.

Although opinions might vary as to which one—security or economy—should be prioritized, the overall consensus can be reached on the need for a comprehensive proposal that will encompass both, not just one or the other.<sup>8)</sup> This paper, which addresses the vision of peace economy, will only touch upon economic incentives, excluding security matters.

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<sup>8)</sup> Bong-geun Jeon, *Politics of Denuclearization* (Seoul: Myung In Publishers, 2020), pp. 403-435 (in Korean); Sung Ryeol Cho, *Denuclearization of the Korean Peninsula: Comprehensive Security-Security Exchange* (Seoul: Baeksan Seodang, 2019), pp. 64-71 (in Korean); Duyeon Kim, "Negotiating Toward a Denuclearization-Peace Roadmap on the Korean Peninsula," Center for a New American Security, June 2019, pp. 1-21.

### 1) *A Comprehensive Approach Suggested in 1999~2000*

Although economic incentives have always been emphasized in past agreements, they were not enough to induce North Korea into giving up on nuclear weapons. A ‘comprehensive approach’ which was submitted in the 1999 North Korea policy review led by former Secretary of Defense William J. Perry, is a typical case where more advanced economic incentives were discussed.<sup>9)</sup> The comprehensive approach derived from a close coordination of opinions among the ROK-U.S.-Japan and received a favorable response from North Korea, leading to a significant advancement of the U.S.-DRPK negotiations in 2000. Although the inauguration of the Bush administration in the U.S. had rendered this initiative invalid, it encompassed the most extensive and proactive economic incentives ever presented in the 30-year-history of nuclear negotiations with North Korea.

It has been known that the economic contents of the comprehensive approach include an additional massive economic assistance and the support for North Korea’s entry into the international economy (especially the joining of the international

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<sup>9)</sup> William J. Perry, “Review of United States Policy toward North Korea: Findings and Recommendations,” Office of the North Korea Policy Coordinator Report (United States Department of State, October 12, 1999), pp. 1~13. For the U.S. review of North Korea policy led by William J. Perry and a discussion process of the ROK, the U.S., and Japan, see Dong-won Lim, *Peace-maker: 25 Years of Inter-Korean Relations and North Korean Nuclear Issues* (revised edition) (Pajoo: Changbi Publisher, 2015), pp. 300~337 (in Korean); William J. Perry, translated by So-young Chung, *My Journey at the Nuclear Brink* (Pajoo: Changbi Publisher, 2016), pp. 294~312 (in Korean). The peace process on the Korean Peninsula, suggested by William J. Perry, was often called the ‘Perry Process.’ In this paper, this process was named a ‘comprehensive approach’ following Dong-won Lim who coined the term.

financial institutions) aside from what was already promised in the Agreed Framework of 1994.<sup>10)</sup> A comprehensive approach received mounting attention as the first inter-Korean summit took place in 2000. It was projected that once the agreement was reached, the scope of economic assistance for North Korea would amount to a total of over \$20 billion (\$2 billion per year) for more than 10 years (in addition to the provision of light water reactors, as promised in the Agreed Framework).<sup>11)</sup> As the Agreed Framework was violated at the end of 2002 and the second nuclear crisis of North Korea sparked in 2003, similar proposals began to come to the surface once again.<sup>12)</sup>

## 2) *Suggesting More Extensive Economic Incentives*

Although the economic incentives suggested in previous proposals may have basic relevance, it is necessary to prepare much more advanced and enlarged proposals that reflect the

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<sup>10)</sup> Economic aspects of the comprehensive approach were not organized into a detailed document. It was unofficially discussed in a meeting among leaders of the ROK, the U.S., and Japan and via negotiations with North Korea, and through the domestic and international media.

<sup>11)</sup> Suk-Jin Kim, "Five Conditions of 'North Korean Boom' after the Summit," *LG Weekly Economy* (LG Economic Research Institute), April 19, 2000, pp. 16~21 (in Korean); Marcus Noland, "The Summit and the Economic Future of the Peninsula," *Speeches and Papers* (Washington, D.C.: Peterson Institute for International Economics), May 1, 2000, <<https://www.piie.com/commentary/speeches-papers/summit-and-economic-future-peninsula>> (Accessed June 1, 2020).

