

Korea's Economy

Korea's Economy 2009

Korea's Near-Term Economic Prospects and Challenges

Global Financial Crisis and the Korean Economy: Issues and Perspectives

The Impact of U.S. Financial and Economic Distress on South Korea

The Wall Street Panic and the Korean Economy

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Engagement on the Margins: Capacity Building in North Korea

North Korea and International Financial Organizations: Political and Economic Barriers to Cooperation

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NORTH KOREA'S ECONOMIC DEVELOPMENT AND EXTERNAL RELATIONS

ENGAGEMENT ON THE MARGINS: CAPACITY BUILDING IN NORTH KOREA

By Bernhard Seliger

Introduction

The year 2008 saw a reversal of a long-lasting policy constellation in the international community vis-à-vis the Democratic People's Republic of Korea (North Korea). South Korea, for 10 years a fervent proponent of engagement policy—sometimes in outspoken opposition to the U.S. approach—became much more skeptical about the engagement policy without strings attached that had been practiced by the two preceding governments under presidents Kim Dae-jung and Roh Moo-hyun. This occurred after the overwhelming election victory of the new president, Lee Myung-bak, and after Korea's conservative forces (the Grand National Party and smaller groups) conformed to this policy. Relations with North Korea, which flatly refused any dialogue over the policy proposals of the Lee administration, consequently soured, resulting in the closure of the two tourism projects in Mt. Kumgang, after the shooting of a South Korean tourist there, and Kaesong and the severe reduction of interaction in the last remaining prestige project of the preceding administrations, the Kaesong industrial complex. These projects were not only the windows of interaction between North and South Korea, but they were at the same time a large-scale experiment for the introduction of new management knowledge and technology to North Korea.

In fact, the outgoing George W. Bush administration attempted to rescue its North Korea policy by going far to accommodate the North in the six-party talks, even at the risk of accepting undefined and unsecured policy promises of North Korea for immediate policy concessions. In this sense, the roles of both the United States and South Korea during the past 10 years saw a reversal. At the same time, concerns about the health of the North Korean leader and the virtual halt of policy decisions or even

policy reversal during this period further reduced the possibility for engagement with North Korea. Critics of the current South Korean government, in particular those associated with the policies of the former Kim Dae-jung and Roh Moo-hyun administrations, assert that the results of 10 years of engagement policy are jeopardized, and they blame the Lee administration for this.

At a closer look, however, things look much less negative. Although the Kaesong industrial complex in the final months of 2008 was to some extent hampered by North Korean policies, it still achieved a record output and saw an increase of the North Korean workforce. The slower-than-expected expansion of the Kaesong complex might well be in the interest of North Korea, which seems to fear the impact that working in the complex has on the North Korean workers employed there. This was particularly true of the impact of collaboration with South Korean managers, whose number has been drastically reduced. Also, newspapers from the South, which occasionally found their way to North Korean readers, were banned. On numerous occasions ideological guidance was reportedly given to workers to counter possible South Korean influences. Also, looking at civil-society contacts between South and North, the results are not particularly discouraging because many activities continued or could even be extended. And, internationally, the activities of the World Food Program (WFP) and other actors, which were largely extended in North Korea, not only allowed access to a number of more remote North Korean regions once again, but also augmented existing capacity-building activities of other actors—among them prominently were those from the European Union countries—in North Korea.

Capacity building for the past two decades has been the new mantra of development policy. After the

failure of much of the development policies of the 1960s through 1980s, the need to strengthen institutional capabilities was perceived as a major task of workable development policy. Thus, instead of concrete policy measures, which often were poorly implemented or executed, the strengthening of governance became a major goal of policy advice from international organizations. The United Nations Development Program, on the forefront of the capacity-building movement, defines capacity development as “the process through which individuals, organizations and societies obtain, strengthen and maintain the capabilities to set and achieve their own development objectives.”¹ In North Korea, capacity building has been on the agenda since the beginning of foreign aid there, in the mid-1990s. Although for political reasons cooperation was mainly (and, for some organizations, depending on the donor state, entirely) restricted to humanitarian aid, in practice such a distinction soon became fiction. All projects other than the most basic forms of food aid, which merely had to be distributed, involved some form of capacity building.

