

2007 IUS-HSS International Conference  
2007년 서울대 통일연구소-한스자이델 재단 국제회의

**Recent Developments in North Korea  
and the Role of the European Union**

북한의 최근 변화와 유럽연합의 역할

Friday, June 1, 2007

Marronnier Room, Hoam Faculty House, Seoul National University

Co-organized and Sponsored by:

Institute for Unification Studies, Seoul National University

Hanns Seidel Foundation

2007년 6월 1일(금)

서울대학교 호암교수회관 마로니에홀

주최 및 후원

서울대학교 통일연구소

한스 자이델 재단



## Greetings and Invitation

The Institute for Unification Studies(IUS) at Seoul National University and Hanns Seidel Foundation(HSS) in Germany co-hosts an international conference, "Recent Developments in North Korea and the Role of the European Union."

The political relations between the EU and North Korea started officially after they have held periodical high-level talks since 1998. The European Commission concluded diplomatic normalization with North Korea in May 2001. Most EU countries now have diplomatic normalizations with the North, and many of them established embassies in Pyongyang. While others regions have unstable and unsteady relations with North Korea, the EU continues to promote mutual understanding and cooperation. Besides the governmental-level relations, many European NGOs now work in the North. Hanns Seidel Foundation is one of the most active European organizations in North Korea.

This conference will be a great opportunity to assess the EU's leading role in North Korea and find a new direction for North Korea policy. We are sure that it is an interesting and unique meeting to share the experience of EU and the future policy among diverse North Korean experts, diplomats, government officials and NGO activists in Europe and South Korea.

We cordially ask you to attend our conference and honor us with your presence.

Park, Myoung-Kyu  
Director, Institute for Unification Studies, Seoul National University

Bernhard Seliger  
Representative, Hanns Seidel Foundation

## Program

Friday, June 1, 2007

- 9:30~10:00 Registration
- 10:00~10:15 Opening Ceremony  
Opening Remarks  
Myoung-Kyu Park  
(Director, Institute for Unification Studies, SNU)
- Congratulatory Remarks  
Jang-Moo Lee  
(President, Seoul National University)
- 10:15~10:30 Keynote Speech / 11page  
Rainer Eppelmann  
(Last Defense Minister of East Germany)
- 10:30~10:45 Coffee Break
- 10:45~12:30 Session I: "The EU and North Korea: Political Perspectives"  
Chair: Dal-Joong Chang  
(Professor of Political Science, SNU)
- Speaker 1: Brian McDonald (Ambassador, Delegation of the  
EU Commission to South and North Korea)  
"Perspectives of EU Relations to North Korea after the 2-13  
Agreement" / 15page
- Discussant: Jin-Hyun Paik (Associate Dean of GSIS & Director  
of Center for EU Studies, SNU)
- Speaker 2: Bernhard Seliger, (Representative, Hanns Seidel  
Foundation)  
"Perspectives of Development Aid to North Korea: The  
Experience of Hanns Seidel Foundation" / 25page
- Discussant: Hyung-Gon Jeong (Research Fellow, KIEP)

- 12:30 14: 00 Luncheon (hosted by Hanns Seidel Foundation)
- 14:00 16:00 Session II: "The EU and North Korea: Economic and NGO Perspectives"
- Chair: Cae-One Kim (Chairman, Center for EU Studies, SNU)
- Speaker 3: Stanislas Roussin (SERIC Coree) & Cesar Ducruet (Erasmus University, Rotterdam),  
"THE NAMPO-PYONGYANG CORRIDOR  
A strategic area for European investment in DPRK" / 49page
- Discussant: Sabine Burghardt (Friedrich Naumann Foundation)
- Speaker 4: Sung-Jo Park (Professor, Free Univ. of Berlin, Visiting Fellow, IUS)  
"European NGO in North Korea" / 73page
- Discussant: Edward P. Reed (Representative, Asia Foundation)
- 16:00 16:30 Coffee Break
- 16:30 18:00 Roundtable: "Europe's Role in North Korea: More Than Funding the Bill?"
- Chair: Bernhard Seliger (Representative, Hanns Seidel Foundation)
- Participants:
- Mr. Lee MacTaggart (First Secretary, Embassy of the U.S.A.)
  - Mr. Tu Jing Chang (First Secretary, Embassy of People's Republic of China)
  - Mr. Akihiko Sunami (First Secretary, Embassy of Japan)
  - Dr. Dmitry Darchenkov (First Secretary, Embassy of the Russian Federation)
  - Ms. Jong-Joo Lee (Director, International Cooperation Team, Ministry of Unification, ROK)
- 18:00 20: 00 Dinner (hosted by Institute for Unification Studies, SNU)



## 초대의 말씀

서울대학교 통일연구소는 2007년 6월 1일, 독일의 한스 자이델 재단과 함께 "북한의 최근 변화와 유럽연합의 역할"을 주제로 국제학술회의를 개최합니다.

유럽연합과 북한의 정치적 관계는 1998년 양측이 정기적으로 고위급 회담을 개최하면서 공식적으로 시작되었습니다. 이후 유럽집행위원회는 2001년 5월 북한과 정식외교관계를 수립하였으며, 대부분의 유럽연합 회원국들이 북한과 외교관계를 수립하여 많은 국가들이 평양 주재 대사관을 유지하고 있습니다. 여타 다른 국가들의 대북관계가 지속적이지 못하고 불안정적이었던데 비해 유럽연합은 북한과 서로간의 상호이해와 관계증진을 위한 노력을 지속하고 있습니다. 유럽연합의 공식적 관계 이외에도 유럽의 많은 NGO들이 북한 내에서 활동하고 있습니다. 이번 회의를 공동 주최하는 한스 자이델 재단 역시 북한에서 다양한 활동을 전개하고 있습니다.

이번 회의는 이러한 유럽연합의 활발한 북한 활동을 평가하고 새로운 방향을 모색하는 자리입니다. 유럽과 한국의 다양한 학자와, 외교관, 정부관리와 NGO 인사들이 모여 북한에서의 유럽연합의 경험을 공유하고 앞으로의 정책 방향성을 논의하는 매우 흥미진진하고 색다른 자리가 될 것으로 확신합니다.

여러모로 바쁘신 줄 알지만, 부디 시간을 내 주셔서 이번 학술회의에 참여해 주시기 바랍니다.

2007년 6월

서울대학교 통일연구소 소장 박명규

한스 자이델 재단 한국사무소 대표 베른하르트 젤리거









**Rainer Eppelmann, former Minister of Defense and Disarmament,  
German Democratic Republic (1990), former Member of the German  
Parliament (1990-2004)**

**Keynote Speech**

**„Opposition Movement in the GDR and international easing of tension“**

Ladies and Gentlemen,

in the past years there were various discussions about the relationship between human rights, oppositional movements and dictatorships on the one hand and political pressure through states and external organizations on the other. How much international sympathy is beneficial for those who resist a system? How much protection does this public offer? And when can it even be harmful?

The cases of Russia and the PR China show how up to date this topic is, not just in the media in Germany.

Just recently on a trip to Turkey I was faced with these kinds of questions. The Armenian patriarch expressed his uneasiness about protests and parliamentarian decisions in France and Germany, who classified the mass murder of Armenians in the First World War as genocide. The denegation of the genocide will even be punished in France.

The Turkish government protested immediately through their embassies against this issue and called it interference in internal affairs. From the western point of view this sort of reaction by the Turkish government was predictable and expected. But the reaction of the Armenian patriarch that the West European protests will not strengthen his church and his position while negotiating with the Turkish Government touched me and made me wondering.

For people like us, growing up in democratic societies and always fighting for human rights, it might sometimes be difficult to understand, when our protests and activities – although started just to help other people in precarious humanitarian or political situations – bring out danger or when our reservation or silence is more dangerous.

I cannot give you a generally binding answer – with my experiences in the communist dictatorship in the GDR I can say that I always liked the possibility to consult with my western supporters and visitors about what is best for me, my family and our life in the GDR. I thought it was inappropriate if feigned supporters from the West told me that they did not meet me because of my own safety.

There were different phases in the GDR-Opposition: In the early years, when the borders were not completely closed, reports about human rights abuse and crimes could be published through different ways. One of the activists was the "Task force against inhumanity". Besides this, the "East Offices" of the democratic parties in West Germany spread information about crimes and missing people.

On the one hand, the public got to know about the crimes of the dictatorship and what they did to so called enemies of the state. On the other hand, a lot of incautious people got caught as well, because the communists used the publications to track them down. Unfortunately, not everybody who reported about the communist's crimes cared much about his informant's safety. For some people, it was more the catching headline which was important instead of denouncing the human rights abuse of a communist dictatorship.

After the construction of the Wall and the complete isolation of the communist regime, the social-liberal coalition in the West tried via its campaign "Change through harmonization" to start a limited cooperation with the East. They wanted to achieve better humanitarian conditions for the people in the GDR. This came a long with less publications and discussions about the crimes of the regime, because they made clear that they did not want to internationally broach the issue of "internal affairs". The eastern government also wanted to arouse the impression of being a "social democracy". The West wanted to discuss human rights abuse in bilateral talks, but thought that a wide public discussion would not be helpful. They hope that with the permitted contacts between East and West in terms of trade, culture and family level, people in the East would also like to live like their relatives in the West.

We all know that it was a long process: Not until 40 years of dictatorship and 28 years after the construction of the Wall, the angry people made the regime collapse with shouting: We are the folk!

Now you can ask: Did the long time of political allowances of the West to the East actually produce some sort of liberalization in the internal system? Or did the regime just improve its method of oppression? Let me do a short digression: After the change of the regime we had several difficulties to punish repressions because of a change in the form of repressions. The systematical corrosion in every level without taking people straight away to prison makes it difficult to punish them afterwards.

What about us, the representatives of the opposition? Were we in a better position because the BRD government was negotiating with the GDR? Or was it even harder to act under the circumstances of a policy of détente, because we were also seen as potential distractors of this policy?

I think there are as many activists as there are many different experiences. In my case, I can say that I did not like the attitude of many western civil rights activists who cared more about Nicaragua and Chile in the seventies and eighties than about the people in the other Germany. They excused themselves by saying: We wanted to come to you, but we thought it might be too dangerous for yourself. I would have appreciated to decide by myself what is dangerous for me or not. I can say that every West German journalist who visited and reported about me definitely protected me because it was too difficult for the regime to “stash me away” the more publicity I had. These are my personal experiences in middle Europe in the seventies and eighties.

My experience tells me that there is no alternative for a policy of harmonization and equalization of values. I try to imagine what the GDR would have been like if they did not govern under the political acceptance through the West or if they would not have needed the economical support? Nobody would have known about us and we would have been disappeared in jails and work camps. Through the interaction with the opposition the GDR regime was forced to give itself a semblance of civilization, even though it was not because of humanitarian reasons. The opposition would have been isolated and nobody would have heard about us.

Still in 1989/90, when the people in the GDR wanted the regime to collapse we could not act freely. Only after Gorbatschov promised Helmut Kohl in the summer of 1990 that the unified Germany could join the NATO, the course was set for unification.

Human Rights are indivisible. Every human being should decide for himself which human rights are essential without having a regime to tell him that freedom is always “acceptance of (state defined) necessity.”



Session One: The EU and North Korea Political Perspectives:  
Perspectives on EU Relations with North Korea after the  
February 13<sup>th</sup> Agreement

A successful and peaceful resolution of the North Korean nuclear issue is of key importance to the European Union. The integrity of the international non-proliferation regime and the peace and stability of Northeast Asia are vital to the European Union's own security and economic well-being.

In the last three months we have continued to maintain close contact with all six governments, including the DPRK, to demonstrate our support for the implementation of the agreement. This week at the ASEM Foreign Ministers' meeting in Hamburg Ministers of EU Member States and their Asian counterparts again voiced their support for the process of the Six Party Talks and called upon all parties to work towards the swift denuclearisation of the Korean Peninsula and implementation of the 19 September 2005 Joint Statement.

The European Security Strategy of 2003 identified the key threats to European security - terrorism, the proliferation of weapons of mass destruction, regional conflicts, state failure and organized crime. The EU uses an integrated approach that uses the full range of its economic, political, military, development and humanitarian instruments to tackle the root causes from which these threats arise in an attempt to limit them before they escalate to dangerous levels. The premise of EU foreign policy is to ensure that states which abide by the rules of the international community are able to quickly access the security and commercial benefits of the global economy and multilateral system. At the same time, states which fail to abide by their commitments fully realize the consequences of their exclusion from the international community. EU policy towards the DPRK has thus been based on persuading its leadership that to follow the norms and values of international society, in particular in regard to non-proliferation, would be the most effective way of ensuring its political and economic future.



We have continuously urged the DPRK to abandon all of its nuclear weapons and to comply with its international obligations, including the NPT and its IAEA Safeguards Agreement.

Our efforts at preventing proliferation on the peninsula are not new. In 1997 the EU joined with the Republic of Korea, Japan and the United States in the **KEDO project**. This was part of the 1994 agreement whereby North Korea froze its nuclear plants in return for Light Water Reactors.

The agreement reached by the participants of the Six Party Talks last **13 February** constitutes a first important step towards the implementation of the commitments that were laid down in the Joint Declaration of the Six-Parties of 19 September 2005.

