

# Korea's Economy 2008

Korea's Economic Achievements and Prospects

The Graying of Korea: Addressing the Challenges of Aging

Financial Asia Rising: Asian Stock Markets in the New Millennium

Korea's Money Market

Ingredients for a Well-functioning Capital Market

The Capital Market Consolidation Act and the Korean Financial Market

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Tax Issues Affecting Foreign Invested Companies and Foreign Investors

U.S.-Korea Economic Relations: View from Seoul

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Peering into the Future: Korea's Response to the New Trading Landscape

North Korea's External Resources and Constraints

The Roles of China and South Korea in North Korean Economic Change

Realistic Expectations of the Future Role of the IFIs on the Peninsula

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## REALISTIC EXPECTATIONS OF THE FUTURE ROLE OF THE INTERNATIONAL FINANCIAL INSTITUTIONS ON THE KOREAN PENINSULA

*By Bradley O. Babson*

Recent developments on the Korean peninsula are raising expectations that the DPRK may finally be ready for a new era of political rapprochement and economic opening. This possibility is reflected in tangible progress in completing phase two of the nuclear negotiations despite delays and in the prospects for a more ambitious economic agenda for phase three. It is also reflected in expectations for expanded inter-Korean economic cooperation that were set in motion by the October 2007 summit. The incoming administration in Seoul has signaled that it will seek revision, not repudiation, of the summit accords and will link inter-Korean economic cooperation more tightly to progress on the denuclearization agenda and mutual benefit for the two Koreas. With a new administration taking shape in South Korea and one more year left for the Bush administration, 2008 may be the watershed moment that will anchor this new phase and propel international economic engagement with the DPRK.

Against this backdrop, expectations are also growing that the time may have come for the international financial institutions (IFIs) to play a more active role in supporting economic restructuring and development of the DPRK and its integration in the global economy and international financial system. This paper explores considerations that may shape the future role for the IFIs on the Korean peninsula and what expectations are realistic.

The IFIs relevant to the DPRK comprise (1) the International Monetary Fund (IMF); (2) the several organs of the World Bank, including the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA); and (3) the several organs of the Asian Development Bank (ADB), including Ordinary Capital Resources

(OCR) and Asian Development Fund (ADF). Managing expectations about the future role for the IFIs through their various organs is critical so that disappointments are avoided and activities are prioritized and proceed in a way that builds a legacy of positive results both for the North Korean economy and for development of the DPRK's economic relations with the international community.

### **The Six-Party Talks—Role of the IFIs in the Political Process**

On the face of it, the IFIs do not have a role in the six-party talks or other political dialogue frameworks. The DPRK is not a member of any of the IFIs and has no present relations or activities with any of the IFIs even on an informal level. Nevertheless, the IFIs do have an interest in the outcome of the political talks with the DPRK, as this may impact the economies of other countries in the region. Also, expectations about the possible future role for the IFIs in the DPRK are a factor in the political process that is under way. What kind of factor depends on perceptions of whether gaining access to services provided by the IFIs is seen by the DPRK as an incentive for political cooperation and a “carrot” in the negotiations, or whether the involvement of the IFIs is perceived as potentially intrusive and a threat to the independence of the DPRK authorities.

Informal consultations in 1997 and 1998 revealed North Korean ambivalence about the prospects of developing relations with the IFIs. The North Koreans indicated an interest in access to technical assistance and finance, but they were wary of IFI requirements for transparent reporting of basic economic and financial statistics and imposition of conditionality in approving financial support. It is important that North Korean expectations of the benefits that would come from IFI membership also embrace the obligations

that come with membership.<sup>1</sup> Thus, this ambivalence is understandable, but it is also probably amplified by criticisms of the IFIs in some segments of international society, and especially perceptions in South Korea of a heavy-handed IMF role in the management of the 1997 financial crisis that certainly did not go unnoticed in the North. These apprehensions are also reinforced by the fact that both the IMF and World Bank are based in Washington, D.C., and that as the largest shareholder the United States has significant influence over the policies and management of these institutions despite their global multilateral character. In the North Korean perception, developing relations with the IMF and World Bank requires resolving the long-standing political and security conflicts with the United States.

