



Asia-Pacific Center  
for Security Studies

REPORT FROM THE 2ND ANNUAL DPRK ECONOMIC FORUM

JULY 27-28, 2000

HONOLULU, HAWAII

*2nd Annual DPRK Economic Forum*

# Engagement and Development in the DPRK

## **Executive Summary: Responding to the Recent Historic Changes on the Korean Peninsula**

*The Inter-Korea Summit held in Pyongyang sent a strong signal to the world that the Democratic People's Republic of Korea (DPRK), commonly referred to as North Korea, was making unprecedented steps to work with the ROK. The meeting between the leaders marks a historic change of recognition on both sides that cannot be undone. In addition, Pyongyang's leadership broke with its image as a closed nation by establishing or planning to establish relations with many countries, including Canada, Italy, Australia and the Philippines. Russia's Vladimir Putin recently visited the DPRK and portrayed Kim Jong Il as a strong, competent leader. As a result of the recent Perry Process, the US Government after almost half a century has eased economic sanctions on the DPRK.*

The next step for normalization of relations and conflict resolution with the DPRK will be best realized with small steps toward economic engagement.

*Optimism is running high on the Korean Peninsula. Those working with the DPRK must shift their approach to correspond to these changes. Improvements in international relations are clear. However, there have been no changes in the military situation in the DPRK. Thus, it is too early for the United States to consider any change in its military presence. The next step for normalization of relations and conflict resolution with the DPRK will be best realized with small steps toward economic engagement.*

This forum was unique in that its focus and discussions were targeted at an interdisciplinary spectrum of key sectors.

*In response to these recent historic events, the 2nd Annual DPRK Economic Forum was held on July 27-28, 2000. This forum is unique in that it brings together a cross section of international DPRK experts and expertise from international organizations, security, US Government, private businesses and NGOs.*

### **Forum Approach: Comprehensive and Interdisciplinary**

*Past efforts have been limited because they focused sharply on sectors such as policy, security, economic development or humanitarian aid, but failed to look at the interrelation between these efforts, which was problematic for success. This forum is unique in that its focus and discussions are targeted at an interdisciplinary spectrum of key sectors.*

### **Purpose: Examine and respond to recent developments with near term, practical steps**

- Examine recent events and changes in the DPRK
- Discuss the link between security and economic development
- Explore new approaches to conflict resolution
- Review and develop near term projects for engagement and sustainable economic development
- Develop a roadmap, including specific economic projects and engagement activities, which can be implemented in the short term to improve relationships with the DPRK.

### **Consensus Opinions: A Need to Engage**

Following the meeting, it was agreed that with certain precautions, and while maintaining and not reducing US military, certain small economic projects should be pursued. These projects have already been discussed with the US State Department and the DPRK. The hope is that implementation steps on these efforts will begin this fall.

### **There was also consensus on a need for a better information point of contact on all sides:**

- The DPRK government officials themselves have asked for a clear point of contact, particularly to deal with Americans seeking to invest in their country.
- Efforts should be made to better exchange information among those working with the DPRK.
- There should be follow-up forums focusing on sectors of need, such as energy.
- Internet resources, such as bulletin boards, should be utilized.
- International organizations, business and NGOs should continue to keep security issues as a part of their efforts and when appropriate, involve security experts in their planning and developmental roadmaps.
- Encourage the US government to select an individual who can answer questions of policy and regulations regardless of agency

## **OVERVIEW**

### **DPRK Today: A Window of Opportunity**

Significant change is taking place in the DPRK noted from many different aspects. Kim Jong Il is in control of the government and has recently made several public appearances in which he appeared confident and cordial, quite unlike his historical portrayal by the media. He appears to hope that economic benefit will come from the inter-Korea summit and the relations he is trying to build with the West. There is further speculation that greater moves are imminent, as the DPRK feels it has more hope in closing negotiations with the Clinton administration than in the uncertainty of waiting for the next.

Although the DPRK's international standing has improved and some in South Korea have begun to question the need for American troops on the peninsula, it is important to note that there has been no reduction in the military position in the DPRK. Therefore it is premature to talk about force reductions south of the demilitarized zone (DMZ).

Near term economic benefits from the opening need to occur, or retrenchment and loss of this window of opportunity could result.

## **SECURITY**

### **US Perspective: Too Early to Talk of Changing US Military Strategy**

According to a ranking US military officer attending the forum, the barriers toward security are still significant, and it is important that we not forget the realities. Without a fundamental shift in the DPRK philosophy, military concerns remain a top priority. The ballistic missile threat remains a key concern. The DPRK has the fifth largest military force in the world, with one million personnel, 1,600 aircraft, 800 ships and six million reserve personnel. The DPRK also has biological and nuclear capability as well as missiles capable of targeting Japan and potentially even the United States. The DPRK also exports missiles to states that could also be a threat to world peace. The DPRK military is still allocated the lion's share of the nation's resources.

*No where else does the real possibility of conflict leading to large-scale war exist other than on the Korean peninsula.*

It is important to be realistic. A real commitment to change by the DPRK is required before the threat to security can be considered to have changed. Current talks between the governments must include discussions of security. Hopes in the past have been dashed by the lack of attention to security concerns. No where else does the real possibility of conflict leading to large-scale war exist other than on the Korean peninsula. Therefore, we cannot overemphasize the importance of including security concerns when attempting to move forward.

