

A NEW INTERNATIONAL ENGAGEMENT FRAMEWORK FOR NORTH KOREA?

Contending Perspectives

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Mobilizing Private Capital for North Korea: Requirements for Attracting Private Investment

Malcolm Binks and Carl Adams

The topic posed might seem to be a mission impossible: North Korea (the Democratic People's Republic of Korea) is a country that has been largely cut off from the global economy for more than 50 years, and even before that time it was hardly a center of foreign investment. However, the same held true for many countries until relatively recent times; China and Russia come to mind. In an environment where investors now feel free to roam pretty much anywhere, it is important to recognize that things can change very quickly and often in a surprisingly positive fashion.

Although a theoretical approach to how North Korea would go about attracting foreign investment would be feasible, a more practical approach would be preferable. It entails facing up to the realities of the situation in the country, in the region, and in the global context. This paper takes the practical approach because the hoped-for result will be achieved only if several basic issues are confronted. This approach is mandated by the nature of what confronts North Korea and the risks that any foreign investor of private capital will have to undertake.

This paper therefore seeks to address what will be required to attract foreign investment and how North Korea might go about making itself a desirable location for such investment. The focus here is on private investment; others at this conference will address the potential for investment from public sources such as the World Bank. It may also be important to look at this in a Northeast Asian context because of North Korea's location and its potential ability to attract capital in preference to other locations in the region.

The Nature of the Problem

All private-sector investors in developing countries are familiar with the risks they undertake. Apart from all the normal investment risks, there is always

the question of the underlying creditworthiness of the country in question, which can be affected by the availability of resources, geographic location, stability and cohesiveness of the workforce, a harsh climate, and, above all, the issue of political stability in the global context. All developing countries go through a process of maturation and many, especially Asian, countries make it to the other side, become politically stable, and evolve into developed economies.

South Korea is a case in point although, ironically, its A3 (negative outlook) rating suffers because of the perceived North Korean risk, either because of the military threat or because a total collapse of the North Korean regime would result in a huge liability for South Korea to repair the collapsed economy. China is rated A2 and is closer to winning recognition as a developed investment-target country. Vietnam has some distance to go, but with a B1 (positive outlook) rating the country is on an improving track. Myanmar is far off; but, of all the economies in Asia, North Korea is the farthest away. If it were to be rated, it would most likely be in the C category, reserved for countries such as Cuba. North Korea's foreign debt, estimated to be in excess of \$12.5 billion and contracted in the 1970s, has long been in default. North Korea presents an immense challenge and will make substantive progress only if it can persuade the global community and, in particular, its immediate neighbors that it is prepared to make the necessary changes to create an attractive investment climate.

Private Foreign Investment Alternatives

Traditional channels of private capital mobilization offer suggestions for investment funding alternatives in North Korea. The primary sources of private investment for an emerging nation include:

- Project financing, in which the investor looks directly at the viability of the project (for example, a power station);
- Corporate direct investment in a defined activity such as a manufacturing operation, often a joint venture with a local entity;
- Portfolio investment in a listed company, undoubtedly less likely in North Korea for the foreseeable future;
- Venture capital, generally in an unlisted company; and
- Trade-related and finance arrangements secured by assets with an established value or by secured cash flows from ongoing, proven operations and activities.

The bulk of foreign investment in emerging economies almost always comes from public sources or with public-sector guarantees and from project financing and corporate investment. North Korea will need to focus for the time being on these primary, secured-financing sources until such time as the economy establishes itself as fundamentally viable.

Political Context

For all private-sector investment interests, there is no way of avoiding the North Korean political reality as a critical and basic issue. Private-sector investors have multiple alternatives as to where they may put their money. They will invest only if it makes sense to them in the context of gaining a market, gaining an attractive source of production, and, above all, getting a measurable and maximum return on their investment. Security of the investment is therefore fundamental. Although no investment location offers absolute certainty, especially in developing markets, the perception of risk and a clear understanding of political risk and its proper pricing are overriding criteria.