North Korean perceptions of the attractiveness of the ADB seem to be more positive than of the Washington-based IFIs. In 1997, the DPRK sought to explore the possibility of membership in the ADB, and, although this overture was rejected at the time, the DPRK seems to have been seeking an ADB-first strategy of developing relations with the IFIs. The reasons for this perception are not clear but may include the belief that the ADB is more of an Asian organization and thus more willing to do things the “Asian way” or is more independent of U.S. influence than is the IMF or World Bank. Such perceptions are misguided if they are held, as the ADB is governed under very similar policies as apply to the IMF and World Bank, and voting power in the board is dominated by the same advanced economies that include Japan and Europe as well as the United States. Because Japan is the largest shareholder in the ADB, it also exerts significant influence over ADB policies and management, and this is a factor that needs to be taken into consideration in shaping expectations of the future ADB relationship with the DPRK. Until there are improvements in the bilateral relations between Japan and the DPRK, it is unlikely that there will be support for involvement of the ADB with the DPRK.

The DPRK’s perceptions notwithstanding, the expectations of other countries are also important considerations in assessing the political context for future IFI relations with the DPRK. These countries tend to view the potential involvement of the IFIs through the lenses of their own political interests and are thus not necessarily congruent.

At the center of the nuclear talks and negotiations taking place bilaterally between the DPRK and the United States is the removal of the DPRK from the list of state sponsors of terrorism. It is widely perceived that such an action would remove a legal impediment to the ability of the United States to support the DPRK’s gaining access to the resources of the IFIs and proceeding with a membership application. Although technically this is true, it is important also to recognize that removal from the list of state sponsors of terrorism would not guarantee U.S. support for IFI involvement with the DPRK. Other economic sanctions under the Trading with the Enemy Act would still remain in place, and these would not likely be removed until a peace accord to end formally the Korean War is negotiated and signed and normalization of relations has taken place.

Moreover, the eventual removal of the DPRK from application of U.S. laws that restrain the ability of the U.S. government to approve IFI resources to assist the DPRK does not automatically mean that the United States will do so if there are other political factors that inhibit willingness to endorse such support. Human rights, money laundering of illegal activities, and counterfeiting are likely to figure prominently in future policy debates in Washington about U.S. support for economic assistance to the DPRK.

While membership in the IMF is needed before membership in the World Bank and requires 85 percent of the voting power of member states for approval, and U.S. support for membership will be effectively a prerequisite for any successful membership process, this does not mean that the United States might not support

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1. For example, obligations of membership in the IMF involve (1) conforming to a code of conduct that includes a pledge to cooperate with all other member countries in resolving international monetary problems and to share information on financial, fiscal, economic, and exchange policies that have international ramifications; (2) paying a quota subscription; (3) refraining from restrictions on current payments and discriminatory currency practices; and (4) striving for openness in economic policies affecting other countries. In addition, it is required under Article IV that consultations on economic and financial performance take place on a regular basis.

premembership involvement of the IFIs if it believes such involvement would serve its political interests. There is ample precedent for the IFIs' provision of services to nonmember states under resolutions adopted by their boards declaring that it is in the interests of existing members that these organizations provide services to nonmembers for specific purposes. These are normally accompanied by the establishment of special trust funds that are administered under specific arrangements constructed for the agreed purposes. Thus, it is feasible to expect that certain IFI activities could be mandated by IFI boards of executive directors with U.S. support as part of a general road map for improving political and economic relations in a phased way. Economic and social assessments, education and training programs, technical assistance, and preinvestment studies are examples of the types of activities that could be approved for the World Bank or ADB prior to a membership process.<sup>2</sup> In the case of the IMF, technical assistance is normally provided to countries that are actively preparing for membership, but no financial assistance is provided until after membership.