Staunch deterrence is and will remain a key strategy for the United States in South Korea. No previous non-military dialogue has produced strategic results. As long as the DPRK continues its aggressive posturing, change in the US military position cannot be expected.

### **DPRK Perspective: Cold War to Kosovo**

The DPRK has great concern regarding the new post Cold War dynamic in Northeast Asia. The DPRK is not only concerned about what it perceives as a strong alliance of USA-Japan- South Korea, but also about the economic and relationship gains that South Korea has made with its key allies of China, Russia and other former Communist-bloc partners. The bombing of Kosovo seriously impacted the thinking of the DPRK, as it implied that the United States could and would bomb independent countries without the approval of the United Nations, China or other countries. Being a small country of 22 million, far from the superpower status of Russia or China, the DPRK has grown concerned that the United States might consider a military action similar to that in the small nation of Serbia.

Thus there was a recent movement in Pyongyang to increase its own military preparedness following the bombing of Kosovo. The recent visit by Dr. Perry allayed much of this fear. His recognition of the DPRK as a country and his commitment that the United States had no intention of promoting its collapse were messages well received by the DPRK.

Additionally, as a result of Desert Storm and the recent war in Kosovo, the economic cost of war is seen to be very high to the North Koreans. The technological advancements of South Korea are also a concern. Narrowing this gap would be an additional economic burden. Furthermore, US policy seems somewhat complicated and unpredictable to the North Koreans. Finally, the peaceful actions by the leadership of South Korea have further encouraged the feeling of the DPRK that there may be hope for peaceful engagement. Thus, despite fears of this new cold war structure, the United States and South Korea are cautiously being seen in a more optimistic and positive light.

### **SECURITY AND ECONOMIC DEVELOPMENT: A NEW APPROACH TO CONFLICT RESOLUTION**

Security groups and international development organizations have often been out of sync in their activities. Though security is required for sustainable economic development, many of those hold-

ing leadership positions in international development organizations have never discussed the role security plays in development activities.

*Defining Security:* The term security is seldom clearly understood in development and NGO circles; it is often simply equated to war fighting capabilities. In the broader sense, security includes both internal as well as external security, and the freedom of both the skies and seas. In addition, without political stability, economic development will be impaired. For that development to be sustainable, food security and sanctity of a nation's ecology must also be factored into the development equation. For businessmen, without the legal security ensuring that one can make and extract profits, economic development will be limited.

### **Economic Engagement: The Next Step to Reducing Security Concerns**

The security dimension continues to play a key role in every aspect of dealing with the DPRK. The North Korea military plays an important role in any discussion or activity involving the DPRK. According to a ranking military officer present at the meeting, perhaps the only method of softening security concerns and opening security discussions might come from non-military avenues such as businesses or forums such as this or even this forum itself. Confidence building steps enhance economic development.

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— Senior Military Officer

The good news is that it is in the interest of both the United States and the DPRK to turn their resources away from the military and toward internal economic development. The dialogue is the best it has been in fifty years, but to continue with the process, the DPRK needs visible results.

### **High Cost of Both War and Reunification Suggests Path of Reconciliation**

Although South Korea has expressed its desire for reunification, it is not ready to commit the type of costs seen to be required in the example of German reunification. Funding of projects for the DPRK is also unpopular in the US Congress. Strong politi-

cally held opposition by many members of Congress makes obtaining significant funding of any type difficult and unlikely in the near term. Because of this problem, private funding from sources such as individuals, businesses and foundations is the only near term viable option from US sources. International sources might be another option. Japanese reparation could be a source of funding, but looks to be a long way off. If one looks strictly at economics, non-military, economic-based reconciliation and the opening of the DPRK to foreign investment are far less expensive than a quick reunification be it by military force or military collapse.

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No one at the forum considered the potential collapse of the DPRK as realistic, but instead proposed modes of economic cooperation between North and South, similar to EU and NAFTA, that would allow free trade and sharing of resources without a need for a premature and economically painful reunification.

### **DPRK: ECONOMY IN TRANSITION**

The challenge for the DPRK is not small: it has a broken economy to fix; it is trying to transition to a market economy in a way that works for them; the North and the South have goals of merging their economies if not some day uniting. There is the final challenge of new technologies, such as the Internet and related globalization that everyone is facing.

### **Paths of Transitioning Economies**

There is a certain logic in transitioning economies, and these transitions can be accelerated. Other transitioning economies such as the former Soviet Union and China have moved and are still moving through various stages leading toward a market economy. The military is key in most transitioning economies.

The first step toward transition is détente, followed by engagement. There is a de-escalation of forces along with exchanges and confidence building. Market forces often begin with products sold internally. There must be a soft infrastructure for the market to proceed: i.e., rule of law must be in place, and the investor must be able to get his money out.

*Soviet Model:* There was a long, slow development toward a market economy via the history of farmers markets and the internal black market, which increased in importance prior to the collapse of the Soviet Union. However, the rapid political opening destabilized the country to such an extent that markets became uncontrollable, negating the potential benefits of what had been learned. The DPRK will reject this shock therapy approach.

