

North Korea – A Decade After Kim Il Sung
By
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Kim Jong Il has proven premature his harshest critics' claims that his father Kim Il Sung's "*juche*" system is a "failed system." In spite of a stagnate economy, estrangement from much of the international community, and pervasive food shortages, he has perpetuated his father regime and ideological legacy for the past decade. After an unsteady start, Kim consolidated his political power base and revitalized North Korea's agricultural production. That this was done with massive international assistance is one of Kim's foremost diplomatic accomplishments. His other was to diversify North Korea's diplomatic relations. North Korea's network of diplomatic relations fare exceeds the one her inherited from his father.

Yet Kim Jong Il's successes remain tentative, and the longevity of his regime and his father's legacy remain uncertain. The list of tasks in urgent need of Kim's attention far exceeds that of his accomplishments. Regime survival remains his foremost preoccupation. Still awaiting the sixty three year old Kim Jong Il's decision is who is to follow him once he has encountered mortality.

Kim's success thus far appears to be a consequence of complex circumstances. A key factor has been the accidental balance between his own errors and those of his adversaries, particularly the United States and Japan. All the participants in the so-called "Six Parties Talks" process concur to the need for a peaceful, stable and nuclear free Korean Peninsula. Differences over strategy, however, divide them. China, South Korea and Russia are intent upon achieving their shared goals through diplomatic dialogue and economic inducements. The United States, however, continues to reject this approach in favor of an assertive "either North Korea submits to all US demands or risks facing Washington's armed might." Japan and South Korea have vacillated between China and Russia's consistent preference for inducements and the United States coercive approach.

North Korea has masterfully exploited the gap between the United States and its allies. It continues to play "hard to get." This ensures it a steady flow of economic inducements from China and South Korea in exchange for participation in the talks. But at the same time, Pyongyang insists that the diplomatic impasse can be broken only via direct US-DPRK negotiations. Washington's stubborn refusal to negotiate gives Pyongyang unlimited time and ability to increase its nuclear "deterrence capability."

These accomplishments have transferred the allegiance of Pyongyang's military and party elite from the deceased leader to his successor. Kim's once unsteady confidence has stabilized. Since 2001, he has demonstrated an increasing willingness to pursue a domestic economic program that balances elements of "continuity" and carefully managed "change."

A Preliminary Assessment

Any assessment of Kim Jong Il's first decade in power made now must be tentative at best. Eventually, the compilation of reliable data and rigorous research will yield more accurate results. But the rush of world events precludes our waiting. Initiating assessment now will, at a minimum,

yield judgments that can serve as a beginning point for future assessments. The following “Top Ten Lists” of key elements of “change” and “continuity” are presented with this purpose in mind:

Top Ten Elements of Change

1. North Korea today possesses a nuclear weapons capability.
2. Communications and information management have been modernized.
3. Increasing openness to the outside world facilitates access to modern knowledge, particularly technology.
4. The agricultural infrastructure has been extensively repaired and improved.
5. Adjustments to economic practices have diversified trade, expanded the supply of foreign commodities and are facilitating slow improvements to the industrial and transportation infrastructures.
6. Emphasis has shifted from the study of Russian to English.
7. Engagement with South Korea has expanded in scope and become virtually routine.
8. Japan and Russia are much less important economically to North Korea.
9. Instead, economic reliance on China and the European Community has become much more significant.
10. North Korea has expanded its membership in international organizations.

Top Ten Elements of Continuity

1. Kim Jong Il reigns and his authority is beyond challenge, at least within his domain.
2. The rigid social and political hierarchy survives.
3. Ideological single-mindedness persists.
4. The military continues to get the best and most of everything.
5. Political priorities drive all decisions.
6. Collectivism dominates the economy.
7. The United States remains the primary enemy.
8. Pyongyang dominates the entire nation in all aspects.
9. The population remains loyal, or at least submissive to central authority.
10. The economy remains stagnant.

AGRICULTURE

4. The agricultural infrastructure and past methods have been greatly improved.

Food Aid

In 2004, North Korea will receive more food aid than it needs. The UN FAO estimated the fall of 2003 that the nation 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 500,000 M/T annually, reducing the deficit to 444,000 M/T. South Korea has begun delivering the 400,000 M/T it promises in June 2004, reducing the deficit to 44,000 M/T. Russia's then delivered 35,000 M/T in July, 2004. Japan and the USA have begun delivering an additional 175,000 M/T, giving the DPRK a surplus of about 160,000 M/T.

Food aid needs have dropped from 1.145 million M/T in 1996 to 544,000 M/T in 2003. As revealed in the chart below, 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 North Korea's need. One year later, however, the increase in domestic production cut the need for food aid by 37% to 512,000 M/T. By 2003, the estimated need for food aid had declined to 544,000 M/T, a decline of 40%. (See Humanitarian Aid and South Korea sections).

Reducing Reliance on Food Aid

North Korea has reduced its dependence on food aid primarily by: increasing food production, diversifying the nation's diet and reducing animal consumption of grain. All of these efforts required significant changes to long standing agricultural policies, extensive consultation with international organizations, and the investment of substantial fiscal and manpower resources. The United Nations Development Program (UNDP) and Food and Agriculture Organization (FAO) worked closely with the DPRK Academy of Agricultural Sciences. Non-governmental organizations in several countries also contributed significantly by funding experimental projects involving crop diversification, double cropping, improvement of seed and opportunities for study tours to Europe and North America.

