

Chapter 4.

Reconciling Nuclear Standoff and Economic Shortfalls

- **Pyongyang's Perspective**

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Perceptions of a problem define the context for its resolution. The same can be said about the persistent problem of nuclear proliferation in Northeast Asia. Nations with keen interest in the region – the two Koreas, China, Japan, Russia and the United States -- agree that nuclear proliferation on the peninsula, if not halted, will have a potentially devastating impact on their shared goal of peace and stability on the Korean Peninsula and throughout the region. Since at least 1991, these nations have invested continuous effort in trying to prevent nuclear proliferation there, but their efforts have thus far failed.

A contributing factor may well be the persistent gap in the respective perceptions of the two primary antagonists, the United States and North Korea. As the title of this chapter implies, the Korean nuclear proliferation problem seems directly linked to North Korea's economic woes. Washington and Tokyo, more than Pyongyang, subscribe to this perception. The present and past US administrations have sought to induce or coerce North Korea to give up its nuclear weapons activities and related materials in exchange for future prosperity.

Much to Washington's dismay, Pyongyang so far has rejected these overtures. Consequently, the problem persists. Here we assess North Korea's perception of the nuclear problem. Our aim is to better comprehend why a small, impoverished nation like North Korea would prefer to continue arming itself with weapons of mass destruction rather than voluntarily trade this pursuit for promises of prosperity.

Clashing Perceptions

Since 2001, the United States and Pyongyang have wrangled inconclusively over the cause and solution to the proliferation problem. Washington sees the problem in terms of North Korea's past conduct, or misconduct as viewed from Washington. Pyongyang counters that Washington's "hostile policy" toward it requires that it develop a "nuclear deterrence" in accordance with its "sovereign right" to defend itself. From these fundamental differences flow other contrary contributing factors that further complicate and continue to impede reaching a "peaceful diplomatic solution," both sides avowed goal.

The Clinton and Bush Administrations defined the problem as an integral part of global nuclear proliferation. This emphasis on “global” diminishes regional geo-political considerations. It reinforces Washington’s conviction that any solution must preserve the global counter proliferation regime per United States’ priorities. Within this context, both U.S. administrations have labeled North Korea a “rogue” or “evil” nation because of its past non-compliance with previous commitments to bilateral and multilateral nuclear non-proliferation accords. Here both US administrations have recited an impressive litany of North Korea’s unfulfilled commitments: the 1991 Joint South-North Declaration on the De-nuclearization of the Korean Peninsula, the 1992 North Korean nuclear safeguards agreement with the International Atomic Energy Agency, and the 1994 US-DPRK Agreed Framework, plus Pyongyang’s withdrawal from the Treaty on the Non-proliferation of Nuclear Weapons (NPT).

Washington’s solution has remained fundamentally unaltered since 1992, except for tactical differences between the Clinton and Bush Administrations. Both administrations’ perceptions of the nuclear problem identify economic considerations as the primary motive behind North Korea’s nuclear ambitions. They see this impoverished and economically isolated nation as attempting to convert its “nuclear card” into an economic windfall so that the Kim Jong Il regime can survive and prosper. Given this perspective, both administrations have sought either to entice or coerce North Korea into giving up its nuclear ambitions.¹

The United States’ preferred solution amply takes into consideration North Korea’s economic concerns, but ignores the national security and domestic political concerns of Pyongyang’s leadership. Until the gap narrows between the US and North Korean perspectives, a diplomatic solution of the Korean Peninsula’s nuclear problem will remain elusive.

A Question of National Security

For North Korea, the nuclear problem is all encompassing. It affects national security, domestic political concerns and pressing economic needs. Its ruler Supreme Commander Kim Jong Il prefers clear and persistent priorities in his policies. This is quite evident in his handling of the nuclear problem. First and foremost, it is a matter of national survival. Within this broad context, he pursues a policy and strategy consistent with the preferences of his primary political supporters, the North Korean People’s Army. To ensure that they have access to the resources vital for securing the nation’s defense, Kim must achieve economic revitalization.

Pyongyang, given its profound economic shortcomings, must yearn for the potential economic benefits that reconciliation with Washington offers, but of more immediate concern is countering Washington’s “hostile” policy. This has been North Korea’s consistent claim and concern since the Korean War ended in a stalemate in 1953. Ever since, it has alleged that the US’ conventional air, naval, and ground plus nuclear forces in South Korea, Japan and the western Pacific pose an imminent threat to its survival.

Further buttressing this threat, in Pyongyang's eyes, is Washington's refusal to normalize diplomatic relations and multiple layers of economic sanctions that impede its efforts at economic re-vitalization.²

North Korea, however, has responded positively to overtures from the United States only when the latter demonstrated sensitivity for Pyongyang's national security. For example, the first Bush Administration initiated in 1988 a cautious process aimed at defusing North Korea's hostility, ending its isolation from the international community and enticing it to forego its traditional coercive and occasionally belligerent foreign policy. The effort acquired the nickname, "Modest Initiative." It offered North Korea a modest package of diplomatic and economic inducements. They included the opening of a diplomatic channel of communication and the opportunity for North Korea to purchase "basic human needs" from the United States. But the icy bilateral relationship did not begin to thaw until 1991 when former President Bush told the United Nations General Assembly on September 27, 1991,

Last year, I cancelled US plans to modernize our ground-launched threat nuclear weapons. ... I am, therefore, directing the United States to eliminate its entire worldwide inventory of ground-launched short-range -- that is theater -- nuclear weapons. We will bring home and destroy all our nuclear artillery shells and short-range ballistic missile warheads.³

South Korean President Roh Tae Woo followed in November 1991 with a public pledge intended to "initiate the resolution of the nuclear issues on the Korean Peninsula." He promised that the Republic of Korea would "not manufacture, possess, store, deploy or use nuclear weapons." He also promised that South Korea would "submit to comprehensive international inspection of all nuclear-related activities and materials on its territory in compliance with the Treaty on the Non-proliferation of Nuclear Weapons (NPT) and with the nuclear safeguards agreement" it had concluded with the IAEA. The two presidents' remarks opened the door to the December 1991 "Joint North-South Declaration of the Denuclearization of the Korean Peninsula." That declaration built upon President Roh's unilateral pledges and set the stage for the two Koreas' subsequent signing of their Agreement on Reconciliation, Non-aggression and Exchanges.⁴

Alas, this initial effort soon faltered, compelling the United States to engage North Korea in direct negotiations that began in June 1993. Again, no progress was made at the initial round of talks until the United States again demonstrated sensitivity for North Korea's security concerns. This led to the US-DPRK Joint Statement of June 11, 1993. In this first ever joint statement between the two enemies, they agreed to the principle of "assurances against the threat and use of force, including nuclear weapons, and peace and security in a nuclear-free Korean Peninsula ..." In other words, in exchange for US promises not to attack it, North Korea agreed to suspend its withdrawal from the NPT. This opened the door to the negotiations that eventually yielded the October 21, 1994 Agreed Framework. Similar security assurances appeared in the 1994 agreement and in the October 12, 2000 US-DPRK Joint Communiqué issued when Kim Jong Il sent Vice

Marshal Jo Myung Rok to Washington to represent him at the highest level bilateral meeting between the two nations.

Revival of the “Hostile” Policy

Since 2001, North Korea has considered President George W. Bush’s criticism of the Agreed Framework and increasingly critical rhetoric aimed at North Korea and its leadership as an intensification of Washington’s “hostile” policy toward Pyongyang. The United States has been quick to dismiss North Korea’s claims of a “hostile” policy as unfounded. But to North Korea’s leaders, the US “hostile” policy is real. It is neither a propaganda motto nor a figment of the imagination. The allegation pre-dates the presidency of George W. Bush by several decades.