The question of receptivity is related to this: Does North Korea really want foreign investment? Is North Korea prepared to make the necessary adjustments to its economy to gain those investments? Are the political costs—both domestic as well as external—of more open investment in North Korea acceptable to the ruling regime and to the self-interest of its elites? The importance of this cannot be overstated or underrated.

In the Asian context, China's ability to attract direct investment and portfolio investment may have been one of the most surprising turns of events of the past 25 years. China is a country that has not undergone any fundamental change in its underlying political philosophy, but in the space of a generation it has become the largest single destination for capital in the developing world. Maybe Deng Xiaoping never sat down and thought "we must become user friendly" to foreign investors, but Deng made China a destination of choice by his direct and indirect support for greater political security, and his successors have continued his policy. The Organization for Economic Cooperation and Development (OECD) reports that foreign direct investment (FDI) in China grew from almost nothing in 1978 to \$360 billion by 2000.

Notwithstanding the Tiananmen Square event, the Asian financial crisis of 1997, on-and-off problems with Taiwan, and some significant differences with the United States, foreign investment into China has continued unabated. China's adoption of and entry into the World Trade Organization (WTO) arrangements will further boost FDI inflows, as ample evidence during 2003 confirms. It would be simplistic to attribute such FDI expansion to foreigners' interest in a billion-plus population market overcoming concerns about Chinese politics. It can be argued that India should always have been a more attractive venue, but it is only in recent years that India has started to match China's ability to attract foreign investment and achieve the kind of growth rate that has become the norm in China. Political security and the country's own openness and receptivity to inward investment by the private sector are the key distinctions.

North Korea is a much smaller nation, it has much less going for it in terms of opportunity, it is high on President Bush's black list, and it is widely viewed in the media as reclusive and reactionary. To make meaningful progress, North Korea will need to find some way of diffusing the "big" political issue of nuclear materials deployment and making a conscious effort at becoming a reasonable and opportunistic destination of choice for private foreign capital. At the most basic level, the North Korean leadership will need to demonstrate that it is willing to renounce confrontational politics with the United States and with its neighbors. North Korean leaders need to demonstrate they can launch and sustain a coherent plan of reform suitable for private-sector perceptions of risk and their own country's prospects.

China to some extent progressed by stealth to a market-driven economy. However, the severity of North Korea's problems really requires a full commitment at the outset, simply because so much needs to be done. It has become unremarkable for even the most backward of emerging nations to have a stock market, to allow participation in that market by domestic and foreign investors, and to attempt to make the market open and transparent. North Korea is so far from the starting line of a market economy that it should not waste a moment of time even thinking about the possibility of a stock market.

Why North Korea Presents Special Problems for Private Capital

It is tempting to think that North Korea could follow the route of China or Vietnam toward reform and become an economy that could attract substantial foreign private capital. Both these countries offer experiences in development that suggest some potentially useful guidelines, and Vietnam may be a better model because China is a unique case. At the point when China started to open its doors to foreign investment, it had a number of advantages:

- **A well established, if grossly inefficient, industrial base.** Notwithstanding many mistaken industrial policies, China had a steel industry, a substantial electric power industry, a somewhat broken telephone system, and all the components of an industrial economy. Although the private sector possesses little intelligence about North Korea that is known to be valid and reliable, it has concluded that North Korea has only a very minimal industrial base.
- **An established banking system.** Throughout China, several very large banks as well as a widespread branch-banking system were in operation. The Bank of China, which had international experience and a well-established system for dealing with remittances both into and out of China, had always maintained a presence in major financial centers. North Korea has none of that capability and no evidence of available

technical and human resources capacity that shows an adaptability to such banking-system structures.