*China Model:* China followed a similar path, with one major difference: market economics took the lead and political change followed more slowly. We can expect similar transitions in the DPRK. The key players in the DPRK, as in China, are the ruling class, the military and the agents of both. Internally, we can expect there to be uncertainties and conflict as these changes proceed. The Chinese approach benefited the elite and the elite took advantage of this opportunity. One of the problems with the China model is the fact that the Central Bank often provided loans only to those with special relations, thus limiting the benefits of free market competition.

*DPRK Model and Differences:* The DPRK will more closely follow the China model. The DPRK is unlikely to let free market pricing occur, but will probably hold a tight monetary policy to avoid inflation. They will probably not have a rapid shift from public to private ownership, but will take a much slower approach. There may be slight adjustment of philosophy. The DPRK will probably attempt to socialize the marketplace with guarded attempts at allowing direct investments from abroad. They will probably move toward making economic decisions based on market forces instead of relying on central planning. It may also allow more autonomy for managers of state owned enterprises and decontrol of some pricing.

One difference in the DPRK requirements is that there is increased pressure to be outwardly focused. Unlike China, the Soviet Union and even Vietnam, the DPRK cannot sustain itself agriculturally, due to its mountainous geography and small size. The DPRK is also primarily urban and industrial, with about 60 percent of the population living in urban areas, though many have moved back to the country due to the recent famine.

### **Economic Challenges**

*Infrastructure decline and famine:* Although in the past, the DPRK had a strong industrial economy, the situation has changed dramatically in recent

years. North Korea's former leading trading partners were China and the former Soviet Union. There has been a loss of trade with these two important trade partners with the recent changes in these two countries to market economics. In addition, much of the trade in the past was based on bartering. Today, the world requires cash, of which North Korea has little.

Over the past few years, with the economic and natural disasters, the factories and equipment are in a state of disrepair and obsolescence. When food and aid are provided, there aren't adequate transportation capabilities. Much of this is due to a lack of energy.

*Basic business infrastructure:* Business, energy, housing, telecommunication, and legal infrastructure do not exist at acceptable Western business levels in the DPRK. Energy is probably the key physical infrastructure problem for the DPRK. Running factories, heating homes, and transporting goods are all impacted by the current energy crisis. This issue is further complicated by the security concerns.

In terms of attracting investment, the lack of banking and legal systems that meet Western standards must be addressed early on. The local banks have no credible standing, creating a lack of financial security. In addition, there is a basic mistrust between businesses and the DPRK. This is an important problem, as all business is fundamentally based on trust. There is also concern in regard to obtaining outside funding and making any project sustainable until financial security is established. For businesses to move forward, there is a need to find a way to insure or otherwise guarantee investments.

*How do you conduct business in North Korea?* The DPRK will continue to want to do business "their way". In addition, the DPRK has four separate economic systems that have little interaction with each other: the court economy, the military economy, the regional economy and the rural economy. Many outsiders make the mistake of not knowing with whom they are working, which can result in disappointment and default.

### **Economic Opportunities**

*Changed Environment:* The DPRK economy has bottomed out and has started to recover. It grew by a reported six percent in 1999, the first growth in several years. With the easing of economic sanctions and the loss of its trading partners, the DPRK understands the need to make some changes in its approach to international trade and economic development.

Some free enterprise in the form of farmer's markets is also now allowed in the DPRK, wherein small farmers are allowed to raise and sell their own crops.

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### **Resources: Workforce, Strategic Location, Mineral Wealth and Environment**

The workforce is well educated, has a high literacy rate, is disciplined, has a strong work ethic and is low cost. English is rapidly becoming the second language of choice in the DPRK.

Location also plays well for the DPRK as it is well placed between the economic powers of China, Japan, South Korea and Russia. This could be important for oil and gas pipelines, transportation of products, and manufacturing.

North Korea also has high quality gold but cannot extract it. In addition, it has zinc, magnesite and calcium carbonite.

Though natural disaster and famine hit some areas hard, the environmental conditions in much of the DPRK are surprisingly good.

*Early Investors in the DPRK:* There are individual investors from a range of countries who are interested in doing business in North Korea. Investors do business wherever there are opportunities, assuming they can get their investments back out. For example, businessmen are currently active in war-torn parts of the world, such as some parts of Africa and the former Soviet Union. In that regard, North Korea is attractive, as personal safety is not a problem. These interested investors include not only the traditional partners such as China and Russia, but also many industrialized countries and regions such as France, Hong Kong, Japan, and Thailand as well as American entrepreneurs.

Some foreign businessmen have made money in the DPRK, particularly in the area of resource extraction. The DPRK wants to develop these resources. However, they would prefer to get loans from the outside and be left to run the business themselves. With the history of defaulting, this will not occur. China has long been and Hong Kong is newly investing in the DPRK. China has been and will remain key to its economic future.

Japan also has an interest in working with the DPRK. However, recent brinkmanship is a major concern for Japanese investors. Both military and financial security are key concerns for Japanese investors.

Russia has a long and special relationship with the DPRK and is currently exploring a variety of projects, including exporting goods through Russian ports.