Grain Production

The North Korean government's ability to feed its slowly growing population continues to make steady, impressive gains. This is evident in the following chart compiled from UN Food and Agriculture Organization (UNFAO) data:

DPRK GRAIN PRODUCTION

(Annual November to October, Metric Tons - Source: UNFAO)

Year	Utilization	Production	Deficit
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	Food	Feed	Other	Total	Rice	Maize	Cereal	Potato	Need	Import	Deficit
1995	3.688	1.05	0.810	5.548	2.58	2.35	0.493	?			
1996	3.8	0.6	0.95	5.4	1.98	2.32	0.430	0.183	1.911	0.70	-1.145
1997	3.9	0.6	0.96	5.63	1.52	1.138	0.266	0.32	1.95	0.70	-1.25
1998	3.925	0.3	0.61	4.84	1.34	1.77	0.348	?	1.354	0.30	-1.054
1999	3.814	0.3	0.65	4.77	2.34	1.76	0.440	1.813	1.292	0.30	-0.993
2000	3.87	0.3	0.61	4.79	1.69	1.04	0.292	1.87	1.865	0.70	-1.165
2001	3.929	0.3	0.78	5.01	1.34	1.48	0.354	1.88	1.47	0.10	-1.37
2002	?	?	?	3.969	1.42	1.65	0.361	0.538	1.084	0.400	-0.684
2003	3.944	0.18	0.978	4.156	1.484	1.725	0.410	0.188	0.944	0.400	-0.544

Between 1995 and 2003, the nation's total grain requirements (see Utilization) declined from 5.548 million to 4.156 million metric tons. During the same period, the deficit between grain utilization and production declined from 1.911 million M/T (see "Need") to 944,000 M/T, an almost 50% reduction. Similarly, the amount of commercially imported grain declined from 700,000 M/T in 1996 to 400,000 M/T in 2003.

Stabilization of Grain Production

At the same time, the production of grain has been stabilized by reducing crop vulnerability to draught while also restoring land fertility. The nation's irrigation system has been greatly improved since 1997. UN and US funded food-for-work programs have restored thousands of kilometers of destroyed dykes, river banks and irrigation canals. The re-configuration of about 360,000 acres (180,000 *chongbo*) of rice paddies throughout the nations, a project conducted between 1998 and 2003, facilitates greater reliance on a gravity fed irrigation system. The 160 kilometer long gravity fed irrigation canal was completed between Kaechon city and Taesong Lake in the north central area of North Pyongan Province. Previously, the nation had relied on a system of pipes and electric powered pumps which had fallen into disrepair and undercut the system's effectiveness, particularly during period of draught when hydro-power plants were also hard pressed to produce electricity.

Reforestation

An extensive reforestation program has been underway since 1998. The aim is to reduce land erosion, and halt and restore the depleted forests as water sheds. This effort is also very visible along the 200 kilometer highway that links Pyongyang, the capital, to the mountain resort area of Myohyang-san. This highway is lined with rapidly growing popular trees that are several columns thick. Elsewhere, numerous large fruit orchards have been planted with foreign varieties of apples, pears, peaches and other popular fruit.

Crop Diversification

After considerable hesitation, North Korea's Academy of Agricultural Sciences broke with Kim Il Sung's preference for two primary grain crops: rice and corn. Since 1997, North Korea's farmers have been encouraged to diversify their crops and to conduct double cropping. Rice and maize remain the primary grain crops, but they are now supplemented by significant amounts of winter

wheat and barley, as well as potatoes. The production of potatoes appears to have peaked in 2001 and declined ever since, but wheat and barley production remains relatively constant.

Fertilizers and Pesticides

The re-configuration of paddies also facilitates more efficient use of farm machinery to plant and harvest crops, significantly reducing fuel consumption.

Reducing Grain Consumption

Between 1995 and 2003, North Korea’s estimated need for grain declined by 25% from 5.548 million to 4.156 million M/T. The largest drop involved grain needed to feed animals. In 1995, North Korea needed 1,050,000 M/T to feed its animals. This dropped to 180,000 M/T by 2003. According to UN FAO data (FAO/WFP Crop and Food Supply Assessment for 2003, p. 10), between 1996 and 2003 the number of small grazing animals (goats and rabbits) increased by 282% and 541% respectively. Ducks also increased at the relatively fast rate of 320%. These animals also graze on grasses and consume much less grain than other fowl. Chickens and geese increased by 111% and 125% respectively over the same period. Since 2000, North Korea has also invested in expanding its fish farm facilities. The net result has been a significant drop in the amount of grain needed to feed animals, reserving a larger percentage of the grain harvest for human consumption.

Fish Farms

Considerable attention has been given to developing alternative sources of protein other than eggs. By 2001, 954 fish farms had been established, according to South Korea’s Ministry of Unification. The chief engineer of the DPRK Fish Farm Management Bureau claimed on January 4, 2002 that, “In the past five years, the fish breeding area has tripled.” According to North Korea’s official media, the DPRK’s goal is to establish 2000 fish farms, each covering about 45 to 70 acres and located in each city of every county.

Export of Processed Foods

North Korea’s production of distilled alcoholic beverages from grain and potatoes has increased significantly since 2000. Most of this increased production satisfies the rising demand of South Koreans and overseas Koreans, particularly in China and the United States. Precise data on the actual value and volume of these exports is not yet available.

**DPRK DAILY GRAIN RATION PER CAPITA
RICE AND CORN**

Occupation/Age Group	Daily Ration (Grams)	Ratio Rice to Corn	
		Pyongyang	Other
Special Security	800	7:3	7:3
Heavy Laborer	800	6:4	3:7
Government official	700	10:1	10:0

Military	700	6:4	3:7
Regular Laborer	600	6:4	3:7
College Students	600	6:4	3:7
Secondary School Students	500	6:4	3:7
Primary School Students	400	6:4	3:7
Children under 3 years	100-200	6:4	3:7
Aged and disabled	300	6:4	3:7

Source: RoKorea Ministry of Unification, interviews with DPRK officials

CHINA

Economic reliance on China and the European Union has increased.

Aid:

Under the 1996 China-DPRK Agreement on Economic and Technical Exchange, China would provide the DPRK each year for five years (1997-2002): 500,000 M/T of food, 120,000 tons of crude oil, 150,000 M/T of coal. These commodities were to be paid for, eventually but on an interest free basis.