The first reason for this was the gap in technologies between North Korea, which had been virtually closed for 60 years to most academic, scientific, and economic exchange and to the rest of the world. If medical supplies were delivered, for example, they could not be effective without basic training of doctors and nurses. Local staff of nongovernmental organizations (NGOs) had to be trained. Without capacity building most humanitarian projects were not effective. The provision of clean water and the establishment of a wastewater system in rural communities by German Agro Action, financed by ECHO, the European aid organization, needed to build in additional training on the use of lavatories and basic hygienic knowledge.

The second reason is that NGOs tried to overcome the problems of dependency of the local population on goods brought from the outside and instead focused on rehabilitation of the environment and local economy, often in the field of agriculture. This gradually became more important when the general economic situation of North Korea did not improve,

at least not fast enough to eradicate hunger and poverty, and when the outside relations of North Korea did not allow increased exchanges with foreign countries. Nevertheless, for political reasons capacity building, which smacks of official development aid, was and is largely a topic that retains a dubious status: everybody tried to do it in North Korea, but nobody really acknowledges it because it violates the restrictions that most donors (with notable exceptions such as Switzerland, China, and Russia) put on aid. Given the ambiguity of North Korea’s policy itself, this is not necessarily a bad situation because it means NGOs are trying what is possible, being limited as they are by a country not willing to embrace comprehensive reform and scared by the possibility of the loss of control after reforms are implemented. But, given these limiting factors, is capacity building feasible in North Korea?

This paper discusses the experience of capacity building in North Korea and in particular the experience of the Hanns-Seidel-Foundation (HSF), a German NGO and think tank involved in development projects around the globe. Since 2003 and 2004, HSF has taken various approaches to capacity building in North Korea through the use of seminars, scholarships, frequent discussions with officials, provision of educational materials, and other programs. The second part of this paper reviews the existing capacity-building projects in North Korea. Despite some meetings these activities are not coordinated; thus, a comprehensive overview is barely possible, but the main actors and programs can be identified. The subsequent section looks into the example of trade and investment policy, where much of the capacity building of HSF has taken place, using among other indicators the monitoring of seminar participants in North Korea. The last part discusses the impact of capacity building on North Korea’s prospects for reform.

Actors, Programs, and Outcomes of Capacity Building in North Korea

Capacity building has been a necessary ingredient in North Korea for all but the most simple food-distributing activities; at the same time it has been

1. “Improving Lives through Capacity Development,” *Annual Report 2008* (New York: United Nations Development Program, 2008), www.undp.org/publications/annualreport2008/capacity.shtml.

urgent because of North Korea's lack of scientific and economic exchanges with the rest of the world. In this sense, capacity building is important in all imaginable fields, from agriculture to environmental issues, from management to the use of new technologies. In many fields, the technological standards available in the 1950s and 1960s in the Soviet Union still represent the state of the art in North Korea, even if in some proudly presented fields, like military technology or animation and certain software production, North Korea sees itself as a modern country. The chances for successful capacity-building projects are restricted, however, to those fields where technical knowledge (in a wide sense) is concerned and where few managerial or even systemic implications of capacity building exist.

Although technical training in, for example, the international practices and standards of customs officials that are applicable to North Korea is the kind of training most likely to be accepted and carried out in North Korea, such projects are not necessarily the most important projects from the point of view of needs of the population. In agriculture, for instance, the main reason for insufficient production is the organization of farms as collectives instead of family-based units. This is well known and has been demonstrated clearly in the case of neighboring China, where agricultural productivity soared after changes to the system. In North Korea, however, numerous NGOs carried out much of the technical training regarding new machines, new breeds and seeds, and improved water management, but they could not tackle structural questions. Successful capacity building, therefore, must identify those projects that are legitimate in the view of the regime (that is, they do not challenge North Korea's current political-economic system in a fundamental way) and at the same time point at least in the right structural direction, allowing for development in some later stage.