- **A very large group of overseas Chinese that had maintained family contacts in China.** Many members of the Chinese diaspora were running successful businesses in their new locations but, importantly, were ready, eager, and willing to re-enroll in the Chinese economy. They saw China, as it opened to FDI, as a land of opportunity. North Korea's long isolation from the global economy, with no significant numbers of overseas Koreans returning, has left it with few connections for potential private capital mobilization.
- **Willingness to experiment with open market policies while adhering to political philosophy and party organization.** Although many of China's initiatives to attract foreign capital were touted at the outset as experiments (for example, the special economic zones), the Chinese government did pursue a long and successful strategy of opening up the economy, which culminated in its membership in the WTO. Many of its financial and regulatory systems were (and still are) imperfect, but the determination to move through reforms has been unmistakable. This could still happen in North Korea, but evidence and indications thus far suggest that those with vested interests in the current system in North Korea will be much less open to experiments in which their own good fortune and advantaged status are challenged.

Vietnam is somewhat different than China. It started later but to some degree presents a more useful model for North Korea. Vietnam had been somewhat isolated from the global financial world, but it is more comparable in size with North Korea. A potential tourist destination with a well-educated population, a large group of interested overseas Vietnamese, and remnants of a functioning economy, Vietnam offered a base to get started. Above all, Vietnam committed to learn from the outside, welcomed assistance from the World Bank, and initiated a crash course to educate key personnel in international finance. Similar prospects in North Korea seem extremely dim at this time.

Proposed Strategy to Mobilize Private Capital for North Korea

North Korea needs to instill confidence in its political intentions before outsiders perceive the North as a destination for capital investment.

Foundation of Basics for Real and Political Capital

The first and absolute requirement for a good investment climate for North Korea is that the political situation that hangs over the country must be defused. Others are better qualified to suggest how that might be done, but the

result must be persuasive and convincing to independent, private-sector investors. Also, efforts to find a resolution on the defaulted debt must begin, and an economy that is not viewed as being in crisis needs to be created. This will require North Korea's willingness to work with international financial institutions (IFIs) such as the International Monetary Fund (IMF) and the World Bank.

Defusing North Korea's political situation will require a proactive program to attract foreign aid, not only foreign aid as money but also in oversight, training, and technical assistance as to how and where the money gets spent. Merely announcing that North Korean doors are open to foreign investment will not do very much so far as the private investment sector is concerned. This is a case in which actions will speak for themselves and words will do very little. Northeast Asian regional powers must be persuaded that there has been a real change in attitude before they will willingly participate in a program of recovery; and they must believe that their participation will be welcomed—or at least not be held hostage and manipulated—by North Korean government officials, prominent persons, and political elites. Central to this basic foundation of governance and political ambition are the essential requirements of commitment to openness, transparent disclosure, and avoidance of graft, corruption, and connivance among commercial and political players.

Creation of Capital Infrastructure for Observable Best-Practices Behavior

North Korea will need to bend over backward to welcome foreign investment and avoid needlessly irritating potential private-sector investors and partners. Projects will need to be approved on a timely basis, and commitments to make payments when due will need to be fully honored. Investors will need to be persuaded that the climate for business and foreign investment is open and transparent. Public declarations of support and interest in best practices for capital mobilization will be needed often and in earnest. It may take years to complete the process, but the North Korean government will need to get started on establishing institutions that can manage a market economy and be seen to be doing it in a manner that, over time, will create private-sector confidence.

A minimum guideline for such infrastructure requirements is the list of 12 key codes and standards for sound financial systems provided by leading global public authorities for the Financial Stability Forum (FSF) of the Bank for International Settlements. There is no better checklist of infrastructure requirements for private-sector capital mobilization. The 12 key standards, shown in *Table 1*, are grouped in the three broad areas of macroeconomic policy and data transparency, institutional and market infrastructure, and financial regulation and supervision.