Additionally, China provided as “no-cost” aid to the DPRK:

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,

2000: 10,000 meters of cloth for student uniforms, 34,040,000 M/T of grain

2001: 15,000 M/T of light fuel oil, 579,000 M/T of crude oil and 62.61 million M/T of grain

2002: 472,000 M/T of crude oil, 29,910,000 M/T of grain

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						
2001				579.0		
2002				472.0		
2003						

Trade

China accounted for 43% of North Korea’s total international trade of \$2.39 billion in 2003. The volume of Sino-North Korean trade exceeded USD 1,230,000,000 in 2003, making North Korea’s largest trading partner North Korea. North Korea exported \$395 million to China and imported \$628 million from it.

During Kim Jong Il's April 19-21, 2004 visit to Beijing, China's leadership promised its vet efforts to encourage Chinese corporate investment in the DPRK. This was evident during the May 17-20, 2004 Pyongyang International Product Exhibition. Eighteen of the forty companies represented at the exhibition were from China.

Cooperation has been most successful in the areas of tourism and information technology. North Korea has expanded Air Koryo flag carrier service to several new cities in China. It has also opened restaurants in Chinese cities. China is constructing a modern glass factory which will produce bottles for the increasing demand for North Korea alcoholic beverages, a favorite of tourists from China and South Korea. There also has been a significant increase in cooperation regarding information technology (see IT section above).

China – DPRK Trade, 1990-2001
(USD 1,000,000)

Year	China - DPRK	Jilin Exports To DPRK	Increase or Decrease	Jilin Imports From DPRK	Increase or Decrease
1991		\$ 48.44	+232.0%	\$ 44.28	+272.0%
1992		\$ 97.92	+102.0%	\$119.66	+170.0%
1993	\$899	\$ -----	-----	-----	-----
1994		\$ 89.78	-----	\$ 71.27	- See Note A
1995		\$ 65.77	- 26.7%	\$ 31.81	- 55.4%
1996		\$ 67.33	+ 2.4%	\$ 28.02	- 11.9%
1997		\$ 91.50	+ 35.9%	\$ 38.85	+ 38.7%
1998		\$ 47.74	- 47.8%	\$ 22.48	- 42.0%
1999	\$370	\$ 57.79	+ 21.0%	\$ 20.62	- 8.3%
2000	\$488	\$ 94.11	+ 62.8%	\$ 19.51	- 5.4%
2001	\$738	\$107.79	+ 29.2%	\$ \$ 27.19	+ 55.0%
2002					

Total Jilin-DPRK trade in 1994 declined 65.0%. Jilin Provincial Government Annual Report and Statistics for Overseas Trade, Economy and Joint Ventures as provided in Zhou (see sources below).

Arms Trade

North Korea's export of arms has dwindled from an estimated peak of USD \$700 million in 1988 to less than USD 100 million in 1994, according to Defense Intelligence Agency estimates. The Congressional Research Service released on August 26, 2004 the most recent, publicly available estimate on DPRK arms export. According to this report, North Korea between 1996 to 2003 is believed to have exported arms worth a total of USD600 million, or an annual average of USD75 million over this eight year period. This tied it with Sweden as the ninth largest arms supplier to developing nations and just ahead of Belgium's USD500 million worth of arms exports. The largest component of North Korea's exports consisted of short range Scud, Soviet era designed ballistic missiles bound for Yeman. The Spanish and US navies ceased the shipment in December 2002 in accordance with the US government's newly declared "Proliferation Security

Initiative (PSI).” The seizure, however, violated international law and the shipment was released for delivery to Yemen.

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) 56.

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Defense Intelligence Agency, *North Korea – The Foundations for Military Strength – Update 1995*. Washington, D.C.: Defense Intelligence Agency, 1995.

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ROK Ministry of Unification, “Recent Trends in Sino-North Korean Economic Cooperation.” July 19, 2004. www.unikorea.go.kr.

Zhou Weiping, “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. P. 973. Mr. Zhou is affiliated with the Jilin Provincial Northeast Asia Research Center in China.

UN Food and Agriculture Organization (UNFAO), “Annual DRPK Crop Assessment.”

CONSTITUTION

Changes to the DPRK's constitution and laws have followed government economic policy decisions. North Korea's first constitution, issued in **1948**, in key areas tracked more closely with provision in the USSR's constitution than reality in North Korea.

1972

Legal adjustments, however, were not made until **1972**. The changes focused on bringing constitutional provisions in line with government policies and priorities. The DPRK was declared to be "an independent socialist state" and the "*juche* ideology" was designated the nation's guiding principle and a "creative application of Marxism-Leninism." "Collectivism," or "one for all and all for one," was designated the basis of citizens rights and duties. The concept of "mass movement" appeared in the constitution. Private ownership of the means of production (i.e. factories) and of private business was outlawed. The State assumed responsibility for providing the people daily necessities via the public distribution system (PBS). Taxation, as provided in the previous constitution, was eliminated.

1992

Changes in the international situation compelled many of the constitutional revisions of 1992. Reference to Marxism-Leninism in connection with *Juche* was deleted, a reflection of the collapse of the Soviet Union and Communist bloc of East European nations. The *Juche* concept of "people's dictatorship" replaced the orthodox Leninist principle of "proletarian dictatorship." North Korea shifted its goal toward South Korea from one of asserting its authority over the South to one of coexistence. The *National Defense Commission* (NDC) was elevated from a subcommittee of the Central People's Committee to the highest military authority in the land and Kim Jong Il was elected as the NDC's chairman, a position he retains.

Economic policy changes were also reflected in the 1992 constitution. Article 37 reads,

The state shall encourage institutions, enterprises or associations of the DPRK to establish and operate equity and contractual joint venture enterprises with corporations or individuals of foreign countries.

This provision reflected the 1984 Joint Venture Law that authorized establishment of the Najin-Sonbong Free Trade Zone near North Korea's borders with China and Russia (See Economy – Free Trade Zones).