The number of actors in capacity building for North Korea is small although it has widened since the beginning in the mid-1990s when the so-called Flood Damage Rehabilitation Committee invited foreign organizations to help North Korea overcome the great famine of the time, allegedly a result of flooding and other natural disasters.² In the 10 years from 1995 to 2005 the number of organizations involved either as resident NGOs or with activities managed from other places increased considerably, so much so that the North Korean government feared to lose control over the contacts of its citizens with these actors.³

European NGOs, which were not closely associated with the international efforts to denuclearize North Korea, played an important role here as they had slightly more leeway than NGOs from the United States and South Korea.⁴ The reorganization of NGOs in late 2005 was carried out under the label of changing the nature of cooperation from humanitarian assistance to development aid. It was, in fact, a reduction of foreign actors plus a streamlining of North Korean contacts to them: From December 2005 on, contacts were usually made through the regional departments of the Ministry of Foreign Affairs, which founded new front organizations like the Korean European Cooperation Coordinating Agency (KECCA) for all contacts with European NGOs. At the same time, the resident European NGOs, which by now comprised the majority of all resident NGOs, had to be reorganized as "units of the EU." Before, contacts could exist with various actors on various levels, often determined by political connections and leverage of functionaries in North Korea. Now the Foreign Ministry in most cases channeled and oversaw all contacts. For the specific purpose of acquiring funds for educational activities, the Korean Education Fund under the Ministry of Education has also been established.

2. Certainly during the Cold War capacity building took place in a different form, namely in exchange with socialist countries. In particular, North Korean students were sent to other socialist countries, mainly the Soviet Union, China, and other socialist countries, but also to East Germany, which focused on North Korea as its partner country in socialist development.

3. For a discussion of the NGO experience during this time, see L. Gordon Flake and Scott Snyder, *Paved with Good Intentions: The NGO Experience in North Korea* (Westport, Conn.: Praeger, 2003).

4. For an assessment of the relations of the EU to North Korea, see Bernhard Seliger, "The EU and North Korea: More than 'Funding the Bill'?" *Journal of East Asian Affairs* 22, no. 1 (2008): 79–98.

Among the most important actors in capacity building in North Korea have been international organizations like the United Nations Development Program (before it left North Korea), the United Nations Environmental Program, and the WFP. Although the mission of the WFP is food distribution, capacity building goes hand in hand with this effort, not the least for the WFP's own staff. Also of great importance are those NGOs that came to North Korea with a humanitarian mission. A typical example is German Agro Action (Welthungerhilfe), an NGO with a focus on agricultural humanitarian aid and structural aid. In North Korea, German Agro Action carried out a number of capacity-building activities related to its humanitarian projects, from the abovementioned water and sanitation project to rehabilitation projects for cooperative farms, from large-scale projects related to seed improvement to model projects on the land management of hillsides and other sloping land, one of the important topics of rural development. Hillside agriculture in the mostly mountainous North Korea has been a possibility for private, unrecorded farming during recent decades, but it has brought numerous environmental problems like deforestation and subsequent soil erosion.

Sloping-land management tries to improve hillside agriculture by capacity building (for example, providing simple ways to stop or reduce soil erosion by cultivation techniques), restriction of agricultural use in the most sensitive areas, and development of alternative income sources. Surely, given the sensitive nature of this private, tolerated, but not encouraged activity, here the conflict between the desirable and the possible in capacity building is quite strong. In addition, German Agro Action must stay within the limits of its humanitarian assignment. A similar approach, though not limited by considerations vis-à-vis the donor, has been taken by the Swiss Development Corporation, the official Swiss development agency, carrying out official agricultural development projects to contribute—in its own words—to more efficient farming, support for the reform process, and improved access to international organizations. Several other actors from Europe, New Zealand, and Canada are active

in other fields, from urban development projects to other projects including micro finance and environmental rehabilitation.

The next group of capacity-building activities is carried out by organizations not residing in North Korea but that send experts to North Korea or invite North Koreans abroad. Programs include those in the field of medicine, like those for the training of medical doctors for an extended period of time in various places in Germany; in the field of banking, which trains in Swedish institutions; in the field of language training, mostly in English in Great Britain and China; and in many other fields. Scholarships for North Korean students number several dozen every year. This is still small compared with the examples of China and Vietnam in the 1980s, but it is a beginning. And, although returning students or participants in training in former times often suffered from mistrust and isolation after their return to North Korea, this has changed. Their expert knowledge is now mostly highly welcome.⁵

There are a number of one-time activities, too. For example, the Canadian International Institute for Sustainable Development carried out a project on environmental planning capacity building in November 2005 in Beijing for North Korean participants. Although here the impact is smaller than with longer-term projects, the fields are more varied, allowing North Korea to gain experience in new fields and paving the way for other projects in these fields.