Table 1: Key Codes and Standards for a Sound Financial System

Area	Key standards	Issuing body
Macroeconomic policy and data transparency		
1. Monetary and financial policy transparency	Code of good practices on transparency in monetary and financial policies	IMF
2. Fiscal policy transparency	Code of good practices in fiscal transparency	IMF
3. Data dissemination	Special data dissemination standard (SDDS)/general data dissemination system (GDDS) ¹	IMF
Institutional and market infrastructure		
4. Insolvency	Note 2 below.	World Bank
5. Corporate governance	Principles of corporate governance	OECD
6. Accounting	International accounting standards (IAS) ³	IASB ⁴
7. Auditing	International standards on auditing (ISA)	IFAC ⁴
8. Payment and settlement	Core principles for systematically important payment systems/recommendations for securities settlement systems	Committee on Payment and Settlement Systems (CPSS)/IOSCO
9. Market integrity	The 40 FATF recommendations of the FATF/8 special recommendations against terrorist financing	Financial Action Task Force (FATF)
Financial regulation and supervision		
10. Banking supervision	Core principles for effective banking supervision	Basel Committee on Banking Supervision (BCBS)
11. Securities regulation	Objectives and principles of securities regulation	IOSCO
12. Insurance supervision	Insurance core principles	IAIS

Source: FSF 2004.

1 Economies with access to international capital markets are encouraged to subscribe to the more stringent SDDS and all other economies are encouraged to adopt the GDDS.

2 The World Bank is coordinating a broad-based effort to develop a set of principles and guidelines on insolvency regimes. The United Nations Commission on International Trade Law (UNCITRAL), which adopted the Model Law on Cross-Border Insolvency in 1997, will help facilitate implementation.

3 Relevant IAS are currently being reviewed by the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO).

4 The International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) are distinct from other standard-setting bodies in that they are private sector bodies.

Although not often itemized by the private sector when it assesses investment opportunities and prices the risk and return necessary to endorse capital commitments, each of these key areas is an essential (but not sufficient) factor to assure funds commitment and investment success. Capital move-

ment infrastructure may take many local and cultural forms, but, in essence, compliance with each of these 12 areas facilitates funds inflow and provides the private sector with sufficient information to improve risk predictability.

Some of the areas on Table 1, such as insurance supervision and securities regulation, may seem far-fetched for consideration by North Korea at this stage of its development. Some areas, such as data dissemination, corporate governance, or, to be sure, market integrity—and the entire spectrum of best practices to avoid money laundering—seem to be especially outrageous recommendations for a regime known to use illegal funding practices and to be fully suspect regarding corruption at many levels. However, the rule of best practices, even among thieves, is a compelling truth for capital mobility; and, at this early stage of interest in mobilizing capital from the private sector for North Korea, full accommodation of these codes and standards deserves due diligence and enactment of compliance oversight mechanisms.

Many of these infrastructure issues will be fully addressed during consideration of North Korea's membership in the various United Nations organizations and IFIs, should the regime in control choose to join. All will be defining measures for private capital, and they will determine the form and time they are implemented by whatever local custom prevails. Human society is quite capable of providing accommodation to all of these 12 codes and standards in unique and untried ways, but the spirit of compliance along with transparency, disclosure, and language that may be commonly understood and trusted are surely basic ingredients for eventual mobilization of capital into North Korea.

The building blocks for private capital infrastructure mobilization rest on the first group shown on Table 1—macroeconomic policy and data transparency. Because precise foreknowledge of future North Korean monetary and fiscal policies is lacking, one fact will make a difference for private capital inflow: are these monetary and fiscal arrangements transparent? In other words, do responsibilities and accountabilities have proper and identifiable disclosure, and do the key players in the economy have reasonable prospects for fair valuation and pricing information? North Korea's recent casino-type so-called bond issues show that North Korea needs to go a good distance before fiscal and monetary policies are adequately open, even for the local population—not to mention foreign private sources of capital. Likewise, the assessments of data dissemination will need to achieve a minimum level of international competence, with verifiable accuracy to validly and reliably assess that the data measure what is actually happening.

The second group of financial-market standards and codes for best practices is next in importance to the private sector for adequate, investment-enabling infrastructure. Institutional and market infrastructure need not have Western capitalist detail, but they must hold hallmarks of fairness, balanced rules of conduct, and some checks and balance on competing influences so that no one party in the North Korean system holds unlimited power to

determine all investment and valuation results. The fact that many tyrannies in the history of human society also addressed these institutional and market requirements suggests that private capital mobilization into North Korea has some possibility. If the rules and language of the commercial and investment order are consistent and openly understood, there is no reason that private capital would not pursue reasonable returns for the identifiable risks of the markets and institutions in the economy. Again, the keys are open disclosure, consistency of the rules, transparency among all actors, and relevant issues for price discrimination and market clearance.

