

Foreign Aid in North Korea – Can We Meet?

A survey and analysis of foreign aid development strategies for the
Democratic People's Republic of Korea proposed by its government and
the international donor community

Abstract

The aim of this comparative qualitative field study is to document and analyse what foreign assistance the government of North Korea wants to receive from the international donor community, and what foreign assistance the international donor community wants and is capable of providing to North Korea. The empirical evidence, collected during a field trip of three weeks to North Korea in 2006, identifies the foreign aid development strategies of the respective parties. With the help of the underlying theoretic development models and by taking the economic and political realities of North Korea into account, the realism of the two parties' foreign aid development strategies is evaluated. This results in an analysis of when and where there is room for North Korea and the international donor community to agree on foreign assistance to the country. Our results reveal that in the current context, it is possible to meet primarily in the humanitarian-oriented areas of agriculture and basic social services. In a future context, where the nuclear issue is resolved and foreign aid is expected to increase substantially, there should be ample opportunities for enhanced agreement on a wide range of development-oriented aid activities, especially in the areas of physical and human capital accumulation, economic reforms, and international trade and FDI. However, the two sides are unlikely to agree on the North Korean ambition to become self-sufficient in agriculture, as well as to adopt a strategy of leap-frogging in order to develop a high-tech industry.

Key words: North Korea, foreign aid, humanitarian aid, development strategy,
development economic theory

Authors: Pia Lindström*
Mikael Staaf†
Tutor: Professor Ari Kokko
Examiner: Professor Örjan Sjöberg
Discussants: Christian Jöhncke
Patrik Åkerman
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* Correspondence to piamb.lindstromDELETE_THIS@gmail.com

† Correspondence to mikaelstaafDELETE_THIS@gmail.com

N.B. The above email addresses have been modified in order to avoid unsolicited email. Before using the addresses, please remove the DELETE_THIS part in each address.

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Abbreviations and acronyms

AidCo	EuropeAid Co-operation Office
CAP	Consolidated Appeals Process
CCA	[United Nations] Common Country Assessment
DMZ	Demilitarised Zone
DPRK	Democratic People's Republic of Korea (North Korea)
ECHO	European Commission Humanitarian Aid Office
EU	European Union
EUPS	European Union Programme Support
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GAA	German Agro Action
IDC	Italian Development Cooperation
ICRC	International Committee of the Red Cross
IFRC	International Federation of Red Cross and Red Crescent Societies
KECCA	Korea Europe Cooperation Coordinating Agency
LRRD	Linking Relief Rehabilitation & Development
MDG	Millennium Development Goal
NCC	National Coordination Commission
NGO	Non-governmental organisation
OCHA	United Nations Office for the Co-ordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDS	Public Distribution System
PMU Interlife	Pingstmissionens Utvecklingssamarbete (development aid branch of the Swedish Pentecostal Mission)
PRSP	Poverty Reduction Strategy Paper
ROK	Republic of Korea (South Korea)
SDC	Swiss Development Cooperation
SEZ	Special Economic Zone
SAP	Structural Adjustment Programme
Sida	Swedish International Development Cooperation Agency
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WFP	World Food Program

Definitions

North Korea

Throughout the thesis we will use the terms North Korea, the Democratic People's Republic of Korea and the DPRK interchangeably.

Foreign aid

Foreign aid includes both humanitarian and development aid. The terms foreign aid and foreign assistance will be used interchangeably throughout the thesis.

We are aware that many organisations today use the term *development cooperation* instead of development aid. However, since there is no such term as *humanitarian cooperation*, we have chosen to keep the older expression development aid, in order to accentuate the dichotomy of humanitarian/development aid, which is highly relevant in this thesis.

Humanitarian aid

According to the Stockholm Declaration of Humanitarian Aid “the objectives of humanitarian action are to save lives, alleviate suffering and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prevent and strengthen preparedness for the occurrence of such situations.” It “includes the protection of civilians and those no longer taking part in hostilities, and the provision of food, water and sanitation, shelter, health services and other items of assistance, undertaken for the benefit of affected people and to facilitate the return to normal lives and livelihoods.”¹

The definitions of humanitarian aid, however, vary widely in practice between donors, as we shall see throughout this thesis.

Development aid

The Organisation for Economic Co-operation and Development (OECD) defines development aid as part of Official Development Assistance (ODA): “Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions.”² “In addition to financial flows, technical co-operation (q.v.) is included in [development] aid.”³

¹ See “Annex A: Principles and good practice of humanitarian donorship” endorsed in Stockholm on 17 June 2003 in OECD (2004), *Assessment framework for coverage of humanitarian action in DAC peer reviews*.

² OECD (2008b), Glossary of statistical terms: Official Development Assistance (ODA).

³ OECD (2008a), DCD-DAC's glossary: Official Development Assistance (ODA).

The definitions of development aid, however, vary widely in practice between donors, as we shall see throughout this thesis.