Among the largest donors of aid in the past 10 years have been the South Koreans and the Chinese. There is little information, however, on capacity-building activities from their side. In a more narrow sense, there must have been a lot of activities, for example, training on the use of modern machines brought by South Korea to agricultural collective farms in the North, or training in the new glass factory erected by China to aid North Korea. South Korean civil society organizations as well as public entities engaged in numerous activities with their Northern counterparts, also often involving training or knowledge

5. The activities of German political foundations like the Hanns-Seidel-Foundation also belong to this group of activities.

transfer.⁶ Generally, however, South Korean aid has been largely material and without any strings attached, including required training.

It is difficult to evaluate the programs in totality. As mentioned above, local success often does not correspond necessarily with the most important needs as seen from a broader perspective. Also, the coordination of activities remains poor. This is partly due to the difficulty of coordination in North Korea itself, where communication is severely hampered. The UN agencies and other international actors in Pyongyang usually meet for a Friday interagency meeting and, being so few, can provide a relatively good overview of activities taking place; but coordination is not encouraged by North Korea itself. In particular, South Korean donors are strictly separated from international donors. This can be explained on two levels: First, the state as a whole has no interest in donor coordination because fragmentation allows the government to exploit differences among donors. When the political situation makes an approach to one group of donors, for example, South Koreans, more difficult, another group can be easily substituted. This *divide et impera* approach has led to North Korea's success on a national scale to exploit its donors to a maximum. Second, the lack of communication among North Korean departments makes coordination difficult. This lack is related partly to overall poor communications, partly to the ubiquitous secrecy of the paranoid state, and partly to jealousy among departments. This severely reduces possibilities for knowledge spillovers from one entity to another, and it also reduces the effectiveness of training.

Success of capacity building is also structurally and intentionally limited by North Korea. For instance, staff rotation is a problem when it occurs too fast to exploit learning curves among the staff and requires constant beginnings at square one. Language requirements among the expert community is another issue: experts capable of speaking Korean are often directly or indirectly excluded from activities in

North Korea, which is one of the disputes surrounding the U.S. aid distribution in relation to the six-party talks. Last, the priorities of aid organizations and their North Korean counterparts are often diametrically opposed. The World Health Organization (WHO) experienced this when North Korea insisted for many years on modern computer equipment for telemedicine, an approach first declined by WHO owing to the lack of necessary infrastructure in North Korea, the lack of the possibility of training for local staff, and the lack of spare parts. Finally, WHO gave in to the North Korean pressure, knowing that it had chosen a problematic approach.

Another example is training for doctors: North Korea is mostly interested in the training of specialists who then can cater to the elite in state-of-the-art hospitals, not in training of general practitioners for the population. Although these examples show the shortcomings and limitations of capacity building, nevertheless it has to be stressed that hundreds of North Koreans have received training in varied fields of modern knowledge. During this training, they have been exposed for a shorter or longer period to a completely different set of ideas, and often they have been visibly shaken and transformed by these experiences. The next section describes in more detail one particular project, the EU-DPRK trade capacity project of HSF Korea.

Capacity Building in Trade and Investment: Experience of Hanns-Seidel-Foundation Korea

Although North Korea's current political situation causes many capacity-building projects to focus on agriculture, this is not necessarily the best way to improve North Korea's ability to feed its own population. Before 1989, North Korea had been one of the highly industrialized countries of the socialist bloc. The current high share of the country's output and employment occupied by agriculture is due to the decline of the industrial sector, not to any specialization according to North Korea's comparative advan-

6. For an evaluation, see Park Jin and Jung Seung-ho, "Ten Years of Economic Knowledge Cooperation with North Korea: Trends and Strategies," Working Paper Series 07-01 (Seoul: KDI School of Public Policy and Management, 2007). Also, a special role is played by the local and regional governments of South Korea; see Choi Yong-hwan, "The Roles of South Korean Central and Local Governments in Inter-Korean Cooperation," *North Korean Review* 4, no. 1 (2008): 109–20.

tage. The development of a few competitive export industries would probably be sufficient to solve the food shortages if export revenue were used to finance imports of food. As in the agricultural sector, however, structural impediments in industry—most importantly the lack of openness and, more narrowly, the lack of modern communication—prevent modernization of exporting industries.