The EU's approach towards the DPRK is guided by our close relationship with the Republic of Korea. We have consistently supported efforts aimed at improving inter-Korean relations. As I mentioned there are clear parallels between the Republic of Korea's policy of Peace and Prosperity and the EU's approach of addressing encouraging states to abide by

international commitments in return for a share in the benefits of the global economy. Interaction and economic cooperation between North and South Korea, accompanied by a firm message on the need for denuclearization, will provide a framework for building the trust and stability needed to resolve security issues. Ultimately, it could set the stage for reunification.

The EU also maintains a **dialogue with the North Korean authorities**. I was at the beginning of March in Pyongyang with my German and Portuguese colleagues to participate in the seventh senior officials political dialogue meeting between the EU and DPRK. The EU uses these political meetings to raise the nuclear issue, regional stability, the socio-economic situation and human rights.

Again, our key message to the DPRK in these meetings is that its future would be best served by abandoning its nuclear programme.

Another key aspect of our effort to bring the DPRK fully into the international community involves promoting **respect for human rights**. Resolutions on this issue at the UN are not intended as political attacks on

the DPRK. Rather, they serve as constructive roadmaps to help the overall economic and social development of the country.

A key aspect of our relations with the DPRK is our cooperation in the provision of assistance to vulnerable communities in the country. The European Union provides humanitarian assistance whenever there is human need, regardless of political considerations. Since 1995, the EU (Commission and Member States) has provided the DPRK with **humanitarian assistance worth around half a billion euros**. Working with DPRK partners we have supplied medicines, medical equipment, winter clothes. We have rehabilitated water and sanitation facilities. And we have renovated hospitals, schools and kindergartens used by the most vulnerable groups in society.

Through these efforts, we have been able to provide half a million people with clean water supplies and sanitation facilities. We have provided 5000 clinics with medicines and IV fluid machines. We have also provided food aid through the World Food Programme.

Since 2000 our activities have been directed more towards helping North Koreans grow their own food – what we term food security activities. These have included the supply of fertilizer, provision of expertise on how to use farm land in a sustainable manner and the contribution of tractors and other agricultural machinery for the same purpose.

A fourth aspect of our relations, which is yet to develop substantially, is our effort to support **economic modernization in the DPRK**. From July 2002 we have seen the, albeit cautious, beginnings of economic change in the DPRK. There is an opportunity for the outside world, to guide the path of reform and produce outcomes that will reinforce the process of economic transition and the DPRK's entry into the global economy. More expansive training in market economics and business management could help accelerate the transformation process already underway. The EU thinks this is something worth supporting. However, movement towards the kind of development and poverty reduction programmes that we provide in other countries will ultimately depend on the DPRK returning to its non-proliferation obligations.

However, as with South Korea, we believe in the power of persuasion by setting an example. We will keep the door open for the DPRK. The EU will continue to meet with the North Korean authorities in order to make clear to them directly and frankly what our concerns are in terms of non-proliferation and human rights and to persuade them to join us in sharing the benefits and opportunities of globalization.

The EU is playing its role, however, ultimately, building peace on the Korean peninsula will be the responsibility of the countries in Northeast Asia. It is essential that countries in this region avoid replacing the Cold War system with a new competition between rival power blocs.

It is therefore very encouraging that the February 13 agreement included a clause on the establishment of a working group that will look at how to transform the Six Party Talks into a permanent region security structure.

The CSCE/OSCE process in Europe might offer certain lessons on how a regional security structure could be built in East Asia.

(i) First of all, there needs to be the political will to move a process forward. For this to materialize, all sides must feel that they have

something to gain from the process. During the CSCE negotiations in the 1970s the eastern bloc gained the recognition of 1945 borders, while the west secured dialogue on human rights issues. I am not suggesting that this should be the case on the Korean peninsula. However, in regard to the North Korean nuclear issue, each of the six parties and the wider international community have a common set of priorities although each tends to certain aspects. do have different priorities – for the US removal of the threat of proliferation to terrorist groups, for the DPRK a guarantee of regime security, for Japan progress on the abductee issue and for South Korea and China the goals of denuclearization and ensuring stability in the region. For the Six Party Talks process to succeed each party must see that it will gain from the process and this is clearly recognized in the September 2005 and February 2007 agreements.

Of course, in practical terms it is very difficult to compromise on priority issues for the other side when levels of suspicion, distrust and insecurity are high. The second lesson of the CSCE, OSCE process, and indeed, the European integration process in general, would be therefore that there is

need to build up a habit of dialogue and interaction. In Europe we did not begin with a Big Bang approach to integration. Instead we went ahead incrementally, working together first where it was possible and expanding into more difficult areas as trust was built.

This will be the case also with regional integration in general. Countries in Asia are already integrating as trade and investment partners, not to mention growing social and cultural interaction. Nascent regional organizations already exist – the ASEAN+3, the ARF and the East Asia Summit and the possibility of a future Northeast Asian community.

The growth of such institutions will be essential if countries in East Asia are to successfully manage the challenges and opportunities of the 21<sup>st</sup> century – generating sustainable, economic development, ensuring energy security and dealing with traditional and the new security threats, including climate change to name just a few.

Indeed, these are challenges shared by all countries in the international system. In my opinion, strong regional organizations, built into and

supporting a strong multilateral system are the only that we can effectively deal with these challenges in the years to come. Moreover, at some point, regional organizations will have to be given stringer institutions and possibly a degree of supra-nationality if they are to operate effectively.

Ultimately, if managed effectively the results of globalization will draw countries such as the DPRK into the international community in a way that guarantees peace and prosperity for all of us. I think it is due to this shared perception that the relationship between the European Union and Republic of Korea is going from strength to strength.

Thank you.



# Capacity building in North Korea – the experience of Hanns Seidel Foundation

Dr. Bernhard Seliger, Hanns Seidel Foundation, Seoul<sup>1</sup>

## Abstract

Capacity building has been on agenda in North Korea since the beginning of foreign aid in the mid-1990s. While for political reasons cooperation was mainly (and, for some organizations, depending on the donor state, entirely) restricted to humanitarian aid, in practice such a distinction became soon fiction. This paper discusses the experience of Hanns Seidel Foundation (HSS), a German NGO and think tank involved in development projects around the globe. Since 2003 and 2004, HSS took various approaches to capacity building in North Korea, through seminars, scholarships, frequent discussions with officials, provision of educational materials etc. While North Koreans due to the breakdown of the official economy, especially the Public Distribution System, all rely on market activities, the understanding of the market remains poor, since the North Korean market is fragmented, corrupted and in varying degrees market activities are illegal. This leads to a first gap between the understanding of the breakdown of the former economic system and its ideological dismantlement and the understanding of a working alternative. There is a second gap between the will of participants in capacity building activities to embrace learning and reform and the strong limitation of learning and implementing lessons learned by the state. Therefore, though capacity building can contribute in a meaningful way to prepare North Korea for inevitable changes, its impact under the current political circumstances is limited. Political support from the outside is an important precondition for success of capacity building by NGOs in North Korea.

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<sup>1</sup> Representative for Korea, Hanns Seidel Foundation. The author is also affiliated as *Privatdozent* with the Institute of Research Into Culture and Economic Systems, University Witten/ Herdecke. All views are solely those of the author, not necessarily those of Hanns Seidel Foundation.

## 1. Introduction

Capacity building has been on agenda in North Korea since the beginning of foreign aid in the mid-1990s. While for political reasons cooperation was mainly (and, for some organizations, depending on the donor state, entirely) restricted to humanitarian aid, in practice such a distinction became soon fiction. All projects other than the most crude forms of food aid, which merely had to be distributed, involved some form of capacity building. The first reason for this was the gap in technologies between North Korea, which had been virtually closed for sixty years from most (academic, scientific, economic) exchange with the rest of the world. For example, if medical supplies were delivered, it could not work without basic training of doctors and nurses. Local staff of NGOs had to be trained. Without capacity building most humanitarian projects were not effective. For example, the provision of clean water and the establishment of a waste water system in rural communities by German Agro Action, financed by ECHO, the European aid organization, needed additional training on the use of lavatories and basic hygienic knowledge. The second reason is that NGOs tried to overcome the problems of dependency of the local population on goods brought from the outside and instead focused on rehabilitation of the environment and local economy, often in the field of agriculture. This became gradually more important, when the general economic situation of North Korea did not improve, at least not fast enough to eradicate hunger and poverty. Nevertheless, for political reasons capacity building, which smacks of official development aid, was and is largely a topic which remains with a dubious status: everybody tries to do it in North Korea, but nobody really acknowledges it.

Given the ambiguity of North Korea's policy itself this is not necessarily a bad situation since it means NGOs are trying what is possible, being limited by a country not willing to embrace reform and scared by the possibility of the loss of control once reforms are implemented. But, given these limiting factors, is capacity building possible?

This paper discusses the experience of Hanns Seidel Foundation (HSS), a German NGO and think tank involved in development projects around the globe. Since 2003 and 2004, HSS took various approaches to capacity building in North Korea, through seminars, scholarships, frequent discussions with officials, provision of educational materials etc. The second part reviews the framework of EU-North Korea relations, in which these activities take place. Then, the need for capacity building and the possibilities for its implementation

are discussed in the third part. Section four reviews the projects of HSS in the field of economic policy capacity building, followed by a conclusion (5.) looking at the experiences of HSS, using among other indicators the monitoring of seminar participants in North Korea.

## **2. From humanitarian assistance to development aid – a European perspective<sup>2</sup>**

*“[T]he EU strongly supports the Six Party Talks. Though not a participant, the EU follows this process closely, and a solution to the nuclear issue would open the door to closer relations between North Korea and Europe.”*

*Benita Ferrero-Waldner, EU Commissioner for External Relations and European Neighborhood Policy, New York, September 19<sup>th</sup> 2005*

*“The nuclear test which North Korea claims to have conducted at Gilju in Hamgyong province on the morning of 9 October is an extremely serious matter, which I unreservedly condemn. Not only does it threaten regional stability in northeast Asia: it also constitutes the latest in a series of challenges by Pyongyang to the international nuclear non-proliferation regime. ... The international community will have to take appropriate actions towards the North Korean regime. Someone will have to talk to this regime to bring it out of its paranoiac and aggressive posture. ... Let me say finally that I think that it is absolutely necessary to continue with our humanitarian aid for the suffering and most needed North Korean population who should not be punished for these acts of their government.”*

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<sup>2</sup> This section of the paper is based on Seliger (2006a, 2007).

*Benita Ferrero-Waldner, EU Commissioner for External Relations and European Neighborhood Policy, European Parliament Plenary, Brussels, October 11, 2006*

The two statements above give – in a nutshell – quite a good view on the political position and also perceived role of the EU towards North Korea. The first statement above was issued during a meeting of EU Commissioner Ferrero-Waldner with the North Korean Minister for Foreign Affairs, Choe Tae Bok, on the margins of the UN summit in New York in September 2005. First of all, the EU is no regional power with its own regional agenda. Consequently, there is no direct interest into the solution of the numerous conflicts and problems of North Korea and the Northeast Asian regions, foremost the nuclear issue, but also other important questions like human rights concerns. The EU is no member to the six party talks on none of the participating countries has an interest in inviting the EU to become a member of this body. While there has been speculation of a role of an “honest broker” for the EU, in the Bismarckian tradition of the Berlin Congress of 1878, brokering an agreement on the future of the Balkan states, such a role has few adherents, and none among the parties directly affected.

Rather, the relations of the EU and North Korea are mainly focusing on a second track of diplomacy. Being not specifically interested in the region, but being generally interested in a peaceful development of the world, without the burden of a colonial history, the EU has the chance to support peace initiatives on the second track, namely not by direct diplomacy, but by “soft power” (Nye 1990, 2004). Humanitarian assistance, membership in the now defunct KEDO, and capacity building measures are among the policy instruments the EU uses vis-à-vis North Korea. Though the nuclear issue overshadows all other relations, there are by now a multitude of bilateral and multilateral initiatives from the EU to North Korea. Nevertheless, without a solution of the nuclear issue, flourishing relations between the EU, its member states and North Korea are not likely. Official Development Aid (ODA) has been frozen after the admission of a nuclear weapons programme by North Korea.

While the EU was willing to continue relations informally through the work of its aid organizations, the re-organization of humanitarian assistance and the end of much of it at a very short notice in December 2005 dealt another blow to the good intentions of many Europeans involved in North Korean affairs. There are indeed some good reasons to

discontinue purely humanitarian projects and the EU-based donors for a long time had adjusted their programmes to the need of capacity building. The aim of North Korea, however, was not to re-adjust aid, but its foremost aim was the eviction of aid workers based in North Korea. Though some of them had a long history of relations with the reclusive state, dating back to 1995, when North Korea first opened its gates to international aid, and sometimes even longer, they were still regarded as potential trouble makers and spies. This shows that the inflow of information, which cannot be completely controlled by the state in the case of resident aid workers and their daily exchanges with North Korean counterparts in particular, is still a threat to regime survival, more than the alleged hostility of the US.