Development paradigm

By “development paradigm” we denote the ideology, theory and methods applied to the processes of development and/or underdevelopment typifying the conceptual, or intellectual, frameworks in which we are operating.

In our thesis we use “development paradigms” as a tool for introducing, and giving the reader a deeper understanding of the different intellectual frameworks of development characterising the North Korean government and the international donor community. We use the development paradigm as a frame of reference throughout the thesis.

Theoretic development model

The “theoretic development models” are well-established theoretic models, part of standard economic theory, which focus on economic development. In line with Perkins *et al.*, we in the theoretic development models also include theories sometimes classified as belonging to the field of transition economics.⁴

Foreign aid development strategy

Masina argues that “ ‘development’ has come to mean a process whereby socio-economic change, rather than evolving through some ‘spontaneous’ dynamic, can be organised and promoted consciously by some organising and directing agent; and that agent *par excellence* is the state.”⁵

We define “development strategy” as the practical way for a country to achieve development, according to the above-mentioned definition of development. The development strategies are in this case based on various theoretic development models, but differ from them since they are not theories, but the practical application of the theories, and used as tools for generating development in a country.

By “foreign aid development strategy” we mean the strategy for using foreign aid as a means for generating development in a country.

In practice, it is often difficult to distinguish between theoretic development models and development strategies. They tend to overlap, and in our thesis they will be treated as two sides of the same coin.

⁴ Perkins, H. *et al.* (2006), *Economics of Development*, 6th ed, New York: W.W. Norton & Company.

⁵ Masina P. (2006), *Vietnam's Development Strategies*, New York: Routledge.

North Korean government

To a greater extent than in any other country, societal life in North Korea is governed by the government. The governance stretches from traditional government institutions like the ministries all the way down to businesses.

We met representatives of the North Korean government from the following government institutions:

The Academy of Social Sciences, the Cabinet Economic Institute, the Committee for Cultural Relations with Foreign Countries, the Foreign Trade Bank, the Ministry of Agriculture, the Ministry of Foreign Trade, the National Coordination Committee (NCC), the Korea Europe Cooperation Coordinating Agency (KECCA), and the Embassy of DPRK in Stockholm.

We consider these respondents to reflect the views of the North Korean government.

In addition we have considered official government documents and literature to represent the opinions of the DPRK government.

International donor community

We define the “international donor community” as governmental and non-governmental Western donors from European countries and the United States, as well as the multilateral organisations involved in providing foreign aid to North Korea, primarily the United Nations agencies and the European Commission. Russia, China, South Korea, Japan, as well as other bilateral donors, have their own separate donor programmes and will not be part of our empirical study other than as references when necessary for explaining the context. Our respondents from the international donor community furthermore have little insight into the donor programmes carried out by other countries, and cooperation between Western development organisations and those of other countries is very limited.

We met representatives of the international donor community from the following organisations and diplomatic missions:

Concern Worldwide, ECHO, European Business Association, FAO, GAA, Embassy of Germany, ICRC, IFRC, IDC, Save the Children UK, SDC, Sida, Embassy of Sweden, Première Urgence, PMU Interlife, Triangle, UNDP, UNFPA, UNICEF, Embassy of the United Kingdom, WFP, and WHO.

We consider these respondents to reflect the views of the international donor community.

In addition we have considered official documents and literature from the international donor community to represent the opinions of the international donor community.

Economic reality

By economic reality we mean the reality of the economic conditions in North Korea that we observed on the ground during our field study in summer 2006. We also refer to the

economic reality reported by other persons who are visiting or have visited the country, and/or have studied the economic characteristics of the DPRK.

Political reality

By political reality we mean the reality of the political conditions in North Korea that we observed during our field study in summer 2006. We also refer to the political reality reported by other persons who are or have been in the country, and/or have studied the political characteristics of the DRPK.

In our thesis the political reality is divided into two contexts:

Context 1

When conducting our study, we have assumed two different contexts, or scenarios, where the difference boils down to the solution of the controversial issue of North Korean nuclear activities (regarding nuclear energy and weapons) and the resulting strained diplomatic relations with most other countries, including its largest donors. “Context 1” depicts today’s situation where the unsolved nuclear issue is an obstacle to broader economic and political cooperation with the outside world.

Context 2

“Context 2” depicts a hypothetical future situation in which the nuclear issue has been resolved, in a way acceptable to all major parties, resulting in a diplomatic *détente* between North Korea and the rest of the world.

Introduction

In the mid-1990s, the Democratic People's Republic of Korea was hit by both severe floods and droughts, causing severe famine. The outside world responded to this extreme humanitarian emergency, and assisted in securing the livelihoods of several millions of North Koreans.