The details of the third group of standards for codes of best financial-market practices are the technical rules of financial-market functional activities—banking, securities dealing, and insurance. These more technical rules for money and capital arrangements are in essence the local scheme for risk allocation and risk price discovery among functional roles in the commercial order. Gathering deposits for intermediation and redistribution in loans, bonds, and common equity may occur in many workable variations. It is hoped that even the unique and isolated society in North Korea will further develop its own order for banking and mobilization of capital—in such a way that private external investors, too, might participate. Insurance functions are also likely to find a useful role in the longer-dated liabilities for North Korean society and in the employment of longer-dated local assets. All 12 areas of financial-market best practices serve to define the infrastructure necessary for successful private capital mobility—from both external and domestic sources. They are the markers, too, for proper pricing of risk in North Korean investment activity by the private sector and should not be neglected or misunderstood if they take on unique, local characteristics.

eStandards Forum. The eStandards Forum Web site is a useful and informative body of information that describes independent assessments of country compliance with the FSF's codes and standards for sound financial infrastructure. This information portal provides an organized public record of assessments by public- and private-sector authorities as to country compliance with the 12 standards. The Web site covers 83 countries, both developed and developing, and is monitored and updated weekly to capture ongoing initiatives by countries to progress toward fullest compliance with the global best-practices codes. North Korea is not covered by the eStandards Forum initiative, but clues to eventual private-sector interest in investment in North Korea are offered by examination of other similar or regional nation-states (see *Table 2*).

The eStandards Forum effort also provides a numerical index of country compliance with the standards and codes so that the best-conforming country, the United States, ranks number one among all 83 countries; yet the numeric score of the United States out of a possible 100 is only 77.69. Readers should note for contrast that South Korea, recently intent on upgrading

Table 2: Assessment of Country Compliance with Key Codes and Standards for Sound Financial Systems

Area	Key standards	Full compliance	Compliance in progress	Enacted	Declaration of intent	No compliance	No assessment available
Macroeconomic policy and data transparency							
1. Monetary and financial policy transparency	Code of good practices on transparency in monetary and financial policies	United States	—	Japan, South Korea	China, Russia	—	Vietnam
2. Fiscal policy	Code of good practices in fiscal transparency	United States	Japan	South Korea	Russia	China	Vietnam
3. Data dissemination	Special data dissemination standard (SDDS)/general data dissemination system (GDDS)	—	United States, Japan, South Korea	—	Russia	China, Vietnam	—
Institutional and market infrastructure							
4. Insolvency	Principles and guidelines for effective insolvency regimes and creditor rights systems	—	United States	Japan	South Korea, Russia	—	China, Vietnam
5. Corporate governance	Principles of corporate governance	United States	—	Japan, South Korea, Russia	—	China	Vietnam
6. Accounting	International accounting standards	—	—	China	Vietnam	Japan	United States, China
7. Auditing	International standards on auditing (ISA)	—	South Korea	Russia	Vietnam	Japan	United States, China
8. Payment and settlement	Core principles for systematically important payment systems/recommendations for securities settlement systems	United States	South Korea	—	—	Russia	Japan, China, Vietnam

Area	Key standards	Full compliance	Compliance in progress	Enacted	Declaration of intent	No compliance	No assessment available
9. Market integrity	The 40 FATF recommendations of the FATF/8 special recommendations against terrorist financing	—	United States, Japan	China, South Korea, Russia	—	Vietnam	—
Financial regulation and supervision							
10. Banking supervision	Core principles for effective banking supervision	United States	—	South Korea, Russia	Japan	—	China, Vietnam
11. Securities regulation	Objectives and principles of securities regulation	United States	South Korea	—	Russia	—	Japan, China, Vietnam
12. Insurance supervision	Insurance core principles	—	United States, South Korea	Russia	—	—	Japan, China, Vietnam