Small American entrepreneurial companies are also prepared to enter the market in the DPRK now that sanctions have been eased. The consensus is that multinational corporations are interested, when the timing is right. International business organizations, such as the Pacific Basin Economic Council (PBEC), are interested in engagement and might be an important entry point for multi-nationals.

South Korea is obviously a key player. The Hyundai tourist project has yet to make any profits but will continue as an active concern. Unions in South Korea are impacting South Korea's ability to be competitive, so that the labor in the North looks like a better option. South Korea is also becoming a large player both in China and in Vietnam. And finally, for resource extraction, South Korea's ability to both fund and market the products in conjunction with the cheap labor in the DPRK, makes partnering attractive from an economic perspective. Transportation remains a key concern.

*... as with overseas Vietnamese, Koreans will also be regarded with a higher degree of suspicion and can be expected to be denied access that might be granted to Western businessmen.*

Much like the overseas Vietnamese during the opening of Vietnam, Koreans and Korean Americans have the greatest personal interest in the development of the DPRK.

However, as with overseas Vietnamese, Koreans are regarded with a higher degree of suspicion and can expect to be denied access that might be granted to Western businessmen. The DPRK has gone as far as telling Western groups that they should not bring ethnic Korean-Americans to the DPRK, and will often deny them visas.

### **Need for Early, Small Economic Success Stories**

In spite of these hopeful events, the DPRK, having made concessions and taken some political risks, will feel cheated unless it sees concrete economic activity resulting from the recent US policy changes and new diplomatic relations.

A few small successes are important initially. The DPRK will need to see the benefits of opening its economy to foreign investment. Investors need to see that, in spite of past problems, it is now a place where one can successfully do business.

Another high profile, Cargill-style failure, where North Korea fails to deliver on a major deal, could set back DPRK relations with the investment community as well as turn back the recent political gains. The importance of near term, small successful projects cannot be overemphasized.

### **Keep DPRK Expectations of Foreign Investments in Check**

China's enormous market of 1.2 billion people encouraged large numbers of investors to go in early and invest big. Vietnam and Russia attracted a significant amount of investment following the excitement at the end of the Cold War and the establishment of new relationship with the United States. North Korea cannot expect to see these types of significant foreign investment, at least not in the quick and early manner experienced by China and Vietnam.

Although the DPRK may look at its neighbors and expect a similarly large impact from opening its economy, the reality is more complicated. The effects of the Asian financial crisis are still felt in the region, and Japan and South Korea, though showing improvement, still have problems of their own.

Investors are going to be cautious about entering the DPRK, as it has been a closed economy for a long time. While China and Vietnam could look back to their experience in historically free market centers such as Shanghai and Saigon, resurrecting businessmen of the past, the DPRK lacks individuals with real business experience.

In the past, many individuals, particularly Korean Americans visiting the DPRK, raised expectations, and the DPRK became frustrated when nothing occurred. Foreign investors will go into the DPRK, but one must keep DPRK expectations in check, as disappointments could set back the opening process.

### **EARLY REQUIREMENTS FOR BUSINESS DEVELOPMENT**

#### **Soft Infrastructure and Training**

There is a general sense, on the part of North Koreans, that their economic infrastructure is old, but not broken. Hence, prescriptive approaches

that call for fundamental economic reforms are not well received. However, a few small initial steps must occur to even begin the process of economic engagement.

*Financial and Legal:* There are no reliable outside financial institutions in the DPRK. The local banks have no credible standing. Because of this, there is a lack of financial security or even a resource to hold funds or do basic business transactions. In addition, the creation of a legal infrastructure acceptable to Western investors is critical to attract significant investment. Both the financial and legal concerns remain the top barrier for investors to move forward. Two ideas suggested were the creation of an insurance fund to safeguard early investors and a separate forum to create a roadmap for financial and legal goals.

*Clear point of contact:* Understanding the opportunities and restrictions on both the DPRK as well as the US side is a challenge. The DPRK officials themselves have asked for a more clear point of contact, particularly to deal with Americans seeking to invest in their country.

From the investor side, there needs to be a resource for investors to understand the guidelines and requirements from the United States and other investor governments as well as the opportunities and laws of the DPRK.

American investors need a cross-agency contact in the US Government, as they complain of conflicting directives from different US agencies or even individuals within an agency. Ideally, this contact should represent the guidelines of the US Departments of State, Treasury, Commerce and Transportation in clear, unambiguous terms, so that investors can feel free to move forward on projects knowing they are in compliance of US law and policy.

For purposes of synergy and so that efforts are not duplicated or in conflict, there should be a better exchange of information between those working with the DPRK as well as on the activities of organizations such as the UNDP and aid agencies.

One proposal is to develop an international business center in Pyongyang to provide a contact point for Americans and North Koreans to exchange information.

*Training:* Training of North Koreans in understanding international business practices is also important.

Some early efforts have already begun. The UNDP has spent \$38 million in training and related projects. It has trained 135 economists in market-based economy systems in outside countries such as Australia. It was also suggested that interns from the DPRK be brought to successful business sites to see how these concepts work in actual practice. A variety of foundations could fund this type of travel.

### **Physical Infrastructure: Energy and Transportation**

*Energy Crisis:* Energy is probably the key physical infrastructure problem for the DPRK. This shortage impacts the ability to transport items as well as to develop resource extraction, farming and irrigation as well transportation of goods, food and services within and outside of the DPRK.