In September 2005, about a decade later, the DPRK government announced that the humanitarian assistance provided by the international donor community was no longer desired. The government of North Korea further stated that foreign aid would from that point onwards instead be provided bilaterally from South Korea and China.⁶

Consequently, by the end of 2005, the United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA) as well as some international aid organisations had left the country. The United Nations Children's Fund (UNICEF), the World Food Program (WFP), the World Health Organization (WHO), the United Nations Food and Agriculture Organization (FAO), United Nations Population Fund (UNFPA), and a smaller number of other aid organisations, have stayed but with a reduced number of international staff on site and under modified operational conditions.⁷

The external relations of North Korea were for long concentrated to other socialist and communist states, contributing to a very limited knowledge of the DPRK in the West. The call for assistance in the 1990s increased the contacts and communication between North Korea and many countries, enabling enhanced understanding and knowledge of each other. However, the gains have been hampered by a history of setbacks in the diplomatic relations between North Korea and other countries, including important neighbours like South Korea, China and Japan, as well as the United States and the European Union. The relations with the outside world have had its bright moments, like the two inter-Korean summits in 2000 and 2007, but unfortunately there have also been several setbacks.

When conducting our field study in North Korea, in July 2006, we came to witness one of these moments from ringside seats when the country conducted its first missile tests in eight years, causing deep indignation among most capitals around the world, including its long-time ally China. A few months later, in October 2006, DPRK allegedly conducted its first nuclear test, resulting in even more strained diplomatic relations with the outside world and the imposition of harder sanctions. However, since then, diplomatic relations have improved little by little and negotiations on North Korean nuclear disarmament have resumed within the framework of the so-called Six Party Talks.⁸

It is obvious that the conditions and possibilities for providing foreign assistance to North Korea to a very large extent depend on the prevailing diplomatic situation. When initiating this study, there was a large gap existing between the type of assistance the government of North Korea would like to receive from the international donor community, and the assistance that the international donor community was prepared to provide to the country.

⁶ *The Chosun Ilbo* (2005), "N. Korea rejected further UN food aid", 8 September.

⁷ Interview with Doris Attve, Sida, 28 December 2005.

⁸ These talks are hosted by China and include North Korea, South Korea, China, Russia, United States and Japan.

Unfortunately this gap still remains at the time of writing, and when and if this will be narrowed remains very uncertain.

Nevertheless, the precarious situation of the North Korean people calls for continued efforts to solve the current situation and try to reduce the gap between the DPRK government and foreign donors. In addition, the recent progress in the Six Party Talks offers a glimmer of hope that North Korea's relations with the world will again improve, enabling an increase in both the scale and scope of foreign aid to the country. This underlines the need to deepen our knowledge about the foreign aid development strategies of both North Korea and the international donor community, and to analyse when and where we can meet.

Purpose of study

We have three aims with this study:

Our first aim is to *document* (**research questions 1-2**) what foreign assistance the government of North Korea would like to receive from the international donor community, and what foreign assistance the international donor community wants to provide and is capable of providing to North Korea.

Documenting what foreign assistance is requested from the government of North Korea has a high value in itself, since the DPRK is a closed and *vertically integrated*⁹ country meaning that information in general is hard to obtain, both for North Koreans and for foreigners. Information from the North Korean government is rarely made official, neither internally nor externally, and the different parts of the government do not communicate with each other horizontally. This leads to a general knowledge gap regarding the standpoints of the government of North Korea, and we hope that our thesis can add some additional information to the already existing knowledge base.

Having documented the views and actions of the different parties, i.e. the different foreign aid development strategies, our second aim is to *analyse* (**research questions 3-6**) the material by identifying what type of (possibly different) underlying theoretic development model(s) the two parties explicitly or implicitly advocate. With the help of theory we hope to be able to formalise and get a deeper understanding of the foreign aid development strategies being considered for North Korea. By analysing the foreign aid development strategies in the light of collected information on the economic and political realities of North Korea, we also try to evaluate the realism of the different proposed foreign aid development strategies. If possible, a positive outcome of this analysis could be the increased understanding of when and where there is room for agreement on a common foreign aid development strategy, or at least specific policy areas or fields of foreign assistance.

Our third aim is the possible contribution to *reducing the gap* between the government of North Korea and the international donor community, by increasing both parties'

⁹ The socialist bureaucracy is coordinated according to relations of superiority and subordination (vertical linkage). There exists a hierarchy between e.g. government bodies, meaning that information is provided from "above" and down to the different ministries and further down in the hierarchy. The lateral horizontal information flow (horizontal linkage) *between* e.g. the ministries is, however, low, meaning that North Korea to a large extent is a compartmentalised society. See Kornai, J. (1992), *The Socialist System*, Oxford: Clarendon Press, p.92.

understanding and knowledge of the other party. The findings of this study could hopefully serve as a useful basis for further discussion between the government of the DPRK and the international donor community.

Outline of the thesis

Having given an introduction to the thesis and presented the purpose of the study, we continue with a background description of North Korea, the international donor community and the present foreign aid situation. Subsequently our research method and its implications will be presented. Further a more stylistic presentation of the development paradigms characterising North Korea and the international donor community respectively will be presented to create an understanding of the environment in which both parties are operating.