It is important to see that even the complete solution of the nuclear issue and a potential solution of pressing human rights issues are nothing more than a necessary, but not a sufficient condition for the flourishing of relations, in particular economic relations. Still, after the introduction of fully-fledged ODA North Korea would need long periods of training in all areas of the economy, before a successful recovery of its economy can be expected. Due to the relatively small size of the economy and the important impact bilateral Chinese and South Korean aid can have on the country, this is sometimes forgotten. But North Korea still has to build up its economy from the scratch. Can the EU help in this endeavour?

The missile test of July 2006 and the nuclear test of October 2006 seemed to have tipped the balance further in a direction, where the use of soft power becomes useless. The second excerpt, from a speech of Commissioner Ferrero-Waldner before the European Parliament just two days after the nuclear test in October, shows the helplessness vis-à-vis North Korea, a regime “to whom somebody has to talk...” But who? The new agreement of February 13, 2007, gives hope that North Korea is more willing to listen to talk of the EU. As the following short overview shows, the EU has been outreaching a lot to make such a dialogue possible.

The EU established diplomatic ties with North Korea in 2001. By now, it has become a major partner for the DPRK in humanitarian aid, with frequent visits from the EU or EU countries’ representatives in the last years. The deterioration of North Korea’s relations with other powers meant that the relative weight of European relations, European business and European visits to North Korea increased. However, the outlook for political cooperation is not so bright. The EU had hoped, as a “distant power” with no strategic interests and colonial

legacy on the Korean Peninsula to play a role as a mediator between North Korea and the United States. However, this “turned out to be a case of wishful thinking, although a recent European Parliament initiative to set up a seven-nation meeting in Brussels to discuss nuclear issues with Pyongyang suggests that the EU hasn't caved in just yet. The well-meant initiative, however, still needs the EC's go-ahead and follow-up, and Pyongyang's strategy of snubbing the EU on security issues does suggest that food and cash are all that North Korea wants from Brussels.” (Berkofsky 2003) This harsh statement on the reality of the EU's limited role in the North Korean issue is still true, since relations have not fundamentally changed in the last two years. The nuclear test of October 2006 even tipped the balance more in the direction of a military confrontation, where the EU's potential role becomes increasingly unrealistic.

Preconditions of establishing diplomatic ties in 2001 were the agreement for a political and a human rights dialogue. That there is not much else left to talk about would indeed be a very sobering conclusion after five years of political dialogue between the EU and the DPRK (Democratic People's Republic of Korea). Five rounds of political dialogue have been held since 1998, although the EU has usually revealed very few details on the outcome of the talks beyond calling them "useful" and "constructive". Less useful and everything but constructive when human rights were on the agenda, though. The EU and the DPRK started discussing human rights two years ago, only to see the talks break down after only one session. Despite this setback, the EU still insists that human rights remain a "natural topic" for discussion, admitting, however, that talks with North Korea "do not yet match", in quality and substance, the EU's human-rights dialogue with China. Given the poor quality of the EU-China dialogue, however, this assessment seems even less encouraging.

When the EU established relations with North Korea, it set out its strategies on relations in a country strategy paper (European Commission 2001). Technical assistance was an important part of this strategy and a total of 35 million euros has been set aside for EU technical assistance projects until 2006, making the EU a substantial donor of technical assistance to the DPRK. The EC-DPRK Country Strategy Paper (CSP) and the EU's National Indicative Program (NIP) for the DPRK set out the framework and objectives for technical assistance projects in North Korea. The CSP and NIP, if ever implemented, provide for training in market economic principles and projects designed to support and promote sustainable management and the efficient use of natural resources and energy in the DPRK, the development of a reliable and sustainable transport sector, rural development as well as

institutional support and capacity-building. However, the admission of a nuclear weapons programme by North Korea stopped ODA and the EU froze the money earmarked for technical assistance.

Instead, humanitarian projects alone were allowed, executed by a multitude of bilateral and multilateral donors and implementing organizations, and coordinated on the European side by ECHO, the office for humanitarian aid of the EU. When in 1995 flooding as a result of environmental degradation brought upon the country by its dysfunctional economic system as well as famine brought North Korea to the brink of collapse, it opened its doors to international aid. The EU, via the Food Aid and Food Security Programmes, provided significant aid since 1997. While originally food aid to the needy has been the focus of the programme, soon it shifted to structural food assistance, in particular, the provision of inputs and technical assistance. ECHO assistance already started in 1995, targeting the improvement of access to safe water and sanitation, providing drugs and medicines to health institutions (European Commission 2005).

The focus of the two programmes shows that the aid of the EU was not designed simply to bring food to North Korea, with the negative side effect of possibly making people dependent on the food. This happened only in the first years of the crisis, when there was an immediate need for feeding millions of undernourished people left alone by their regime. Rather, the EU saw the necessity for structural assistance, i.e. capacity building and training to broaden the domestic North Korean food supply. While it has been frequently pointed out that North Korea is not an agricultural country and that North Korea should rather focus on the rehabilitation of industrial production, earning by exports the money necessary to import food, the rehabilitation of agriculture nevertheless offers abundant potential for improvement and possibly could lead to self-sufficiency in food production, once a household responsibility system (i.e. privatization) of the agriculture begins. Under the current circumstances of collective farming, such improvements are not likely. Nevertheless, the eviction of most foreign aid workers in December 2005, which in particular affected the European NGOs, shows that not the pretext of a shift to development assistance, but rather the fact that aid workers were in the country at all has been bothering North Korea. Also, substitution effects had set in: the unconditional aid of South Korea was much more attractive from the point of view of North Korea, since no stringent monitoring requirements were attached and since the

flow of information in dealing with South Koreans, who were accepted every controlling step by the North, could be much more effectively controlled.

An additional, yet also ultimately unsuccessful chapter of EU-DPRK relations was the membership of the EU in the Korean Peninsula Energy Development Organization (KEDO). A total sum of 118 million Euro has been provided by the EU, plus additional bilateral funding, to KEDO. However, with the breach of the international proliferation commitments of North Korea, KEDO was frozen and ultimately disbanded. The following table 1 gives an overview over EU-DPRK relations from the year 2000 onwards, showing the relatively frequent interactions. It should be noted that bilateral contacts of member states with the EU are not listed here. As can be clearly seen from table 1, bilateral activities have been very active in 2001 and 2002, followed by a more subdued activity afterwards.

The first reactions of the European Union member states after the nuclear tests have been a further reduction of the contacts with the state, for example the denial of visa for North Korean delegations to France and Italy. For North Korea, this was clearly a possible side effect of its missile tests, though the Ministry of Foreign Affairs of the DPRK appears to be astonished by the measures. Still, a number of activities go on, as well regarding business contacts as capacity building measures and North Korea tries to accommodate these activities, as long as they do not interfere with the political aims of the state. While the European activities can be understood as a sign of support for UN resolution 1718 and will be followed by some more measures, for European relations rather the date of December 2005, when European experts were expelled from the country, is the watershed in relations. One of the main aims of European policies, change through trust-building and people contacts, became afterwards much more complicated.

The relations of the EU and North Korea go far beyond the few aspects sketched above. By now, numerous experts of EU countries participate in low-key activities in industrial re-organization, among them joint ventures, training activities from language training to business related training activities and in cultural activities. Germany, the largest economy of the EU, is particularly active; among others, there is frequent culture exchange and a library (study room) with German media has been provided to Pyongyang. Nevertheless, the activities have reached a form of plateau, from which it is difficult to conceive progress



without a resolution of the nuclear issue and a willingness to tackle other problems, among them the pressing human rights questions.

And another important caveat has to be made about the future relations: Often it is alleged (in particular, by North Korea itself, but also by many foreign observers) that the sanctions of the US and the hostility of the international community are reasons for the bad state of the North Korean economy. This is clearly wrong, since the reasons can be found exclusively in the mismanagement and dysfunctionalities of the North Korean economic system (Seliger 2004). Also, the reforms of July 2002 only marginally altered this fact, since no basic decision for economic transformation has been taken (Seliger 2005). Moreover, however, the often heard conclusion is wrong that a lifting of sanctions or a peaceful resolution of the nuclear issue will bring prosperity to North Korea. While it might bring a massive inflow of aid (in particular, there are prospects of Japanese reparation payments, though they are by no means legally binding and politically secured), it does not alter the state of the North Korean economy and the lack of human capital development. It can, therefore, only be the beginning of serious efforts to change North Korea.

This requires much more than the possibility of free trade: it requires the competitiveness of North Korean products, it requires a legally and financially safe environment for trade and it requires that North Korea tackles its problem of old debt, which it defaulted on long time ago. All these issues are often forgotten in the debate about the impact of the external relation on North Korea's economy. Capacity building measures like the EU-DPRK trade capacity project can help to raise these issues and, eventually, lead to the required change. However, for this we still all have to go a long road.

All in all, relations between the EU and North Korea are on the crossroads: to overcome donor fatigue and also political wariness of an extremely unreliable partner, important efforts by North Korea have to be made. It is currently, despite the February 13<sup>th</sup> agreement, a great question, if North Korea is willing to do so. Despite its various assurances to the South Korean government (from whom they expected massive aid) and the international community nothing substantial has been done yet. Also, there is clearly no commitment to reform, as recent credible, though unconfirmed reports on the deposing of the prime minister for reason of his pro-market proposals show.

In terms of EU policies towards North Korea and EU coordination with its partners in South Korea, the US, and to a lesser extent, China and Russia, the EU policies can give some additional push into the direction of a peaceful resolution for the nuclear standoff, i.e. providing additional incentives for fulfilling its promises of February 2007. However, overall EU influence on the issue remains small. Among the possible benefits, given close policy coordination with South Korea and the US (which is not always the reality until now) would be the establishment of an additional informal channel of conveying information about intentions of the international community to North Korea. Such an understanding of using European policies towards North Korea could be particularly helpful in the current situation, given the amount of time and money invested by Europe into building trust with North Korea and its role as an observer directly not involved in the crisis and the negotiations. But currently, this role seems to be not considered as important by either of the relevant parties, leaving the EU for now clearly on the sideline of the endgame on North Korean development.

Can the EU have a role besides “funding the bill”? Certainly, major powers are not interested in an institutionalized involvement of the EU in the emerging Northeast Asian security system, be it the six-party-talks or other approaches. But, the EU has one important asset, namely experience in setting up a multilateral security system, under the adverse conditions of systemic conflict. This system, CSCE (and later OSCE) did not work particularly well, but it did work, and it encouraged, among other developments, the wave of democratization in Eastern Europe. The EU should use its experience to participate in the establishment of a similar system in Northeast Asia through capacity building, through close political and economic cooperation and through becoming indeed the disinterested, “honest” broker.

<b>Year</b>	<b>Month</b>	<b>Activity</b>
	April	Aidco-Delegation visits Pyongyang
	March	EU-DPRK Workshop on business in Torino (Italy)
<b>2007</b>	March	Political Directors Troika visit to Pyongyang  Council Regulation on restrictive measures (sanctions following the nuclear test) approved
	October	Nuclear test by North Korea – it is condemned by the EU, and in the aftermath several countries begin to impose restrictions on travel by North Koreans (Italy, France) and the support for political missions to the country wanes (Germany)
	July	North Korean missile tests
	May	Visit of DPRK Director for Europe to Commission services in Brussels
	March	Beginning of 2 EU-DPRK programmes under the Asia Invest II Programme, among them the EU-DPRK Trade Capacity Programme of HSS/ EUKICA/ PIINTEC
<b>2006</b>	February	Humanitarian aid arrangements agreed in Pyongyang between DPRK and Commission officials
<b>2005</b>		
	December	Aid organizations have to leave the country; negotiations about new programmes begin successfully , but aid workers have to leave
	October	DPRK Vice Foreign Minister participates in seminar on Korea in Italy
	June	EU Commission approves 10 mill. Euro in humanitarian aid
<b>2004</b>		
	November	EU Commission approves 6.2 mill. Euro in humanitarian aid
	September	EU-DPRK Workshop in Pyongyang
	June	EU Commission approves 9.1 mill. Euro in humanitarian aid
	April	Train accident in Ryongcheon; EU approves 200.000 Euro in immediate aid
<b>2003</b>		
	December	EU-DPRK Troika Meeting
	March	EU Commission approves 7.5 mill. Euro in humanitarian aid
	January	EU Commission approves 9.5 mill. Euro in humanitarian aid (emergency food aid for children)
<b>2002</b>		

	November	Council Conclusions on the Korean Peninsula
	October	EU Declaration on the DPRK's Nuclear programme
	September	EU Commission approves 1.275 mill. Euro in humanitarian aid
	July	EU Commission adopts National Indicative Programme 2002-2004
	March	EU Commission approves over 5 mill. Euro in humanitarian aid
	March	DPRK Trade Minister visits Brussels
	February	EU Commission adopts Country Strategy Paper for North Korea 2001-2004
<b>2001</b>		
	May	EU establishes diplomatic relations with DPRK

**Table 1: EU-DPRK relations 2001-2006**

Source: own compilation after European Commission (2005)

### **3. Assessment of needs: What do North Koreans know, what do North Koreans need to know and what are North Koreans allowed to know about the market economy?**

Capacity building, i.e. the upgrading of societal and governmental abilities in technical matters, organizational and managerial skills broadly understood, has emerged as the main focus of worldwide development efforts in the 1990s and 2000s. It overcame the dissatisfaction with failed development efforts centred around technological solutions like large industrial or infrastructure construction projects. In the case of North Korea, capacity building is necessary in all conceivable fields. The country has virtually been closed to the knowledge transfer and exchange for almost sixty years, with some exceptions in narrowly defined technical fields, especially weapons technology. At the same time, preconditions for efficient capacity building are barely given due to the strict political control of information flows. This is true in terms of general limits to teachings, which usually have to refrain from being directly aimed at North Korea, but rather have to be framed as “experiences of other countries” without calling directly for reform in North Korea, and this is also true in practical terms, since there is no access to North Korea than through official channels pre-selecting knowledge and tightly controlling its flow. For example, participants to capacity building activities are not only selected by the state, but also it is impossible to ensure that they are receiving related information, e.g. study materials, prior to and after measures. Also, the permanent control situation makes open question sessions, which are an important tool for the success of capacity building, not possible. Frequently in my experience, questions have been

censored ex post, i.e. the Ministry officials dealing with our projects warned us to deal with certain questions. The ex ante censoring, in the mind of the participants, cannot be measured, but must be much more severe.