Mining, for example, which could be a near term source of hard currency, is extremely limited because of a lack of pumps to remove water from the mines, equipment to extract the minerals as well as vehicles to transport the minerals for export. Fertilizer donated by aid agencies was sometimes unusable, because there was no way to run the small pumps required for irrigation. Even when humanitarian food aid has been donated, it was often not uniformly distributed to the people of North Korea, due to lack of transportation vehicles. Much of the population walks everywhere. Repairs from natural calamities or normal wear are done only with hand tools.

Investors must have adequate energy to ensure their physical safety in traveling during the cold winters, as well as to power factories and transport goods.

*Transportation:* With few vehicles and little energy, most people walk. Ports and airports need to be upgraded to international standards. Although there are some good highways, they are often empty due to lack of energy. While daily trains run between China and North Korea, rail travel in the remainder of North Korea is inconsistent.

*KEDO:* The Korean Peninsula Energy Development Organization's project was promised as one method of meeting a portion of the energy requirements for the DPRK in place of the nuclear power plant being built by the DPRK in 1994. It was noted that while KEDO offered an initial solution to a political problem, the economics of the project are in question.

The KEDO project currently has a heavy debt overlay, and the recent Asia crisis and lack of political support in the US Congress has weakened its support by its backers. There had also been a commitment for oil to replace lost energy opportunity due to the DPRK stopping progress on its nuclear energy site. This support has been intermittent. Its builders are concerned with liability issues. The EU and other organizations have restrictions, which further delay development, such as the requirement for removal of the old plutonium. There are also political concerns and logistical complications. If and when the reactor is completed, there will be a sudden switch on of two megawatts of power to the DPRK, and questions such as effective transmission become an additional issue. Although it was scheduled for completion by 2005, even this late target will likely be missed. The DPRK is concerned about opportunity costs in all of these delays. Both the DPRK and the international community question whether the project will ever be implemented as planned.

Although many questions and a great deal of skepticism exists regarding the success and probability of KEDO ever coming to fruition, there continues to be support and commitment to this project in some circles. However, no one sees this as providing real energy solutions in the near term.

### **Near Term Energy Projects:**

*Energy efficiency projects are a more realistic and near term approach:* The DPRK currently uses older systems, based on Soviet technology. They are not only inefficient, but also need repair and replacement of parts.

There are bottlenecks, for examples, in the case of coal shortages due to lack of maintenance of the rail systems. There is also a lack of spare parts and fuel and an outdated infrastructure in transmission and distribution. Power generation facilities are in poor condition. Coal is low quality, with little or no preparation such as coal washing. There is a fragmentation of energy infrastructure and responsibilities. Recent flooding has also caused damage to hydroelectric plants with up to 85 percent lost capacity.

*Revitalizing the renewable energy sources such as the hydroelectric plants would help decrease their reliance on non-renewable coal and politically sensitive nuclear energy sources.*

Because of these problems, the little energy sources available to the DPRK are wasted through inefficient utilization and energy losses. This depletes non-renewable energy sources without benefiting the people of the DPRK.

It was suggested that the current power plants could be optimized and updated, by replacing old parts and increasing efficiency through transmission lines and end user improvements. Estimates show an energy efficiency program would be half as costly as a power program. Former member states of the Soviet Union have successfully utilized this approach, and it is low cost and near term. These improvements will reduce energy losses and improve industrial productive capacity. In time, they should also increase the comfort and health of the population. These cost-effective approaches can be rapidly implemented.

The end goal is to work with, train and empower North Korean energy agencies and experts to solve their own energy problems through the use of sustainable, environmentally friendly technology. Revitalizing the renewable energy sources such as hydroelectric plants would help decrease its reliance on non-renewable coal and politically sensitive nuclear energy sources.

*Funding:* Because, in the near term, political constraints prohibit most funding by the US Government of international organizations such as the World Bank, the goal is to initially fund the project via foundations and then for it to become economically self-sustaining. This approach meets the cost effective, energy efficiency, environmental and strategic concerns requirements.

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Energy distribution is key for the leadership of the DPRK. The short term goal in this project would be, in conjunction with the DPRK, to choose a small area as a pilot project such as a school or hospital and expand this methodology as success and trust is demonstrated.

### **Energy forum: Developing an Energy Roadmap for the DPRK**

Resolving the issues in the DPRK requires special consideration, due to its strategic, economic and political sensitivities. One must also account for

cultural sensitivities. In addition, the energy problem is so large, that no one individual or group can do everything. For this reason, a special forum is planned to focus strictly on discussing solutions to the energy problem and to discuss a DPRK energy roadmap.

## **US LEGAL CONSTRAINTS AND STATUS**

### **Status of Easing of US Embargo: Movement Toward US-DPRK Diplomatic Relations**

DPRK Engagement: There has been a bi-partisan support of engagement begun by Ronald Reagan and currently accelerated under Dr. Perry and President Clinton. The DPRK has recently agreed to hold separate talks regarding the missile concerns. There is no longer any discussion of the collapse of the DPRK, which had been considered by some parties.