In the next section, our empirical findings collected during our field study are presented and an analysis based on this material constitutes the following part of the thesis. In the analysis the theoretical framework of the thesis is generated and has the role of identifying the characteristics of the foreign aid development strategies for both parties. The foreign aid development strategies based on the theoretic development models will then be analysed in light of the economic and political realities of North Korea, resulting in an analysis on when and where agreement is possible on foreign aid to the country. Finally we present our conclusions and the possible policy implications of our results.

Background: North Korea and the present foreign assistance situation

Ever since the founding of the Democratic People's Republic of Korea in 1948, the country has been dependent on support from the outside world, both militarily and economically. After the Korean War in 1950-53, the North Korean centrally planned economy developed quickly and until the beginning of the 1970s, it was considered to have outdistanced the South Korean economy. Compared to other centrally planned economies, the North Korean economy was characterised by three distinctive features: the extremely important role of the military in the economy and in society in general; its policies directed towards self-reliance – especially in agricultural products – in accordance with the state ideology *Juche*, and a very high degree of de-monetisation with practically no markets or trade.¹⁰

As a consequence of the Korean peninsula being dominated by foreign powers throughout history, combined with increased insecurity regarding the military and economic support of the Soviet Union in the 1950s, Korean leader Kim Il Sung managed to impose his creation *Juche* as the state ideology of North Korea. *Juche* emphasized the importance of self-reliance for the country, in military, political and economic matters. The *Charip* principle of *Juche* was the first to be defined and deals with the need of an independent and self-sufficient economy.¹¹ The practical consequence of this principle was a modernisation of the economy

¹⁰ Mumei, B. & Mo, W (2004), *North Korea: From crisis to tentative reform*, Stockholm: European Institute of Japanese Studies, p. 2.

¹¹ Waldenström, L. (2005), *DPRK's Juche Ideology and its Implications on Pyongyang's Relations with Washington 1994-2004. A North-Korean Perspective*, Umeå: Swedish Defence Research Agency, pp. 11-13.

resulting in a very input-intensive production system, both in industry and agriculture, which ironically only increased dependency on the outside world.¹²

During the Cold War, North Korea managed to secure its needed imports of, above all, energy, raw materials and chemical fertilisers. Thanks to the rivalry between China and the Soviet Union, North Korea could play the two countries against each other, extracting aid and trade credits.¹³ In addition the imports were supplied at highly subsidised price levels.

In the mid-1980s, the Soviet Union started to decrease its supply of products, and with the end of the Cold War the foreign aid and trade flows were virtually completely cut off. North Korea tried to accommodate to the new situation by increasing the intensity in agricultural production significantly, e.g. by introducing double-cropping and by expanding cultivation into normally non-arable land like hillsides. While helping in the short run, this unsustainable farming soon had negative impacts on productivity, resulting in officially acknowledged food shortages in 1994.¹⁴ This together with recurring natural disasters in the mid-1990s led to the famine disaster of 1995-98, where possibly as many as 600,000 to 1 million people died.¹⁵

Starting in 1995, the outside world has provided large amounts of aid to North Korea, both bilaterally and through multilateral organisations such as the WFP and WHO. During the period 1995-2002, food aid valued at around USD 2 billion was supplied by Japan, South Korea, US, EU and other Western countries.¹⁶

In recent years all discussions between the international donor community and the DPRK government have been centred on one contentious issue: the distinction between *humanitarian aid* and *development aid*. In short, the DPRK has demanded a shift from the former to the latter.

The international donor community has so far primarily provided humanitarian assistance, but since the end of 2005 North Korea wants development assistance instead. As a consequence, international organisations and NGOs have had to leave the country.¹⁷ Basic development assistance has, however, already been provided to North Korea for a long time albeit under the name of humanitarian assistance. The reason for not calling it development assistance has been the political position of many donor countries not to support the current North Korean government with development aid until a successful resolution of the nuclear issue has been obtained. The only type of assistance that is officially approved by most of the donor countries is humanitarian assistance.

In fact, after the inter-Korean summit in June 2000, the situation was the complete opposite to today, with the international donor community trying to convince the DPRK authorities to shift its focus from humanitarian assistance to more sustainable development assistance,

¹² Mumei & Mo (2004), op. cit., p. 2.

¹³ International Crisis Group (2006), *China and DPRK: Comrades Forever?*, Asia Report No 112, Brussels, p. 2.

¹⁴ Mumei & Mo (2004), op. cit., p. 3.

¹⁵ Noland, M. (2003), "Famine and Reform in DPRK", WP 03-5, Institute for International Economics, Washington, D.C., p. 1.

¹⁶ Mumei & Mo (2004), op. cit., p. 3.

¹⁷ Today six European organisations (former NGOs) are working together under the name European Union Programme Support (EUPS).

in order to prevent future crises. However, at that time, the Koreans were not as interested in development assistance as they are today.¹⁸

The rationale for the North Korean government to stop humanitarian assistance and thereby forcing international aid organisations out of the country is not completely clear. According to several observers it has to do with the number of foreigners working in the country being too large, and with the insistence on extensive monitoring of aid distribution from the international donor community. Another reason might be the North Korean government using this as a tactic to extract more development aid or as a bargaining chip in the current nuclear stand-off. Another argument, which also receives some support from foreign observers, is that humanitarian aid is not sustainable in the long run and needs to be replaced by development assistance, in order to decrease the dependency of North Korea on foreign donors.