In socialist times, trade often existed in the form of barter agreements as an adjustment mechanism used marginally to pay for goods not produced at home but necessary or desired by decision makers. For socialist countries, exploiting the rivalry of the Soviet Union and China to extract a maximum of aid often was easier than striking deals with them on exports. The organization of trade in North Korea was, as in other socialist countries, highly centralized, with a monopoly trade commission at the center. North Korea's experience with modern requirements for trade in terms of technical knowledge—customs and standards, for example—is largely absent. Therefore, capacity building in the sector of trade might be necessary, though not sufficient, to allow North Korea to integrate into world trade. This is the background for the EU-DPRK trade capacity project carried out by HSF after it accomplished some initial training in international finance in 2004 and 2005. The project is part of the Asia-Invest initiative of the European Union.

The EU-financed program Asia-Invest was launched in 1998 and aims to promote the internationalization of European and Asian small- and medium-size enterprises (SMEs). It supports the exchanging of experiences, networking, and matchmaking among European and Asian business organizations to promote the greater integration of European and Asian companies and the transfer of know-how and technology between the two regions. Capacity building in the field of international trade is part of this project. The EU-DPRK Trade Capacity Project is a joint project by HSF Korea with the Pyongyang International Information Center for new Technology and Economy (PIINTEC) and the EU-Korea Industrial Cooperation Agency (EUKICA) from Brussels, but in fact it is managed solely by HSF.

The aim of the project is capacity building for trade in North Korea, in particular through seminars with

European experts that have been set up to include specialists in North Korea. The specialists attending the seminars are roughly one-third from the state administration such as the Foreign Trade Ministry or sectoral ministries, the Foreign Trade Commission, and the Customs office. Another third of the participants comes from exporting companies, mainly from the general trading companies that nowadays enjoy a greater autonomy in exporting while under intense pressure to generate revenue. The last third comes from academia, from places such as the Kim Il-sung University or the University of the People's Economy.

With these capacity-building activities, HSF hopes to achieve a number of goals. Capacity building in North Korea first of all contributes to the general purpose of promoting the peaceful development of North Korea. Dialogue and cooperation between EU and North Korea partners foster mutual understanding and trust as well as improve general relations. This should thus allow the EU to gain a greater presence as a trusted economic and political actor in the region. Moreover, capacity building in the field of business intermediary groups and trade promotion organizations gives an impetus for economic reform. Although far from claiming that these rather isolated activities could transform the outlook of economic actors, they allow them a glimpse into the modern world economy and thereby increase their interest in knowing more about the outside world and participating in the opportunities of the global economy.

As of the end of 2008, seven seminars on international business, international trade, business intermediaries (chambers of commerce), export strategies, food safety standards, textile associations and trade, and customs procedures have been carried out, with several hundred participants in total and thousands of pages of material (and, increasingly, in the form of electronic data) provided. Given the difficult political circumstances, including the missile and nuclear tests of 2006 and the rocky six-party talks, this is a result that has been better than expected. Also, the participants rated the programs highly, as the regular monitoring of seminars shows. Monitoring, carried out by anonymous questionnaires on the spot, allows for a relatively undistorted response to the capacity-building activities.

Besides the seminars in trade, HSF also donated books and journals on economic issues to various institutions in North Korea like the Kim Il-sung University and the Grand People's Study House, which is a major public library that had a small scholarship program for North Koreans in Germany and that carried out other activities like a seminar on carbon (emissions) trading at the request of the Foreign Trade Ministry. In 2008, HSF also expanded its activities to include agriculture and forestry management. Therefore, in the past five years, HSF has been able to gain some experience with the specific circumstances of capacity building in North Korea. The following five lessons are condensed from this experience.⁷

- Relations with the bureaucracy are central and at the same time the most challenging variable in conducting capacity building in North Korea. Personal connections are helpful to overcome certain obstacles, beginning with the possibility of direct e-mail communication and to gain more leeway for activities. Understanding bureaucratic positioning is important because it reflects not only official ideology but also the fear of sanctions by higher echelons of the bureaucracy. These fears are not imaginary, but real, and frequently sanctions are issued.
- The overwhelming desire of participants in all our capacity-building seminars was “more practice” and more “practical lessons for Korea” instead of theories. This might be partly related to the fact that many participants possess no sound theoretical basis for discussing problems related to the economy. Mainly, though, it reflects the honest will to learn from capacity-building activities. In monitoring questionnaires of our capacity-building activities, filled in on the spot (in other words, without direct interference by possible minders) and evaluated anonymously, this was the single most important item. At the same time, such practical lessons are explicitly unwanted by the bureaucracy, fearing negative sanctions if it allows direct calls for changes in the economic system. Occasionally, during the

capacity-building measures, such calls came from the participants but were later censored by the North Korean officials responsible.