<sup>12)</sup> For example, research fellows at the Brookings Institution suggested ways for the ROK, the U.S., and Japan to provide development assistance equivalent to \$2 billion yearly for 10 years to North Korea aside from the existing food assistance in a proposal called 'Grand Bargain' in 2003. Michael O'Hanlon and Mike Mochizuki, *Crisis on the Korean Peninsula: How to Deal with a Nuclear North Korea* (New York: McGraw-Hill, 2003), pp. 83~112.

changed situation and make up for the shortcomings from the previous proposals. The direction for revision can be as follows.<sup>13)</sup>

First, it is necessary to lay out the conditions and timetable for lifting sanctions imposed on North Korea in detail. Although the U.S. sanctions against North Korea were a major issue 20 years ago, now the lifting of sanctions of the United Nations Security Council (UNSC) should be discussed first. The lifting of sanctions against North Korea of major developed countries, such as the U.S., EU, and Japan should also be included in the proposals.

Second, it is necessary to discuss detailed policy options and the timetable for helping North Korea to normalize and develop trade and investment relations with major countries. Once economic sanctions are lifted and diplomatic relations are normalized with major developed countries, trade and investment will follow. But trading with and investing in North Korea on a sound footing requires the conclusion of bilateral and multilateral trade and investment agreements. It is also essential to help North Korea join the WTO so that it can secure entry into the international trade order.

Third, the scale and scope of economic assistance to North Korea should be expanded. North Korea's nuclear capability has become much more sophisticated, its economy much larger, and its development goals much more ambitious than 20 years ago.

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<sup>13)</sup> Recently, economic incentives were also suggested in the following literature. Jung bae Seo, "Here are Some Economic Incentives that Could Help Move North Korea's Kim toward Denuclearization," *New Atlanticist Blog* (Atlantic Council), February 26, 2019, <<https://www.atlanticcouncil.org/blogs/new-atlanticist/trump-kim-north-korea-vietnam-economic-nuclear>> (Accessed June 1, 2020); Bradley O. Babson, "A More Realistic Approach to the Economic Side of Nuclear Negotiations with North Korea," 38 North (Henry L. Stimson Center), September 18, 2019, <<https://www.38north.org/2019/09/bbabson091819>> (Accessed June 1, 2020).

Therefore, inducing North Korea to give up on nuclear arsenal must accompany the pledges of assistance far greater than that was promised in the past.

Fourth, economic assistance should be presented in much more detail and the specifics should be agreed upon and fixed especially for core projects. As noted earlier, the 1994 Agreed Framework stipulated in detail the scale of power capacity (2000-megawatt), type of the plants (light-water reactor nuclear power plants), the agent for its building (an international consortium), and the timetable (by 2003). As such, upcoming negotiations should affirm the details for core projects in advance to secure North Korea's confidence. It should also be specified that various projects covering diverse areas will additionally be promoted, including transportation (roads, railways, ports, and airports), agriculture, health, and environment protection.

Fifth, it is necessary to discuss in advance the issue of building an international organization or a coordination architecture for assistance to North Korea. The Agreed Framework of 1994 pledged an 'international consortium' to implement the light-water project to be provided to North Korea. The Korean Peninsula Energy Development Organization (KEDO) was established and operated in accordance with that provision.<sup>14)</sup> It is worth reviewing how to establish an architecture for international coordination that will comprehensively undertake development assistance for North

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<sup>14)</sup> Jong-yeol Moon, *Termination of the Light Water Reactor Project and Its Implications* (Seoul: National Assembly Budget Office, 2007), pp. 11~16 (in Korean). Member nations of the executive committee of KEDO include the U.S. South Korea, Japan, and the EU. Other member nations include Australia, Canada, Indonesia, Chile, Argentina, Poland, the Czech, and Uzbekistan. Finland used to be a member during 1995~2001. KEDO, *2005 Annual Report* (New York: KEDO, 2005), p. 9.

Korea, not just in the energy sector.<sup>15)</sup> Multiple actors, such as major donor governments including South Korea, U.S., EU, Japan, China, Russia, and UN-affiliated organizations can participate in those organizations.

## **D. North Korea's Opening to the World: Challenges and Prospects**

### ***1) The Need for a More Proactive Opening-up Policy***

Once nuclear negotiations are concluded and the peace process is launched, can the peace economy of the Korean Peninsula be on a smooth sailing? It may hinge on how actively North Korea would reform its own institutions and how rationally it would enforce its economic policies. Although policy reforms are needed in both domestic and foreign economic relations, it is especially important to fine-tune foreign economic policy in line with international norms since economic benefits accompanied by the denuclearization-peace process could be earned mostly from external economic relations.