Ever since the North Korean decision in 2005 to receive only development assistance, the foreign aid situation in North Korea has become highly complex, with ever-changing operating conditions for the international donor community. The ups and downs in the strained diplomatic relations between the DPRK and the outside world have naturally affected the setting for the foreign assistance to the country, e.g. by drastically diminishing the deliveries of fertilisers from South Korea. The international donor community has been faced with increasingly significant restrictions on its activities, including the number of staff to employ and its access to large parts of the country.

In March 2007, UNDP ceased its operations in the DPRK due to a failure to reach agreement with the North Korean authorities on ending some of the previously agreed activities, demanded by UNDP after a decision in its Executive Board. This resulted in the ending of some of the most development-oriented assistance to the DPRK, which was the responsibility of UNDP, above all in the areas of economic management and energy sustainability. Furthermore, the departure of UNDP curtailed the coordination of UN activities, since the UNDP Resident Representative also served as UN Resident Coordinator. This function has now provisionally been transferred to the WFP country director.¹⁹

Another important donor, the European Commission Humanitarian Aid Office (ECHO), is also about to cease its operations in the country in 2008, following its earlier decision that the humanitarian situation has stabilised sufficiently and further activities in the DPRK are not justified. European aid organisations previously sponsored by ECHO will now need to focus on food security activities, sponsored by another European Commission Directorate-General, EuropeAid Co-operation Office (AidCo), or on health-related assistance, sponsored by other donors.²⁰

Whereas the food and humanitarian situation in North Korea successively improved until 2005, probably contributing to the DPRK decision to end humanitarian assistance, the situation has since then deteriorated in several ways. The country has suffered from heavy floods in both 2006 and 2007, resulting in the greatest shortfall in cereals since 2001, and today foreign observers claim once again that there is a serious risk of famine in North

¹⁸ Snyder, S. (2003), "The NGO Experience in North Korea". In Flake, L.G. & Snyder, S. (eds.), *Paved with Good Intentions: The NGO Experience in North Korea*, Westport, Conn.: Praeger, p. 9.

¹⁹ UNDG (2008), *2007 Resident Coordinator Annual Report DPR Korea*.

²⁰ Interview with Doris Attve, Sida, 10 April 2008.

Korea.²¹ The North Korean circumstances, with access to information being highly limited, make it especially difficult to estimate the food balance of the country. However, all estimates agree on a sharp decrease in output and that North Korea is on the brink of famine.²²

North Korea has declared that it might accept humanitarian assistance if there is an emergency caused by a catastrophe or similar. In line with this, the DPRK government in February 2007 requested assistance from the UN to help curb a measles outbreak, and the UN provided the resources for a massive vaccination campaign involving more than 16 million people.²³ Similarly, the DPRK would probably be ready to accept food aid in case of a famine. The international donor community would then, in all probability, also be ready to supply this aid. However, the willingness of foreign donors to provide food aid has diminished, not only due to the nuclear and missile stand-off, but also as a result of higher global food prices. The latter has already caused China to impose export tariffs and quotas on food.²⁴ Nevertheless, despite no famine having been observed yet, as a testimony of the already serious situation, the United States announced on 16 May 2008 to resume its food assistance to North Korea, intending to provide 500,000 metric tons in food over a 12-month period.²⁵

Whether the current critical food situation in North Korea will have any consequences on the medium or long term foreign assistance situation is highly uncertain.

Previous studies

Many studies have been published that touch upon the subject of international assistance to North Korea in general. A range of studies have also been conducted on the economic and political characteristics of North Korea.²⁶

When it comes to the application of economic theories to the case of North Korea, the attempts are rather rare, however. North Korea is often considered a special case, and has therefore generally not been subject to analysis based on standard economic theories. The special case character of the DPRK is later described in the development paradigm section constituting the conceptual framework of our thesis. It shows that North Korea is exhibiting a very unique social system ideologically as well as economically. According to some researchers, the special case character of the country does not, however, rule out the application of a great number of standard economic theories to the case of the DPRK.

²¹ WFP (2008), "WFP warns of potential humanitarian food crisis in DPRK following critically low harvest", Bangkok, 16 April.

²² Haggard, S. *et al.* (2008), "North Korea on the Precipice of Famine", Peterson Institute for International Economics, Washington, D.C., May, pp. 2-4.

²³ UNDG (2008), *op. cit.*

²⁴ *The Economist* (2008), "Let them eat Jude", Vol. 387, No. 8579, 10-16 May, pp. 60-61.

²⁵ USAID (2008), "Resumption of U.S. Food Assistance to the North Korean People", 16 May.