In the last year, the DPRK has made more progress in efforts to build international relations than in the last ten years. As a result of the Perry Process, the DPRK was recognized as a country, and it was confirmed that the United States has no policy of destroying the DPRK. For example, in the recent maritime incident between North and South Korea, the United States did not become involved, and the incident was settled peacefully. The US goal is to bring the DPRK into the mainstream with normalized relations with outside countries, including the United States. In addition, several countries including Canada, Italy, Australia and the Philippines either have or are considering establishing relations with the DPRK. The Japanese foreign minister met with the foreign minister from the DPRK during the same week as the forum. China has also encouraged the DPRK to engage with outside countries. Economic relations will enhance stability.

We can look at how far we have come or how far we have to go. Though perhaps not always portrayed in Western media, there clearly has been significant progress, and we can expect more. Though the DPRK is still suspicious of engagement, it also believes that economic and diplomatic relations will enhance stability. Some participants predicted that the Clinton Administration, in addition to easing sanctions, would make significant additional efforts prior to the change of US Administration in 2001. The importance of Madeleine Albright's meetings with DPRK officials at the ASEAN regional forum as well as movement to take the DPRK off

the terrorist list were discussed. The latter reclassification would allow the DPRK to work more closely with international lending institutions. Until now, the United States and Japan have not allowed the DPRK to have observer status at groups such as the Asia Development Bank unless the DPRK addresses the issue of international terrorism and until terrorist status is removed.

### **US Government Implementation of Easing of DPRK Sanctions**

In accordance with improvements in US-DPRK relations, President Bill Clinton announced on September 17, 1999 that the United States would substantially ease sanctions in categories that fall under the Trading with the Enemy Act, the Export Administration Regulations, and the Defense Production Act. Due to the US view that the DPRK has and will continue its moratorium of testing long-range ballistic missiles, the United States implemented the easing of sanctions on June 19, 2000.

#### Allowed

The Departments of Commerce, Transportation and Treasury have all issued statements regarding the extent of lifting of sanctions.

Permitted items include:

- North Korea may now receive the vast majority of US consumer goods without a license, including agricultural, medical, tourist and low-level goods and services.
- The ban on US registered vessels and aircraft visiting North Korea has been repealed. US ships and planes can now call on DPRK ports.
- Most commercial and personal transfer of funds will be allowed between United States and North Korean individuals.
- Imports from North Korea are permitted but require a license from the Department of Treasury, Office of Foreign Assets Control.

#### Not yet allowed

This easing of sanctions does not yet affect the US Government's counter terrorism or nonproliferation controls on North Korea. Statutory restrictions, such as US missile sanctions, will remain in place. Restrictions on North Korea multilateral arrangements also will remain in place. Assets blocked under the trading with the enemy act remain frozen and claims settlement issues are not addressed in the recent easing of sanctions.

Not permitted at this time:

- Military and dual-use technology items
- Most types of US Government funding and assistance programs
- Support for loans to North Korea by international financial institutions such as the World Bank

#### **NEAR TERM ECONOMIC DEVELOPMENT PROJECTS**

There are American groups and other investors, who are appropriate for and have interest in going into the DPRK to begin projects. Proposed projects with potential short-term success include resource extraction, shrimp farming, energy efficiency and tourism.

#### **Shrimp Farming: High Revenue Generation and a Solution to a Serious Environmental Problem**

The total worldwide value of aquaculture is more than \$50 billion annually. Per pound, shrimp is one of the most profitable aquaculture products. It accounts for 15 percent of total world aquaculture by revenue. In addition, demand for shrimp is higher than the world market can supply. In 1997, the DPRK ranked 10th in production of aquaculture, with its principal products being seaweed and mollusks. Shrimp production could provide a much-needed source of revenue for the DPRK.

*Though one of the most lucrative aquaculture resources, shrimp farming is also one of the most environmentally destructive forms of food production.*

In the last 20 years, shrimp farming has provided substantial economic benefit and hard currency for many developing countries. The simplicity of these primitive systems with wild animals, shoreline sites, exchange of copious quantities of near shore waters and direct discharge of waste materials has resulted in serious environmental problems. More recently, many such systems have failed because of shrimp disease problems spreading unchecked, low quality, wild broodstock and seed, and abandoned, fouled sites.

It is generally understood that shrimp products currently harvested and sold are sometimes infected with shrimp pathogens and contribute to the further spread of shrimp disease. Nonetheless, the worldwide market demand for marine shrimp is strong and expanding. To meet this demand for wholesome products without dam-

age to the environment requires advanced shrimp farming technologies. Such technologies have been under development at the Oceanic Institute (OI) for the past 20 years. Captive populations of high health and genetically improved shrimp stocks have been established, and the underlying technology for production verified. Advances in feed experiments and formulations have significantly reduced waste materials, thereby reducing water exchange requirements. These requirements are now so low that shrimp farming can be established at inland sites. The OI systems are known as BIOzest, Biosecure, and Zero Exchange Shrimp Technologies.

It is preferable to initiate this new technology in Asia within countries that have not been submitted to environmental degradation and disease introduction associated with past shrimp farming practices. The DPRK could serve as a model of this advanced shrimp farming practice and could capture a significant market share and prominence through product, quality and environmental protection. This shrimp farming system in the DPRK would be both environmentally and economically sustainable.