1998

Constitutional revisions confirmed Kim Jong Il's succession to his father's rule and policy changes required by the nation's economic woes. Kim Il Sung was named "president for eternity," a move aimed at legitimizing his son's succession. Authority of the National Defense Commission was strengthened and the powers of its chairman replaced those of the presidency. The Central People's Committee was dropped and its authority transferred to the Presidium of the Supreme

People's Assembly (political authority) and the Cabinet (administrative authority). Kim Jong Il assumed the titles of General Secretary of the Korea Workers' Party, Chairman of the National Defense Commission and Supreme Commander of the Korean People's Army

Economic revisions similarly reflected changing realities. Social organizations (urban professional and neighborhood groups), factory workers and agricultural collectives were authorized to own the means of production (i.e. factories). Citizens were empowered to own income from legal economic activities in addition to the products farmers cultivated in their "kitchen gardens." Citizens belonging to authorized associations and collectives could earn money through commercial activities. Individuals were also allowed to travel in connection with these commercial activities, but only so long as they held government issued licenses to travel. State authorized commercial enterprises were made responsible for maintaining their own accounting system. The general principle of socialism was retained and the government retained its authority to oversee, authorize and decide the particulars of all commercial activity. In short, the constitutional revisions of 1998 were aimed at sharing responsibility for economic activity between the central government and local entities. The government retained its centralized management authority over the economy, a fundamental impediment to the development of a market economy.

Sources:

YOON Dae-kyu, "The Constitution of North Korea: Its Changes and Implications," *IFES Forum* (August 23, 2004) distributed by the Institute for Far East Studies, Kyungnam University, forum@mail.kyungnam.ac.kr.

Also see the DPRK Foreign Language Publishing Houses' issues of the constitution.

DEFENSE

1. North Korea has a nuclear weapons capability.

Only North Korea's leadership knows for certain the potency of North Korea's nuclear "deterrence capability." The genesis of this capability dates from the early 1980s when North Korea built its first nuclear reactor at the Yongbyon Nuclear Research Center. Russia provided the basic nuclear technology, but with the understanding that Pyongyang would join and respect the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). North Korea's commitment to the NPT faltered when the Soviet Union collapsed, ending the USSR's nuclear "umbrella" over North Korea.

The United States intervened with the 1994 Agreed Framework. It "suspended" North Korea's withdrawal from the NPT, "froze" all nuclear activities and re-established international monitoring of Pyongyang's nuclear facilities. Persistent mistrust and faltering commitment on both sides eroded confidence in the 1994 accord. In 2002, Washington and Pyongyang could only agree to discard the Agreed Framework. North Korea promptly withdrew from the NPT and restarted its plutonium reactor at Yongbyon.

Absent conclusive evidence about the precise potency of North Korea's nuclear capability, the interests of world peace and the non-proliferation of nuclear weapons are best served by accepting at face value North Korea's claims that it has nuclear weapons. Its ability to deliver these weapons via ballistic missiles, however, remains dubious. Absent any barriers to its development of nuclear weapons and ballistic missiles, prospects favor North Korea eventually acquiring a potent nuclear weapons capability.

ECONOMY:

5. Adjustments to economic practices have diversified trade, expanded the supply of foreign commodities and are slowly facilitating improvements to the industrial and transportation infrastructures.

Bonds

The DPRK Finance Minister announced on March 26, 2003 that the government would issue interest free public bonds worth 500, 1,000 and 5,000 DPRK *won*. The move was another in a series of economic reforms that began in July 2002. According to the official announcement, “The bonds will be redeemed by payment of drawn prize money and principal.” In other words, purchases of the bonds can expect eventual repayment if they are winners in a national lottery which is scheduled to begin in December 2008. Otherwise, bond holders will have to wait until 2013 to get their money back, without interest. This is the first time since the Korean War (1950-53) that the government has issued bonds.

According to a March 30 article in the government’s *Rodong Sinmun* newspaper, “The government bonds are issued to utilize the surplus finds in the hands of residents (of the DPRK) for the financial management of the national economy. The issuance ... is also aimed at guaranteeing the security of the local currency by means of the proper control of cash in circulation.” In other words, citizens can convert their illegal foreign currency holdings into DPRK currency by exchanging the currency for government bonds.

Currency

The DPRK continues to maintain a dual currency system. Its citizens are authorized to use the government’s official currency, popularly known among foreigners as the “blue currency” which is named after the currencies blue color. Prior to 2002, foreigners and selected DPRK officials were authorized to use so-called “brown” currency. Foreign currencies such as US dollars, Japanese *yen* and Chinese *yuan* could be converted into this “brown” currency for use in the DPRK.

Between 1995 and 2002, the growing presence of foreign humanitarian aid workers and influx of dollars, especially from South Korea, feed a black market in the exchange of currencies between North Koreans and foreigners. North Korea’s official currencies essentially lost their value. By 2001, foreign currencies were replacing the indigenous currencies.

North Korea moved in 2002 to re-assert control over its currency. On August 14, 2002, North Korea devalued its currency from an official rate of 2.15 DPRK *Won* per US dollar to 150 DPRK *Won* per dollar. The black market rate quickly rose to 230 DPRK *Won* per US dollar. The apparent aim was to improve the climate for foreign investment and to promote exports by making their cheaper. But then the Euro replaced the dollar as the basic unit of foreign exchange. This latter move enabled the central government to removed US dollars from circulation, greatly undercutting so called “black markets.”

“Dollarization”

China’s Xinhua News Agency reported that as of December 1, 2002, the DPRK would change from a US dollar to a Euro based currency for dealings with the international community. North Korea’s Bank of Foreign Trade would convert all dollar accounts to Euro equivalents and stop accepting foreign deposits in dollars, instead accepting only Euros. Xinhua speculated that the move was aimed at wiping out the black markets which had sprung up across North Korea during the years of severe food shortage, 1995 to 2001.

Hotels, foreign-exchange shops (where an impressive variety of imported commodities can be purchased by foreigners and authorized DPRK citizens) and foreign-related services accept payment in dollars, but prices are set in Euros and the exchange rate is peg to the international exchange rate between Euros and other foreign currencies, not DPRK currency, the *won*.

Energy Supply

The DPRK total energy supply dropped from nearly 24 million M/T of oil equivalent in 1990 to a low of 14 million M/T in 1998. It recovered to 15.7 million M/T in 2000. Coal production, about 70% of North Korea’s energy supply, also fell from 16.6 million M/T of oil equivalent in 1990 to 9.3 million M/T in 1998, then rose to 11.2 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 and then increased to 2.9 million barrels in 2000. (The ROK imported 894 million barrels of crude oil in 2000.)