Japan is the second-largest shareholder in both the IMF and World Bank as well as the largest shareholder in the ADB. Thus, Japan's policies regarding the possible involvement of the IFIs in the DPRK need to be taken into account. It is hard to imagine that either the management or the boards of executive directors of these organizations would feel comfortable with conflicting policies toward IFI involvement in the DPRK among the two largest shareholders. This reality thus imposes an obligation on these alliance partners to align their policies prior to the boards of executive directors being asked to take any formal decisions regarding IFI activities with the DPRK.

During 2007 the possibility of such a policy conflict grew increasingly apparent as the United States reached bilateral understandings with the DPRK about the process for removing economic sanctions on the

DPRK in relation to progress in denuclearization, while Japan clung to linkage of the terrorist-list issue and its bilateral dispute with the DPRK over the fate of abductees from the 1970s. Some formula for accommodation of the interests of both countries will be needed before board-level decisions relating to future IFI activities with the DPRK will be productive.

South Korea, China, and Russia also have their own interests in linking a future role for the IFIs to the six-party-talks process. For South Korea, IFI involvement is seen to be one way to ease the financial burden that so far has largely been borne by South Korea in extending economic assistance to the DPRK to help it overcome infrastructure bottlenecks to expanded trade and domestic production,<sup>3</sup> and to set in place multilateral economic dialogue frameworks that will recognize South Korean interests as well as North Korean interests as the international community shifts from a humanitarian assistance relationship with the DPRK to a development assistance one. China supports future IFI involvement also as a way to reduce the burden on its bilateral economic relationship with the DPRK, encourage more rapid transformation of the DPRK economic system, and reduce the negative effects on China of migration and poor business practices.

Russia has a large outstanding ruble debt issue with the DPRK, and the eventual role for the IFIs in facilitating restructuring the DPRK's outstanding international debt would help resolve this bilateral issue and also create an environment whereby Russian energy and transport sectors would benefit from IFI involvement in transborder and regional economic development activities. Because Russia is not a member of the ADB, it should be expected to be more interested in the future role for the IMF and World Bank in advancing its interests.

Europe, Australia, Canada, and the Association of Southeast Asian Nations (ASEAN) countries all have

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2. For a full discussion of these possibilities, see Bradley O. Babson, "Visualizing a North Korean 'Bold Switchover': International Financial Institutions and Economic Development in the DPRK," *Asia Policy* (National Bureau for Asian Research) 2 (July 2006).

3. On 4 January 2008, the *Korea Times* reported that a spokesperson for President-elect Lee Myung-bak announced plans for establishing an international cooperation fund of up to \$40 billion with help from the World Bank and ADB in order to invest in rehabilitation of North Korean infrastructure as an incentive for the DPRK to end its nuclear activities.

diplomatic relations with the DPRK and have an interest in future economic cooperation and encouraging the DPRK to become a member of the international financial community. Although they are not parties to the nuclear negotiations, all are interested in supporting political processes that lead to a more stable and secure future for Northeast Asia, and they will support a robust role for the IFIs when the countries on the front line of the security negotiations believe that IFI engagement will be useful.

As a practical matter, there is a need to shape a more congruent vision than exists at present about the way that the IFIs should be expected to play a role that will reinforce agreements reached in the political and security negotiations through a multilaterally supported economic development strategy for the DPRK. Such a strategy includes expanding investment, trade, and development assistance relations with the international community. The primary responsibility for achieving this congruence lies with the countries involved in the six-party-talks process in consultation with other future economic partners.