²⁶ See e.g. Schloms, M. (2004), *North Korea and the Timeless Dilemma of Aid: A Study of Humanitarian Action in Famines*, Berlin, Münster: Lit; Flake & Snyder (eds.) (2003), *op. cit.*; Eberstadt, N. (2007), *The North Korean Economy*, New Brunswick, N.J.: Transaction; Lintner, B. (2005), *Great Leader, Dear Leader: Demystifying North Korea under the Kim Clan*, Chiang Mai: Silkworm; Jeffries, I. (2006), *North Korea: A guide to economic and political developments*, New York: Routledge.

An excellent example can be seen in the paper “Can economic Theory demystify North Korea”, written by Frank in spring 2006.²⁷ The paper touches on our study and applies standard economic theory including development economic theory to the case of the DPRK. It does not make any specific claim on which theory to use, but it demonstrates that “in principle, it is no problem to apply all the standard theories [in economics] – which by their nature claim universality – also to such a case as North Korea.”²⁸ According to Frank, the DPRK may be very specific in detail, but the country is actually just one more case of development and can be comprehended as such.²⁹ He further argues that most efforts at incorporating the case of North Korea into theoretical models have started and stopped at transition theory. While being highly relevant, an integration of the DPRK into more standard economic theory will make the case of North Korea “more firmly anchored in standard [economic] methodology” and “by including it into a long chain of established research and, despite or actually catalysed by the many remaining uncertainties, provides observers with a relatively solid ground for their attempts to understand the specifics of that highly interesting case.”³⁰ For our study, this is an important conclusion. By proceeding from Frank’s claim that all standard economic theories are applicable to the case of North Korea – in spite of its specific character – and that the integration of North Korea into standard economic theory is an important analytical step in helping increasing the understanding of the country, we take this as the point of departure for our analysis.

In his paper Frank relates the theories to the economic and political realities of North Korea and also gives proposals on what measures are to be taken in order to achieve development according to the various theories. Frank, however, does not primarily focus on the foreign aid development strategies of the country. Rather he is concerned with the application of theory to the general development efforts made by the DPRK government over the years. Since the main focus is the general development strategies, the foreign aid development strategies of the government of North Korea, as well as the foreign aid development strategies of the international donor community, are not discussed.

The present situation in North Korea regarding the respective parties’ foreign aid development strategies has, as far as we know, not yet been studied. We will, therefore, inspired by the previous works and with the help of our empirical material gathered on site, try to present a picture of these strategies and analyse them from a theoretical, economic and political perspective. Our unique contribution to research is to place the foreign aid development strategies into a theoretical framework and analyse them with the economic and political realities of North Korea in mind.

²⁷ Frank, R. (2006a), “Can Economic Theory Demystify North Korea?”, *Korea Review of International Studies*, Vol. 9, No. 1, 3-26. Another example of an article applying standard economic theory on North Korea is: Lee, Y.-h. (2002), “Escaping the Poverty Trap: North Korea’s Economic Development Strategies”, *East Asian Review*, Vol. 14, No.2, 107-121.

²⁸ Email correspondence with Ruediger Frank, 22 February 2007.

²⁹ Frank (2006a), op. cit., p. 3.

³⁰ *ibid*, p. 4.

Method

Comparative qualitative field study

We conducted a comparative qualitative field study of three weeks in North Korea between the 1st and 22nd of July 2006. Originally we hoped to be able to stay in DPRK for eight weeks, so that the study could have been eligible for a Sida Minor Field Study (MFS) scholarship. It was, however, only possible to arrange for a stay of three weeks, which then became the natural duration and delimitation of our stay in the field.

In addition to staying and meeting with representatives in Pyongyang, we had the opportunity to travel to several other places. We visited the port city of Nampo on the west coast, the old capital city of Kaesong, Panmunjom and the Demilitarised Zone (DMZ), and a state seed production farm in the Unsan county, approximately 100 km north of Pyongyang.

Research questions

By asking the two following questions to the two parties, the *empirical* foundation upon which we base our comparative analysis was gathered.

The two questions were posed assuming two different contexts: “context 1” - today’s situation with the imminent political realities - and “context 2” - assuming a situation where the imminent political situation, i.e. the nuclear issue, is resolved. We asked these questions in order for us to see whether the two scenarios would imply different outcomes.

Research question 1:

What assistance does the government of North Korea want from the international donor community?

- | | |
|-------------------|---|
| <i>Needs</i> | – <i>What are the perceived needs of North Korea?</i> |
| <i>Objectives</i> | – <i>What are the aims and objectives of the assistance to North Korea?</i> |
| <i>Methods</i> | – <i>What methods should be used when providing this assistance?</i> |

Research question 2:

What assistance does the international donor community want to provide to North Korea?

- | | |
|-------------------|---|
| <i>Needs</i> | – <i>What are the perceived needs of North Korea?</i> |
| <i>Objectives</i> | – <i>What are the aims and objectives of the assistance to North Korea?</i> |
| <i>Methods</i> | – <i>What methods should be used when providing this assistance?</i> |

Our hope is that these two questions, posed assuming the two different contextual settings, consequently will *document* and sum up to the foreign aid development strategies advocated by the government of North Korea and the international donor community, and thereby fulfil the first aim of our study.