As said before, capacity building is important in North Korea in all conceivable areas. In the economy it can mean more technical capacity building, upgrading bureaucratic knowledge, e.g. in the field of national accounting or legal trade practices and terms. It also has to include a general understanding of market mechanisms, e.g. of chances to participate in the world economy through trade and investment. In this relation it might be interesting to ask the question what North Koreans already know about the market economy. After all, the North Korean economy from the point of view of its main participants, the consumers, since a long time is a market economy. As a recent study by the Bank of Korea among refugees from North Korea revealed, the state provided for less than 10 percent of the needs of population in terms of food, i.e. market relations are overwhelmingly important (Bank of Korea 2007).<sup>3</sup>

It would be a wrong conclusion that the market principle is already firmly embedded in the mind of the people and there is already a basic understanding of the market. The market as experienced by North Korean consumers is fragmented, is characterized by varying degrees of illegality and corruption, is unfair, and works not smoothly, but in a disrupted way. Market relations in North Korea are to a large degree power relations (see Seliger 2006b). So, also the view of the market economy is one of a fragmented, corrupted, and unfair system with dubious legality. While there is a clear understanding that the state failed in providing goods and services as before and why there is increasingly low credibility in the assurances of the North Korean state that foreign pressure is the reason for this, there is no clear idea of how markets works. But such an understanding is the preconditions for the acceptance of the need for capacity building and also for the possibility of the implementation of lessons learned by capacity building, not only at a grand, national scale, the basic decision for a market economy, for example, but also on the lower, individual (e.g. company-level) scale, for example in the implementation of new management methods.

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<sup>3</sup> Given the free, though meagre supply of housing, water, basic medical services and educational services, as well as the varying amount of food supplied by the public distribution system (PDS), it is not possible to calculate the amount of market relations in total provision of goods and services to consumers. But the failure of the PDS means that every North Korean citizen has to cope with market relations for the largest part of his daily necessities, with the general relation that the higher the rank, the more of the needs are cared for by the state and vice versa.

In terms of policy-making, it is possible to draw lessons from transition economies to establish the way of reform. In particular, experiences of former centrally-planned economies in Central and Eastern Europe give a fairly accurate blueprint of what should happen in North Korea. Consider the field of monetary policy, for example. Monetary policy is of utmost importance for North Korea, since inflation has been threat to the functioning of markets and the regime's stability, as well (Seliger 2007b). Certainly, first of all a basic decision for introducing market mechanisms has to be made and this decision, contrary to the more optimistic view of some observers, has not yet been made. It might be argued that the coming into existence of a new, private sector in North Korea (additionally to the special economic zones of Gaesong, Gungangsan, and maybe Rajin-Sonbong and Shinuiju) heralds the adoption of a Chinese-style transition process. This, however, is not likely. First, the strong, though now defunct industrialization of North Korea does not allow North Korea to rally its support for transition, and thereby guarantee the stability of political leadership, by sharp increases in agricultural productivity, as was the case in China in the early transition stage. Second, the large inflows of foreign currency as a side effect of heavy foreign investment, which upheld exchange rate stability, allowed for a growing degree (though not full) of convertibility of the Chinese Yüan and even now puts heavy pressure towards revaluation cannot be expected in North Korea.<sup>4</sup>

Assuming a general decision for a market economy, the first task in North Korea would be the introduction of a sufficient degree of transparency, in particular the publication of statistics on monetary growth, inflation, the government budget, subsidies etc. This is the precondition for the assessment of the degree of the monetization of deficits of the state and the degree of subsidization of state firms (and the decision, which firms are bankrupt and which are, eventually, viable). To make such a publication possible, not only have the relevant laws to be revised – today, all these figures are state secrets, but also economists and accountants with modern training are needed. This is the only point, where already some attempts for capacity building can be seen: beginning with visits to the Chinese Central Bank in 2001, there have been various training measures for accounting, central banking and commercial banking for North Korean officials. For example, Hanns Seidel Foundation of Germany in 2004 and 2005 carried out training measures for medium-level officials from the

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<sup>4</sup> This does not mean that North Korea cannot learn from China. Indeed, its most valuable lessons may come from China, since they are the most politically accepted lessons. Lee (2006) sketches a possible North Korean monetary and financial reform based on Chinese experience. The argument above just refers to the possibility to expect similar results than in the Chinese transition process. Also, the existence of the successful other, namely South Korea, gives North Korea far less leeway in economic reform without the danger of regime destabilization.

Central Bank, the Ministry of Finance, specialized banks, other authorities like the Price Committee, and academics in Pyongyang. Also, an increasing number of students of management and economics have been sent abroad, especially to China and European countries, which gives some hope for future change in economic policy. However, to make this come true, a much bolder approach is necessary.

Once the relevant experts are educated, it is necessary to strengthen the institutional framework, by giving the Central Bank a sufficient degree of independence and establishing clear norms for central banking as well as government finance and separating both functions. The introduction of a two-tier banking system would be the last step towards the introduction of a market-based monetary and financial framework. A two-tier banking system also would require the establishment of a supervisory authority, either inside the central bank or in form of a Financial Supervisory Commission. The introduction of this framework does not mean that the task of transition is successfully concluded. Gaining experience with a market-based system, and gaining reputation for defending it, for example in inflation fighting and against political meddling, are tasks which will require not only experts, but also time. Nevertheless, as the old Korean saying goes, a long way cannot be gone until one begins with the first step.

This example shows what North Korea needs in terms of capacity building: experts able to understand, and ultimately to implement, market-based reforms. Such experts cannot be created overnight. Their education takes time, money and political will. Occasional training sessions by non-resident NGOs like HSS are certainly not enough to provide such a training. They are rather teasers, showing the need for more thoroughgoing capacity building activities. Some attempts to achieve this have been made, e.g. the so-called MBA programme organized by the Swiss Aid office, the only European country providing ODA to North Korea, and the attempts to establish the Pyongyang University of Science and Technology, which might open as soon as this year.

But it is possible to carry out capacity building in a more organized way? Certainly, it is not yet possible on a large scale. Even for the existing capacity building projects, reminders on the limitations on topics and political sensitivity are the rule. If participants or trainers are talking about topics somehow deemed dangerous by the officials in place, immediate warnings are issued. Given the control mania in North Korea, these warnings are not necessarily reflecting the ideological predilections of the officials, but rather attempts to cover

their position from possible bureaucratic backlashes. So, an answer to the question posed in the heading of this section could be this: First, North Koreans need to know almost everything, since their knowledge is limited. They do know one thing however, and that is that the old ideological and politico-economic system brought poverty, backwardness and isolation to North Korea. This is a knowledge shared by the population and the bureaucracy, though – other than through interviewing refugees, who openly can voice dissent – it can only be concluded implicitly. Second, North Koreans are allowed to know something, namely technical, technological and also managerial knowledge considered as beneficial by the state. In this sense, the substitution (or, supplementation) of *juche* ideology by *songun* ideology brought positive changes in that sense that learning from foreign countries is not condemned per se, as it was before. However, learning still is strictly limited to issues which are in conformity with the existing economic system, however poor it works. Learning leading to changes, not only revolutionary changes, but also reforms, is not accepted.

Nevertheless, the chance to conduct capacity building activities in North Korea by the use of successful examples from other countries allows participants to evaluate necessary policies themselves. When talking about the success of open trade policies of a small country like Estonia, or talking about the inflation fighting experiences of transition economies like Russia and the Czech Republic, the analogy to North Korea is not too difficult.

#### **4. The capacity building projects of Hanns Seidel Foundation in North Korea**

Hanns Seidel Foundation (HSS), based in Munich in Bavaria and sharing a political basis with the Christian Social Union, a centre-right governing party in Bavaria, is a German NGO and think tank, active in civic education in Germany and in political and economic development projects worldwide, with more than 30 offices and projects in more than 60 countries. Since 1987 HSS has an office in Seoul. Projects were first aiming at promoting rural development, local autonomy and decentralization. Over time, the topic of unification and comparative lessons from German unification for Korea became more and more the focus of the work of HSS. In the 1990s and early 2000s there had been several contacts between HSS and North Korea, however to no avail. This changed when in 2003 during a delegation trip of the German Bundestag German foundations were explicitly invited by Kim Yong-Nam, nominal head of the state, to start capacity building projects in North Korea. At that time, a number of



new organizations, so-called NGOs, had been set up in North Korea with the aim to engage with foreign organizations. These NGO, like the Korean European Technology and Economic Services (KETES), a now defunct organization, had some leeway to cooperate with foreign institutions, depending on the political connections they had. Often the organizations were led by relatively young, but well-connected young functionaries (or their offspring). HSS could start with two capacity building projects in the field of international finance, one dealing with international financial institutions and one dealing with inflation and exchange rates, in 2004 and 2005. Though this does not seem particularly impressive, the fact that more or less unhampered free market theories could be presented to a large number of ministerial officials, academic researchers, professors, and managers was encouraging. However, this situation of relative freedom was short-phased. All the time, since the opening for foreign aid in 1995, North Korea had been displeased by the influence of foreign actors, like monitoring, bringing them into contact with the population. The fear to loose control plus the hope to become less dependent on international aid (mainly due to the fact that South Korea by the mid-decade became the largest donor and virtually did not attach strings to its aid) led to a policy change.

When in the autumn of 2005 North Korea threatened the aid organizations to leave the country or to reorganize their work along the lines of development assistance, this was not only a typical example of North Korean brinkmanship, raising the bar for NGOs who had their own agenda in staying in North Korea, since it meant jobs for their people and money from the EU. It also disguised the fact that a reorientation towards capacity building had begun a long time before; the alleged wrong focus on food aid was a fiction of the North Korean regime. This orientation can be seen not only in the reorientation of ECHO and food programmes towards structural assistance. It also was clear from the fact that from early 2005 onwards North Korea was included in most “calls for applications” the European Union sends around for its numerous exchange and development assistance programmes to NGOs. The focus on NGO-level cooperation allows the EU to stay true to its mantra that ODA can only be given after a peaceful solution of the nuclear crisis; at the same time NGOs could explore the willingness of North Korea to embark on serious training and economic transformation programmes as well as the possibilities and areas of successful cooperation. Among the calls were those in the field of “open NGO cooperation”, environmental programmes and, also, the ASIA Invest II programme, which will be discussed here.

Many of the newly established organizations like KETES were either closed down or were forced to give up contacts with foreign actors. Instead, new agencies for the contact with the outside world as direct subsidiaries of the Ministry of Foreign Affairs were established. For European NGOs, the contact point was called “Korean-European Cooperation Coordinating Agency” (KECCA), an agency not only monitoring or facilitating NGO-contacts, but taking them in fact over from the NGOs. In terms of the preferences for programmes the focus is clearly on technical issues. Technical issues are those most urgent in the mind of North Korean officials since they are first, according to the bureaucratic legend, responsible for North Korea’s relative backwardness and decline and second of all they are politically least dangerous. The one positive change after the breakdown of the political and economic system of North Korea is that at least in the field of technology, the alleged superiority of *Juche* communism was acknowledged as fiction. Today, it is possible and even encouraged to learn from abroad – as long as it is about technology, not about political and economic ideas. So, North Korean proposals for cooperation projects and for educational programmes (like sending North Korean students abroad) always include energy issues (in the case of dealing with European organizations, often “renewable energy” is proposed as a topic, due to the idea that this is more appealing to European organizations), issues of agricultural and fisheries technologies etc. Economic training is also accepted on a limited basis: First, it is known to North Korea that for example the German foundations active in North Korea are by purpose involved only in non-technical projects (though fields like energy often are inside the field of activities) and some allowance to this fact has to be made. North Korea hopes not only to benefit directly from the activities of foundations and other actors (like, for example, the German cultural institute, Goethe Institut), but also to use the activities with the foundations as precedence for later ODA. Second, economic training is seen as useful as long as it helps in technical terms (like, facilitating exports of North Korea) and does not challenge the leading ideology.