One opportunity for seeking such congruence is in the way that a phase three economic agenda for the six-party negotiations is defined and implemented. If the objective is to retain a bargaining process that provides specific economic rewards for specific steps in achieving the denuclearization of the DPRK, then the role for the IFIs may be to remain as potential carrots in the bargaining, or to be brought into the process to ensure that the economic assistance that may be provided is used efficiently for the purposes intended. To be successful in either role, it would be important that the DPRK come to view the IFIs unambiguously as desirable relationships to aspire to obtain, which does not presently seem to be the case. Part of the reason for this is that the DPRK does not seem to have made a decision to move ahead with significant economic reforms, and any involvement of the IFIs will inevitably include explicit discussions about economic reform issues.

To build trust and confidence in moving toward a different set of economic relations in the future and in addressing economic management issues at the same time, phase three of the nuclear negotiations could be designed to begin a shift from bargaining to a normal development dialogue in which economic

development strategy and setting the stage of future development assistance could be usefully enhanced by a defined role for IFI activities in this phase. Ideally, this would include both educational activities and a request to the IFIs to work jointly with the DPRK to prepare a report that would assess the present economic conditions, evaluate issues related to future economic development strategies, and propose policies and priorities for both the DPRK leadership and the international community about ways to chart a future path of economic growth and social and environmental improvement. Such a report would provide valuable input to negotiations over future economic relations and assistance and help forge a coherent vision that would also foster confidence in new ways of pursuing economic cooperation with the DPRK among the parties and other potential development partners.

### **Evolving Inter-Korean Economic Relations—Implications for the IFIs**

The October 2007 summit between President Roh Moo-hyun of South Korea and Chairman Kim Jong-il of North Korea set an ambitious agenda for expanding economic relations between the two Koreas. This agenda notably emphasized trade and investment cooperation but not dialogue on economic reform of the DPRK. Adjustments to the agenda are inevitable with the change in South Korean government during the course of 2008, with deepening economic engagement linked to progress on denuclearization, and with a more businesslike approach to selection of projects and priorities. The course of inter-Korean economic ties will be governed not only by potential for mutual economic benefit in a changing security environment but also by unification aspirations and long-standing competition between the two political systems. The long-term nature and complexities of the inter-Korean relationship have consequences for the future role of the IFIs on the Korean peninsula.

Since the mid-1960s, South Korea has benefited greatly from policy advice and financial assistance from the IMF, World Bank, and ADB, and it expects that membership in the IFIs will help reduce the large economic gap between the two Koreas and thus contribute to eventual integration of the two economies, making prospects for unification more feasible from an economic perspective. South Korea has in fact been a strong advocate for IFI involvement with the DPRK

for a number of years and over several administrations, and it can be expected to maintain this posture regardless of changes in administration. While South Korea has graduated from borrowing from the World Bank and ADB, it maintains good relations and a knowledge-sharing relationship with them. The IMF continues to monitor and provide advice and technical assistance for South Korean macroeconomic and financial system management.

As economic ties with the DPRK deepen, the consequences of North Korean economic developments on the South Korean economy and vice versa will become increasingly an issue requiring attention by the IFIs in their normal technical assistance and surveillance activities. One technical issue that will need to be addressed relates to inter-Korean trade and investment statistics. At present neither country includes inter-Korean trade in international trade reporting, in part because neither recognizes the other as a foreign country and both harbor reunification aspirations. There will be a need to collaborate on data definitions and reporting that can be supported by the IMF and also the World Bank if the two Koreas expand their economic relations while maintaining a two-state framework on the Korean peninsula.

It is inevitable that some triangular coordination discussions will be needed to resolve these issues and that the IFIs will need to be viewed as trusted partners by both Koreas. This reality implies that the IFIs will need to adopt a two-client model of responsibility on the Korean peninsula quite different from the normal client relationship models that exist for other member countries. This will require sensitivity to the legitimate interests of both Koreas while seeking to identify and find ways to resolve issues that might be seen by one as affecting the sovereignty or interests of the other.