Since Kim Jong-un took power, North Korea has carried out fairly reform-oriented and forward-looking economic policies. There has also been two notable progress in the foreign economic policy. First, North Korea has implemented a trade decentralization that permits the trade for more enterprises, organizations, and groups and that significantly expands their managerial

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<sup>15)</sup> Hyungsoo Jang, Suk-Jin Kim, and Eul-Chul Lim, *Establishing the International Cooperation Architecture and the Assistance Strategy for North Korea's Economic Development* (Seoul: Korea Institute for National Unification, 2012), pp. 15~46 (in Korean).

autonomy.<sup>16)</sup> Second, about 20 economic development zones have been designated nationwide with the enactment of 'The Law on Economic Development Zones (LEDZ).'<sup>17)</sup>

However, compared to precedents of China and Vietnam, North Korea's opening-up policy is much more passive and limited. Although North Korea has granted an increasing number of enterprises the rights to trade, the authorities are still in control of the foreign trade and collect foreign currency earnings from enterprises. In other words, the current state can be viewed as decentralization, not liberalization. China and Vietnam during the reform period took further steps beyond decentralization and permitted trade basically to all private businesses. Moreover, North Korea merely designated the development zones and did not actively develop them on their own. It sought to delegate the development and operation to outside private actors. North Korea's foreign policies continue to deviate from international rules in many aspects, including trade rules, foreign exchange management, regional openness, supply of labor force (for South Korean and foreign-invested businesses), and the acceptance of development assistance.

On the contrary, China and Vietnam were able to enjoy enormous benefits by opening their markets because they reformed institutions and policies in a direction aligned to international norms. Around 200 countries are internationally competing with

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<sup>16)</sup> Moon-soo Yang, "A Reform and the Current Status of the Foreign Trade System," in *Research on the Reform of North Korean Economy under the Kim Jong Un Era: 'North Korea's Our Own Style Economic Management System,'* ed. Suk-ki Lee (Sejong: Korea Institute for Industrial Economics & Trade, 2018), pp. 174~215 (in Korean).

<sup>17)</sup> Jea Hwan Hong, *North Korean Economy in the Kim Jong Un Regime* (Seoul: Korea Institute for National Unification, 2017), pp. 111~119 (in Korean).

each other in today's world economy. Amid this competition, sound business environment measuring up to other countries is crucial to survive and develop further. Only then is the country able to develop trade and investment relations with foreign enterprises.

How actively the foreign businesses, including South Korean enterprises, would engage in trade and investment vis-a-vis North Korea will significantly depend on how actively North Korea would reform its foreign economic policy, and establish sound business environment.<sup>18)</sup> In conclusion, the success of a peace economy on the Korean Peninsula is not guaranteed by the conclusion of a nuclear deal, but depends on how well North Korea follows a path of opening-up that the international community recommends.

## ***2) The Support for Normalization of North Korea's External Relations***

North Korea's foreign economic policies should also be reformed. Opening up to the world is possible not only by political determination but also through economic reforms, which requires a highly advanced knowledge and expertise. Opening-up, therefore, takes time, but the time required can significantly be shortened with support by outside actors equipped with knowledge and capabilities.

The core task for the normalization of foreign economic relations is to begin the process of joining the WTO.<sup>19)</sup> It is important

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<sup>18)</sup> Suk-Jin Kim and Jea Hwan Hong, *Development Potential for Inter-Korean Economic Cooperation and Policy Tasks* (Seoul: Korea Institute for National Unification, 2019), pp. 23~55 (in Korean).

<sup>19)</sup> For previous studies that illustrate the need for North Korea's accession into the WTO and make a projection on that effect, see Jangho Choi and Youjeong Choi, *Transition Economies' Experience of WTO Accession and Its Implications for North Korea*, pp. 66~81 (in Korean); Hong Sik Lee and Seong Taek Cho, "North Korea's Economic Development and the Effects of WTO Accession,"



because North Korea's WTO accession will create the same effect as signing trade and investment agreements with most countries, since basic norms on trade and investment are governed by the WTO. To join the WTO, North Korea should engage in bilateral and multilateral negotiations with major countries, such as the U.S. and Europe, which would allow it to learn international rules and reform its foreign trade regime corresponding to those rules. It is desirable for South Korea and the international community to politically and technically support North Korea's negotiations with major countries for the WTO accession so that it can normalize external economic relations as soon as possible.