North Korea repeatedly referred to the U.S. “hostile policy” during the first nuclear crisis of 1993-94. When the first round of US-North Korea bilateral nuclear talks commenced on June 3, 1993, First Vice Minister of Foreign Affairs Kang Sok Ju declared,

Our decision to withdraw from the Nuclear Non-proliferation Treaty is the consequential outcome of the policy pursued by the United States so far over the last four decades since the end of the Korea War, a **policy of hostility** against the Democratic People’s Republic of Korea ...⁵

Kang went on to say in his opening remarks,

The point of immediate priority is that the United States rescind (sic) its **policy of strangling the DPRK and posing nuclear threat (sic) against the DPRK.**

Ten years later, North Korea was still citing the US “hostile” policy as the root cause of nuclear proliferation on the Korean Peninsula. On October 25, 2002, two weeks after North Korea’s apparent admission to having a clandestine highly enriched uranium (HEU) program, Pyongyang’s Foreign Ministry spokesman stated,

As far as the nuclear issue on the Korean Peninsula is concerned, it cropped up as the US has massively stockpiled nuclear weapons in South Korea and its vicinity and threatened the DPRK, a small country, with those weapons for nearly half a century, pursuing a **hostile policy** toward it in accordance with the strategy for world supremacy.⁶

North Korean chief delegate to the United Nations General Assembly’s 2004 session, Vice Minister Choe Su Hon, continued the same theme in his address to the assembly. He said that, “the nuclear issue is the product of the deep-rooted hostile policy on (sic) the DPRK pursued by the US for more than half a century.” Choe continued, “The nuclear deterrent of the DPRK constitutes a legitimate self-defensive means to counter

every-growing US nuclear threat and aggression against the DPRK ...” He then claimed, “If the United States renounces practically its hostile policy on the DPRK including the cessation of nuclear threats, the DPRK also is willing to scrap its nuclear deterrent accordingly.”

For North Korea, the United States’ “hostile policy” has and continues to be the cause of nuclear proliferation on the Korean Peninsula. North Korea thus points to President George W. Bush’s sometimes blunt criticism of North Korea’s leadership and inclusion of North Korea in his “axis of evil” not as causes but symptoms of the nuclear proliferation problem.⁷

Similar Concerns, Shared Solution

South Korea’s admission in September 2004 to prior “small” violations of the Treaty on the Non-proliferation of Nuclear Weapons (NPT) has further intensified North Korea’s suspicions about the long term objectives of South Korea and the United States. The South Korean government admitted to the International Atomic Energy Agency (IAEA) in August 2004 that a few “rogue” scientists had conducted “small” nuclear experiments in 1982 and 2000 that technically violated its nuclear safe guards commitments under the NPT. An official of President Kim Yong-sam’s administration (1993-98) claimed that a third such experiment had been conducted in 1993. All the experiments were of a small scale, but nuclear weapons related. IAEA Director General Mohamed El Barradei told the UN organization’s board of directors on September 13 that the experiments were “a matter of serious concern” since they were not previously reported to the IAEA “as required by the ROK safeguards agreement.”⁸

One of North Korea’s ambassadors to the United Nations, Han Song-ryol, voiced Pyongyang’s initial reaction to Seoul’s admissions in an interview with South Korea’s Yonhap News Agency on September 8, 2004. Han was quoted as having said that his government views South Korea’s actions “in the context of an arms race in Northeast Asia.” He added that Seoul’s nuclear experiments were “a dangerous move that would accelerate a nuclear arms race in Northeast Asia.”

Pyongyang’s formal reaction followed on September 11 in a “Statement of the DPRK Foreign Ministry Spokesman.” In this authoritative statement of policy, the spokesman said his government has a “strong suspicion that the disclosed experiments might be conducted at the instruction of the United States ...” He accused the US of applying “a double standards (sic)” regarding the transfer of nuclear technology to its allies and has “connived at their faking up ‘misinformation’ about the DPRK on account of its ideology and system.”

Seoul, like Pyongyang, shares two underlying motives for their respective nuclear activities. National interests drive both nations’ foreign policy, and security tops their lists of national interests. Secondly, neither trusts the United States, but for different reasons. Pyongyang sees the United States as the primary threat to its survival. Seoul fears that the United States will withdraw from the Korean Peninsula, exposing it to its primary enemy North Korea. For both Koreas, the solution is the same – develop a “self

reliant” defense that encompasses a nuclear weapons capability. This suggests that economic considerations are of secondary importance, even in Pyongyang.

Kim Jong II’s Political Considerations

Kim Jong II is an authoritarian ruler. To remain in power, Kim must retain the confidence and loyalty of his domain’s decisive political force, the Korean People’s Army (KPA) and its generals. This is alluded to in Kim’s preferred official titles, the Supreme Commander and Chairman of the National Defense Commission. In September 1998 when he formally stepped out of his father Kim Il Sung’s shadow and assumed leadership of North Korea, Kim Jong II declared that he would create a “strong and great nation” (*kangsong taeguk*). This announcement coincided with the fiftieth anniversary of the DPRK’s founding and the sixty sixth anniversary of the KPA.

Kim Jong II moved quickly to crystallize his close political association to the KPA. On September 5, 1998, the Supreme People’s Assembly (SPA), North Korea’s legislature, revised the constitution to name the National Defense Commission (NSC) as the government’s foremost ruling body. Kim Jong II was designated its chairman and high ranking military officials filled seven of its ten positions. Meanwhile, the number of military officials serving in the SPA had climbed from 62 in the previous session to 111 in the September 1998 session. Of these 111 generals, 75 were two star generals or of higher rank. Between 1960 and 1994, the number of military officials in the SPA had averaged only about forty representatives.⁹

A further indication of Kim’s efforts to align his civil administrative goals and priorities with those of his military was his institution of a joint Korean Workers’ Party – Korean People’s Army New Year’s editorial. Prior to 1999, the nation’s mass media ran an annual New Year’s Day editorial on January 1, a practice Kim Jong II’s father had initiated. But beginning in 1999, the younger Kim authorized a joint editorial that set forth his policy priorities for the forthcoming year.

The 1999 editorial proclaimed the nation’s foremost priority to be the building of a “*kangsong taeguk*.” The term was defined as “the combative slogan our Party and people should uphold. A socialist *kangsong taeguk* is a *juche*-oriented country that is dyed throughout with the ideas of Great Comrade Kim Jong II.” Its goal is to build “an impregnable fortress” because:

The imperialists (i.e. the United States and its allies) are more viciously imposing politico-military pressures upon us and economic sanctions against us to squeeze our Republic to death. Under the imperialist siege, we should make our country stronger ideologically and militarily, strengthen in every way our economic power, safeguard socialism of our own style, ... Our general onward march to glorify this year as a turning point in building a *kangsong taeguk* is a requirement for shattering the

imperialists' plot against our republic and safeguarding a socialism of our own style.¹⁰

The KPA was anointed the pillar of “a militarily strong socialist country and the foremost life-or-death unit safeguarding the *suryong* (Supreme Commander Kim Jong Il).” Kim designated his policy “*songun*,” that is “military first.”

Strategic Choices

Kim Jong Il, at least two years before the 2001 change of presidential administrations in the United States, had established national defense as his foremost goal. This was consistent with his father's views and the younger Kim's earlier writings. Within the context of his “military first” priority, Kim listed his nation's economic development. Earlier, Kim is credited with having written,

... victory or defeat in modern war depends largely on whether or not manpower and material resources necessary for the war effort are ensured for a long period. ... Upholding the policy of building the economy and defence (sic) simultaneously, our (Korean Workers') Party has made good preparations both militarily and materially and built up both the front-line areas and home front to cope with war.”¹¹

In 1999, Kim Jong Il retained his priorities of defense first followed by economic development. He seems to have shifted primary responsibility for both, however, to his military. After all, it is the KPA that has had responsibility for sustaining North Korea's defense capability. Prior to the Soviet Union's collapse in 1990, this had required maintaining a close alliance with the Soviet Union. Soviet military assistance enabled the KPA to maintain at least parity with the combined conventional forces of South Korea and the United States. Equally important was the Soviet nuclear umbrella that matched the US umbrella over South Korea. But the Soviet Union's collapse undermined North Korea's deterrence capability and exposed it to its worst enemies, South Korea and the United States.