By *analysing* the empirical evidence from questions one and two, firstly the theoretical framework of the thesis is generated and has the role of formalising and creating a deeper understanding of the characteristics of the foreign aid development strategies for both

parties. Secondly, the foreign aid development strategies based on the theoretic development models are analysed in light of the economic and political realities in North Korea.

By asking these last four questions we hope to be able to fulfil the last two aims of our study:

Research question 3:

What are the theoretical development models underlying the foreign aid development strategies of North Korea and the international donor community?

Research question 4:

Given the economic reality facing North Korea, are the foreign aid development strategies of North Korea and the international donor community realisable?

Research question 5:

Given the political reality facing North Korea, are the foreign aid development strategies of North Korea and the international donor community realisable?

Research question 6:

Under what circumstances, and to what extent, are the foreign aid development strategies of North Korea and the international donor community compatible? Is it possible to reduce the gap between the two parties by defining a common foreign aid development strategy, or at least specific policy areas or fields of foreign assistance, where the needs, objectives and methods of both parties have been taken into consideration?

Assumptions

We assume foreign aid development strategies exist both for the government of North Korea and for the international donor community.

We assume that the foreign aid development strategies do not necessarily reflect the development strategies for North Korea as a whole. However, we admit that there may be many similarities between the general development strategies and the foreign aid development strategies identified in this thesis. Presumably the foreign aid development strategies that we present will also tell us something about the general development strategy of the country. However, throughout the thesis we treat the foreign aid development strategies as the strategies for foreign aid to contribute to development, and refrain from making any explicit generalisations about the general development efforts of the government of North Korea.

The opinions communicated by the respondents in our study are assumed to be representative of the views held by the North Korean government and the international donor community respectively.

We assume that the foreign aid development strategies may differ depending on different scenarios or contexts. In this thesis we assume two different scenarios, “context 1” (today’s situation) and “context 2” (nuclear issue resolved).

Based on the statements of Frank regarding the possibility and importance of relating the case of North Korea into standard economic frameworks of analysis, we assume that, in principle, all standard economic theories including development economic theories can be used for describing and analysing the foreign aid development strategies of North Korea.

Field study

Operationalising our research topic through a *field study* was justified in this case, since we were studying one specific – *particularistic*³¹ – phenomenon, and the data needed to answer our research questions would not have been obtainable by other means. To some extent the data from the international donor community could have been gathered via telephone or e-mail correspondence, but the insights provided by the North Korean government would have been practically unattainable by other means of communication. The DPRK is a closed and vertically integrated country, meaning that information provided by the North Korean government is almost impossible to acquire if not on site. In fact it was hard for us to get access to the North Korean government, despite being on site. Luckily the accessibility to the government improved with time, and we are grateful to have had the opportunity to obtain information from primary sources from the government of North Korea, as well as from the international donor community.

Also, empirical data about North Korea is usually either non-existent or of poor quality. “In North Korea]...the empirical data that are required as a precondition to applying most methodological approaches are absent or of dubious quality.³²” We hope that by gathering the empirical material on site, through direct contact with the government of North Korea and the international donor community, we have circumvented both the obstacles of non-existent data, and to a large extent also the risk of gathering data of poor quality.

The field study is by nature an *inductive* method, since definitions, theory and generalisations are developed from the empirical information that has been gathered on site.³³ In practice a method can, however, never be clearly defined as either inductive or deductive, rather it is *abductive*,³⁴ a mixture of both, and this is also the case for our study. On the one hand we needed the empirical evidence in order to say anything about theory; on the other hand we needed theory to say anything about the empirical evidence. We had a tentative preconception of what theories could be used for analysing our material, but the final definitions, theories and generalisations have evolved throughout the process in working with our empirical findings. Since our theoretical framework proceeds from our empirical material, it is naturally presented *after* the description of our empirical findings.

Qualitative method

As already stated, our first aim is to *document* what assistance the government of North Korea would like to receive from the international donor community, and what assistance the international donor community wants to provide and is capable of providing to North Korea.

To answer this question a *qualitative, descriptive*³⁵ approach was applied. More specifically, we collected documents and conducted qualitative, *semi-structured* interviews³⁶ with North Korean

³¹ For a discussion on *particularism* as a prerequisite for the field (case) study, see Merriam, S. B. (1994), *Fallstudien som forskningsmetod*, Lund: Studentlitteratur, pp. 25f.

³² Frank (2006a), op. cit., p. 8.

³³ See Merriam (1994), op. cit., p. 27, on the *inductive* method applied to the field (case) study.

³⁴ Landreth H., & Colander, D.C. (2002), *History of Economic Thought*, 4 ed., Boston: Houghton Mifflin, pp. 11f.