The most important organization that could provide support for the WTO accession is the WTO itself. The WTO provides information on accession in detail. Once the accession procedure is launched, North Korea can learn how to reform foreign trade regime and how negotiations are conducted with major countries from a working party which is organized by the WTO and the applicant country. WTO's 'Trade for Peace through WTO Accession' initiative can also be utilized, which was launched in 2017 to help fragile and conflict-affected countries join the WTO. It would provide North Korea with opportunities to learn the knowledge needed for the WTO accession beforehand. It would be desirable to provide North Korean officials in charge of foreign trade with the opportunity to receive education from trade experts of international organizations. It is also important for North Korea to comprehensively learn China and Vietnam's experience of economic

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Sung-jin Kang and Tae-yong Chung, *The Paths Not Taken, and the Paths that Need to be Taken: North Korean Economy in the Kim Jong Un Era* (Seoul: Haenam, 2019), pp. 127~151 (in Korean).

opening-up. China and Vietnam have long been North Korea's close ally and urged the North to adopt an opening-up policy, so they are likely to share their knowledge once North Korea asks for it.

In addition, it is also necessary to transfer knowledge on tariff system, foreign exchange market, international financial architecture, and special economic zones. The related technical infrastructure (equipment for customs clearance and inspection) should also be provided. Foreign economic policy has also been an important topic of knowledge-sharing. 'Soft power' accumulated from such projects of professional organizations and experts could be well-utilized to help North Korea normalize its external economic relations.



# 3

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## **International Development Assistance for Peace and Prosperity on the Korean Peninsula**



## **A. International Cooperation Architecture for the Development Assistance to North Korea**

A primary task for realizing a peace economy on the Korean Peninsula is the assistance of South Korea and the international community for North Korea's economic and social development. Commercial economic cooperation with North Korea can also proceed well when its business environment is improved by development aid projects.

International cooperation architecture is needed for an effective development assistance to North Korea. Countries and organizations are willing to assist North Korea's development if North Korea fulfills its commitment to denuclearize. The South Korean government will be the most important donor and other actors will follow suit: the governments of major countries, such as the U.S. and China; UN organizations already involved in North Korea assistance projects; international financial organizations including the World Bank, which is the central organization of international development assistance; and domestic and international NGOs. With the international architecture, in which organizations can closely cooperate, development assistance to North Korea will be more effective. The international cooperation can be organized, as suggested in <Table III-1>, in a 'two-track' format or can be expanded into a 'three-track' format while adding a separate system of implementing inter-Korean cooperation.

**Table III-1 International Cooperation Architecture for Development Assistance to North Korea and Inter-Korean Cooperation (tentative suggestions)**

Cooperative Organization	Participants	Nature of Organization	Projects in Charge
Korean Peninsula Economic Development Organization (tentatively named)	<ul style="list-style-type: none"> <li>- Signatory states to a peace agreement on the Korean Peninsula or denuclearization agreement (South Korea, North Korea, the U.S., China, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>- International organization with its own staff and budget</li> <li>- Composed of personnel dispatched from the governments of participating countries</li> </ul>	<ul style="list-style-type: none"> <li>- Projects promised in a peace agreement on the Korean Peninsula or denuclearization agreement</li> </ul>
DPRK Development Cooperation Forum (tentatively named)	<ul style="list-style-type: none"> <li>- The governments of South, North Korea, and other countries</li> <li>- UN-affiliated organizations</li> <li>- International financial organizations</li> <li>- Domestic and international private organizations</li> </ul>	<ul style="list-style-type: none"> <li>- Consultative body without its own staff and budget</li> <li>- Operating a permanent secretariat and sector working groups</li> </ul>	<ul style="list-style-type: none"> <li>- Research, knowledge-sharing, and establishing development assistance strategy for North Korea,</li> <li>- Projects in sectors directly related to people's lives (agriculture, health, education, and environment)</li> <li>- Economic infrastructure projects</li> </ul>
Inter-Korean Economic Cooperation Agency (tentatively named)	<ul style="list-style-type: none"> <li>- The governments of South and North Korea</li> </ul>	<ul style="list-style-type: none"> <li>- Inter-Korean permanent organization with its own staff and budget</li> <li>- Composed of personnel dispatched from South and North Korea</li> </ul>	<ul style="list-style-type: none"> <li>- Public investment in North Korea (developing economic infrastructure and special economic zones)</li> <li>- Aligning the institutions on commercial economic cooperation and administrative services</li> </ul>

Source: Author's own.