By 1992, North Korea appears to have overhauled its military strategy. Lacking assistance from both the Soviet Union and China, and hard pressed economically at home, North Korea could ill afford to strive for parity with its enemies in conventional and nuclear weapons. Additionally, the United States' awesome display of superior conventional weapons technology during the 1991 Gulf War must have stunned North Korea's generals. Their massive and previously mighty array of Soviet-designed weaponry was identical to that Iraq possessed at the time. Despite appearances, the United States military quickly and easily rendered such armaments impotent and obsolete. Lacking the technology, military assistance and economic means to modernize its conventional forces, North Korea appears to have opted to develop a “self reliant” nuclear deterrence capability.

The US-North Korea nuclear negotiations and diplomatic agreement of 1994, however, appear to have at least stalled the North Korean military's pursuit of a nuclear capability. At that time, Kim Jong Il apparently opted to take full advantage of the diplomatic and economic benefits that the US offered in exchange for halting his nuclear weapons program. The inducements were indeed attractive. They included two modern nuclear light water reactors, the phased normalization of bilateral diplomatic and economic relations with the United States, plus 500,000 metric tons of heavy fuel oil to generate electricity until the nuclear reactors began operations. Often overlooked, however, has been the equally important U.S. inducement regarding North Korea's security. The Clinton Administration had given and repeatedly reaffirmed security assurances that the United States would not threaten to use either nuclear or conventional military force against North Korea.

Political Realities

Against this back drop, and given Kim's prior commitments to his generals, one could hardly expect him to abruptly forego his "military first" and "great and powerful nation" priorities to accommodate the demands of his foremost enemy, the United States. Since 2001, those demands have accentuated North Korea's unilateral disarmament of all weapons of mass destruction without any prior substantial concessions from the United States. Such a move by Kim would require that he trust his enemy not to attack his domain.

President George W. Bush's words and deeds since entering office have not been reassuring in this regard. He invaded Iraq to seek out and destroy its prior ruler's imagined arsenal of weapons of mass destruction. Bush has refused to grant North Korea security assurances as a first step toward possible further talks and eventual disarmament. Nor has Bush's reluctance to shelve his "military option" encouraged Kim to believe that the United States would not invade it once it has unilaterally disarmed.

Kim's reluctance to conform to Bush's demands most likely reflects such concerns. We cannot say for certain. But given North Korea's authoritarian government, it would seem safe to conjecture that Kim's concerns are accurately reflected in his mass media. Most obvious is that Kim does not trust Bush. Also, while Kim appears confident in his generals' loyalty to him, he may harbor reservations about their willingness, over the long term, to comply with the terms of a negotiated settlement, especially if it requires North Korea's total and unilateral disarmament.

Economic Realities

Kim Jong Il's reluctance to bow to the disarmament demands of the U.S. and its allies has imposed a tremendous burden on the North Korean people. They have had to endure starvation, disease and poverty since he succeeded his father in 1994. North Korea avoided political turmoil and economic collapse in the 1990s. Arguably this was more because of the North Korean peoples' pervasive sense of self discipline, intense work ethic and combination of fear and national pride than the astuteness of Kim Jong Il's policies.

But Kim Jong Il's adroit foreign policy has enabled North Korea to side step the dilemma that the United States and it allies have confronted Pyongyang with since 1988. That dilemma was designed to confront him with a choice. He could exchange the end of his weapons of mass destruction programs for impressive economic inducements plus the normalization of diplomatic relations with the United States and Japan. Otherwise, his nation must continue to be denied normal diplomatic relations with the United States and Japan, remain under U.S. economic sanctions, barred from membership in international financial organizations like the Asian Development Bank (ADB) and denied the foreign direct investment that North Korea desperately needs to re-invigorate its economy and to modernize its industrial and transportation infrastructures, among other things.

Since 1995, the Kim Jong Il regime has successfully walked a tight rope between submitting to Washington's demands and falling into the pit of political and economic collapse. The most urgent need to avoid catastrophe was the acquisition of food for the starving population followed by the restoration of North Korea's agrarian sector. The regime also had to quickly acquire sufficient crude oil to quench the thirst of his military machine and industrial sector. Finally, to sustain access to food and fuel, the regime must modernize the nation's economic infrastructure. This requires modern technology and foreign investment. Kim Jong Il has tentatively accomplished the first two tasks regarding food and fuel, and is making some steady progress regarding technology, but the critical shortage of investment capital persists.¹²

DPRK Major Economic Indicators

Source: Bank of Korea, *VantagePoint* (July 2005) p. 22

	2000	2001	2002	2003	2004
Population*	22.175	22.253	22.369	22,522	22.709
GDP (+/-)	+1.3%	+3.7%	+1.2%	+1.8%	+2.2%
Trade:					
Exports	\$ 5.6	\$ 6.5	\$ 7.3	\$ 7.8	\$10.2
Imports	\$14.1	\$16.2	\$15.3	\$16.1	\$18.4
Total USD**	\$19.7	\$22.7	\$22.6	\$23.9	\$28.6

- *millions
- **USD 4 100 millions

Food

Kim Jong Il began restoration of his domain in the fall of 1995 by seeking humanitarian assistance from the international community. The response was prompt and generous as evident in the following chart.

Total Food Aid to DPRK¹³
1995-2001 - 1,000 Metric tons (M/T)

	1996	1997	1998	1999	2000	2001	TOTAL
Govern	779.3	464.25	747.1	823.0	888.2	971.7	4,673,500
NGO	65.2	185.6	260.1	26.0	48.9	39.6	625,400
Total	844.5	649.8	1,007.2	849.0	937.1	1,011.3	5,298,900

Donor	Govern		NGO	TOTAL	% Total
USA	1,322,300	28.3%	12,024	1,334,324	25.2%
RoKorea	789,700	16.9%	292,289	1,081,989	20.3%
Japan	701,800	15.0%	2,095	703,895	13.3%
China	618,500	13.2%	-----	618,500	11.7%
Sub-total	3,432,300	73.4%	306,418	3,738,718	70.5%
Europe	720,960	15.4%	261,065	982,025	18.5%
Middle East	370,150	7.9%	-----	370,150	7.0%
South/S.E. Asia	120,100	2.6%	9,417	129,517	
North America	29,800	0.6%	48,500	78,300	
Total	4,673,310	99.9%	625,400	5,298,710	

(a) Note: The years listed in the above chart are “harvest years,” not calendar years. They run from October 1995 to the end of September 1996. Also, the amounts of food aid reflect the total amount delivered within the designated “harvest year,” not the time frame that a government or other organization pledged food aid.

(b) Chart I Sources: The above data was compiled from a variety of UN World Food Program (WFP) and UN Food and Agriculture (FAO) reports issued beginning in December 1995 and continuing to 2002. The reports of the WFP’s Pyongyang Office’s periodic “Situation Reports” and periodic reports of Deliveries of Food Aid to the DPRK” were particularly helpful. Also invaluable was the annual “United Nations Consolidated Inter-Agency Appeal for Flood-related Emergency, Humanitarian Assistance to the Democratic People’s Republic of Korea,” Geneva: U.N. Department of Humanitarian Affairs, 1996-2002. The author collected copies of the early reports, fall of 1995 through 1996, directly from the WFP’s Pyongyang office. These materials are now difficult to obtain. Most other reports dating from 1997 are available at www.reliefweb.int/ocha. An equally valuable source is the Pyongyang office of the UN Office of the Coordinator of Humanitarian Aid (OCHA), “DPR.Korea: Humanitarian Situation Bulletin.” The report is distributed monthly via email: ocha.dprk@wfp.org.