This technology away from the immediate coastline in large tanks or raceways, farms shrimp that have been bred to be disease-free, using technology that has already been developed. This technology, which has yet to be introduced to Asia, is the model for how shrimp farming should be done in the future. Because the DPRK does not have an established shrimp industry, it is a perfect location for this project.

The Oceanic Institute, a non-profit organization in Hawaii, considered to be a world leader in breeding disease-free shrimp and other fish, could provide its technology to the DPRK. This could not only provide a profitable industry for the DPRK, but it could also even make it a world technology leader in shrimp production. This project could become quickly sustainable and provide near term revenue, while allowing North Korea to become a world leader in this technology.

Funding should be available from sources interested in the environment and in providing sustainable growth for challenged economies.

*This project could become quickly sustainable and provide near term revenue, while allowing North Korea to become a world leader in this technology.*

Due to the project's environmentally friendly, revenue-generating nature, the DPRK has taken a particular interest. Though this project would utilize cutting edge technology, the components used, not being dual use, would be allowed under the current US guidelines.

### **Travel Project: Engagement, Dialogue and Near Term Revenue**

Engagement through personal interactions has long been known to be a contributor to understanding between two countries. Influential people on unofficial educational travel to the DPRK help begin this process. In addition, this provides much needed near term revenue for the DPRK.

A member of this forum discussed his experience in bringing influential people to other sensitive areas such as China, Saudi Arabia and Vietnam before these countries were open to the public. These tours were educational and sensitive and were strictly "tourist", i.e., not "official" visits. In this way, highly placed persons become aware of the country in the best light, thus becoming "unofficial ambassadors" of goodwill for the country when they returned to the US or other countries. These visits are often sponsored in conjunction with universities such as Stanford University Alumni Association and/or museums or important organizations such as the Smithsonian, Hoover Institution, and the Museum of Natural History.

Successful interactions of this type also serve to ease the fears of the DPRK in regard to interacting with the developed countries on an informal basis.

### **Resource Extraction**

Resource extraction has historically been a source of revenue for the DPRK. With the recent lack of energy, these activities have been greatly reduced. The leaders of the DPRK are interested in moving forward with these projects, but need a source of funding to develop the necessary infrastructure.

### **Energy Efficiency**

Resolving the energy issue is key to moving forward on any other project. A DPRK Energy Forum is planned for later this year to review this problem and to create a roadmap for near term implementation and longer-term strategies.

### **Project Funding: Near term relies on foundations, due to political constraints**

Obtaining this funding is problematic due to the current terrorist status, which prevents international lending organizations from providing funds to the DPRK. An additional barrier for obtaining funding is the historical credit issues in the DPRK.

Foundations are a key source of near term funding. Near term energy funding, for example, could be provided by foundations and individuals, as they are relatively low cost. Shrimp farming is another area foundations are most likely to fund in the near term.

Funding for resource extraction is more likely to be provided by business investors. To obtain this private funding, it was recommended that a DPRK investment and insurance fund be established to protect early investors.

### **DPRK ENVIRONMENT AND ECOLOGY: A SURPRISING PLUS**

Natural disasters and famine have hit some areas of the DPRK hard. In addition, due to its geographical position, wind brings dust from Mongolia and pollution from China. However, the environmental conditions in many areas of the DPRK are in good condition, even "pristine" in the words of a conference attendee. Unlike many areas of Asia that have chosen development over environment, the DPRK leadership does have concern for maintaining its environment and has been an active player in UN environmental conferences.

Spectacular mountain areas such as Myohyangsan, Pakedusan, and Kumgansan offer great tourist potential with the latter being a part of Hyundai's current tourist venture into the DPRK. The marshlands near the Russian border and the DMZ itself have been suggested as possible environmental reserves. The group consensus was that as the DPRK opens to foreign investment, there exist a unique opportunity to preserve and perhaps enhance the untouched areas of the country.

## CONCLUSION

### Security

- Any efforts in the DPRK, whether from international organizations or businessmen, will have a security element that needs to be considered in efforts to engage the DPRK.
- The US military is unlikely to make any changes in its efforts on the Korean Peninsula until it has concrete evidence that the leadership in Pyongyang has a real commitment to change.
- Economic development can have a significant positive role in reducing security tension in the DPRK.
- Representatives from the security community should be invited to attend future meetings by international organizations as they move forward with DPRK relations.
- Careful policy coordination and the development of a coherent approach to engagement that takes both economic development and security concerns into consideration are crucial as the level of engagement increases.

### Economic

- It is important to focus on small projects in the DPRK that have a high chance of success to win back the confidence of the international community after the high profile failures.
- Due to political constraints, funding for projects in the DPRK in the near term must be provided by foundations or private investors.
- Projects in sectors such as aquaculture, energy, tourism and resource extraction are permitted under the recent easing of sanctions on the DPRK, and implementation steps are expected to begin this Fall.
- There is a general need to maintain realistic expectations for the anticipated benefits that might come from engagement with DPRK

through economic development. The DPRK will tend to expect the economic benefits to come quicker and easier than is realistic, particularly when the DPRK must compete for investment dollars with the rest of Asia.

- To optimize efforts, a clear, non-aligned contact point needs to be established to exchange business and economic information, perhaps utilizing the Internet.