The first is an international organization to implement the core project(s) as one of the economic incentives for North Korea's denuclearization, a project pledged explicitly and specifically in the denuclearization agreement or peace agreement on the Korean Peninsula. This body can be tentatively called the 'Korean Peninsula Economic Development Organization.' There was a precedent of a similar organization, the Korean Peninsula Energy Development Organization (KEDO) established and operated in accordance with the 1994 Agreed Framework. This should be established as a kind of international organization with its own staff and budget similar to KEDO, as this organization will execute the pledged project(s).

The second is a general coordination format for development assistance. Close coordination among donors is all the more important in development assistance to fragile or difficult partnership countries, such as North Korea. In addition to projects pledged in the denuclearization agreement or peace agreement on the Korean Peninsula, massive aid should be provided for North Korea's economic and social development, which requires another international format for aid harmonization. Such an organization can be tentatively called the 'DPRK Development Cooperation Forum.' While the Korean Peninsula Economic Development Organization (the first cooperative body) is highly likely to involve only the governments, the Forum (the second body) will be made up of much diverse range of donors. Most of the organizations that participate in international development assistance can be involved here, including the UN agencies, international financial organizations, aid agencies of advanced countries and domestic and international NGOs.

The Forum can be defined, not as an independent international



organization, but as a consultative body that would enable the coordination among donors. There may be concerns that a non-permanent consultative body may not lead to effective cooperation. Therefore, it is necessary to find a way to embolden the status and role of the Forum as a semi-permanent body with a permanent secretariat and sector working groups. The World Bank typically plays the most crucial role in aid coordination. Therefore, North Korea should join international financial organizations including the World Bank as soon as possible, hence inducing active support from the World Bank. The main tasks of the Forum at an early stage would be to carry out research and knowledge-sharing, and establish a development assistance strategy, and the World Bank would be most active in providing such technical assistance.

Third, inter-Korean cooperation can play a special role in the development assistance to North Korea due to the uniqueness of inter-Korean relations. Inter-Korean summits of the past reached an agreement on the development of North Korea's infrastructure and special economic zones. In the past, such projects were implemented through non-regular inter-Korean consultative bodies, such as the 'Inter-Korean Economic Cooperation Promotion Committee.' If the denuclearization process begins, the range of projects will become much larger, so establishing an 'Inter-Korean Economic Cooperation Agency' (tent.) as a permanent body that involves both the South and the North governments can be one option. This agency will be a permanent organization with its own staff, dispatched from the governments of the two Koreas, and budget, and can be in charge of developing infrastructure and special economic zones, reforming institutions, and providing administration services for inter-Korean economic cooperation. While North Korea's

infrastructure and special economic zones can also be developed by aid from international donors, projects that do not require international cooperation, such as the connection of inter-Korean roads and railways and special economic zones tailored for South Korean enterprises, can be assigned to this agency.

Meanwhile, when organizing and operating international and inter-Korean cooperation mechanism, it is essential to induce North Korea to take the initiative as an active player, rather than being a passive recipient. North Korea should not only officially participate in these cooperative organizations by dispatching the staff, but there should also be a close partnership between these organizations and the North Korean cabinet, its ministries, and regional governments.

## **B. Research, Knowledge-sharing, and Establishing Strategies**

### ***1) Research***

To support development in North Korea, we should first research on the situation of its economy and society. Development needs in North Korea can be identified by accurately assessing the current status, and one can establish a development assistance strategy and design specific projects based on such needs. Such research also aims to strengthen North Korea's government capacity, in other words, capacity for public administration and services. Only when North Korea has an adequate understanding of the situation, can they establish a valid development strategy, request assistance projects, and improve its administration and services.

Research can be categorized into fact-finding surveys and in-depth studies. First, surveys in diverse fields should be conducted in North Korea, in accordance with the general methodology of international organizations because many international donors will participate in assisting North Korea's development, and they need information based on the standard concepts. UN organizations have conducted several surveys in the demographic and health sectors in North Korea, and the range and contents for surveys should be enlarged.<sup>20)</sup>

Especially fact-finding surveys in the economic sector are needed. The most basic survey is the "Living Standards Measurement Study (LSMS)" led by the World Bank, a comprehensive survey in the consumption and economic activities at the household level.<sup>21)</sup> This study often includes "Integrated Surveys on Agriculture (ISA)" since agriculture accounts for a large portion of the economy and farming is the most common means of livelihood among ordinary people in developing countries.