Gains in food production have steadily reduced food aid needs. The annual estimated need, according to the World Food Program, has dropped from 1.145 million M/T in 1996 to 544,000 M/T in 2003. The amount of food aid North Korea received in 1996 amounted to 844,600 M/T, or about 16% of estimated total need. A poor harvest in 2001 increased the need for food aid to 1,370,000 M/T (27% of estimated grain consumption). The international community supplied 1,011,300 M/T of food aid, or 74% of this need. One year later, however, increased domestic production cut the food aid need by 37% to 512,000 M/T. By 2003, the estimated need for food aid had declined 40% to 544,000.

The UN Food and Agriculture Organization (FAO) and WFP reported at the end of November 2004 that North Korea's 2004 grain harvest exceeded that of the previous year by 2.9 percent. In 2004, rice production was up 5.6 percent over 2003, potato yield climbed 9 percent while maize production was unchanged. North Korea's dependence on food aid continues to decline. Nevertheless, it will still need an estimated 497,000 M/T of grain for the forthcoming year, 2004-05. Of this amount, however, 170,000 M/T have already been pledged or are on hand as of November 2004.¹⁴

In 2004, North Korea received more food aid than it needs. The UN FAO estimated in the fall of 2003 that North Korea had a deficit of 944,000 metric tons of grain relative to production. But since then, grain aid to North Korea has exceeded this need. China has contributed an estimated 500,000 M/T, which reduced the deficit to 444,000 M/T. South Korea has begun delivering the 400,000 M/T it promised in June 2004, further cutting the deficit to 44,000 M/T. Russia's delivery of 35,000 M/T in July, 2004 followed by the US contribution of 50,000 M/T has erased the deficit.

Nevertheless, Japan and South Korea began delivering an additional 250,000 M/T tons in the fall of 2004. Japan in September 2004 began delivering 125,000 M/T of rice, half the amount it had pledged to give North Korea in June 2004. South Korea announced on October 23, 2004 that it would deliver 100,000 M/T of corn to North Korea. Since the US, Japanese and South Korean contributions (275,000 M/T of grain) are being funneled through the World Fund Program (WFP), that UN agency will be able to use any surplus grain to repay the amounts of grain it had borrowed earlier from other nations' aid allocations.¹⁵

North Korea's dependence on foreign food aid continued to decline in 2005. The U.S. Department of Agriculture on November 28, 2005 announced that it believes North Korea's 2005 grain production will be approximately 3.64 million tons. This includes maize, rice, wheat, and barley, but not potatoes.

A significant portion of this increased grain production is a consequence of South Korea's contribution of 350,000 metric tons of chemical fertilizer to North Korea between April and July 2005. South Korea's first delivery of fertilizer to North Korea was made in 1999 and totaled 155,000 metric tons. The deliveries have continued ever since: 200,000 tons in 2000 and again in 2001, and 300,000 tons in 2002, 2003 and 2004.

If this U.S. estimate proves close to the actual harvest, it would mean that the 2005 grain harvest is the highest since 1996 and is 4% higher than 2004. The United Nations Food and Agriculture Organization (FAO) is expected to release its annual report on North Korean grain and potato production at the beginning of 2006.

Despite the continuing improvement in grain production, North Korea still needs food aid to fulfill its basic requirements. In July 2005, Seoul promised to provide North Korea 500,000 metric tons of rice (400,000 tons from Korean storage and 100,000 purchased from other nations). Although officially considered a “loan,” this aid is worth about USD \$155 million for the grain plus another USD 32.9 million for transportation and distribution costs. Meanwhile, the United States announced that it would “suspend” further delivery of the 50,000 metric tons of food aid that it had previously promised to supply North Korea via the World Food Program.

The North Korean government in September 2005 notified international humanitarian organizations that it no longer needed food aid from the international community. Instead, Pyongyang asked private and international aid agencies to shift from providing food aid to instead supporting sustainable development projects. Consequently, the World Food Program (WFP), which has maintained a presence in North Korea since October 1995, is scheduled to close its Pyongyang office in the spring of 2006. By November 2005, the WFP had already closed its branch offices outside Pyongyang and moved its international staff of 42 persons back to the North Korean capital.

Sustainable Humanitarian Aid

Kim Jong Il also has successfully supplemented his meager capital investment resources by encouraging donor nations to shift their aid from food to other forms of assistance. As food aid needs have declined, donor organizations and governments have shifted to supplying fertilizers, farm equipment and other essential inputs. The public health sector has also greatly benefited and consequently the health and welfare of the North Korea people has steadily improved.

South Korea: South Korea initially backed the US strategy of confronting North Korea with a dilemma, but since 1998 its policies have drifted toward a more conciliatory posture. The Kim Dae-jung Administration initiated this “drift” in 1998 by declaring its so-called “sunshine policy” that accented humanitarian and economic aid for North Korea in exchange for peaceful dialogue. While maintaining a resolute armed deterrence posture toward North Korea, President Kim sought to use aid to defuse Pyongyang’s hostility and to move North Korea toward reconciliation. President Roh Moo-hyun, Kim’s successor, has continued a similar strategy under the banner of “economic cooperation.”

Subsequent to the 1998 shift, Seoul has replaced Washington as the leading contributor of aid to North Korea. South Korea from 1995 to 2004 provided North Korea a total of USD 1.16 billion in assistance. Of this amount, USD \$424.77 worth of aid was channeled to North Korea through private non-governmental organizations (NGO) in

South Korea. In 2000, South Korea established the Inter-Korea Cooperation Fund which provided North Korea USD \$24.63 worth of medical assistance. The trend in South Korea's aid is evident in the following charts.

Simultaneously, the nature of South Korea's humanitarian aid to North Korea has changed gradually since 1995. The aid initially emphasized food, but since 1999 it has become increasingly diverse. In 2001, South Korea provided the DPRK with USD135.39 million worth of aid, a 19% increase over 2000 according to the ROK Unification Ministry. Government aid totaled USD70.45 million, a 10.4% decrease from 2000. But South Korean civic organizations (NGOs) increased the value of their aid by 85% to \$64.94 million. The government aid included: 100,000 M/T of corn (delivered via the World Food Program), 200,000M/T of fertilizer, and 1.5 million pairs of children's underwear, according the Unification Ministry. South Korea's 2001 aid to North Korea equaled about one third of its total foreign aid to developing nations. These various shifts in the type of aid are reflected in the following charts.¹⁶

Chart II
South Korean Humanitarian Aid
1995 – 2002, USD 10,000

Year	Government	Private	Total
1995	\$23,200	\$ 25	\$23,225
1996	305	155	460
1997	2,667	2,056	4,723
1998	1,100	2,085	3,185
1999	2,825	1,863	4,688
2000	7,863	3,513	11,376
2001	7,045	6,494	13,539
2002	8,375	5,117	13,492
Total	53,380	21,308	74,688

Chart II Source: RoKorea Ministry of Unification, *Promoting Peace and Cooperation*. Seoul: Ministry of Unification, 2003. p.154. Also see: Ro Korea Ministry of Unification, *Peace and Cooperation – White Paper on Korean Unification*. Seoul: Ministry of Unification, 2002. pp. 146-153.