- Although many participants obviously had no prior knowledge of the seminar topics, there is a certain supply of educational materials available in the research institutes, universities, and bureaucracies of North Korea. Participants had access to macroeconomic teaching materials in a seminar on trade strategies, for example. It was even written that “recently books related to that topic [exports and export strategies] have been published lately in our country.” So, to some extent participants not only are personally knowledgeable about the market they encounter on a daily basis, but they also have a prior preconceived idea of how the market economy works—yet another sign that the ideological basis for the current economic system is long gone and that political reasons, such as fear of regime change, are responsible for maintaining the ideological system.
- Capacity building requires step-by-step approaches to participants, building upon earlier steps and allowing participants to accumulate learning. This is not yet possible in North Korea. Participants are selected completely by the North Korean side, and information on study materials for participants is irregular, to say the least. The lack of direct supervision over the preparation of seminar tasks is a major issue for nonresident NGOs. Therefore, capacity building is quite limited. Existing measures can only show North Koreans the importance of conducting capacity-building activities on a much larger scale.
- Political support for capacity-building projects is a main factor of success. This is true for support inside the country, although this is a variable out of control for most actors. It is also true for support from the outside by, for example, European politicians for EU-funded projects in North Korea. Because the North Korean side is expecting a long-term profitable relationship with the EU, support by the EU provides some leverage when

7. This evaluation is based on Bernhard Seliger, “Capacity Building for Economic Change in North Korea: The Experience of Hanns Seidel Foundation,” in *The European Union and North Korea*, ed. Park Myung-kyu, Park Sung-jo, and Bernhard Seliger (Berlin: LIT-Verlag, 2009 [forthcoming]).

course providers insist on the acceptance of the contents of a program or course, even if it might not be a priority for the North Korean bureaucracy. Political support is especially necessary to move away from technical or technological projects and move toward projects related to the institutional system. Such support also helps the Korean bureaucrats to justify programs vis-à-vis their superiors.

Capacity Building and Economic Reform in North Korea: A Tentative Conclusion

Certainly the most vexing question regarding capacity-building activities in North Korea is the question of how much such activities might foster the maintenance of the current regime, including its undesirable features. From the point of view of the mostly reluctant donors of aid—donors who are at the same time critical of North Korea’s nuclear program, proliferation activities, and human rights records—this question is absolutely legitimate.⁸ While the capacity-building activities discussed above have been undertaken at various levels and with various more or less comprehensive goals in view, here capacity building for economic reform, like in the EU-DPRK trade capacity project, will be discussed.

Undeniably, North Korea has shown numerous signs of economic transformation in the past decade.⁹ The substitution of the collapsed public distribution system with markets as the main way to supply goods dates from the early to mid-1990s. The reforms of July 2002 merely followed this de facto marketization of economic relations. At the same time, transformation has not been approved as a political aim; neither has it followed a political

strategy. It was the pressure of economic realities, rather than strategic planning, that brought North Korea’s leadership to accept changes in the face of possibly regime instability. The change as a result of necessity rather than political will also means, in the reverse, that an improvement of regime stability will lead to a possible retraction of certain tolerated or even encouraged steps toward opening and reform. Indeed, the tightening of working conditions of the NGOs in late 2005 as well as the changes in the market system in 2008, following the questions about the leader’s health, were such instances. Therefore, capacity building from the point of view of donors has to be evaluated in light of its possible support for undesired activities or fostering regime stability and thereby reversing changes it aims to foster.

Basically, every activity that takes North Koreans outside of the country or brings outside experts inside the country helps open up North Korea. The credibility of capacity building aiming for change requires also that projects are not carried out at any price, but that activities are decided with mutual consent and that even a withdrawal from North Korea remains a credible option. This is in particular a dilemma for NGOs residing in North Korea. They maintain an infrastructure often built up over the past decade or longer; also, the jobs of the residing expatriates often depend on their North Korean projects. For them, the decision not to carry out certain activities or even completely withdraw from North Korea is much more difficult, making them vulnerable to certain exploitation by North Korea. Some NGOs indeed did withdraw after they found out their working conditions were not acceptable. And, with regard to capacity building, the assertion that it increases regime stability seems to be far-fetched.¹⁰

8. For the relation of sanctions against nuclear North Korea and humanitarian assistance, see Kim Hyung-suk, Thomas T. Park, and Bernhard Seliger, “Economic Sanctions, North Korean Famine, and Humanitarian Assistance,” in *Economic Sanctions against a Nuclear North Korea: An Analysis of United States and United Nations Actions since 1950*, ed. Suk Hi Kim and Semoon Chang (Jefferson, N.C.: McFarland, 2007), 127–48.