Other economic surveys led by the World Bank include "Enterprise Surveys"<sup>22)</sup> and "Doing Business Project."<sup>23)</sup> Those surveys collect varied aspects of business activities and detailed information on business environment not only in the mining, manufacturing and construction, but also in the service sector.

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<sup>20)</sup> See Jea Hwan Hong, Suk-Jin Kim, and Eun Mee Jeong, *North Korean People's Lives and Cooperation Plan* (Seoul: Korea Institute for National Unification, 2018), pp. 21~51 (in Korean).

<sup>21)</sup> See LSMS website of the World Bank, <<https://www.worldbank.org/en/programs/lms>> (Accessed September 14, 2020).

<sup>22)</sup> See enterprise survey website of the World Bank, <<https://www.enterprisesurveys.org>> (Accessed September 14, 2020).

<sup>23)</sup> See the business environment website of the World Bank, <<https://www.doingbusiness.org>> (Accessed September 14, 2020).

Since those surveys include information on infrastructure, finance, and regulatory institutions that are essential for business, they will enable a comprehensive understanding of the actual economic situation.

Meanwhile, North Korea should improve its official statistical system and adopt the international statistical standard to cooperate with the international community. All the organizations wishing to cooperate with North Korea, including the governments, international organizations, and businesses, would probably want to get reliable statistics of North Korea. Statistics based on concepts of international standard can become useful information for the international actors. International financial organizations, such as the IMF and the World Bank, have encouraged their member states to compile and report such standard statistics. They also provide member states who lack the capacity for producing statistics with training and technical assistance. North Korea could also produce reliable statistics with the assistance of international financial organizations.

Once fact-finding surveys and compilation of statistics are finished, in-depth studies on the economy and society can be feasible based on the collected information. Major international development organizations, including the World Bank, have actively conducted in-depth studies in the economic and social situations of developing countries. The South Korean government and research institutes could participate in such research and serve a crucial role in cooperation between North Korea and the international organizations.

## ***2) Knowledge-sharing***

Knowledge-sharing program could be another instrument to enhance the capacity of North Korean officials. North Korean leaders

and officials should learn the general lessons of the economic and social development in developing countries. The knowledge should include what kinds of institutions and policies developing countries that had succeeded in economic development have adopted, which industries they have developed, and with whom they have engaged within the process. What could be particularly useful for North Korea is the experiences of China and Vietnam, who share the similar socialist tradition and have made great success in economic and social development. Even when North Korea does not have the intention to fully adopt the Chinese and Vietnamese style of reform and opening-up, knowing their experiences and how they have dealt with the international community could become a useful reference.

The next task for North Korean officials is to learn practical knowledge on how to proceed with various development projects. For example, they should learn what kinds of procedures the international community usually apply in assisting the development of infrastructure in developing countries, and what kinds of tasks working-level officials in the recipient countries should handle. Knowledge about the operation of foreign trade regime, foreign currency management, international finance, and special economic zones, is also essential for them. Practical knowledge in the projects is also important for the fields directly related to people's lives. It includes technology and skills in areas of agriculture, forestry, fishing, environment, healthcare, and education.

Various organizations can participate in knowledge-sharing program for North Korea. It would be better for the international community, in particular international organizations, not the South Korean government, to take charge of knowledge-sharing, since

North Korean officials might find South Korean government program to be politically and ideologically burdensome. At an early stage, UN agencies, for instance, the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) could serve the main role. Once North Korea joins international financial organizations, the World Bank and Asian Development Bank (ADB) could also actively participate in such programs. Aside from international organizations, various organizations, such as universities, research institutes, hospitals, and public agencies of South Korea, China, and other developed countries, could participate. Education opportunities should be provided to many North Korean working-level officials in as many sectors as possible.

### ***3) Establishing Strategies***

In order to promote economic and social development of North Korea, it is significant to establish a development strategy that will serve as a relevant guideline. First, North Korea should establish its own development strategy, and South Korea and the international community should devise a development assistance strategy based on North Korea's strategy. It is a standard procedure of the international development assistance that recipient countries come up with their own development strategies first and then the donors establish an assistance strategy based on the former. There are a few points to consider in establishing these strategies as follows.

First, it is crucial to respect the initiative of North Korea. Unless North Korea exercises the initiative and proactive attitude, development projects would not be effective. Therefore, North Korea's ownership is a prerequisite from the early stage of devising

a strategy. However, it is also necessary to induce North Korea to establish a strategy in alignment with international norms through a policy consultation with the donors.