Chart III.
South Korean Humanitarian Aid by Type
(Unit: USD10,000)

Type of Aid	1995	1996	1997	1998	1999	2000	2001	2002	Total
General	23,225	455	4,329	2,891	565	1,434	6,067	4,174	43,140
(a)									
(%)	0%	99%	92%	91%	12%	13%	45%	31%	58%
Rural Rehab	0	5	205	254	3,941	8,562	5,476	7,351	25,794
(b)									
(%)	-	1%	4%	8%	84%	75%	40%	54%	34%
Public Health	0	0	189	40	182	1,380	1,996	1,967	5,754
(c)									
(%)	-	-	4%	1%	4%	12%	15%	15%	8%

- (a) This category includes primarily food aid (rice, corn, wheat flour and dried milk. Since 1999, it has also included fertilizer, seeds and pesticides in addition to food aid.)
- (b) Rural rehabilitation activities include: agricultural exchanges, farm and animal husbandry, model farms, farm machinery and reforestation.
- (c) Public health has concentrated on tuberculosis eradication conducted by South Korean NGOs and their foreign partners.
- (d) Sources for Chart III: RoKorea Ministry of Unification, *Promoting Peace and Cooperation*. Seoul: Ministry of Unification, 2003. p.155. Also see: Ro Korea Ministry of Unification, *Peace and Cooperation – White Paper on Korean Unification*. Seoul: Ministry of Unification, 2002. pp. 146-153.

China's Aid: As South Korea moved up to replace the United States as the second largest aid donor to North Korea, China took over the number two position. China's 1992 normalization of relations with South Korea committed Beijing's Korean Peninsula policy to sustaining balanced ties with both Koreas. North Korea, long China's favorite, initially resented China's changed stance. North Korea's declining economic fortunes combined with China's growing strategic concerns about North Korea's future helped to restore congenial bilateral relations by 1996. Concerned that the Kim Jong Il regime might collapse and create a power vacuum on its northeast border, China moved decisively to prevent this in order to forestall the possibility that the US might assert its influence over the entire Korean Peninsula.

China's strategy to sustain North Korea is evident in the 1996 China-DPRK Agreement on Economic and Technical Exchange. Under this accord, China pledged to provide the DPRK each year beginning in 1997 and continuing to 2002: 500,000 M/T of food, 120,000 tons of crude oil, and 150,000 M/T of coal. These commodities were to be "paid for eventually" (and theoretically), but on an interest free basis. A similar deal was struck in April 2002 when Kim Jong Il visited Beijing and Shanghai.¹⁷

Additionally, China has provided North Korea the following “no-cost” aid:

- 1997: 170,000 M/T of rice
- 1998: 100,000 M/T food aid, 20,000 M/T of chemical fertilizer and 80,000 M/T of oil
- 1999: 150,000 M/T food aid, 400,000 M/T of “cocus” (unknown food),
- 2000: 10,000 meters of cloth for student uniforms
- 2001: 15,000 M/T of light fuel oil and 579,000 M/T of crude oil
- 2002: 472,000 M/T of crude oil

China continues to provide substantial economic assistance to North Korea but prefers either not to make public the value of its aid or to call it “investment.” For example, when Chinese President Hu Jintao visited Pyongyang October 28-30, 2005, he is believed to have provided valuable aid to North Korea in the form of basic commodities such as coal, crude oil and grain. No official announcement, however, of this aid was made. During the trip, President Hu joined North Korean leader Kim Jong Il to commemorate the opening of the Taean Friendship Glass Factory. Located southwest of Pyongyang, the factory will produce 200 tons of glass daily. Up to 60 percent of the glass will be exported to Russia and the remainder slated for domestic use. China “invested” USD \$24 million to build the plant.

China is also providing training to at least 400 North Koreans youths in various areas of advance technology, international trade and other field critical for North Korea’s economic modernization and entry into the international market place.

European Commission’s Aid: The European Commission (EC), the European Union’s (EU) executive body, initiated humanitarian aid to the DPRK in October 1995 and has continued its aid despite the chill in the EC’s political relations with North Korea since 2002. The total value of the EC’s aid to North Korea between 1995 and 2002 ranks it the third largest donor behind South Korea and China. This puts the EC ahead of Japan, once the third largest aid donor.

The EC began providing significant amounts of food aid in 1997. By 2001, this aid amounted to Euro 168 million and was delivered as follows:

- 106 million (including Euro 6 million from European Non Governmental Organizations or NGOs) sent bilaterally;
- Euro 50 million given to the World Food Program of which European NGOs distributed Euro 12 million;
- Euro 11 million via seven European NGOs: CESVI (Italy), Concern, Children’s Aid Direct, *Action Contra La Faim*, German Agro Action, *Medicines Sans Frontieres*, Triangle.

The European Commission’s Humanitarian Aid Office (ECHO) has coordinated these various aid activities. Between 1995 and 2000, it oversaw the distribution of 1.9 million metric tons of food aid worth USD85 million in the DPRK through the NGO coordinated Food Aid Liaison Unit (FALU). ECHO also has annually funded several major public

health projects. Since 2001, it has contributed more than Euro 24 million for these projects which include:

- prosthesis factory,
- orthopedic hospital,
- 12 county hospitals, a rural operating theater,
- 12 nurseries and several cafeterias for children.
- de-worming and Vitamin A to 500,000 children and supplied nutrients to 200,000 pregnant and child-bearing women.

In March and April 2003, the EC delivered 130,000 metric tons of urea fertilizer to the DPRK, plus an additional 46,000 M/T of wheat worth Euros 9.5 million for pregnant and nursing women and children.¹⁸

As of December 2005, however, the DPRK has asked the EC to discontinue all support for European NGOs engaged in food assistance. As a consequence, all but three EC affiliated NGOs resident in Pyongyang will close their offices at the end of 2005 and withdraw their resident staffs. Canada's GAIN, and one NGO each from Switzerland and Sweden will be allowed to maintain resident staff in Pyongyang. All three are involved in "sustainable development" projects. The Canadians are teaching English and information technology. The Swiss and Swedes also are maintaining training programs that include about 200 North Koreans now studying international business and foreign languages in Europe.

European and American NGOs

Other European and American based NGOs will be able to continue their programs in North Korea, but they will not be permitted to have staff members residing in Pyongyang. For example, the US based NGOs Mercy Corps and World Vision will continue their projects in fruit orchards and fish farming. Two other American NGOs, Christian Friends of Korea and the Graham Bell Foundation (a largely South Korean funded NGO) will continue their work in the public health area. Syracuse University and the American Friends Service Committee (AFSC) will also continue their education exchange programs. The Syracuse program involves Pyongyang's Kimchaek University and provides training in information technology. AFSC specializes in arranging visits to medical centers and farms in the United States.

International Organizations

All United Nations funded international organizations will continue uninterrupted operation in North Korea except the World Food Program. The United Nations Development Organization (UNDP) will continue as the chief UN office and will continue to support a variety of sustainable development projects, particularly in agriculture and the training of North Koreans. The World Health Organization (WHO) will maintain several programs devoted to the improvement of public health. UNICEF will continue to concentrate on improving health and nutrition for children. The UN Family Planning Agency will continue its training and public education efforts. The

accumulative, positive long term value of these agencies' combined programs far exceeds that of their cost. The United Nations reportedly raised USD \$127 million in 2004 to support its various humanitarian programs for North Korea. This amount includes USD \$94.8 million raised by the World Food Program and USD \$17 million raised by UNICEF (United Nations Children's Fund).