Oil Exploration

As of September 2002, five foreign companies were prospecting for oil at four different locations in North Korea, according to South Korea’s National Oil Corporation. A Canadian company has been search for oil in the Anju basin since 1998. A Japanese and one German company have been looking in the Seohanman basin since 2000 and 2001 respectively. On the east coast, an Australian firm has been test drilling for oil in the Donghanman basin since 1994. A company based in Singapore began oil exploration in 2001 near Najin, the only land site, in 2001. None of these efforts have discovered commercial quantities of oil.

Economic Indicators

Economic Indicators Percentage and USD Millions

<u>GDP +/-%</u>	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1990	-3.7		
1991	-3.5		
1992	-6.0		
1993	-4.2		
1994	-2.1		

1995	-4.1	\$740	\$1,250	-\$570
1996	-3.6	\$730	\$1,250	-520
1997	-6.3	\$910	\$1,270	-360
1998	-1.1	\$560	\$ 880	-320
1999	+6.2	\$520	\$ 960	-440
2000	+6.2			
2001	+3.7			
2002	1.2			
2003				
2004				

Source: ROK Bank of Korea, National Statistics Office)

Foreign Investment

Formidable impediments remain to foreign investment in the DPRK. Foremost are the poor investment environment in the DPRK, the high risk and poor chances of profit, and fundamental differences between North Korea's socialist economic system and that of the international community, including China.

At the end of 1999, thirteen Chinese enterprises had invested \$2.727 million in the DPRK. Two years later, 2001, Chinese firms had invested only \$3.95 million. Most of this investment has been in restaurants, mineral water production, fish farming and some light industries.

Free Trade Zones yielded marginal economic gains. Najin-Songbon Enterprise Zone attracted USD 650 million worth of contracts, but realized on USD 120 million worth of investment by September 2000.

China is assisting the DPRK efforts in this area. Three times between 1996 and 2002, China supplied the DPRK with satellite equipment and other high-technology meteorological equipment. China and North Korea maintain active exchanges of scientists, a program that commenced in 2000. 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.

In May 2004, South Korea's official Ex-Im (Export-Import) Bank announced that it will partially compensate South Korean firms for 50% of their losses caused by North Korean partners' bankruptcies or natural disasters. *Vantage Point* (June 2004) 57.

In September 2002, North Korea announced that "foreign firms" investing in the DPRK can own more than 50 percent of the venture.

Free Trade Zones

Beginning in 1990, North Korea has made several attempts to increase its international trade by establishing “special” or “free” zones. None of these efforts have proved successful because of the lack of foreign investor interests. The first effort centered on the Tumen River Project promoted by the United Nations Development Program (UNDP). The project was named after the river that forms the boundary between northeast North Korea, China and Russia.

Kaesong Industrial Park: This joint South-North Korean project is under construction near the North Korean city of Kaesong. The 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 \$185 million in the project’s first phase.

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 \$16 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 \$57.50, 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 \$600 million.

The aim is to promote the economic integration of the two Korea’s over the next decade and training North Korean workers in advanced production skills and in exchange for their lower salaries. 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.

Mt. Kumgang: 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 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, Chong agreed to pay North Korea \$450,000 monthly as the fee for allowing the Hyundai group to facilitate South Korean visits to the scenic mountainous area on the north side of the Demilitarized Zone (DMZ) that has divided the Korean Peninsula since the end of the Korean War in 1953. Chung’s fifth son, Chung Mong-hun, took over the project but committed suicide in 2002 when it became publicly known that he had passed \$500 million to North Korea shortly before the 2000 summit between the leaders of North and South Korea.

Since the project began, 600,000 South Korean and foreign tourists have visited the area: 1998: 10,554; 1999: 148,074; 2000: 213,009; 2001: 57,879 and in 2002: 84,727. This has earned North Korea \$413 million as of the end of 2003. South Korean government subsidies keep the

project alive. Also, the project facilitated the opening of a land and sea routes between the two Koreas. A one year renovation of the Mt. Kumgang Resort Hotel was completed in June 2004.

Najin-Sonbong Free Trade Zone: Najin-Songbon Enterprise Zone attracted USD 650 million worth of contracts, but realized on USD 120 million worth of investment by September 2000.

Sinuiju Special Administration Region: The DPRK government announced with great fanfare on September 23, 2003 that its Committee for the Promotion of External Economic Cooperation and the Holland International Import and Export Trade Company, led by the Chinese businessman Yang Bin, had signed a “basic agreement of the development and management: of Sinuiju, the city in North Korea’s northwest corner and borders on China. The DPRK goal is to secure US\$150 billion Foreign Investment in Sinuiju within a five year period. According to a South Korean businessman, the DPRK had secured US\$10 billion for Sinuiju as of October 2002. (This report, however, has proved to be of dubious accuracy.).

The “special administration region” is to encompass 132 square kilometers around the city of Sinuiju. While under the direct control of the DPRK central government, within the region all activities are to be autonomous except those touching upon sovereignty and security. The DPRK designated Yang Bin to oversee the region. He reportedly said that the area would become “a totally capitalist region.” Soon afterward, however, Yang Bin, who was born in China but obtained Dutch citizenship in the late 1980s, was soon arrested by Chinese authorities and subsequently imprisoned for a variety of crimes that included tax fraud. The Sinuiju project has been suspended ever since.

Reforms

On July 1, 2002, the DPRK government announced a set of economic reforms that ever since has fuel a debate among observers regarding the reforms’ goals and potential consequences. Some have argued that the reforms will erode the DPRK’s orthodox socialist economy, opening the way for the emergence of market economy. The DPRK government insists its goal is improvement and perpetuation of its *juche* socialist economy.

Some observers linked the 2002 reforms to Kim Jong Il’s January 2001 visit to Beijing and Shanghai. Legal preparations for the reforms, however, date from at least September 5, 1998 when the constitution was modified to accommodate such reforms (see Constitution: 1998).