Second, a development assistance strategy of the donors should be crafted in the form of joint strategy at the level of international cooperative body, in particular, DPRK Development Cooperation Forum (tent.). And then, the secretariat and sector working groups of the Forum could come up with project-planning for each sector in consultation with responsible agencies in North Korea.

### **C. Major Projects and Main Tasks for Development Cooperation**

#### ***1) Major Development Projects***

Some important projects in the development assistance to North Korea should be pledged in detail in the denuclearization agreement or peace agreement on the Korean Peninsula. This pledge alone would not induce denuclearization, but could facilitate it along with security assurances.

The projects involve North Korea's corresponding measures towards denuclearization. Therefore, the projects should rightly be the ones that could contribute to the survival and stability of North Korean regime, in other words, ones that North Korea wants the most and will not likely give up. Projects that could contribute to building a self-reliant economy by addressing energy and food shortage are promising, when we consider North Korea's demands in past nuclear negotiations, its development strategy, and its current economic situation.

The most urgent task in energy sector is dramatically expanding power supply through the construction of large-scale power plants and modernizing transmission and distribution networks. The key question in building power plants lies in the types of fuel to choose for power generation. If North Korea relies on imported fuels, it will hinder energy security, so North Korea would want power plants that could tap into its own natural resources: nuclear, coal, hydropower or renewable energies. However, considering controversial issues such as nuclear materials, safety, environment, and cost, a prudent feasibility study should be carried out before choosing the types and size of the plants.

Major task to solve food shortage problem is to substantially increase the domestic production of main agricultural inputs, such as fertilizers and pesticides. North Korea could face food security issues if it resorts to imports or foreign aid, so it is crucial for North Korea to have its own production capacity sufficient to meet the demands. Fertilizers and pesticides are chemical products, so modernization of the chemical industry is needed to secure their sufficient supply. Although North Korea has never requested production facilities for chemicals, fertilizers, and pesticides in past negotiations, it would be worth considering for South Korea and the international community to provide industrial facilities and related technical support to induce North Korea's denuclearization.

## *2) Assistance for Improving People's Lives*

Development assistance in sectors directly related to people's lives such as agriculture, health, and environment has been receiving scant attention in policy discussions on the peace economy of the



Korean Peninsula. On the other hand, much more attention has been paid to corporate-led economic cooperation and the development of economic infrastructure owing to the expectation that the peace economy on the Korean Peninsula could become a new growth engine. However, improving people's lives should be a primary goal for social and economic development, and the economic growth should be driven in a way that contributes to poverty reduction. Improving people's lives is also crucial for political and social stability of North Korean society. Although there are concerns that the benefits from the assistance might disproportionately go to the upper class, not the disadvantaged, the continued implementation of massive assistance is highly likely to benefit the majority of North Korean people including the disadvantaged.

If North Korea agrees to fully embrace the development assistance from international donors, projects for improving people's lives will take up a larger portion for quite some time in the early- to mid-stage. The international norm is to allocate more money and personnel to projects involving people's lives rather than to economic infrastructure, especially for low income countries with bad policies and institutions like North Korea.

In the agricultural sector, it is essential to boost agricultural productivity via institutional and policy reforms, in addition to scaling up the supply of materials and technology. In the health sector, the focus should be on increasing the supply of medicine and medical equipment, reforming public health care institutions, and training medical professionals.

### *3) Development of Economic Infrastructure and Special Economic Zones*

The basic plan for development of economic infrastructure (transportation, communication, electricity, etc.) and special economic zones (including ‘economic development zones’) in North Korea has been presented as ‘the New Economic Map Initiative for the Korean Peninsula,’ which was set as one of the policy tasks of the Moon Jae-in government.<sup>24)</sup> This initiative includes a joint development of infrastructure and special economic zones in three belts: ‘West-sea belt of industry, logistics, and transportation,’ ‘East-sea belt of energy and resources,’ and ‘DMZ (Demilitarized Zone) belt of environment and tourism.’

This paper raises only three overarching points of that plan. First, North Korea should not only make its own development plan of infrastructure and special economic zones, but also be in charge of construction, maintenance, and operation of the facilities. South Korea and the international donors could play an auxiliary role that offers funds and technology to North Korean-led projects where necessary. It is very difficult for external actors to lead public projects since North Korea basically adopts a socialist economic system with strong state control in place.

Second, economic feasibility assessment is a must for public projects which need massive funds. The costs and benefits of the projects depend on how, where and to what extent they should be carried out. Based on such assessments, projects with higher cost effectiveness should be promoted first.