Humanitarian Aid's Dollar Value

The value of all humanitarian aid that North Korea has and continues to receive is virtually impossible to estimate with any precision. Based on estimated values provided by UN organizations and various government organizations, the following chart provides some indication. Between 1995 and 2002, the largest contributors gave North Korea an estimated \$2 billion dollars of food and other aid. Total contributions from other nations would increase this amount significantly.¹⁹

Chart IV.
Value of Aid to North Korea, 1995-2002
Major Aid Donors (USD)

<u>National by Rank</u>	<u>Official Aid</u>	<u>Private Aid</u>	<u>Total</u>
1. United States	\$620,000,000	U/A	
2. South Korea	538,800,000	\$208,000,000	\$746,880,000
3. European Union (EU)	284,700,000	U/A	
4. China (a)	270,000,000	U/A	
5. Japan	256,500,000	U/A	
Total	\$1,9700,000,000	\$208,000,000	\$2,178,000,000

- (a) The amount of Chinese humanitarian aid appears smaller than the actual number, probably because it includes only the value of food aid from the central government but not provincial food aid and economic assistance in the form of crude oil and other basic commodities.
- (b) Sources for Chart IV: The above data was tabulated from the annual UN report entitled, "United Nations Consolidated Inter-Agency Appeal for Flood-related Emergency, Humanitarian Assistance to the Democratic People's Republic of Korea," Geneva: U.N. Department of Humanitarian Affairs, 1996-2002. The numbers should be seen as a generally accurate indication of each donor's contribution, but not taken as a precise figure of all contributions given the varying comprehensiveness each government's and private donors report to the United Nations office in Pyongyang.

Speaking in humanitarian and political terms, this aid certainly prevented the deaths of hundreds of thousands of North Koreans from starvation and disease. Politically, it would be difficult to deny that the aid sustained the Kim regime's survival during a profound and pervasive public health crisis between 1995 and 2000. The extent to which the aid has altered the North Korean people's perception of the international community remains to be determined. As a consequence of the aid, North Korea now is a much more open and internationally accessible society than it was in 1995.

Fuel

Kim Jong Il's other critical need to avoid regime collapse is fossil fuel in the form of crude oil, natural gas and coal. North Korea has no known significant reserves of oil and natural gas, but it does have substantial deposits of coal. North Korea encountered two "fuel shocks" between 1990 and 1995; one involving oil and the other coal.

The oil "shock" began in 1990 when one of its two major suppliers of crude oil, the Soviet Union, collapsed and its replacement Russia subsequently required cash payment for all such purchases. This ended Pyongyang's access to a major source of inexpensive oil. Soon after, China, North Korea's second major supplier of oil, began demanding cash payments. This seriously disrupted the flow of oil from China. The DPRK's total energy supply dropped from nearly 24 million M/T of oil equivalents in 1990 to a low of 14 million M/T in 1998. It then recovered to 15.7 million M/T in 2000. Crude oil imports dropped from 18.5 million barrels in 1990 to a low of 2.3 million barrels in 1999, but then began to increase, rising to 2.9 million barrels in 2000. (As a comparison, South Korea imported 894 million barrels of crude oil in 2000.) Coal production, about 70% of North Korea's energy supply, also fell from 16.6 million M/T of oil equivalents in 1990 to 9.3 million M/T in 1998, then rose to 11.2 million M/T in 2000.²⁰

Pyongyang first sought to diversify its oil supply by turning to the Middle East and the United States. It attempted to trade missiles and missile technology for oil with Arab oil producing nations, particularly Syria, Libya and Iran. Also in the 1994 Agreed Framework deal with the United States, North Korea sought to partially solve its energy crisis by trading the end of its nuclear weapons program for two nuclear light water reactors and an annual supply of 500,000 metric tons of heavy fuel oil (HFO) from the US. The supply of Middle East oil proved unreliable, at least in part because of declining demand for North Korea's aging and inaccurate missiles and associated technology. The HFO shipments from the United States were always delayed and finally discontinued in 2002 along with the nuclear power plants' construction.

China's assistance, however, proved decisive in addressing North Korea's oil needs as indicated in the following chart.²¹

North Korea's other fuel crisis, the "coal shock," occurred in 1995 when torrential rains flooded numerous coal mines. But even before the floods, coal production had suffered from deteriorating infrastructure. The inability to repair and replace aging mine machinery and supporting equipment was already undercutting productivity. Here too China has assisted by supplementing North Korea's coal production with an annual supply of 150,000 M/T of coal. North Korea's coal production, according to government figures, has steadily increased since 2000. At the same time, North Korea has invested intense effort in increasing its hydro electric production.

Chart V
China's Food and Oil Exports to the DPRK
1991 – 1999 (10,000 Metric Tons)

Year	DPRK Food Imports			DPRK Oil Imports		
	All	China	% of Total	All	China	% of Total
1991	129.0	30.3	23.0%	189.0	110.0	58.0%
1992	83.0	62.0	74.0%	152.0	110.0	72.0%
1993	109.3	74.0	67.0%	136.0	105.5	77.0%
1994	49.0	30.5	62.0%	91.0	83.0	91.0%
1995	96.2	15.3	15.0%	110.0	102.0	92.0%
1996	105.0	54.7	52.0	93.6	93.6	100%
1997	163.0	86.7	53.0%	110.6	50.6	45.0%
1998	103.6	27.0	26.0%	60.9	50.3	82.0%
1999	107.0			31.7		
2000	(unavailable)			(unavailable)		
2001				579.0		
2002				472.0		

(a) Sources for Chart V: The above chart is a composite of data obtained from the following sources: Chinhung Trading Company, “North Korea’s Overseas Trade,” Seoul, 2001. “Chinese Fuel, Grain Exports to North Korea Dwindle in 2002,” *Vantage Point* (July 2003) p. 56. ROK Ministry of Unification, “Recent Trends in Sino-North Korean Economic Cooperation.” July 19, 2004. www.unikorea.go.kr. Chin Yong-san, “China-DPRK Economic Ties – Impact on Life DPRK Society,” *Proceedings of the 1st World Congress of Korean Studies*. Seoul, Academy of Korean Studies, 2002. Volume II. pp. 972-981.

International Trade

The pattern of North Korea’s international trade has changed dramatically over the past decade. China and South Korea have replaced Russia and Japan as Pyongyang’s leading trade partners. China-DPRK trade in 2004 amounted to USD \$ 1.38 billion, up 35.4 percent over 2003. This trade accounted for 42.8 percent of North Korea’s total foreign trade in 2003. The trend for 2005 is similar with bilateral trade destined to exceed USD \$1.4 billion.

DPRK International Trade

	2004	2005 (Jan.-Oct.)
China	\$1,380,000,000 + 34.6%	\$1,190,000,000
Inter-Korea	697,040,000 - 3.8%	875,000,000
Japan	251,870,000 - 4.8%	150,000,000
Russia	210,000,000 +80.0%	

DPRK-China: This trade began increasing rapidly after 2000. In 2003, it totaled USD \$1,022,300,000, a 38.6 percent increase over 2002. In 2003, exports from China to the DPRK equaled USD \$395,340,000 (a 46.1 percent increase over 2002). North Korea's imports from China were valued at USD \$627.58 million, a 34.4 percent increase over the previous year. In 2004, total DPRK-China trade jumped up by 34.6 percent. Chinese exports to North Korea increased 47.2 percent from USD 400 million to USD \$580 million. Imports of North Korean goods by China in 2004 increased 26.5 percent.

North Korea's trade with China's northeastern provinces increased dramatically in 2004 and 2005. According to South Korea's Korea International Trade Association (KITA), Pyongyang's exports to Jilin province alone totaled USD \$105,200,000, an increase of 113 percent over 2003. This trend began in 2000 when North Korea exported USD \$ 18.3 million worth of goods to Jilin, followed by USD \$24.6 million in 2001, USD \$33.5 million in 2002 and USD \$ 49.3 million in 2003 (Sources: *Vantage Point* (March 2005) pp. 55-56; and (May 2005) pp. 24-26.)

Inter-Korea: North Korea's trade with South Korea in 2004 dropped slightly, down by 3.8 percent in 2004 compared to 2003, to USD \$697.04 billion, but it rebounded in 2005 and could reach USD \$1,000,000,000. As of October 2005, the trade totaled USD \$875.6 million, up 59.8% over 2004's total of USD \$548 million for the same period. Of the total, so-called commercial trade amounted to about USD \$563.5 million and "non-commercial" or aid to USD \$312 million. The South's exports to the North are valued at USD \$611 million and imports at USD \$264.3 million.