The EU-financed programme Asia-Invest was launched in 1998 and aims to promote the internationalisation of European and Asian small and medium-sized enterprises (SMEs). It supports the exchange of experience, networking and matchmaking among European and Asian business organisations to promote the greater integration of European and Asian companies and the transfer of know-how and technology between the two regions. This is achieved by supporting multilateral partnership projects between intermediary business organisations in the European Union and South Asia, South East Asia and East Asia. The EU-

DPRK trade capacity project aims at meeting the 3<sup>rd</sup> priority of the ASIA-invest II – programme, i.e. achieving an Institutional Reinforcement consisting of capacity building of North Korean intermediary business organisations and enhanced networking with European counterparts. Over and above this the project meets also the top priority of the EU foreign policy strategy on North Korea, viz. to provide the necessary impulse for reaching long-term benefits in the DPRK through institutional change.

The EU-DPRK Trade Capacity project is a joint project by Hanns Seidel Foundation from Germany with the Pyongyang International Information Centre for new Technology and Economy (PIINTEC) and the EU-Korea Industrial Cooperation Agency (EUKICA) from Brussels. As such it complies with the EU rules on the participation of two European partners of two different European states with one partner from the target country, here North Korea. The broad objective includes the following aspects: Capacity building in North Korea first of all contributes to the general purpose of promoting peace and reconciliation on the Korean peninsula. Dialogue and cooperation between EU and North Korea partners fosters mutual understanding and trust as well as improves general relations. This should thus allow the EU to gain a greater presence as a trusted economic and political actor in the region. Moreover, reducing institutional shortcomings and investing in human development of business intermediary and trade promotion organisations gives an impetus for economic innovation. In this respect, the project also envisages better living conditions for the North Korean population. Implementation of measures proposed by seminars produces opportunities for viable economic development. This contributes to the long-term goal of economic growth and combating poverty in one of the poorest states of the region.

As far as a more narrow definition of the project objectives is concerned, the emphasis lies on institutional capacity building to increase the potential of North Korean trade and business promotion organisations. Imparting business related knowledge and improving their services, serves the purpose of strengthening local expertise and competence in these organisations. It also enables DPRK project partner PIINTEC to support new business promotion structures and to provide training where required. As an important prerequisite for economic development the project supports the country to help itself in building up trade and business relations, export capabilities and foreign investment prospects. A more beneficial business environment should allow European businesses to lead the way on foreign trade with North Korea.

The main activities of the institutional reinforcement include seminars and workshops held by invited economic specialists in North Korea as well as study visits of DPRK experts to European organisations, such as Chambers of Commerce, which have an interest in exchange. DPRK experts taking part in the activities will be mainly drawn from business intermediary and trade institutions in North Korea. Liaison with these institutions and provision of necessary services in North Korea will be the task of the Pyongyang International Information Centre for new Technology and Economy (PIINTEC), while the EU-Korea Industrial Cooperation Agency (EUKICA) and the Hanns Seidel Foundation (HSS), the main applicant, are in charge of organising the European contribution. The programme will run for three years. In the first year (March 2006-March 2007), the Structure of the world economy, foreign trade rules and regulations, international business practices and the role of business intermediary organizations are the focus of capacity building. In the second year (March 2007-March 2008), the organisation, management, legal context and services of business intermediaries are the topic, followed by an application and implementation of the transferred knowledge and special workshops on regional integration and special economic zones in the third year (March 2008-March 2009).

Building on the premises mentioned above, the programme will contribute to advance the necessary capacities of key DPRK business promotion institutions and human resources, in particular as regards their ability to define a path on the future economic as well as hopefully democratic development of the country. By supporting business intermediary capabilities in North Korea through seminars and study visits, the action aims to fulfil various requirements; it will encourage economic institutional reinforcement to ensure better business promotion services and a more investment-friendly business environment, it will enhance networking with European counterparts, it will promote trade between the EU and Asia and tend to the participation of newly eligible North Korea.

The concepts and practical tools conveyed by educational instruments like study visits and seminars can on the one hand be directly applied, on the other hand they can serve as an asset for further training purposes. Therefore it will be possible to straightforwardly tackle institutional shortcomings in DPRK organisations and at the same time create a sustained knowledge base for continuous dissemination of relevant expertise and innovations relative to the work of business intermediaries. By means of updating DPRK business intermediary

trainees on the latest international practices and standards in the field of economics and business and by organising study visits to EU countries for information and networking purposes it should be possible to develop meaningful concepts for business intermediary development in North Korea. Furthermore a raise in local business intermediary awareness of European industries and products should empower European companies to spearhead foreign investment with North Korea and strengthen mutual trade flows. Reaching substantial progress in the field of commercial cooperation while creating a positive European presence in North Korea, also consolidates the prospects for EU-DPRK political interaction and strengthens the EU's political and economic presence across Asia in general and DPRK in particular. Last but not least, building economic expertise and capacities combined with due implementation of objectives in North Korean organisations aims to promote the wider development of the country based on a close integration of economic, political and environmental dimensions and to provide lasting solutions to alleviating poverty in North Korea. Growing Special Economic Zones, foreign trade and investment can cater for the creation of jobs, help to increase economic performance and individual welfare and reinforce respect for human rights.

As of mid-2007, four seminars on international business, international trade, business intermediaries (chambers of commerce) and export strategies have been carried out. Given the difficult political circumstances, this is a result which is better than expected, though many improvements are still necessary. Also, the participants approved of the programmes, as the regular monitoring of seminars shows. In the next section, the review of the capacity building experience of HSS in North Korea will be partly based on answers from the monitoring.

## **5. Does capacity building in North Korea work? A tentative conclusion**

In the last four years, HSS could gain some experience with the specific circumstances of capacity building in North Korea. The following five “lessons” are condensed from this experience.

- (1) Relations to the bureaucracy are central and at the same time the most challenging variable in conducting capacity building in North Korea. Personal connections are helpful to overcome certain obstacles, beginning with the possibility of direct e-mail communication, and to get more leeway for activities. Understanding the bureaucratic

position is important, since it does not only reflect official ideology, but also the fear of sanctions by higher echelons of the bureaucracy. These fears are not imaginary, but real, and frequently sanctions are issued.

- (2) The overwhelming desire of participants in all our capacity building seminars was “more practice” and more “Practical lessons for Korea” instead of theories. This might be partly related to the fact that there is no sound theoretical basis in many participants (e.g. to discuss problems related to the economy), but mainly it reflects the honest will to learn from capacity building activities. In monitoring questionnaires of our capacity building activities, filled in on the spot (i.e. without direct interference by possible minders) and evaluated anonymously, this was the single most important item. At the same time, such practical lessons are explicitly unwanted by the bureaucracy fearing for negative sanctions when allowing direct calls for reform. At least during the capacity building measures, such calls came occasionally from the participants, but were later censored by the North Korean officials responsible.
- (3) Though many participants obviously have no prior knowledge of the seminar topics and occasionally even feel deceived by titles, there must be a certain supply of educational materials available in research institutes, universities and bureaucracies. Participants had access to macroeconomic teaching materials in a seminar on trade strategies, for example. Even, it was written that “recently books related to that topic (exports and export strategies) have been published lately in our country”. So, to some extent participants are not only personally knowledgeable about the market they encounter on a daily basis, but also have a prior preconceived idea of how the market economy works – yet another sign that the ideological basis for the current economic system is long gone and that political reasons, i.e. fear of regime change, are responsible for the maintenance of the ideological system.
- (4) Capacity building would require step by step approaches to participants, building upon each other and allowing them to accumulate learning. This is not yet possible in North Korea. Participants are selected completely by the North Korean side and information on study materials for participants are irregular, to say the least. The lack of direct supervision of the preparation of seminar tasks is specifically severe for non-resident NGOs. Therefore, capacity building is quite limited. The existing measures can only show North Koreans the importance to conduct much grander, large-scale capacity building activities.

(5) Political support for capacity building projects is a main factor of success. This is true for support inside the country, though this is a variable out of control for most actors. It is also true for support from the outside, for example support by European politicians for EU-funded projects in North Korea. This gives some leverage to demand the acceptance of contents, even if it might not be a priority for the North Korean bureaucracy. Especially, political support is necessary to come away from technical or technological projects to projects related to the institutional system. Such a support also helps the Korean bureaucrats to justify programmes vis-à-vis their superiors.

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

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## **THE NAMPO-PYONGYANG CORRIDOR**

### **A strategic area for European investment in DPRK**

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#### **Abstract**

This paper provides an overview of main problems affecting the development of North Korean regions. It recognizes the importance of transport and logistics as key factors in regional economic growth. A critical overview of main economic areas in terms of market size, industrial specializations, accessibility, and infrastructure provision, concludes that Nampo is the most efficient location for European companies that are willing to use North Korea as a base for producing and exporting their goods. Conclusions are based on recent figures about maritime traffics and hinterland characteristics.

*Keywords: DPRK, Europe, Logistics, North Korea, Regional Development*

## **Introduction**

Several studies have addressed the different characteristics of North Korea's main economic areas. However, their results have remained mostly speculative and somewhat contradicting, due to data shortage. Therefore, most research depends on broad qualitative appreciations and external estimations of North Korea's regional economic performance. Very few works have provided a quantitative regional geography of the country. As for example, Jo and Adler (2002) show the difficulty providing accurate population figures by city and province, but they success in demonstrating key processes of a socialist developing country. They particularly highlight the precedence taken by economic factors over ideological factors, resulting in the formation of Pyongyang primate city, and the deficiency of intra and inter regional balance. One main explanation is that centralized socialist planning finds difficult to sustain its legitimacy and efficiency in a globalized environment where economic factors become dominant. Another set of studies based on international trading vessel movements demonstrated the gradual concentration of the North Korean port system favouring Nampo, the gateway to Pyongyang (Jo and Ducruet, 2006; Ducruet and Jo, 2007). Thus, both urban and port systems illustrate major spatial changes within the country, such as the "shift to the West" of populations and activities during the last two decades, as a result of geopolitical change, uneven accessibility, and overall industrial collapse (Roussin and Ducruet, 2006; Ducruet and Roussin, 2007).

In order to address whether North Korean economic areas are differently attractive to foreign firms such as European firms, an overview of their main characteristics is

provided in the first section. It is believed that European firms have a comparative advantage over other firms stemming from the absence of political issues between North Korea and Europe (Bridges, 2003). Besides, they can be seen as any potential investor for which location factors are the same than for other companies, in terms of market opportunities and logistics efficiency. Thus, this first section reviews the different economic areas according to their compatibility with global standards of supply chain management. In a second section and from this economic and logistics approach, the most relevant area, Nampo-Pyongyang, is selected and analyzed in terms of land-sea capacity, recent European investments and potential growth.

## **1. Regional panorama of North Korean logistics**

### **1.1 Performance indicators of main economic areas**

One major constraint to addressing the actual state of industrial activities in different parts of North Korea is the fact that only 20% of existing industries are still in operation or in semi-operation. The Soviet model based on heavy industry, the dramatic shortages of energy since the early 1990s, and the increase of defense-related expenditures at a time of diplomatic tensions and trade isolation all have provoked severe wounds to the whole economic system. As a consequence, any estimation of economic performance should not ignore that except Pyongyang and Nampo, most other cities have seen their economic base vanish over time. Cheongjin, a main economic center of 800,000 inhabitants located in the northeast, has been described by a former UN representative as a ‘forest of scrap metal’ where the port is rather dormant (Pons, 2006).

Table 1: Overview of economic activities in main economic areas of North Korea

	Traditional industries	Recent industries	Potential industries	Natural resources
Pyongyang – Nampo	Machinery, steel, electric, electronic, shipbuilding, cement, fertilizer, textile, clothing	Glass, chemicals, construction materials, automotive	Precision chemical, food and beverage, plastic and rubber, automotive spare parts and assembly	Coal, gold, iron ore, silver, zinc
Wonsan – Hamheung	Chemical, machinery, non-steel metal, cement, shipbuilding	-	Automobile, steel, non-ferrous metal, petrochemical, plastic and rubber, precision chemicals, chemical fertilizer, food and beverage, clothing, glass	Tungsten, zinc
Sinuiju	Machinery, metal, chemical, textile, paper, pulp	Sinuiju SAR (2002)	Precision chemicals, plastic and rubber, clothing, food and beverage, wood, glass	-
Rajin – Seonbong	Non-steel metal, petrochemical, coal	Construction, logistics, real estate, retailing, tourism, transport [Rajin-Seonbong Free-Trade Zone, 1991]	Wood, paper, pulp	Uranium, coal
Gaeseong – Haeju	Cement, fertilizer, textile, agriculture, marine products	Manufacturing [Gaeseong Industrial Park, 2004]	Electric, electronics, clothing, food and beverage	Graphite, molybdenum
Cheongjin – Gimchaek	Steel, metal, machinery, automobile, shipbuilding, equipollent, rubber	-	Non-ferrous metal, electric products	Coal, cobalt, copper, graphite, iron ore, lead, magnesite, nickel

Sources: compiled from Lee (2001) and various sources

The table 1 illustrates the actual and potential inventory of industries in DPRK by main areas. It shows that North Korea offers to investors an interesting mix of various natural resources highly demanded on the world market as uranium, copper or nickel, and an industrial tradition, the north part of Korean peninsula being industrialized since the

1920's. On the manufacturing heritage some new sectors have been introducing during this last decade like tourism or glass. By extension and based on the project announcements and various visits of foreign firms in DPRK since the warming between both Korea in 2000, we can extrapolate which possible industries could be located in the main North Korean industrial areas; Nampo-Pyongyang and Wonsan-Hamheung seemed to have the best and largest potential.