Third, cooperation and connectivity with major regional powers

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<sup>24)</sup> Ministry of Unification, “Policy Task 1: Realizing the “New Economic Map” initiative and economic unification of the Korean Peninsula,” <[https://www.unikorea.go.kr/eng\\_unikorea/policyIssues/policytask/tasks/task1/](https://www.unikorea.go.kr/eng_unikorea/policyIssues/policytask/tasks/task1/)> (Accessed January 26, 2021).

in Northeast Asia, such as China, Russia, and Japan, will be increasingly important over the long-term. If North Korea normalizes external economic relations, it could greatly benefit from cooperation with neighboring countries. To do this, regional transportation networks should be well-connected, and the location, scale, and operation model of the special economic zones should be determined in close consultation with them. A regional cooperation program is needed to promote co-prosperity for the whole Northeast Asian region via internationally coordinated development of North Korea's infrastructure.

Developing infrastructure and special economic zones is a much more difficult task than the assistance for improving people's lives since it is of no use without an adequate business environment which can only be built over the long-term. Therefore, such projects should be implemented gradually over a long period of time. Development projects can reap the benefits only when North Korea reforms its institutions, opens up its economy to the outside world, and creates an adequate business environment for outside private enterprises, in close consultation with South Korea and the international community.

# 4

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## Conclusion



Peace and prosperity on the Korean Peninsula requires compliance with international norms and cooperation with the international community. The international community has invested significant efforts to help fragile and conflict-affected countries build peace and develop their economy. North Korea is also poor and at the risk of conflict, which makes it an important target of international support.

The international support for peace and prosperity on the Korean Peninsula can focus on two areas. One is the normalization of external economic relations of North Korea and the other is the development assistance to the country.

First, to normalize external economic relations, it is necessary to sign a peace agreement, and then trade and investment agreements. Economic provisions of the peace agreement should be based on two principles. The first is to respect the economic sovereignty of North Korea. In other words, important decision-making such as establishing a development strategy, designing projects, and reforming institutions, should be made proactively by the North Korean government. The second is to have North Korea respect and comply with the international norms and practices at least when it comes to external economic relations. Furthermore, the economic incentives for denuclearization should be specified in the peace agreement or denuclearization agreement.

After concluding the peace agreement, the international community should support North Korea's entry into the global economy. It could be done by joining the WTO and through the conclusion of relevant trade and investment agreements with major countries. South Korea and the international community should provide political and technical support in the negotiation process

with major countries so that North Korea could normalize external economic relations as soon as possible.

Another policy tool is the assistance from South Korea and the international community for North Korea's economic and social development. Effective development assistance requires an international cooperation architecture. Since assistance to North Korea should be in parallel with the denuclearization process, it could proceed on two or three tracks when combined with the inter-Korean cooperation.

The first track is to establish an international organization (tentatively called 'Korean Peninsula Economic Development Organization'), which will undertake core projects pledged in a denuclearization or peace agreement. The second is to create a general cooperation architecture (tentatively named 'DPRK Development Cooperation Forum') similar to the ones commonly operated by the international community in many developing countries. International financial organizations, including the World Bank, generally play an essential role in international cooperation for development assistance. Therefore, it is necessary to provide political and technical assistance so that North Korea could join international financial organizations as early as possible. The third is establishing 'Inter-Korean Economic Cooperation Agency' (tentatively named), a permanent body involving inter-Korean authorities that will be in charge of inter-Korean economic cooperation and development assistance to North Korea.

Assistance to North Korea should be carried out for at least several decades. Therefore, it is significant to effectively implement initial-phased projects so that the denuclearization-peace process can steadily progress. Major tasks of the early assistance are

research, knowledge-sharing, and strategy-setting, all of which will require the respect for North Korea's initiatives so that it could enhance its own capabilities. Major projects of the mid-to-long-term development assistance can be classified into three categories: (a) core projects in return for denuclearization, (b) projects for improving people's lives, and (c) the development of economic infrastructure and special economic zones.

Whether the peace economy on the Korean Peninsula could successfully unfold depends on to what extent North Korea will be cooperative with the international community in normalizing external relations and accepting development assistance. The South Korean government and enterprises should exert proactive efforts to proceed with the inter-Korean economic cooperation for peace and prosperity on the Korean Peninsula and help North Korea successfully join the international economy.



# International Cooperation for Peace and Prosperity on the Korean Peninsula