DPRK-Japan: Meanwhile, DPRK-Japan trade continues to decline. In 2004, DPRK-Japan trade totaled USD \$250 million, down 4.8 percent over the previous year. North Korean exports to Japan declined 6.3 percent in 2004 to USD 170 million while exports to Japan declined USD \$89 million, a 2.2 percent decline over 2003. An even greater decline is expected for 2005. One reason for this pattern of decline is the tendency of Japanese and North Korean traders to engage in indirect trade centered primarily in China's northeastern province of Liaoning, according to local Chinese government officials.

Russia: Since Russian leader Alexander Putin and his North Korean counterpart Kim Jong Il repaired bilateral relations in 1999, their two nations' commercial ties have improved slowly but steadily. According to the Korea Trade Investment Promotion Agency, North Korea's trade with Russia increased 78 percent in 2004 over the previous year. Russia sold North Korea oil products while its largest imports from North Korea were pork and cement.

Investment Capital

Kim Jong Il's efforts to attract foreign investment have all fallen short of their avowed goals. The foremost impediments remain: the poor investment environment in the DPRK, particularly the high risk of failure and poor chances of profit, and fundamental differences between North Korea's socialist economic system and that of the

international economy. As in other areas, South Korea and China have been Pyongyang's leading sources of economic cooperation.²²

Najin-Songbon Enterprise Zone: North Korea has tried various devices, most notably Free Trade Zones. These, however, have yielded marginal gains. For example, the Najin-Songbon Enterprise Zone in the country's northeast corner attracted USD 650 million worth of contracts, but realized only USD120 million worth of investment by September 2000. The most profitable enterprise in this zone was the Hong Kong Chinese built Emperor Casino, a five-star hotel, but in January the Chinese government convinced Pyongyang to shut down the casino and to remove all its gambling facilities. According to knowledgeable persons in the nearby Chinese city of Yanji, a local Chinese official had embezzled a large sum of local Chinese government money and gambled it away at the casino. Najin-Songbon's economic prospects have been further eroded by the decline in Japan-DPRK trade in processed fish and other seafood products. (Yonhap, "North Korea Shuts Down Casino in Free Trade Zone," *Vantage Point* (March 2005) p. 57.

Sinuiju Special Administration Region: With great fanfare, the North Korean government announced the establishment of the Sinuiju Special Administration Region on September 23, 2003. This special economic zone is to rise in North Korea's northwest corner on the border with China and serve as a magnet for Chinese capital investment. The government's goal is to attract USD150 billion in foreign investment over the next five years. But the project is off to a faltering start. No sooner had Pyongyang named Chinese businessman and Dutch citizen Yang Bin the project's director than the Chinese government arrested and imprisoned him for alleged tax fraud, among other things. A South Korean businessman briefly renewed hope for the zone in October 2002 when he claimed to have secured USD 10 billion for Sinuiju, but his claim proved premature. The Sinuiju project remains suspended.²³

Kaesong Industrial Complex: This project seems destined for a much brighter and enduring fate. This joint South-North Korean project is under construction near the North Korean city of Kaesong. This small city is 60 kilometers (about 36 miles) north of Seoul and 170 kilometers (102 miles) south of Pyongyang. Conceived in 1998, the two governments agreed in 2000 to reconnect roads and railroads to facilitate the projects construction, a project than commenced in September 2000. Agreements on communications, customs clearance, and quarantine were finalized on December 8, 2002. On December 17, 2002, North and South Korea agreed to entrust the construction and project management to South Korea's Hyundai Asan and the Korea Land Corporation with an initial investment of USD185 million in the project's first phase.²⁴

The project is envisioned as an exclusively joint South-North venture. South Korean firms will provide the investment capital, production facilities and raw materials. North Korea will provide the land and labor. South Korea will pay the North USD16 million to lease the land (810 acres) for 50 years. South Korean firms will also pay the DPRK a corporate income tax of between 10 and 14% of gross profits. The minimum monthly payment for each North Korean worker, who is to work 48 hours per week, will be USD57.50, with annual wage increases of 5%. Plans call for 19,000 South Korean small

and medium enterprises to operate in the park after nine years. They are projected to employ 725,000 North Koreans who will earn USD600 million. As of November 2005, fifteen plants were in full operation and employed more than 750 North Korean workers.

The aim is to promote the economic integration of the two Korea's over the next decade and to train North Korean workers in advanced production skills in exchange for their lower labor cost. All goods produced in the zone will be returned to South Korea for export. As of July 2004, over 1,000 South Korean garment, footwear and other small-sized firms have applied to locate in the park. To encourage investment in the park, South Korea's official Ex-Im (Export-Import) Bank announced in May 2004 that it will partially compensate South Korean firms for 50% of any losses caused by North Korean partners' bankruptcies or natural disasters.²⁵ As of November 22, 2005, South Korean imports from the Kaesong Industrial Complex surpassed USD \$10 million and South Korean investment in the project amounted to USD \$142 million. Together these two amounts accounted for 16.2 percent of all South-North Korea trade in the first eleven months of 2005.

Mt. Kumgang Tourist Project: The South Korean tourism project at the Mt. Kumgang area in North Korea has been in financial difficulty since its start in 1998. The project was initiated by the now deceased Chong Chu-yong (Jung Ju-yong) who founded the Hyundai Group, one of Korea's first and formally most successful multinational businesses. In private meetings with North Korean leader Kim Jong Il held in the fall of 1998 in Pyongyang, Chong agreed to pay North Korea a USD \$450,000 monthly fee for allowing the Hyundai group to facilitate South Korean visits to the scenic mountainous area on the north side of the De-militarized Zone (DMZ) that has divided the Korean Peninsula since the end of the Korean War in 1953. Chong's fifth son, Chong Mong-hun, took over the project after his father's death, but then the younger Chong committed suicide in 2002 when it became publicly known that he had passed USD \$500 million on behalf of the South Korean government to North Korea shortly before the 2000 summit between the leaders of North and South Korea.

Since the project began, 1.13 million South Korean and foreign tourists visited the area between 1998 and 2005: 1998: 10,554; 1999: 148,074; 2000: 213,009; 2001: 57,879 and in 2002: 84,727. This has earned North Korea at least USD \$413 million as of the end of 2003. South Korean government subsidies keep the project alive. Also, the project has facilitated the opening of land and sea routes between the two Koreas. A one year renovation of the Mt. Kumgang Resort Hotel was completed in June 2004.²⁶ Construction of a family reunification center commenced in 2005. Beginning in 2005, however, North Korea reduced by half the number of visitors allowed to visit the area from South Korea.

In July 2005, however, North Korea granted the South Korean firm Hyundae Asan, the same company that manages tours to the Kumgang Mountains, permission to conduct tours from South Korea to Mount Paektu on the North Korea-China border. This could prove to be a lucrative venture for North Korea since the mountain is a very popular tourist destination for South Koreans who now reach it via northeast China. Tourist visits

from South Korea to the Kaesong Industrial Complex will also earn North Korea additional hard currency.

China: At the same time, China's contribution of direct investment in North Korea has remained much lower than North Korea's expectations. At the end of 1999, thirteen Chinese enterprises had invested USD2.727 million in North Korea. Two years later, 2001, Chinese firms had invested only a total of USD3.95 million. Most of this investment has been in restaurants, mineral water production, fish farming and some light industries. Despite repeated Chinese government efforts, the level of Chinese investment remains very low.

China redoubled its effort in 2004. Chinese investment in North Korea reportedly jumped from USD \$1.3 million in 2003 to USD \$200 million in 2004, according to research being done at the Samsung Economic Research Institute in Seoul. China reportedly is interested in exploiting North Korea's significant deposits of zinc, used in batteries, iron ore which is now produced at twenty mines in North Korea. The largest of these mines at Musan has an estimated reserve of one billion tons. Located on the China-DPRK border southeast of Yanji city, China apparently is now modernizing the mine in anticipation of an annual production of eight million tons of iron ore. Coal production is another area of keen Chinese interest. The DPRK reserves are estimated at 7.9 billion tons of coal.