Therefore, any interpretation of Table 1 should be cautious, as most traditional industries collapse and few new industries have been developed in the recent years. Economic specializations of the different areas may not be regarded as crucial for new developments. In fact, foreign firms shall invest in North Korea whatever the mere traces of past local knowledge and skills. Those are not consistent enough to be considered as valid economic rents (Kaplinski, 2004). Moreover, the two examples of Gaeseong Industrial Park (GIC) and Rajin-Seonbong show that new developments have been taking place without any linkages with formerly existing industries. On the one hand, the South Korean government-based GIC continues to prosper since its start in 2004, even during peak diplomatic tension periods, such as summer 2006 nuclear tests. At the end of 2006, ten thousand North Korean workers were operating in fifteen South Korean companies and plans to expand the site are currently examined. On the other hand, Rajin-Seonbong has not prospered due to mismanagement. Developers of the zone have selected high-tech industries, casino, and retail instead of using the port as both a catalyst for economies of scale in manufacturing and a remedy to geographical remoteness. Traffic data show that Rajin port has been used intensively for carrying construction materials to build the zone at early developmental stage rather than for

trade activities (Jo and Ducruet, 2007). This is being partly recovered as China is willing to improve the connection between Rajin and Jilin province through highway development and the installation of a logistics-free zone at Namyang (Hankyoreh, 2006). Despite its more favorable location at the border with China, where approximately 50 to 80 percent of North Korean exports pass, Sinuiju Special Administrative Region (SAR) has not much developed since the appointed manager Yang Bin has been arrested by Chinese authorities after the project has just been launched in 2002. Another reason in the failure of this zone and exposed by DPRK authorities, was the absence of free trade agreement for SAR with China, which completely minimized the competitiveness of Sinuiju. Although a Special Zone at Nampo area is mentioned by the South Korean Ministry of Unification (2005), there is not yet evidence of its realization. However, the example of Nampo shows that a special economic zone is not mandatory for economic development, as 120 Chinese firms have invested in the province in the recent years (Pons, 2004). Nampo and Wonsan are strategic locations and for this reason they have not been opened officially to free trade. Recent announcements about the free zone project on Bidan and Wihwa islands at the Chinese border near Sinuiju confirm the preference to peripheral locations remote from Pyongyang (Yonhap News, 2007), and more specifically the wish of the authorities to keep Chinese firms, as much as possible, far from the country's heart and less visible for the local population.

Previous attempts to estimate the performance of main economic areas are synthesized in Table 2. Based on the hypothesis of further foreign investment, coastal locations are pointed by Kim (2000) as the most promising areas to matching the Chinese model of Open Cities. The author identifies five desirable factors for motivating investment for

South Korean firms:

- coastal city area: economic advantages of water transport
- pre-existing industrial base: experienced workforce despite damaged facilities
- safe investment: areas far from sensitive sites such as military bases
- economic linkages with neighbouring countries: proximity to borders
- personnel attractiveness: educational facilities, skilled labour

According to this framework, factor such as remoteness from military sites does not apply to Gaeseong, a fruitful project near the Demilitarized Zone (DMZ). Also, the proximity to borders or ports, under the control of the Army, have proved wrong for Sinuiju SAR and Rajin-Seonbong FTZ. Of course, it is partly due to the elaboration of this framework prior to the reforms and special zones that take place from 2002. However, it implies that any rigidly objective analysis of North Korean economic areas is not sufficient to understand the current situation. There is more a complex mingling of different factors with a large share of unexpectedness. As indicated above, usual arguments explaining the demise of Rajin-Seonbong FTZ through geographical remoteness and lack of economic base have largely ignored the importance of ports and the fact that high-tech industries are not likely to grow without a previous developmental stage in the manufacturing / exporting industries sector. Even Silicon Valley in the US has not grown up from nothing but has benefited from already existing military sites where research activities became attractive for regional innovation (Howells, 2005). Thus, any attempt to rationalize investment factors in North Korea based on objective benchmarking remains very limited. There are no inherent qualities of places that turn them into economic centers 'naturally', but a set of ongoing

processes and strategies varying through space and time.

Table 2: Benchmarking main economic areas of North Korea

	Pyongyang - Nampo	Wonsan - Hamheung	Sinuiju	Rajin – Seonbong	Gaeseong - Haeju	Total
Openness	3	2	3	3	1	12
Development potential	3	2	3	2	1	11
Labour quality / quantity	3	2	2	1	2	10
Social Overhead Capital	3	2	2	1	2	10
Market	3	2	2	1	2	10
Landward linkages	2	2	3	2	1	10
Industrial base	3	3	2	1	1	9
Land	2	2	1	1	2	8
Agglomeration effect	3	2	1	1	1	8
Raw material	1	2	1	2	1	7
Total	26	21	20	15	14	

Sources: adapted from Kim, 2000 and Lee, 2001

In order to benchmark the different economic areas, a synthesis of Kim (2000) and Lee (2001) is proposed in Table 2 based on the given scores. As a result, the skilled, abundant, and cheap labour is one of the most important factors to attract investments, and constitutes a very strong advantage of North Korea over other developing Asian countries and notably China (Chabaud-Latour, 2006). Among the different zones, Pyongyang-Nampo is seen as the most promising investment area, as it is well represented in all factors, except raw material provision but this factor stands among the less important elsewhere.



Based on such estimations of economic performance, what could be the prime location for European firms willing to invest in North Korea? It seems that besides considerations on existing industries, markets, and development potentials, one main factor that is usually neglected by scholars is the ability of a place to provide efficient logistics. Therefore, a complementary analysis is necessary in order to further estimate how the different economic areas may be attractive for European firms in their global strategy of being inserted in supply chains and realize an export-based activity.

## 1.2 The diversity of logistics' efficiency

The overall characteristics of the North Korean transport system are very influenced by the Soviet model, with a major importance given to land transport (Table 3). This is explained by specialization in heavy industries, agriculture, and mining, of which the products take the largest share (80%) compared to manufactured goods (Tsuji, 2005). The predominant heavy loads have tended to damage the roads to such extent that without regular management, and in addition to very contrasted natural conditions, about 7% only of the entire road network is paved (Bang, 2004). Without sufficient coal due to the impossibility to restart flooded-mines due to lack of oil, some steam trains dating back to Japanese occupation even use old truck or car tires to fuel the locomotive. Also, short distance goods carriage is ensured by agricultural vehicles, of which animal-led, and also by hands. On the maritime side, no modern container-handling facilities are said to exist in North Korea, but at least containers are regularly handled in Nampo and Rajin ports, given the announcements in the press about new terminal facilities financed by (or leased to) China (Lloyd's Register, 2006). However, not only North

Korean ports have not been much modernized since several decades, but also the army – which controls the ports – collects very high entrance fees, resulting in excessive shipping costs and prolonged shipping time (Ahn, 2003). For example, one TEU<sup>1</sup> carried between Incheon, South Korea, and Nampo costs US\$1,000, i.e. as much as a journey to Europe, and takes 24 hours for a round trip of only 100 kilometres (Ahn, 2001). However, since the signature of the inter-Korean agreement (2004), the two ports have launched joint regular shuttle services (Lloyd’s Register, 2005), and the cost as dropped to US\$250, allowing more traffics (Choe et al., 2005).

Table 3: Estimated modal split in 1989 and 2005

	Railways	Roads	Sea	Air
1989	73.8	18.3	7.9	0.0
2005	70.0	17.0	10.0	3.0

Sources: Tsuji, 2000; Roussin and Ducruet, 2006

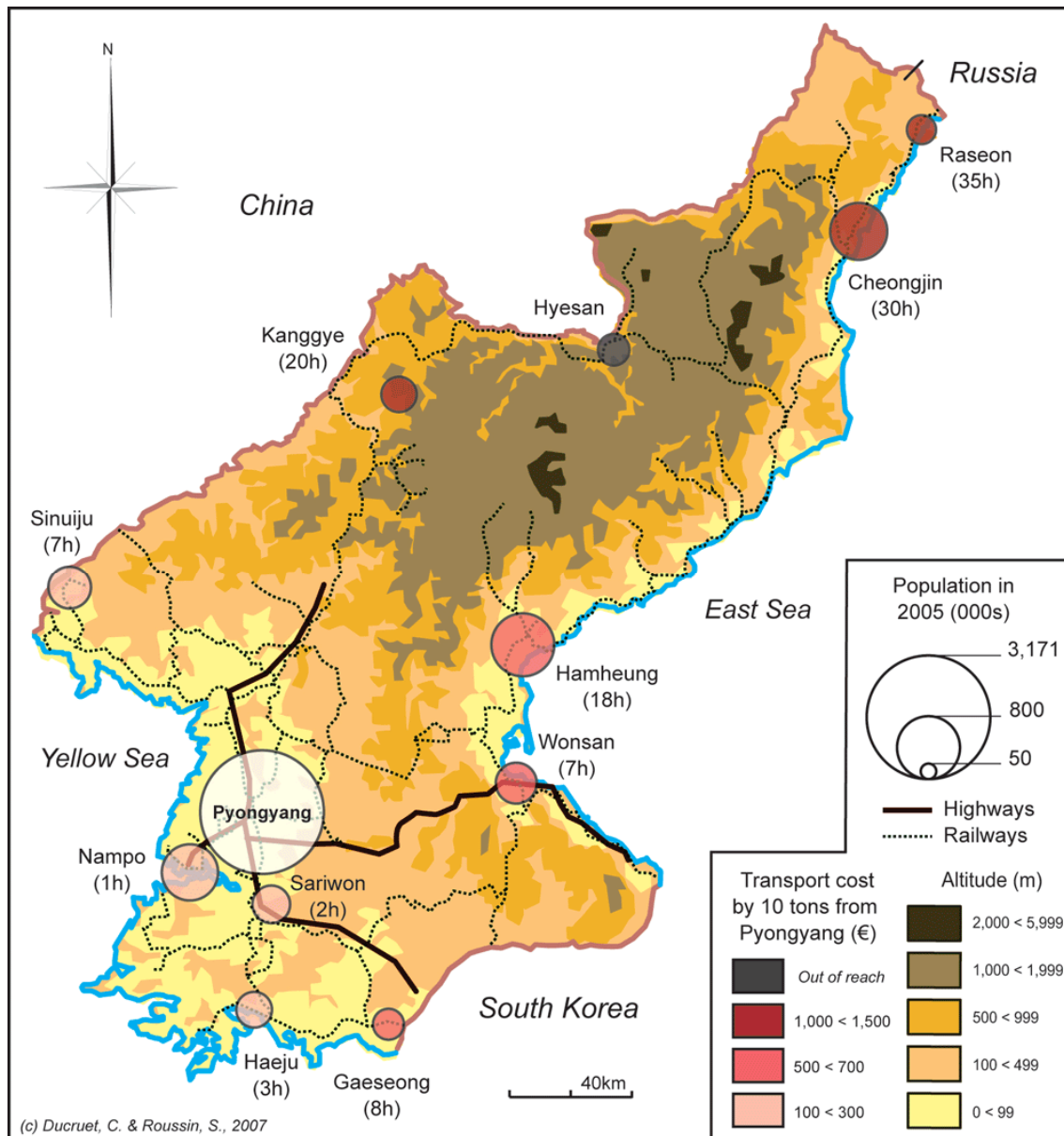
Another important aspect of the transport system is its very heterogeneous geographical coverage (Figure 1). Centred upon Pyongyang, the highway network is mostly reflecting militarist and political needs to circulate efficiently along main East-West and North-South axis. In turn, the core region remains protected from borders as it does not connect directly to other neighbours’ highways. Moreover, the conditions of the highways are very unequal. If the highways connecting Pyongyang to Nampo, Gaesong and North of South Pyongan Province are in quite good state, the highway to join

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<sup>1</sup> Twenty-Foot Equivalent Unit, standard measure of container traffics

Wonsan is in poor condition due to long, dark and dangerous tunnels along its way, where accidents are frequent between the trucks and other vehicles and pedestrians.

Figure 1: The North Korean transport system and truck accessibility of main cities



Sources: SERIC COREE, 2005; Korea Research Institute for Human Settlements

Although it appears very well developed, the railway network is in fact poorly efficient,

given the fact that it is approximately 70% electrified (CIA, 2005), and that the country runs out of energy. It has been observed that more generally, electricity spreads from Pyongyang to other provinces through a weekly rotation and in small quantities to minimize shortcuts. This gives a much contrasted regional distribution of domestic transport activities, with 30% around Nampo-Pyongyang, 10% around Sinuiju, 24% between Cheongjin and Rajin-Seonbong, and 17% around Hamheung-Heungnam (Tsuji, 2005). In terms of domestic circulation, there is an increasing separation between East, where several truck accidents are reported due to travel time, delays, lack of gas stations, repair facilities, and dangerous conditions notably along the coast and in the mountains; and West, where most of the operating factories are located. For foreign players, implications are enormous, as companies in North Korea have to spend 40% of their manufacturing costs on logistics (Foster-Carter, 2001).