9. For an overview, see my earlier publications on this topic: “Income, Wealth and Political Power in an Uneven Transformation Process: The Case of North Korea,” *North Korea Review* 2, no. 2 (Autumn 2006); “The July 2002 Reforms in North Korea: Liberman Style Reforms or Road to Transformation?” *North Korea Review* 1 (Fall 2005): 22–37; and “The North Korean Economy: Nuclear Crisis and Decline, or Peace and Reform in the Last Asian Dynastic Regime?” *Korea’s Economy 2004* 20 (2004): 77–86.

10. For a similar conclusion with regard to economy-related capacity building, see Peter M. Beck and Nicholas Reader, “Facilitating Reform in North Korea: The Role of Regional Actors and NGOs,” *Asian Perspective* 29, no. 3 (2005): 31–49.

But, even then, what can we hope to achieve in North Korea by capacity building? The answer to this question can be divided into short-run, medium-run, and long-run perspectives. In the short run, capacity building can improve, for example, economic, agricultural, and forestry organization and management in the existing framework of economic relations and try to explore minor changes of this framework itself as far as it is allowed by the North Korean counterparts. This can be a simple upgrade of knowledge, but it can also lead to more far-reaching results, such as the exploration of new organizational forms on a small scale. One project in the agricultural field, for example, allows that profits from certain activities are retained by small (family) units or caters (through appropriate packaging of small units of seeds) particularly to private gardening or farming on hillsides, practices that are otherwise not officially encouraged.

In the medium run, capacity building, which in the case of the EU-DPRK trade capacity project and in many other projects targets mid-level functionaries, will increase the pressure for opening North Korea to the outside. Mid-level functionaries are those directly experiencing the difficulties and impediments of the current economic structure. Showing them alternatives in economic organization, as the EU-DPRK trade capacity project explicitly and more often implicitly does through the frequent reference to the practically mandatory use of the Internet in modern communication, will enhance their understanding of the shortcomings of their own economic system.

Finally, in the long-run, these mid-level experts can be veritable agents of change, either when they climb up the ranks of bureaucracy, or in the event of systemic change, when technical experts will certainly be needed for restructuring. The German experience of integration shows that in the event of a unification governed by the South probably all important technical as well as managerial decision-making functions will be carried out for some time by the much-better-educated South Koreans. For some time before such a unification, however, expert knowledge will be needed for a period of transition in order to prevent North Korea from sliding into chaos in the case of a power vacuum.

Capacity building in North Korea still has a long way to go. However, it is important that there are projects; that there is a diversity of actors from abroad, among them NGOs; and that topics do not include only technical projects. As one participant in our activities put it: "It is better to train our specialist related to management and planning by help of your organization or the EU. I feel that the lack of experienced managers is an urgent issue." In this sense, HSF tries to understand its activities as a program to assist North Korea in its need for economic modernization and at the same time show possible routes of reform toward prosperity.

For the international community, dealing with North Korea on a number of so-called hard issues like the nuclear and missile policy and human rights concerns, capacity-building activities should be included in their short, medium, and long-run perspectives. In the short run, capacity building below the radar of official diplomatic relations should be encouraged even in times of political tensions, and this means politically accepted and appropriately funded. Money spent in this field is not wasted if it is always done under the condition that capacity building is not a pretext for transferring unaccounted money to North Korea, as it seemed to be sometimes the case of some intra-peninsula projects in the past. In the medium run, country strategies for capacity building in and with North Korea should be drawn up. This requires first a firm understanding that donors have a say in capacity building, for instance, on the way money is spent, and also that capacity building makes sense only if it is accepted by the local partners; that is, first- and second-track channels of communication with North Korea have to be maintained. In the long run, donor coordination becomes an important topic, in particular by including not only U.S. and European actors, but also South Korean and Chinese actors.

Engagement through capacity building is indeed possible and desirable, although it is for the time being still on the margins.

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