Source: eStandards Forum 2004.

openness, transparency, and financial oversight following the 1997 crisis, currently ranks number eight out of 83 countries; the numeric index for its compliance as indicated by the assessments shown in Table 2 is 63.08 out of a possible 100. Japan, despite the reality of being the second wealthiest economy in the world, ranks only 33rd out of 83; the numerical index for Japan is 41.54 from a potential total score of 100. Russia, ranked 36 and just slightly less compliant with FSF standards and codes than Japan, is by numeric index recorded at 40.00. China is assessed by authoritative observers such as the IMF, the World Bank, the rating agencies, and private-sector authorities to be ranked as 68th among the 83 countries reported by eStandards Forum. China's numerical score is 13.85. Finally, for reference to contrast with North Korea, Vietnam scores only 6.92 and ranks a lowly 76th out of 83 among the nations reported.¹

Sovereign ratings. Sovereign ratings by the international rating agencies offer another useful insight for investment contrast among countries. Bond ratings for several states in Africa, emerging areas in Central Asia, the Middle East, remote sections of South and Central America, and other developing countries in Asia provide private investors with a type of infrastructure “gap analysis” that points out weaknesses and risk. Bond ratings also serve to highlight advantages or unrecognized benefits possibly available in places like North Korea—at least by contrast with more established or traditional location targets. To be sure, no ratings of North Korean creditworthiness are currently known or planned by any of the major agencies. But often the examination of developing countries that are rated may be informative.

Recent rating agency assessments of some sub-Saharan African countries, for example, resulted in sovereign credit ratings at or better than similar ratings for established emerging-market investments. Ghana was rated B+ (stable) by Standard & Poor's, and Mozambique was rated B (stable) by Fitch Ratings—remarkably strong assessments relative to similar ratings for Indonesia, Brazil, or Turkey, where private-sector investors are well traveled and have been exposed for many years. North Korea may not soon earn assessments as high as B by the international agencies, but the international agencies' well-detailed output on similar high-risk, low-rated countries offers private investors informed perspectives on resources and government behavior.

Development and Maintenance of Key Institutions for Private Capital Investment

The following are summary suggestions of key institutions that will most likely be needed to help make the mobilization of private capital in North Korea happen.

1 For a fuller discussion of these assessments, see the eStandards Forum Web site (www.estandardsforum.com/servlet/home) or contact Matt Zimmer (212/692-0828; matt.zimmer@eStandardsForum.com).

Economic czar. A person of prominence and influence will have to lead the pursuit of business and financial-market best practices. North Korea already demonstrates the characteristic of single personality leadership; for economic development in such a highly political country, economic leadership will be no exception. Although there might be potential for a stealthy evolution to a market system, such a prospect from the perspective of private-market players is very remote indeed at this time. Further, as long as the North Korean economy remains in a state of crisis, decisive leadership and action are imperative for getting things on a positive track. Other countries have adopted various mechanisms to achieve visible progress. In North Korea's case, a minister who has the full and unquestioned support of the President and the national elites could be appointed to execute economic policy. Such a czar could be a minister of finance or a minister of economic reconstruction and development, but this person must have the power to get things done.

Ministry of Finance. Such a ministry would be the organ of the government to institutionalize the political empowerment necessary for economic policy implementation. The Ministry of Finance would be a key ministry and would need to have the ability to find the best available minds in North Korea, or elsewhere, to start to build economic policy. The ministry would need to have broad authority to hire experts as needed from outside North Korea and to mobilize public resources as needed to enable and encourage private capital mobility. This kind of capability can be found in multinational institutions, such as the World Bank and Asian Development Bank, as well as in private institutions in neighboring countries. Multinational institutions should be encouraged to establish their presence in Pyongyang as a priority.