Negotiations on a peace regime to end formally the Korean War and replace the armistice agreement would amplify these considerations and also bring new dimensions to a possible future role for the IFIs. Any agreement on a peace regime will provide a new legal as well as political context for economic relations between the two Koreas and for international economic

cooperation with the DPRK. IFI activities would need to be defined in such a way as to be consistent with these agreements and to support their implementation. Apart from legal and institutional considerations, a peace regime that leads to significant demobilization of the DPRK military forces would open new challenges for internal economic integration of the military economy with the civilian economy and the redeployment of military assets and personnel to economically productive use. The difficult policy choices and domestic political economy implications of these challenges can be moderated by judicious use of IFI analysis and advice to bring both objective perspectives and financial resources to assist in adjustments required to implement redeployment policies.<sup>4</sup>

### **IMF Reform and Implications for the Two Koreas**

Reform of the priorities and governance of the IMF is a front-burner issue. There are two major themes for these reforms. One is to increase the voting power and voice of emerging-market and lower-income countries. In 2006, the quota shares and voting power of South Korea increased along with those of China, Turkey, and Mexico in recognition of the change in the relative economic power of these economies. Further work on a new formula for calculating quota shares is under way, and this will be a factor in the determination of a future quota for the DPRK whenever the membership process gets under way. A larger voice for South Korea will have some impact on the discussions in the IMF board both on internal governance and on policies relating to national and multinational monetary management.

The other theme in IMF reform is to strengthen the role of IMF surveillance in the more advanced economies as well as the emerging-market economies, including by enhancing work on exchange rates and financial-sector issues and by paying more attention to regional and multilateral surveillance and spillovers. This agenda potentially could be very helpful on the Korean peninsula. It is also noteworthy that IMF membership is not predicated on being a market economy, as the original intent was to make the IMF accessible to Rus-

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4. For a discussion of economic security perspectives and future issues, see Bradley O. Babson, "Economic Security in the DPRK," in *Reconstituting Korean Security: A Policy Primer*, ed. Hazel Smith (New York: United Nations University Press, 2007).

sia. Thus the IMF could not force the DPRK to adopt market economic principles.

Making room for the DPRK will also mean that the DPRK will need to find its voice in contributing to discussions of international system issues and in discussions at the board on future IMF surveillance and reporting on developments in the DPRK economy. Upon joining the IMF, the DPRK will need to join a constituency in association with other members and will be given an adviser position in the office of the executive director who will be representing the DPRK's interests in the board. Financial expertise in the DPRK is far from being ready to assume such new responsibilities. Major efforts will be needed to facilitate a steep learning curve for a core of financial experts in order for the DPRK to participate meaningfully in the esoteric discussions that come with membership in the IMF and ongoing debates about IMF reform and relations with its members. Short-term training assignments or secondments to the IMF staff are possible mechanisms to explore. This could also be an important area for inter-Korean collaboration in the future as one avenue of preparing for reunification.

Regardless of the pace of IMF reform, the future role of the IMF on the Korean peninsula should be very important for both Koreas. Monitoring the macroeconomic and financial developments in both Koreas through its normal surveillance function would enable the IMF to play a constructive role in assessing the impacts of developments in the two economies on each other and to advise on stabilization policies that will support the economic goals that each country is pursuing and the process of economic integration as that evolves over time. As a neutral referee, the IMF could also advise on coordination of macroeconomic and financial policies to protect both Koreas from vulnerabilities in the global economy and in their bilateral economic relationship. Providing technical assistance for the DPRK in developing its national economic and financial statistics and macroeconomic management capacities is likely to be a critical role for the IMF in the early stage of its future relations with the DPRK. As in other countries, it will be important that the future IMF role be well coordinated with that of the World Bank and ADB, both in their boards of executive directors and on the ground on the Korean peninsula.