As a result, foreign companies who want to invest in DPRK must be very careful regarding the location of their investments in order to not lose competitive advantage of the low-cost manpower in logistic cost. Thus, it appears at the term of this section that Nampo-Pyongyang area in the actual condition offer the best logistic solution for European firms, which will mainly use their facilities in North Korea for exportations to other most-advanced Asian countries or Europe. In the next section, we propose to analyze more specifically this area, the Nampo-Pyongyang Corridor (NPC).

## **2. The case of the Nampo-Pyongyang corridor**

### 2.1 Recent developments around the corridor area

The Nampo-Pyongyang Corridor (NPC) is a plain with some smooth hills delimited by the administrative limits of Pyongyang's province and the agglomeration of Nampo (South Pyongan Province), both cities being only separated of 50 km or 1 hour of driving. With a population of 4.35 millions residents (around 1,500 residents per km<sup>2</sup>, respectively 3,900,000 residents for Pyongyang area and 450,000 for Nampo), 18.5 % of national population, the NPC is the largest human concentration in DPRK and offers to foreign investors an abundant and cheap manpower. The monthly wage of a worker employed in a foreign company on Pyongyang is around 50 EUR (taxes included) and a specialist or a manager could be hired for 100 EUR per month, the NPC's area being the best place in DPRK to find skilled employees due to the location of the key national universities (Kim Chaek University of Technology, Kim Il-Sung University, the University of the Foreign Studies or the Pyongyang University of Science and Technology).

Beside this human factor, the NPC is also quite well connected with the other provinces (highways in good state to join Gaesong and the north of South Pyongan Province, highway in more critical condition to go to Wonsan, railroads to reach the entire country) and most important for an European firm, NPC is connect to overseas through the port of Nampo for the goods, which is linked by regular service to Dalian port, and the airport of Pyongyang (Sunan international airport) for the sensitive goods and the

expatriates, with regular passengers and cargos flies to Beijing.

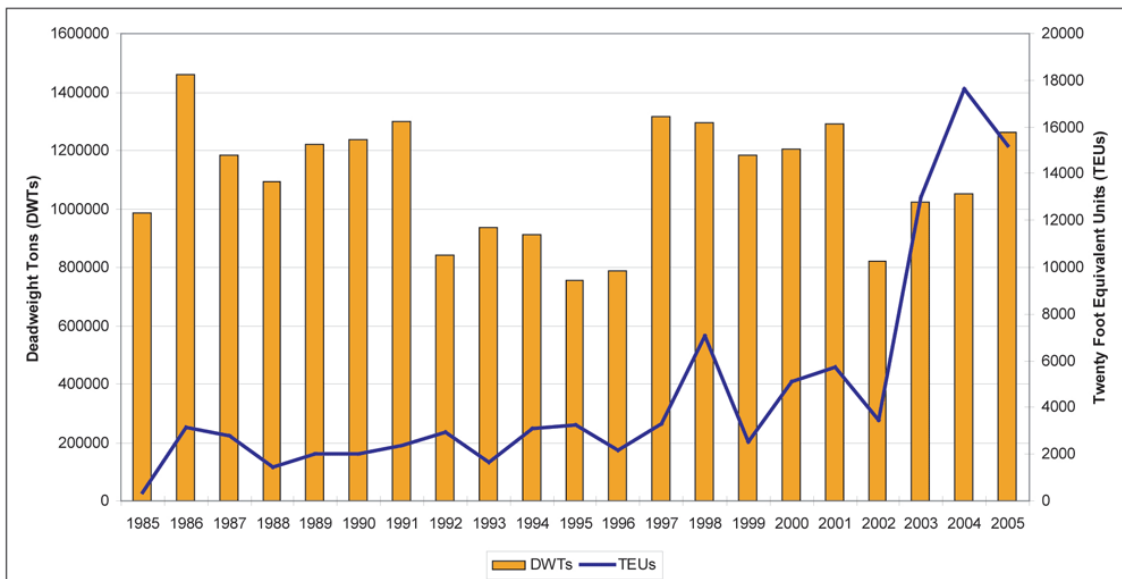
If the air road service does not show any specific problem except the age of the vessels, port service in Nampo has face to 2 main difficulties. First, the access to Nampo port is limited by the West Sea barrage which allows only ships under 50,000 DWT<sup>2</sup> to enter, one time a day. Second difficulty, due to the trend of the containers to disappear in DPRK where they are easily recycling to other uses (storages, offices...), shipping companies ask now that the containers are loaded on board within the 24 hours after the arrival of the vessel. As a result, in order to minimize the transportation cost and to avoid buying its own containers, the port location is more advantageous. However, we can estimate that Nampo port in general is improving its services, but the city remains in very bad conditions, far from Pyongyang's environment. A new container terminal has been recently built there (Lloyd's Register, 2006), probably in order to sustain the trend of growth in container traffics (Figure 2).

Also, total traffic has been relatively stable along the last 20 years, except following the USSR's collapse (1991-1996). Between 1997 and 2001, the growth is mostly based on aid imports, while the growth from 2002 is more based on trade. This last trend is both explained by recent investments in the NPC and the betterment of inter-Korean relationships since 2000, reflected in their maritime agreement of 2005. Notably, the cost of carrying one container on the Incheon-Nampo route has reduced fourfold after the agreement, as it is a main artery carrying 90% of inter-Korean sea trade.

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<sup>2</sup> Deadweight Tonnage (DWT) represents the volume of the ship used for the carriage of goods

Figure 2: Evolution of traffics at Nampo port, 1985-2005



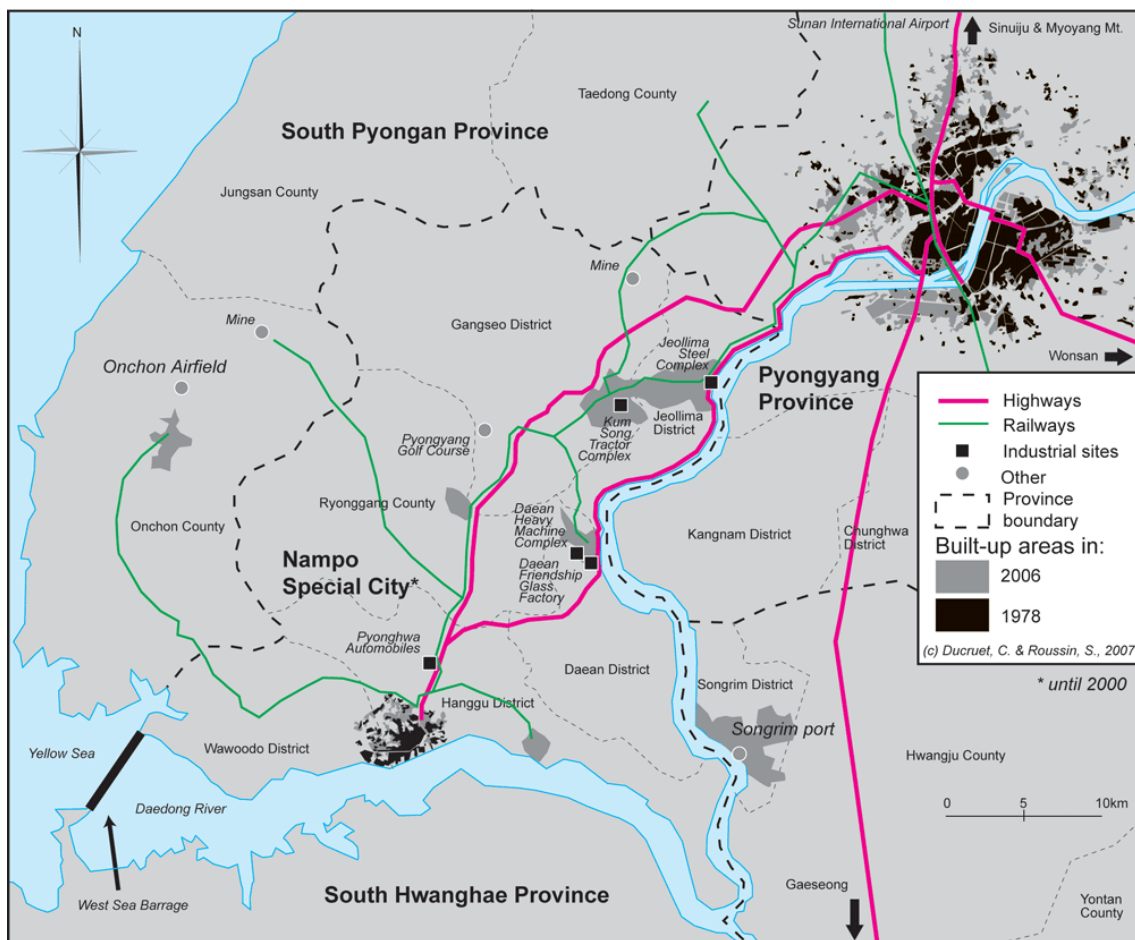
Sources: *Lloyd's Marine Intelligence Unit*

As we can see on figure 3, the NPC has been relatively well developed by the authorities during these last decades. A 6 lines road of 46 km follows the river Daedong and a large 10 lines highway of 44 km has been constructed later in 2000 lining more quickly Pyongyang and its port. Railways network is also widely extended with a main line between the both cities and several branches joining key industrial complexes; this area being one's of the main industrial district of DPRK with 2 mines, and 5 complexes specialized in mechanic and heavy industries, mostly still in operations.

Another important element in this area is the comparatively less lack of energy hitting it. Indeed, due to its political and economical key position, the NPC is privileged compare to other provinces and does not suffer of one-day-a-week shortcut. Factories located there can expect a better energy supply than in the entire country. In the same way and

because of the same factors, diesel oil and gasoline are easier to find into NPC's area. As a matter of fact, Pyongyang and its nearby areas represented 50 % of the gasoline national consumption and 70 % of diesel consumption (Source: internal report).

Figure 3: Overview of the Nampo-Pyongyang corridor



Sources: authors

As a result, most recent and main investments in DPRK (outside of mining sector) have been located on the NPC. Among them we can quote the Dae'an Friendship Glass Factory opened in 2006 in cooperation with the Chinese authorities. Equipments have been supplied by China, DPRK's army has built the facilities before to transfer it to the



Cabinet (in DPRK, main factories are under the control of the cabinet and smaller ones under the control of municipalities). To pay back this investment of US\$24 million, DPRK has to buy raw material and energy from China. Following the same model, two other new factories have been inaugurated recently: a ceramics plant (with Italian origin equipments) and a synthetic painting industrial unit on Kiyang, near the Kumsong Tractor Complex.

At last, we can quote the case of the Daean-Meccamidi (TM) joint-venture Company, an example of French-North Korean cooperation located on Daean and specialized in production of hydraulic power plant generator. TM has been created in 2004 in order to re-launch the national electricity production through a large program of small and medium hydraulic power plants covering the entire country. Authorities have estimated that this solution was better than the construction of new large power plant using oil for instance which needs to import oil, to update the aged local power grid and to damage the air environment. TM is now employing around 100 workers on the Daean Heavy Machine Complex's site and plans to produce 1 to 50 M Watts hydraulic power generators. They have the ambition to open a R&D centre in the coming years, the North Korean factory should start the exportations when the local hydraulic power plants program will be achieved. To proceed to the JV, the French partner has been agreed to bring its technology, management skill and cash, the North Korean side employees, building, mining concession and cash.

This example shows that because DPRK's key-industries are located into NPC, it is easier to find there more solid and potential partners for JV than in the other North

Korean provinces, and that at this early stage of North Korean economic opening it is more efficient to be geographically close to the authorities, situated in Pyongyang.

## 2.2 Potentials for further European investments

According to the North Korean regulation on the foreign investments, foreigners have several options to open business. The most used is a joint venture company between an overseas partner and a local partner. Because of the local hard currency shortage, the North Korean part usually brings into the joint company, lands, buildings, vehicles and manpower. The foreign partner carries cash, machines, and technology or raw materials. In the case of strategic JV company, authorities can provide special guarantees or advantages like mining concession, tax reduction or favourable legislation.

However and since the reform program launched in 2002, foreign investors are now able to be owner at 100 % of their investment, except for the land which remains the exclusive property of the State. Nevertheless, due to the complexity of the local administration and in order to get a better access to skilled manpower, commodities supply or more efficient distribution channel, it is still more efficient to choose the JV business model's option.

As this stage, an alternative business model could be selected by European investors worried by the cultural gap between them and their local partner. This other solution is a tripartite joint company associating a European firm, with South Korean and North Korean partners.

- European side provides cash, technologies, strategic management skills; commercial debouches in Europe, and its flag. DPRK is willing to have cordial relationship with Europe in order to counterbalance the Tokyo-Washington axis and the too much influent China. As a result, European firms benefit of a quite welcome environment by Pyongyang and a better protection of their interest.
- The South Korean side, associated with the European partner in a joint company under the UE flag, brings cash, technologies, its dynamism, commercial opportunities on South Korean market, and pragmatic management come from its cultural knowledge and its geographical proximity.
- At last and like in regular JV business model, the North Korean side brings natural and human resources.