Ministry for Economic Reconstruction and Development. Such a ministry would be a formal state organ for the creation, promotion, development, and monitoring of development projects; this ministry is an essential institution for best mobilization of private capital. Especially when there is evidence of collusion, collaboration, fraud, and graft in a central authority system, like North Korea's, some institutional effort is needed to guide the local population as well as outsiders to progressive and improved rules of engagement for reconstruction of existing economic infrastructures as well as development of new and greenfield investment projects. This can be especially helpful with the reeducation of the economic players toward less conflicted, self-serving grasps for corrupt rewards and more open, transparent, legal, and fair activities. Such an institution for reconstruction and development will also play better to the external community for private capital investment and also offer an efficient channel into North Korea for training and technical assistance.

Central bank and functioning commercial banking system. Any system that seeks to appeal to private capital investment must have an orderly arrangement for payments, settlements, deposits collection, and remobilization through lending or capital markets for useful applications of the funds. The role for the state is to authorize a central monetary authority that the private sector may believe will act in the interests of all market players and will evidence the enlightened self-interest of a sovereign seeking to increase the welfare and progress of the population. Thus, the character and efficient implementation of a central monetary authority is a key ingredient for successful private capital enrollment.

Likewise, a banking network and a branch-banking system connecting the central monetary authority to the real-world microeconomic commercial services in the country are critical for private capital mobility and its success. As a practical matter, we know of no country's economic development—with or without private capital inflow support—that has succeeded without a proper and dynamically expanding banking system. Capital intermediation is in fact intermediation of systemic risk among users and providers of resources. Whether it is a centrally planned system as in North Korea today and in the former Soviet Union in the past, or it is an open and liberal democratic capitalist market order that has been the trend since 1989, a functioning banking order and system of collection and distribution of financial risk are essential institutional requirements. Private capital in particular will not respond efficiently in any country without the support and benefit of a well-defined (or at least promising) banking system.

Other Steps for Attracting Private Investment to North Korea

In conjunction with these big-picture steps, North Korea's leadership and government will need to initiate a number of direct and focused programs to cultivate and stimulate foreign investment. A comprehensive investor relations plan and public relations plan will need to be designed to educate and overcome what is likely to be substantial investor resistance. Because of this resistance, North Korea will need to make private capital opportunities in the country as attractive as possible and take extra steps to overcome what will be a very dubious investor audience. Some of the more important initiatives are listed below.

Investor education and a professional country presentation. A very complete presentation of North Korea as an investment target must be prepared in conjunction with an outside expert experienced in producing rating-agency presentations for sovereign nations. It would not be appropriate to seek any kind of credit or political risk rating of North Korea until it is apparent that the measures referred to above are taking effect. Such a presentation should be a live and dynamic document that, once prepared, can be updated as the situation requires. The work on preparing the North Korean country presen-

tation will need to be done with the authority and support of very senior ministers, such as the minister of finance, and will carry proper regard by the private sector if it is fully backed by the head of state. It will become apparent during the preparation of a country investor-relations report that there are many serious problems in the North Korean story. Thus it will be necessary to have an authoritative spokesperson in the government to establish remedial steps to correct those problems or at least offer an official response and explanation of the issues.

Identification of key industries and projects to revitalize the economy.

The country's leaders and strategic planners with development oversight responsibilities must promote a master plan for North Korea. Such plans featuring serious designation of key industries and projects prioritized to rebuild and revitalize the economy are essential as signals to private investors. The plan will need to be developed to identify infrastructure projects and potential industries that will be critical to the economy's revival with respect to political process and actual capacity possibilities. Some of these will need the support from multinational institutions. Others, such as natural-resources projects, may attract private industry. But no project can be known and sanctioned by investors unless it is articulated in an official strategic plan for the future of North Korea's economy.