## **World Bank—Historical Capabilities, New Mandates, and Future Strategic Directions**

The World Bank has undergone significant changes over the years in its operating policies and way of working with clients, reflecting an evolving understanding of development challenges and how to address them. Even so, it is important to appreciate the core capabilities of the World Bank that have endured the decades.

Foremost among these is taking a long-term integrated view of development, which is the main difference with the mandate of the IMF (which focuses on short-term stabilization and financial system issues). Placing development strategy and financing discussions in the context of long-term objectives, evolving global trends, and the integration of economic, social, and environmental perspectives has been the hallmark of the World Bank's approach to development and poverty alleviation.

A second characteristic is the integration of macroeconomic and microeconomic perspectives in order to provide a holistic and coherent framing for discussions on development policy and to address such cross-cutting issues as public expenditure priorities, private sector role, and good governance. Fielding sector technical teams together with macroeconomic and public sector management expertise, the World Bank engages its client countries in many complementary ways that produce a multidimensional working relationship that evolves over time as institutional capacities develop and development challenges evolve. This, together with an ability to adapt to different country conditions while also transferring lessons of experience from other countries, underpins the World Bank's long-term partnership with its clients and its leading role in aid coordination, with other donors providing official development assistance (ODA).

All of these core capabilities are relevant to the situation in the DPRK that would be created by a successful nuclear negotiation. A shift from humanitarian assistance to development assistance by the international community will require that the DPRK accept new ways of working with donors and a multisector economic development program that is geared to the DPRK's capacity for planning, implementation, and coordination. The World Bank can be expected to



play an instrumental role in facilitating this transition as it helps to establish an operational platform for scaling up both ODA and private investment flows to the DPRK. The World Bank's ability to mobilize development finance is a commonly perceived major reason for the DPRK to want to build a relationship with the World Bank. But even more important in the DPRK context will be the impact on the total flows of finance that result from collaboration in shaping country-led development strategies and multipartner dialogues and frameworks for assistance as well as the technical assistance and capacity building that accompany lending and grant aid programs funded by the World Bank itself. Building the foundation for such a relationship is the most important near-term challenge in any process that enables the World Bank to begin activities with the DPRK.

Beyond these core capabilities of the World Bank's historical development role, it is also important to appreciate the evolving nature of the Bank's mandate and priorities and how these might apply to the DPRK context.

Poverty alleviation has been given very high priority in recent years, and it can be expected that the World Bank will advocate a strategy of fostering broad-based economic growth and targeted interventions to meet the needs of the most vulnerable groups in North Korean society. While mobilizing capital for long-overdue infrastructure investment will be needed, this will not be the primary driver of the World Bank's approach to development of the DPRK. Social policy will need to be part of the development dialogue.

Similarly, the Country Policy and Institutional Assessment (CPIA) that the Bank uses to evaluate all members that are eligible to receive assistance from the International Development Association (IDA) window will also need to be undertaken for the DPRK. The CPIA rates countries against a set of 16 criteria grouped in four clusters: economic management, structural policies, policies for social inclusion, and public sector management and institutions. These ratings are used in allocating IDA resources among eligible countries, with those having a higher rating receiving a larger per capita allocation. In the case of the DPRK, it can be expected that an initial CPIA rating will be on the low end of the scale, and, thus, a major focus for dialogue and technical assistance will be on

ways to increase ratings in all four categories. It is this framework for dialogue on ways to improve policies and develop institutions—not conditions attached to individual loans or grants—that will be the epicenter of potential resistance from the DPRK to developing a robust relationship with the World Bank.

In fact, the Bank's approach to conditionality tied to its loans and grants has changed significantly during the past years, and it focuses at present on the importance of government ownership of Bank-supported programs and projects and selective use of conditions. Emphasis is also being given to harmonizing support from the Bank and other donors on government budget cycles and strengthening results frameworks through analytical work and more systematic use of baseline indicators. This is a more effective approach to achieving development success than a reliance on conditionality to ensure that preconditions for success are being put in place. Although this more collaborative approach has been applied successfully in other countries, it will require considerable education and trust building in the DPRK. The learning process must be mutual, but it is important that the DPRK leadership understand that the rationale for such collaboration and selective use of conditions is to achieve the development outcomes that both agree are desirable and feasible.