If this formula is not without confer some concerns regarding political issue or communication between 3 parties, we can object that a European presence in this deal can moderate the inter-Korean passion being keep advantages of the Korean partners.

After to have exanimate where to invest and how to invest, a last question is in which sector is it possible to invest in NPC?

First of all, an industrial implantation into NPC must be focus on exportation to European market or South Korean market (Chinese and Japanese markets in mid-term). Due to its low cost country characteristics and its easy access to various natural resources, steel and metallurgic activities, mechanic industries, automotive spares parts

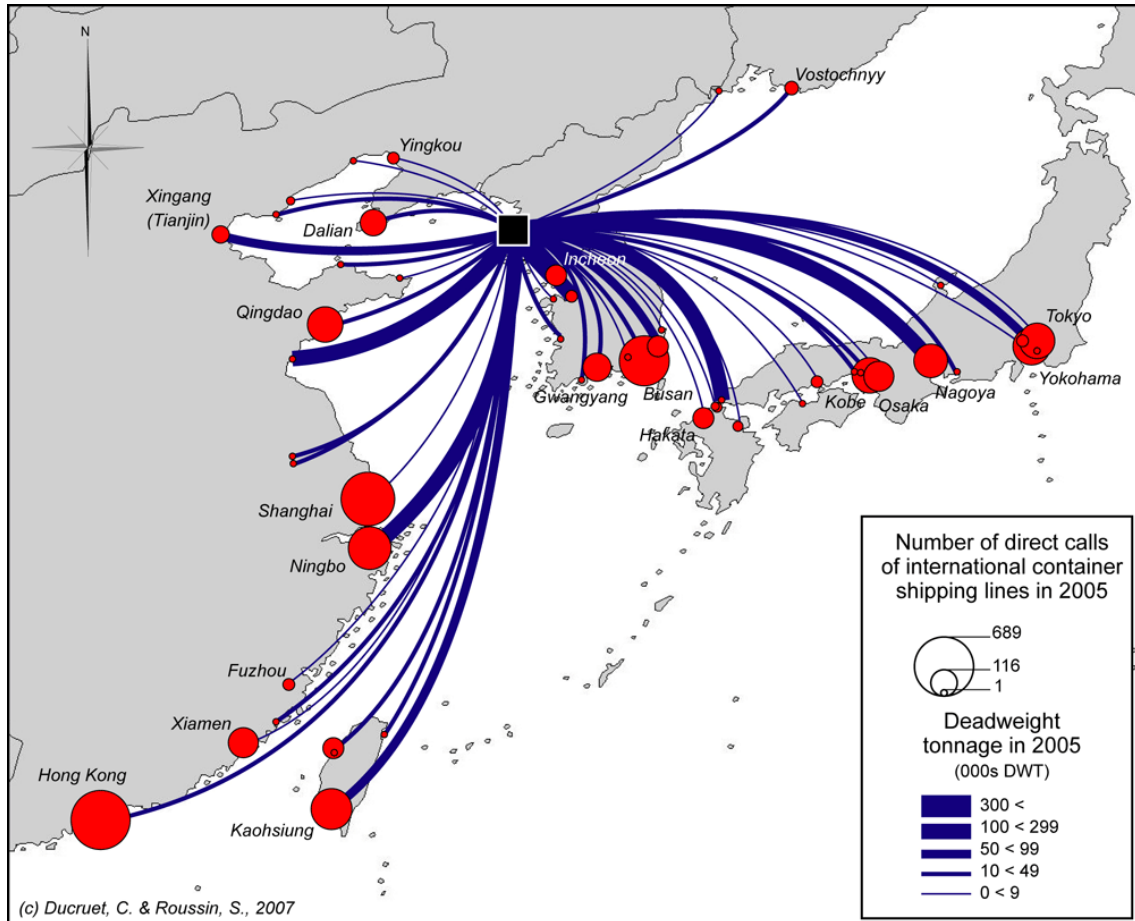
production (and in mid-term assembly), garments and shoes industries could be established there. Local manpower is ever qualified in these sectors and logistic system can support these activities. This is also facilitated by the proximity of Nampo to major load centres such as Dalian, Incheon, Busan, Singapore, Hong Kong, Osaka-Kobe, Yokohama, which connect to the world's busiest maritime lanes. Figure 4 represents 93% of Nampo's direct maritime connections, together with the recent weight of those pivotal ports in terms of direct calls for container lines. It shows the already existing linkages and the high potential for Nampo to get connected to international markets via neighbouring ports.

Secondly and as we previously explained, demand has started to grow up into NPC's area, with around 20 % of the households earning more than 100 EUR per month. This population is composed of high ranking people in the administration or army, specialists (engineers in IT, mining or construction industries, translators...), companies managers and of various traders and businessmen who launched their own business (restaurants, transportation) or who are importing goods from overseas (mainly China). Largely represented on Pyongyang and also on Nampo, this population is demanding better services (taxi, banking, gas stations), improved public services (transport, waste treatment, water treatment and supply) understanding the idea that should be paid, and start to have a positive impact on construction and logistic industries.

On all these sectors, European expertise is strong, world well-know and will not suffer of the local American or Japanese competitions like the Chinese firms are now using

DPRK to be even more competitive.

Figure 4: Direct maritime linkages of Nampo port



Sources: Lloyd's Marine Intelligence Unit ; Containerisation International

## **Conclusion**

To invest in DPRK is a bet, a risky adventure seen from Europe, but from a Northeast Asian perspective it is a new frontier of business development, illustrated by the intense movement of Chinese companies in North Korea (around 130 companies have activities there), and the proactive involvement South Korean companies and authorities in the development of Gaeseong industrial complex and Geumgang Mountain tour. As a result, European firms should have a more rational vision of North Korea and see all the advantages that they can take from this country ready to open economic cooperation with Europe: low-cost and relatively well educated manpower, large panel of natural resources, and strategic location between South Korea, Japan, Eastern Russia and China. The purpose of this paper has been to show that nowadays and for European interests, the Nampo-Pyongyang Corridor offers the best alternative between risk and safety, compare to other areas in North Korea. However, we can not forget that European Commission has opened FTA negotiations with South Korea and if we refer to the Korean-USA FTA case, the question of nationality of goods produced in Gaeseong Industrial Complex (GIC) will be put on the table. If European Union is agreed to include GIC in the FTA agreement, Gaeseong area could also become an interesting target for European investors focus on exportations, but with Damocles sword of any cooling in the inter-Korean dialogue process.

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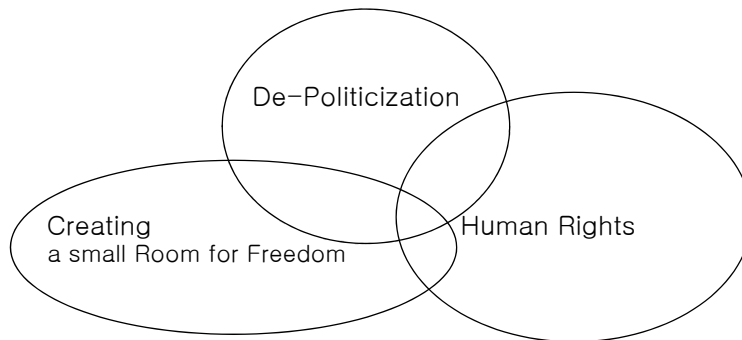
# European NGOs in North Korea

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## Comparative Advantages of European NGOs in North Korea

- 'more tacit know-how' based on experiences in handling communistic dictatorship
- More societal, clerical, cultural support for engagement in the reform of communism (satisfactio operis spirit)
- Especially Christian NGOs enjoy even governmental, public support as well as from EU and diverse international networks
- More opportunity cost approach instead of marginal cost approach (solidaric rationality instead of instrumental rationality)

## 3 pillars for European NGOs in North Korea



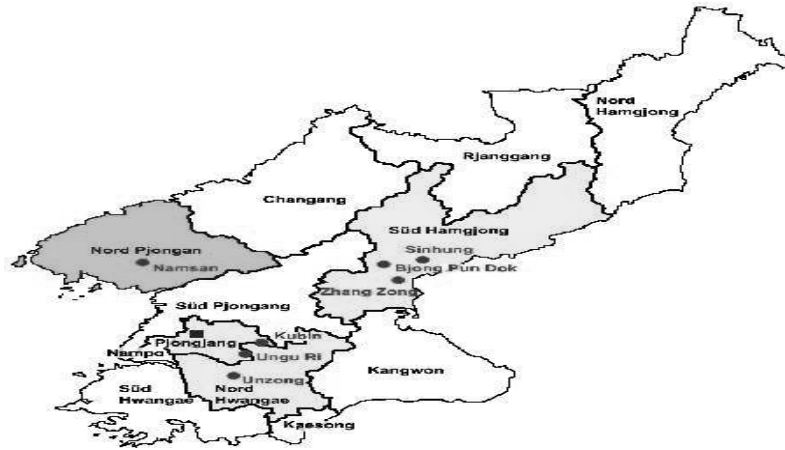
- cap anamur approach – msm, oxfam, gp (radical approach)
- caritas approach – diakonie, cesvi, adra,....(moderate approach)

## How to get informed about NGOs in North Korea

- Caritas, Diakonie, Campus fuer Christus, CESVI Report
- Ad hoc report: Zellweger Report, German Agro Action Report, Petersen Report
- Resident NGOs' agents in North Korea

# Locations of European NGOs in North Korea

- Campus fuer Christus



# NGOs' locations in North Korea



## Some Characteristics

- Contribute to self-sufficient food supply  
In connection with diversification of food
- help grass roots development ('small project')  
(development from local initiatives)
- training local people by delegated experts for  
managing themselves
- diversification of activities: food, energy,  
environment, medical care,
- long-term projects for sustainable projects

## (continued)

- systemic cooperation and coordination  
network supported by government,  
international agencies
- set-up reliable relationships with local  
people and local people
- 'monitoring' efficient?





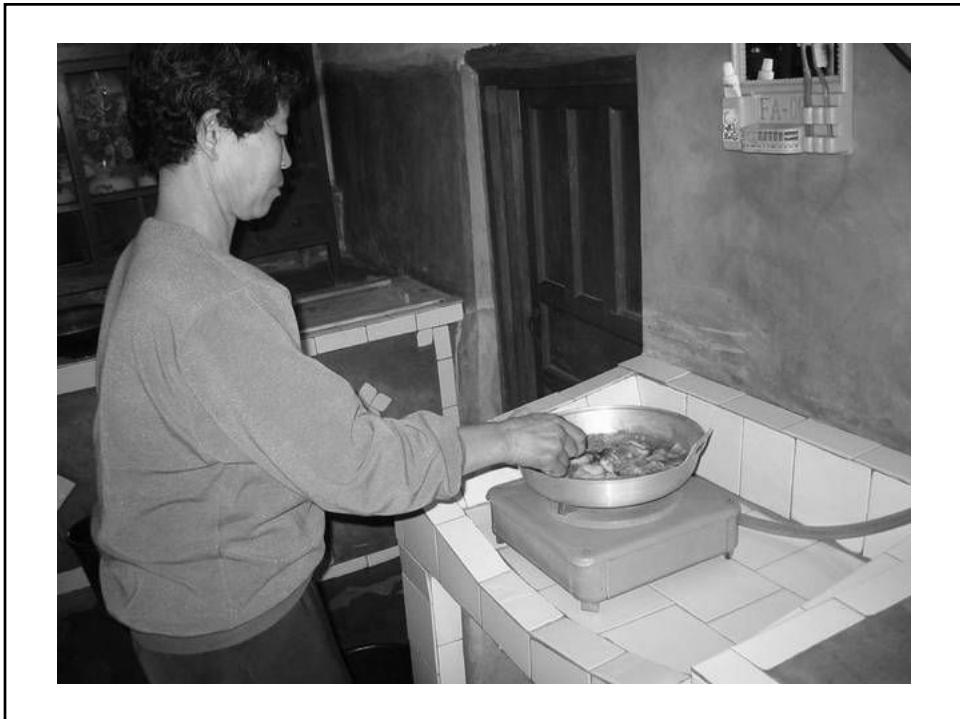














## Monitoring

- *Limitations* and Negotiability
- *Typology*
- 1. formalized monitoring (e.g. special contract)
- 2. self-monitoring through learning (e.g. DWHH)
- 3. resident monitoring through local agents
- 4. monitoring based on reliable relations

## NGOs' Approach towards NK Personality

- Conditio sine qua non for reliable relations
- Negative traits:
  - –authoritarian
  - –concealing the real nature of human-being
  - –showing no emotion, no frankness
  - –passive, receptive and lack of creativity
  - –permissive, power-/order-orientation
  - –regarding NK as Paradise

- Positive Traits:
  - –diligent, eager to learn
  - –ascetic life to get 'Korea' united
  - –not sophisticated
  - –cooperative
  - –family-orientation
  - –community-orientation
- Comparison with the East German Personality a la Maaz and Engler

## Conclusion

- European NGOs versus Non-European NGOs
- Long-term approach/'Small Projects'
- To Learn the North Korean Personality
- Momentum for Change of the SK Unification Policy