Data and information on the economy. Data and information need to be provided regularly by respectable sources and in conformity with international standards and terminology. North Korea will need to start publishing accurate and timely data regarding key elements of its economy. The private sector is quite unforgiving of special circumstances and irregular reporting of standard data on economic growth, fiscal and monetary reference information, and timely, unadulterated metrics of what is happening in a country. Creative reporting and propaganda will not be tolerated for long in the twenty-first century. Globalization confirms that technology and information developments assure all leaders that few material facts can be kept secret for long; thus truth and transparency are best for technocrats and tyrants alike. The good news for North Korea is that the globalization of capital and economic resources continues to lower the costs of data assembly, packaging, and speedy distribution. The unfortunate counterpoint to this good news is that, without adequate data and information about a country, its resources, and its commercial practices, there is no participation in the world order for money and business. Recent examples of Cuba, Syria, Albania, and extremely poor countries in Africa underscore for the North Korean situation that without data and information—available and transparent—there is no ticket to the market for economic growth and sustainable development.

Willingness to allow foreign control of North Korean businesses. Such control should be encouraged and not resisted. As a country with virtually

no internal sources of capital, North Korea has few options and should welcome foreign ownership. This will bring expertise and discipline as the country seeks to move forward. Recent economic and political success in India is now evident and is caused by its recent willingness to liberalize and open up for foreign ownership and direct participation in the economy. Such measurable observations fully underscore this suggestion.

Creation of special mechanisms for foreign currency transfer and settlement of disputes. In the early stages it is unlikely that there will be institutions in place to deal with these kinds of problems, and some interim mechanisms will need to be put in place. As demonstrated in China and perhaps less elegantly in Russia since the currency disaster in 1998, there are progressive regimes for currency trading, transfer, and settlement that can actually boost the North Korean economic expansion goals in a technology-safe arrangement. Both public-sector IFIs and private-market initiatives are available to help regimes such as North Korea's implement favorable currency systems and mitigate commercial code and business dispute issues.

Tax holidays. Tax holidays or exemptions for foreign entities establishing businesses and entering into joint ventures are a good idea. This may indeed be a useful management tool for bringing local vested interests into alignment with broader, more robust economic expansions, as has been demonstrated in several former Soviet states and in parts of Central Asia today.

Conclusion and Focus

Given the magnitude of the task, North Korean policymakers will need to be focused on the most important topics for economic revival and sustained expansion. The outreach to market initiatives, although only a low-key one, and the recent military-first programs of the current regime are not necessarily hostile to long-term economic expansion objectives. Initially, programs to promote economic growth should be coordinated with the IFIs and other multinational agencies that can bring expertise and know-how. Developing a road map for mobilizing private-sector capital will require substantial input from these institutions. The 12 areas of codes and standards for financial-market soundness offer unquestionable markers for the infrastructure that are essential for the entry of private investors. In seeking foreign investment, the most likely opportunities will be in project financing and contractual, secured deals with foreign corporations and financial institutions or with official sector (external) guarantees. These techniques can be used even in an economy lacking the capability to support debt payments and more traditional market arrangements for collecting resources and redistributing financial allocations.

Reconciliation with its key neighbors will bring North Korea resources to finance such projects and activities as well as valuable expertise in the form

of technical assistance and training. South Korea, Japan, and, to an increasing extent, China should be helpful in supplying suitable expertise, personnel, and financial resources to mobilize the private capital inflows.

But, above all else, political will and attention to the resolution of current political tensions inside the state and among its global counterparts will be imperative for attracting reasonable interest from any part of the private-investor universe. All these efforts—an effective communications program and display of interest by the North Korean state combined with strong investor relations, persistent education initiatives, and positive, creative marketing outreach—will be necessary to win investment regard and to usher in private capital resources. General and well-documented experience suggests that private capital mobility does not require incentives that are inappropriate or costly to a country like North Korea. But private capital will not mobilize on lies, half truths, and obfuscations by shortsighted business or political elites—not in the United States, not in Europe, not in developed Asia, not anywhere. When the North Korean state is honest and transparent with its elites, its population, and the outside world, private capital inflow will be steady, and the economy will expand in a sustainable fashion. Truth, transparency, and earnest disclosure are the simple requirements for private capital mobility—in any country, in any location, and without regard to political legacy and ideological flavor.

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Possible Role of South Korea and Other Major Stakeholders



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