South Korean economists at the Korea Development Institute (KDI) believe 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 to 2002. Secondly, DPRK since 1984 as aspired to develop “islands” of foreign investment in special trade and economic zones, beginning with the Najin-Sonbong and the Tumen River Project and most recently the Kaesong Industrial Park (see “Free Trade Zones).

The aim, according to official DPRK statements and in the view of KDI economists, is to strengthen North Korea’s socialist economic system, not abandon it or set the stage for a transition

to a market economy. Some South Korean and foreign observers agree regarding the DPRK's official goals, but believe the recent reforms and other economic developments have set in motion a process that will erode the socialist system and open the way for capitalism.

Preparations for these "reforms" date from at least 1998 when selected provisions of the constitution were changed to accommodate such reforms.

Key Reforms announced on July 1, 2002 include:

Commodity price increases: The State Price Assessment Commission increased the prices of all commodities effective that date. The increases were pegged to the price of rice which jumped from 0.88 DPRK Won to 44 DPRK Won. This is the official price which the government pays farmers for the rice it purchases for distribution through the Public Distribution System (PBS).

Wage Increases: Average monthly payments to production workers increased from 110 DKRP Won to 2,000 DPRK Won. If a worker's factory is able to produce and sell goods on the domestic market, the profit will be shared among that factory's workers.

Economic Planning: Under the People's Economy Planning Law of 1999, the central government will permit members of a factory to engage in discussions regarding the setting of production goals for their particular plant.

Industrial Goods Market: Beginning in July 2001, markets were established so that factories and dealers in raw materials and supplies could deal with one another directly instead of the state centrally allocating goods. Transactions are handled via banks and the exchange of money. Previously, such transactions only involved the negotiation of contracts without payment.

Accounting System: Factories and business entities must secure their own raw materials, equipment and supplies, and maintain their own records of these transactions.

Consumer Goods Market: Since March 2002, the central government converted so-called "farmers' markets," which appeared between 1995 and 2002, into government managed markets that sell a wide range of consumer goods as well as food. As the DPRK KCNA noted, "Markets found in different parts of the country are selling and buying not only agricultural products but industrial goods."

Special Zones: see "**Free Trade Zones**."

Public Bond Issuance: see "**Bonds**."

Impediments

Impeding North Korea's economic development are:

- Emphasis on a "military first" policy with ensures the defense sector the best and most of critically short resources,
- The undeveloped capacity to compete in the international market,
- The inability to earn foreign currency through foreign trade,

- US economic sanctions,
- The inability to borrow from international financial institutions,
- The reluctance of foreigners to invest in North Korea because of the high risk of instability on the Korean Peninsula and North Korea's undeveloped infrastructure.

Markets: North Korea has placed its retail stores or markets under the management of state-run business concerns. These manufacturers can now produce consumer goods to sell in retail stores to supplement income they make from their regular, non-consumer product lines. "In the case of the Tongil Street market in Pyongyang, five percent of the retail stalls are reserved for manufacturers," according to Tokyo's *Chosen simbo*, the official newspaper of the North Korean affiliated Korean Residence Association of Japan.

The number of markets in Pyongyang will be increased in 2004 from 38 to 42, according to the same source. National wide, North Korea is believed to have 300 government sponsored and managed "markets." State run companies manage the "markets" and collect fees (30% of the value of sales) from manufacturers and cooperative farms which sell goods in these "markets." Sellers also pay a tax, known as a "payment to the state" fee. Government supervised committees decide the upper and lower levels of prices, the nature of commodities sold and decide which organizations can participate in the markets.

Trade

DPRK Trade: 1990 - 2004 (Billions of USD)

Year	Imports	Exports	Total	Surplus or	DPRK	ROK to
			Trade	Deficit	to ROK	DPRK
1990	\$2.8	\$2.0	\$4.8	-\$ 800.0		
1991						
1992		\$0.962				
1993						
1994		\$0.896				
1995	\$1.250	\$0.74	\$1.99	-\$0.510		
1996	\$1.250	\$0.756	\$2.01	-\$0.494		
1997	\$1.270	\$0.910	\$2.18	-\$0.360		
1998	\$0.880	\$0.560	\$1.44	-\$0.320		
1999	\$0.960	\$0.520	\$1.48	-\$0.440		
2000	\$1.4	\$0.81	\$2.21	-\$0.590		
2001	\$1.5	\$0.6	\$2.10	-\$0.900		
2002						
2003						
2004						

Sources: Bank of Korea, Seoul, National Statistics Office.

Note: These trade figures reflect the value of imported humanitarian aid, mostly in the form of grain.

Trade Fairs

7th International Pyongyang Trade Fair opened May 17, 2004, with 100 companies registered from seven countries: China, DPRK, Italy, Malaysia, Syria, Taiwan, and Thailand. Companies from Russia registered but apparently did not show up.

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EUROPEAN UNION

The DPRK's relations with the European Union improved rapidly after the June 2000 summit between South Korean President Kim Dae-jung and his North Korean counterpart Supreme Commander Kim Jong Il, but then turned icy after the October 2003 reports that North Korea had broken its promises under the US-DPRK 1994 Agreed Framework to halt all its nuclear related programs.

Diplomatic Relations : Between 2000 and 2003, North Korea normalized relations with the European Union (EU) and nine of its members: the Belgium, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom.

The EU in 1998 initiated its political dialogue with North Korea. Between then and 2003, six rounds of dialogue have been convened. In December 2003, an EU delegation held extensive talks in Pyongyang with ranking officials. The EU offered economic cooperation with the DPRK, but "only after the settlement of the nuclear issues."

Also high on the EU's political agenda with North Korea is the subject of human rights. In June 2001, the EU first raised the issue of human rights with the DPRK. The EU subsequently urged the DPRK to accept the terms of the International Covenant on Civil and Political Rights (the so-called Helsinki Accords of 1976). In 2003 and 2004, the EU supported UN Human Rights Commission resolutions that called on the DPRK to improve its human rights situation. North Korea objected, saying "We sternly reject the resolution, which does not deserve a passing notice, as the outcome of a US-led political conspiracy aimed at isolating and strangling our republic (DPRK Foreign Ministry state of April 19, 2004.)