The World Bank has from its inception tried to ensure that the financial resources it provides to member countries have been used for the purposes intended, with due regard for efficiency and economy, and its requirements for prudent financial management have improved progressively over the years. Under President James D. Wolfensohn, the economic consequences of corruption were publicly addressed frontally, and in recent years the World Bank has strengthened its policies and capacities to address corruption as a development challenge for the international community, governments, companies, and employees. A new governance and anticorruption strategy has been approved for implementation that affirms the importance of working with governments to improve their financial governance systems; expands disclosure and transparency practices; strengthens linkages of governance monitoring and reform; broadens involvement with the private sector, media, parliamentarians, and civil society; and emphasizes coordination and harmonization of the Bank's approaches with other donors. This upgrading of financial practices monitoring and

techniques to improve financial governance will most certainly be applied to the DPRK, which will face many risks of financial impropriety when development assistance and private investment expand from the present very low levels.

The World Bank and the IMF have also developed technical assistance capabilities to work with countries on upgrading legal frameworks and administrative capacity to control vulnerabilities in financing of illegal activities and money laundering, which has been a concern regarding the DPRK. This is an area in which early involvement of the IFIs might be supported by the United States and other countries independent of progress on the nuclear negotiations.

It will be important that the issues relating to good financial governance be addressed early in the formation of a relationship between the World Bank and the DPRK, so that this becomes a mutually agreed area for collaborative effort and is in the mainstream of the relationship, and thus does not become a cause for mistrust and confrontation. Similar openness and collaboration will be needed in other areas of the Bank's safeguard policies and practices, including environmental and social impacts of development projects that it supports. It will be important that the DPRK understand that these policies and practices are applied to all countries receiving assistance from the World Bank.

Finally, the World Bank is giving increasing attention to global public goods issues, including climate change and transnational disease transmission. These themes are likely to also become an integral part of a future relationship between the Bank and the DPRK. For example, the DPRK's geographic location and high dependency on coal in its energy use will require that regional environmental interests be considered in its future economic development strategy and programs, and that its vulnerabilities and interests be respected by neighboring countries.

### **Asian Development Bank—Prospects for Asian Regionalism**

The ADB shares many of the same characteristics as the World Bank, and expectations of its future role in the DPRK should be closely aligned with those for the World Bank. Delineating a division of labor between

the ADB and World Bank will thus be an important task early in the process of building a framework for future IFI involvement with the DPRK, as has been done for other countries in the region. This will require consultations and consensus building not only between these organizations and the DPRK but also among the major shareholder countries that govern the boards of both institutions.

One important factor in this division of labor is that the World Bank emphasizes global perspectives in its relationships and programs, while the ADB emphasizes regional ones. Thus, subregional programs that have been sponsored through ADB leadership, such as the Greater Mekong Subregion, have gained significant experiences that could be usefully applied to future Northeast Asia regional development initiatives that would support the integration of the DPRK in the regional economy. To do this, special arrangements will be needed for Russian participation in such regional efforts because Russia is not a member of the ADB. The ADB also has developed special programs relating to regional monetary cooperation that potentially could be applied to the DPRK.

### **Conclusions**

The future role of the IFIs on the Korean peninsula is still uncertain and faces many complexities and challenges both for the institutions and for the two Koreas. However, it is hard to imagine any process of integrating the DPRK into the global economy and international financial system that does not rely significantly on the involvement of the IFIs. For a future role to be defined in a way that will be broadly supported and effective, it is important that all major stakeholders have realistic expectations about the possibilities and the limits of what the IFIs can bring to a peaceful process of economic development and integration on the Korean peninsula.

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