### Next Steps:

- Begin near term energy projects.
- Implement revenue-generating projects such as the aquaculture shrimp project and the travel project.
- Develop resource extraction.
- Set up a fund for insuring investments.
- Create roadmaps for key sectors such as energy.
- Establish a source of contact or information clearing house for foreign investors and DPRK contacts to better match needs and resources.
- Invite an increased number of individuals from the DPRK to visit the United States.
- Promote training and educational efforts.
- Encourage the US government to select an individual who can answer questions of policy and regulations regardless of agency, almost a DPRK "czar".
- Establish an international business center in Pyongyang.
- Develop a new model for linking the efforts of organizations and efforts coming from UN groups such as UNDP with the private sector.
- Use the Internet to exchange opportunities and the status of projects.

## ***Speakers***

Mr. Bradley Babson  
Senior Adviser  
The World Bank  
Washington, DC

Mr. John Paul DeJoria  
Chairman and CEO  
John Paul Mitchell Systems  
Beverly Hills, CA

Dr. Thomas Farewell  
President  
The Oceanic Institute  
Waimanalo, HI

Mr. David Fennell  
Director, Economic Development  
Center for International Development  
Redwood City, CA

Mr. Tom Henriksen  
Associate Director  
Hoover Institution  
Stanford, CA

Dr. Nay Htun  
UN Assistant Secretary General  
UN Development Programme  
New York, NY

Mr. James A. Kelly  
President  
Pacific Forum CSIS  
Honolulu, HI

Dr. Mark Leek  
Research Scientist  
Pacific Northwest Center for Global Security  
Seattle, WA

Mr. Robert Lees  
Secretary General  
Pacific Basin Economic Council  
Honolulu, HI

Dr. Ming Liu  
Visiting Scholar  
Center for International  
Security and Cooperation  
Stanford, CA

Mr. Colin McAskill  
President  
Colin McAskill Consulting  
London, Great Britain

Dr. John Merrill  
Foreign Affairs Analyst  
US State Department  
Washington, DC

Dr. Tamotsu Nakano  
Senior Researcher  
Tottori Research Center  
Tottori, Japan

Mr. Ronald Nesse  
Senior Program Manager  
Pacific Northwest National Lab  
Richland, WA

Dr. Leif Rosenberger  
Economic Adviser  
US Pacific Command  
Camp HM Smith, HI

Amb. Charles B Salmon  
State Department Adviser  
APCSS  
Honolulu, HI

Lt Gen Hank Stackpole  
President  
APCSS  
Honolulu, HI

Mr. Lynn J. Turk  
Senior Adviser  
APEC  
Seattle, WA

Mr. Peter Voll  
President  
PVA Travel  
Palo Alto, CA

***Observers***

Ms. Myrna Ann Adkins  
President  
Spring Institute  
Denver, CO

Col Randolph Alles,  
US Pacific Command  
Camp H.M. Smith, HI

Lt Col Carl Baker  
Professor, College of Security Studies  
APCSS  
Honolulu, HI

Dr. Lee Endress  
Director of College of Security Studies  
APCSS  
Honolulu, HI

Captain Sutter Fox, USCG  
US Pacific Command  
Camp H.M. Smith, HI

Dr. Patricia Hastings  
Director  
Center of Excellence  
Tripler AMC, HI

Ms. Majell Hind  
Consul  
Consulate General of Australia  
Honolulu, HI

Major Steven Holkovic  
US Pacific Command  
Camp H.M. Smith, HI

Brig Gen Christopher Kelly  
Deputy Director  
Strategic Planning and Policy  
US Pacific Command, HI

LTC Mark Lundy, USA  
US Pacific Command  
Camp H.M. Smith, HI

Mr. John Otte  
Director of Education and Training  
Center of Excellence  
Tripler AMC, HI

Ms. Diane Schechinger  
Executive Director  
Center for International Development  
Redwood City, CA

Mr. John Shin  
Project Engineer  
AES Hawaii, Inc  
Kapolei, HI

Ms. Delia Stoehr  
US Pacific Command  
Camp H.M. Smith, HI

Mr. Hugh Zito  
Korea Analyst  
Joint Intelligence Center Pacific  
Pearl Harbor, HI

**The Asia-Pacific Center for Security Studies** is a regional study, conference and research center established on September 4, 1995, in Honolulu, Hawaii. The Center is a complement to the US Pacific Command's strategy of maintaining positive security relationships with all the nations in the region. The center builds on strong bilateral relationships between the United States Pacific Command and the armed forces of the nations in the region. The Center builds on the strong bilateral relationships between the United States Pacific Command and the armed forces of the nations in the Asia Pacific Region by focusing on the broader multilateral approach to addressing regional security issues and concerns. The Center's mission is to enhance cooperation and build relationships through mutual understanding and study of comprehensive security issues among military and civilian representatives of the United States and other Asia-Pacific nations. The Center provides a focal point where national officials, decision makers, and policy makers can gather to exchange ideas, explore pressing issues, and achieve greater understanding of the challenges that shape the security environment of the Asia-Pacific region. The Center's focus is on increasingly complex interrelationships of the military, economic and political and diplomatic policies relevant to regional security issues.

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