Nevertheless, the EU's Chamber of Commerce office in South Korea on January 5, 2004 established the Korea-Europe Technology and Economy Services Office in Pyongyang to promote economic cooperation projects with European firms and other organizations. Also, the DPRK and EU continue their diplomatic and technical exchanges.

Humanitarian Aid: The European Commission, the EU's executive body, had initiated humanitarian aid to the DPRK in October 1995 and has continued to do so despite the chill in relations since 2002.

Food Aid: EU began providing significant food aid in 1997. Between 1997 and 2001, this aid amounted to Euro 168 million delivered as follows:

Bilateral: Euro 106.7 million, including Euro 6 million from European NGOs,

World Food Program: Euro 50 million, including Euro 12 million distributed by European NGOs.

NGOs: 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.

ECHO: 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 \$85 million in the DPRK through the NGO coordinated Food Aid Liaison Unit (FALU). ECHO has annually funded several major public health projects. Since 2001, it has contributed more than Euro 24 million for these projects that include: prosthesis factory, orthopedic hospital, 12 county hospitals, a rural operating theater, 12 nurseries and several cafeterias for children. It has delivered 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 EU delivered 130,000 metric tons of urea fertilizer to the DPRK, plus an addition 46,000 metric tons of wheat worth 9.5 million euros for pregnant and nursing women and children.

Korean Peninsula Energy Development Organization (KEDO)

The EU contributed Euro 75 million through the Euratom Agreement and member states have contributed another Euro 7 million bilaterally, mostly for the purchase of heavy fuel oil under the now defunct US-DPRK Agreed Framework.

Training Programs

EU members have financed the following training programs for North Koreans:
 Australia: graduate programs in soil management and trade
 Canada: university exchange programs, English teachers
 Denmark: agriculture scholarships
 France: language and related training for DPRK diplomats
 Italy: 10 scholarships for university students
 Switzerland: training for DPRK diplomats
 United Kingdom: workshops on international economic principles, English teachers

Trade

EU-DPRK trade remains stagnate pending resolution of the nuclear issue. The EU in 2002 imported from the DPRK about Euro 20,000 of machinery, Euro 30,000 of mineral products and some clothing. It exported to the DPRK: Euro 100,000 of agricultural goods, Euro 100,000 of machinery and small amounts of transportation equipment and chemical products

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HUMANITARIAN AID

The largest contributors of aid to North Korea between 1995 and 2002 were:

National by Rank	Official Aid	Private Aid	Total
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	\$1,970,000,000	\$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.

According to ROK government calculations, West Germany provided East Germany about \$3.2 billion in aid between 1972 and 1989. South Korea's 2001 aid to North Korea equaled about one third of its total foreign aid to developing nations. (Also see section **Agriculture, China – Aid, European Union – Humanitarian Aid** and **South Korea** sections).

Food Aid

Total Food Aid to DPRK 1995-2001 - 1,000 Metric tons

	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

Source	Govern	NGO	TOTAL	% Total	
Four Powers: 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	
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INFORMATION TECHNOLOGY

2. Communications and information management have been modernized.

On October 5, 2003, the DPRK Ministry of Posts and Telecommunications announced the construction of an "information highway" that will link Pyongyang to all counties and cities. It will be accompanied by a digital automatic telephone exchange system. Both systems will rely on fiber optic cables and digital equipment. North Korea plans to expand telephone service to most North Koreans within five years, according to a December 4, 2003 interview the president of North Korea's communication company had with the *Chosen simpo*. North Korea in October 2003

began to mass produce electronic switchboards. It is expanding its network of fiber optic telecommunication cable to another 200 counties. (In the mid-1990s, Pyongyang installed a fiber optic network to link the capital to out laying areas.)

At the end of 2001, the ROK Ministry of Unification estimated that the DPRK had “about 120,000 computers... (compared to 15 million units in South Korea) and some 7,000 IT (Information Technology) specialists (940,000 specialists in South Korea). Four Youth Computer Education Centers were opened in Pyongyang on April 1, 2001 at: Mankyung University Student Palace, Pyongyang Student and Youth Palace, and Kumsung Senior Middle Schools 1 and 2.

The ROK Unification Ministry reported in its “General Evaluation of the North Korean Economy for 2003” that the DPRK had established 40 base stations for mobile telephone communications and distributed 20,000 cell telephones. Subscribers to mobile telephone service pay 750 euro (about \$1,000) as an initial fee and 300 euros additional per unit.

As of June 2004, Samsung, South Korea’s leading electronic firm, and its North Korean counterpart are developing software for mobile phone based games, a Chinese language operation system for cell phones and Linux programs. Hanaro Telcom Company, a Seoul based broadband Internet service provider, is selling computer-aided animation and avatars developed by North Korean engineers. Another Seoul based firm markets electronic components via the internet to North Korea’s Kwangmyongsung General Corp., Samcholli General Corp. and Gaesun Trading Corp. with daily transactions amounting to about \$3,400 per day.

China’s Assistance

China is assisting the DPRK efforts in this area. Three times between 1996 and 2002, China supplied the DPRK with satellite equipment and other high-technology meteorological equipment. China and North Korea maintain active exchanges of scientists, a program that commenced in 2000. 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.

Kimchaek University of Technology

Kimchaek University of Technology, located in Pyongyang, and Syracuse University established an exchange program in 2002 to improve information technology in the DPRK.

National Academy of Sciences (NAS)

North Korea announced on January 14, 2002 that it had established a new college under the NAS umbrella to train computer programming, digital control and precision machine design, etc.

Travel Abroad

An estimated 480 North Korean officials and scholars made study tours to foreign countries in 2001. This was almost a three fold increase over 2000. They visited or studied in: Australia, China, Italy, Japan, the Netherlands, Russia, Sweden, Switzerland and the United States. The

areas of expertise included: business administration, international finance, trade, accounting, etc. United Nations organizations including the World Bank and UN Food and Agricultural Organization supported some of this training.