In April 2004, the Beijing government promised to construct a modern, multi-million dollars glass factory in Pyongyang (see page 14 above). It also recruited potential Chinese investors for a special tour of North Korea in May 2004. In August 2004, the president of the Shenyang-based Zhong Xu Group reportedly said that his firm had won a ten year contract to lease and renovate Pyongyang's Number 1 Department Store (*Che il Paekhwajom*), the largest in North Korea. China has also claimed that 10,00 potential Chinese investors visited North Korea in 2004. Three thousand Chinese reportedly live in Pyongyang and are involved in various ways with commercial activities. Meanwhile, commercial links between North Korea and China's three northeastern provinces – Jilin, Liaoning, and Heilongjian – continue to multiply rapidly. (See China's trade below.)

China is assisting in other ways. Three times between 1996 and 2002, China supplied the DPRK with satellite equipment and other high-technology meteorological equipment. Since 2000, a continuing bilateral exchange program involving scientists facilitates the transfer of technology from China to North Korea. They have formed the "Morning-Panda Joint Venture Computer Company which now assembles and manufactures components for Pentium 4 personal computers. Cooperation extends to computer software design and production. Nevertheless, the accumulative impact of such cooperation remains very sporadic and limited.²⁷

Japan: Koreans resident in Japan no longer are a major source of investment and hard currency for North Korea. Until 1998, the pro-North Korean association of Koreans resident in Japan, *Chosen soren*, and its membership were a significant source of

capital and hard currency for the Pyongyang government. But this ceased after North Korea launched a multi-stage ballistic missile over Japan into the north Pacific. The Japanese government and public reacted with outrage. Furthering fueling displeasure with North Korea was the mounting evidence that North Korea had kidnapped an unknown number of Japanese citizens to train as spies. South Korean President Kim Dae-jung capitalized on the situation by allowing, for the first time since the Korean War, any Koreans resident in Japan, regardless of their political leaning, to visit South Korea. Membership in the *Chosen soren* subsequently declined steeply as a consequence of these three developments, along with remittances to North Korea. According to a *Tokyo Shimbun* reported dated February 13, 2005, remittances of Japanese Yen sent from Japan to North Korea amounted to Yen 2.67 billion (USD \$ 25.2 million) in 2003. This was a 34.5 percent decline over the previous year.

Reflections on the Future

On July 1, 2002, the DPRK government announced a set of economic reforms that subsequently has fueled a debate among North Korea “watchers” regarding their intent and potential consequences. Some have argued that the reforms will erode the DPRK’s orthodox socialist economy and open the way for the emergence of a market economy. The DPRK government insists, however, that its goal is to improve and perpetuate its *juche* socialist economy.

South Korean economists at the Korea Development Institute (KDI) in Seoul believe that the DPRK’s economic policies accent a dual approach to revitalization of the economy’s industrial sector. The first is to mobilize domestic capital and labor. Toward this end, Pyongyang initiated “economic reforms” in 2002 aimed at reasserting central economic control over domestic commercial activities that evolved between 1995 and 2002. Secondly, North Korea since 1984 has aspired to develop “islands” of foreign investment in special trade and economic zones, beginning with the Najin-Sonbong project and more recently begun Kaesong Industrial Complex.²⁸

North Korea beginning in September 2005 discontinued two key elements of its economic reform program. First, it restored the Public Distribution System (PDS) for basic grains (rice and maize). The government also discontinued the sale of grain in markets. This greatly diminishes the importance of wages since factory workers and other urban residents will once again be paid in grain rather than currency as provided by the reforms initiated in 2002. [Source: UN Office for the Co-ordination of Humanitarian Affairs, “DPR Korea: Situation Bulletin,” (August/September 2005)]. At the same time, the government consolidated and reasserted its control over the relatively new market system.

Regardless of these reforms’ eventual impact, North Korea inevitably must induce much larger amounts of foreign investment to re-invigorate its economy. Neither the continuing reforms nor present level of foreign investment can modernize North Korea’s economic infrastructure. In this regard, the North Korean regime must inevitably take the following steps if it is to avoid demise:

- End its “military first” policy that channels the best and most of critically short resources to this commercially unproductive sector,
- reorient the economy from putting the military sector before expanding the industrial sector’s capacity to compete in the international market and to earn foreign currency through trade,
- take the necessary political steps to end US economic sanctions to gain access to international financial institutions, and
- make the Korean Peninsula a safer place for foreigner investors.

North Korea Today – Illusion or Reality

Pyongyang and its inhabitants today present a profound contrast to the harsh reality of just five years ago. Sidewalks are crowded with well fed, dressed and clean people. Children again jump and run, cheer and shout. Streets are busy with cars, many more bicycles and new busses and trolleys. Most of the lights are on at night and the air conditioning, at least in special facilities, runs all night. Restaurants are full of customers and serve ample servings of food and drink. Many less appealing sights have disappeared. The once huge lines of commuters waiting to board a bus or trolley are gone, as are the armed police patrols that once controlled the crowds. There are fewer broken down vehicles, particularly trucks.

The present illusion of ample food and fuel in North Korea is not a consequence of sound economic and developmental policies. Rather, it is a result of nature’s and the international community’s compassion plus ample amounts of economic aid from China, South Korea and the international community’s humanitarian aid. The value of the humanitarian aid alone has exceeded USD2 billion dollars, not to mention at least an equal if not greater amount of foreign aid.

Another very substantial contributing factor to North Korea’s relative plenty in 2004 is Kim Jong Il’s revival of his father’s coercive strategy of squeezing aid from neighbors by threatening to do what they oppose. North Korea’s resumption of its nuclear weapons development program, and reluctant participation in the “Six Party Talks” aimed at halting such a program, has convinced China, South Korea and, to a lesser extent, Japan to continue supplying North Korea crude oil, grain, hard currency, access to modern technology and some investment capital. This, not economic reform or movement away from socialism toward capitalism, also contributes to North Korea’s relative economic well being today.

Behind the façade of today’s plenty remains the reality that North Korea could abruptly fall back into a desperate situation.²⁹ If North Korea is to sustain today’s apparent abundance, its leadership must be convinced to forgo its traditional coercive approach to the international community. Instead, it must shift to taking the necessary steps to earn respect and, through trade, the hard currency to pay for its imports of oil and grain. Otherwise, either nature will again wreck havoc on North Korea, or the possibility of war will continue to impede its economic development. The burden of success in this

endeavor rests equally on the leadership of North Korea and of the international community, particularly Pyongyang's primary antagonist the United States.

Unfortunately, the United States' clings to the perception that North Korea's poverty is the genesis of its nuclear weapons programs. But North Korea's persistent refusal to trade bountiful economic inducements for an end of its nuclear ambitions argues against this perception. Instead, the United States and its ally Japan should recognize the reality that security concerns, not poverty, drive North Korea's defense strategy. Recognition of this fact combined with appropriate security assurances and economic incentives might better facilitate progress toward a peaceful diplomatic resolution of the Korean Peninsula's nuclear programs. Otherwise, a second Korean War could wreck havoc again over not just the Korean Peninsula, but much of Northeast Asia.

END NOTES:

¹ For the Clinton Administration, see: C. Kenneth Quinones, “North Korea: From Containment to Engagement,” in Dae-sook Suh and Chae-jin Lee, editors, *North Korea After Kim Il Sung*. London: Lynne Rienner, 1998, pp. 101-119. For the Bush Administration see: C. Kenneth Quinones, “Dualism in the Bush Administration’s North Korea Policy,” *Asian Perspective*, Vol. 27, No. 1 (2003), pp. 197-224.

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