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INDUSTRY

According to the *Chosen shimpo* (based in Tokyo), North Korea began restructuring its manufacturing sectors in 1999. The newspaper quoted the director of the State Planning Commission as having explained that the restructuring was being carried out on a phased basis that included electric power. Most plants have been reorganized and many were merged to improve efficiency. Several factories, including the Nampo Glassworks (largest in North Ore) were shut down. A few were selected as model plants, including: Kanggye Winery (Jagang Province), Kusong Machine Tool Manufacturing Complex and the Sinuiju Cosmetic Plant (both in North Pyongan Province), and the Ranam Coal Mining Machinery Complex (North Hamgyong Province).

Chollima Steel Complex

Also to be modernized is the Chollima Steel Complex west of Pyongyang near Nampo City during the next year and one half. Built in the late 1950s, the complex was once a showcase for steel production in North Korea but fell into a state of disrepair in the early 1990s.

Kimchaek Steelworks

Korean Central Broadcasting Station (KCNA) reported on January 27, 2004 that the Kimchaek Steelworks in the northeastern industrial center of Kimchaek, North Hamgyong Province is being repaired and expanded. Also in the same city, the Songjin Steelworks and Ranam Coal Mining Machinery Complex are producing steel products and machinery needed for the Kimchaek upgrade project.

The steelworks, when first built, covered a ten square kilometer area and had a production capacity of 2.4 million M/T of pig iron, 2 million M/T of steel products and 1.4 M/T of hot or cold rolled steel. Employees number 20,000.

Ranam Coal Mining Machinery Complex

This complex is regarded as the center of North Korea's mining machinery production and was selected as a "model" factory in the DPRK's most recent drive to modernize its industrial infrastructure. Built in the northeast coastal and industrial city of Chongjin (just south of Kimchaek) in 1950, it has been modernized and expanded several times since. It reportedly produces 40 types of coal mining machinery that includes cranes, conveyers and castings. The facility covers 19,000 square meters of floor space and has 4,000 employees, including 500 soldiers who were discharged from military service in 2001 and added to the work force. Also included in the Complex is the Ranam Engineering Colledge.

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SOUTH KOREA (Republic of Korea)

Humanitarian Aid

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

The nature of South Korea's humanitarian aid to North Korea has changed gradually since 1995. It began with emphasis on food aid and since 1999 has become increasingly diverse. In 2001, South Korea provided the DPRK US\$135.39 million worth of aid, a 19% increase over 2000 according to the ROK Unification Ministry. Government aid totaled \$70.45 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. This shift in the type of aid is reflected in the following chart.

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

Type of Aid	1995	1996	1997	1998	1999	2000	2001	2002	Total	
General (a)	23,225	455	4,329	2,891	565	1,434	6,067	4,174	43,140	
(%)	00%	99%	92%	91%	12%	13%	45%	31%	58%	
Rural Rehab (b)		0	5	205	254	3,941	8,562	5,476	7,351	25,794
(%)	-	1%	4%	8%	84%	75%	40%	54%	34%	
Public Health ©	0	0	189	40	182	1,380	1,996	1,967	5,754	
(%)	-	-	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 includes 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.

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INTER-KOREAN EXCHANGES

South Koreans to the North: The number of South Koreans who visited North Korea during President Kim Dae-jung's tenure, 1998 and 2002, numbered 37,572 (excluding visitors to the Mt. Kumgang Special Tourist District). During the previous decade, 1988-97, only 2,405 South Koreans visited North Korea. In 1989, only one South Korean visited the north. In 1993 and 1994 the number dropped to 18 and 12 respectively. But in 1997, it jumped to 1,015, and has risen steadily ever since.

Between 1989 and 2002, the largest number of South Koreans (12,311 or 30.8% of all visitors between 1998 and 2002) visited the north in connection with the KEDO LWR project (see KEDO section). Next came visitors classified as tourists (9,465 or 23.7% of the total) followed by aid

affiliated persons (4,576 or 11.5%). Of the remainder, 1,990 or 5% per were involved with family visits. Social, cultural and economic exchanges made up for the remaining 18% of South Koreans who visited North Korea from 1989 to 2002.

Mt. Kumgang: After South Korea's Hyundai Company pioneered visits to North Korea's Mt. Kumgang Special Tourist Zone beginning in November, 1998, a total of 600,000 persons, including about 2,000 foreigners have made the trip as of the end of 2003. This has earned North Korea \$413 million in revenue, which includes a monthly payment of \$450,000 plus an additional fee for each individual visitory. Since the project began, visitors have numbered: 10,554 in 1998; 148,074 in 1999; 213,009 in 2000; 57,879 in 2001; 84,727 in 2002. This has earned North Korea \$413 million as of the end of 2003.

North Koreans to the South: During the period 1989 to 2002, a total of 2,586 North Koreans have visited South Korea. After jumping from none in 1898 to 291 in 1990, the number declined to zero between 1992 and 1998. It again jumped to 706 in 2000, fell to 191 in 2001, and then jumped again to 1,052 in 2002. The largest number (37.7%) involved athletes, next came officials involved in inter-Korean talks (21.6%) and family reunions (16.5%) Cultural and economic exchanges account for another 14.3% and 4.1% respectively. Academic exchanges have involved only 0.6% of all North Korean visitors to the South. Another 5.2% are listed as "others" without further explanation.

INTER-KOREAN TRADE

Trade between the two halves of Korea in 2002 amounted to \$642 million. Since 1990, it rose gradually but steadily from \$13 million in 1990 to \$403 million in 2001. Between 1989 and 1997, inter-Korean trade amounted to \$172 million. Commencement of the Korean Peninsula Energy Development Organization's (KEDO) project to build two light water nuclear reactors in North Korea, a project funded largely by South Korea, boosted the trade value in 1997. South Korea's massive contribution of fertilizer aid to North Korea in 2000 increased the trade to \$425 million. Despite suspension of the KEDO project at the end of 2002, increased activity involving the supply of materials and equipment for inter-Korean railroad and road construction pushed the trade to \$642 million in 2002.

Sources

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