³⁵ For a discussion of the *descriptive* characteristic of the field (case) study, see Merriam (1994), op. cit., pp. 26f.

government officials and with representatives from the international donor community. Two different questionnaires have been used in order to gather the required information. One has been used for the North Korean government and the other for the international donor community. The questionnaires basically posed the same questions to the different parties, but were constructed with some modifications depending on which party we were meeting, in order to gain as much information as possible from the respondents. The semi-structured character of the interview with fixed questionnaires but open-ended questions, made it possible for us to both uphold consistency in our questions, while still allowing for the flexibility to follow up on interesting side tracks. The questionnaires are based on our two first research questions, and can be found in Appendices A and B.

Altogether 28 interviews were carried out in North Korea, of which eight were conducted with the government of North Korea and 20 with the international donor community. The predominance of interviews with representatives from the international donor community, naturally contributes to a more detailed picture of the viewpoints of the international donor community. However, we think that the sample of responses from the North Korean government is very pertinent, since the representatives are often directly involved in foreign aid relations and in this way essential for providing relevant responses to the questions posed in the study. The smaller DPRK sample is in this respect to some extent compensated for by relevance in the respondents' answers.

Some of the interviews with the North Korean government representatives were made with the help of an interpreter. The interviews have not been tape recorded, because of the risk of inhibition on the part of the respondents (or "informants"): "...the process of recording has a bearing on the freedom with which people speak, and the visual appearance of the equipment serves to remind informants of the fact that they are being recorded."³⁷ Since the questions were to some extent sensitive, we decided to only take notes of the respondents' answers. It is therefore not possible for us to make verbatim quotations of what has been stated during the interviews. In the thesis, the respondents' answers are, however, marked as quotations, since they are based on very thoroughly-taken notes, written down by two researchers who simultaneously attended each appointment. The answers were later methodically transcribed, compared and compiled into one empirical document. The "quotations" in the thesis can therefore be considered as being very close to literal.

According to Walker, confidentiality and anonymity are two of five ethical problems that researchers have to consider during the work process.³⁸ In our reference list, all our interviewees and their organisations are presented. However, when presenting our empirical evidence from the interviews, all information has been presented anonymously. The respondents have been labelled with a specific code only revealing if the person is a representative of the DPRK government or the international donor community.³⁹ For preventative reasons, the final thesis was also sent to some international staff in the DPRK

³⁶ For an examination of different types of research interviews, see Denscombe, M. (1998), *The Good Research Guide for small-scale social research projects*, Buckingham; Open University Press, p. 112 ff.

³⁷ *ibid.*, p. 123f.

³⁸ Walker, R. (1980), "The conduct of educational case studies: Ethics, theory and procedures", cited in Merriam (1994), *op. cit.*, pp. 189f.

³⁹ On a few occasions, when the quote has been deemed to not be of any sensitive nature, the regular coding system has not been used, in order to preserve overall anonymity. This is done when the quote effectively reveals the organisational belonging of the respondent.

before publishing. They checked the thesis for obvious factual errors, to make sure that nuances were adequate, and to ensure that the anonymity of the respondents was guaranteed.

One advantage with the chosen method is that it can grasp many variables at the same time, and through that, widen the perspectives and increase the understanding of the foreign aid development strategies of both parties, i.e. the method has *heuristic*⁴⁰ ambitions. Interviews are considered to be particularly good at providing information in depth and in detail. The depth of the information gathered through interviews facilitates understanding and provides valuable insights into the studied phenomenon.⁴¹ Since our third aim is to reduce the gap between the parties by increasing both parties' understanding and knowledge of the other party, this is a valuable characteristic of the method.

Interviews are also considered to be the most flexible method for data collection, since adjustments in the enquiry can be made during the interview itself. Additionally the method ensures a relatively high response rate as the interviews are generally prearranged.⁴²

Interviews are furthermore considered one of the best methods in reflecting preference to the respondents' priorities: "...Interviews are a good method for producing data based on informants' priorities, opinions and ideas. Informants have the opportunity to expand their ideas, explain their views and identify what *they* regard as the crucial factors."⁴³ This feature of the method is very appealing to our thesis since our first aim was to document the standpoints of the DPRK government and the international donor community respectively. The priorities, opinions and ideas of the respective parties are in other words the essence and point of departure of our study.

The disadvantage of the method is that regularity and objectivity are difficult to accomplish. It opens up for subjective interpretations of the respondents' answers. The researchers' identity, background and beliefs are present in both the formation of the data and in the analysis. The outcome of the study is, in this respect, to some extent dependent on the researchers' interpretive skills. The open recognition of the intrusion of the 'self' in the qualitative research necessarily creates a more cautious and tentative approach to our findings in the thesis.

The empirical data may also be less representative. To some extent, the empirical material is inimitable owing to the specific individuals interviewed in that particular context. The gain achieved from the depth and detail of information is hence to some degree at the expense of generalisability to other similar cases.⁴⁴

Moreover, interviews as a method give rise to the interviewer effect: "The data from interviews are based on what people say rather than what they do. The two may not tally. What people say they do, what they say they prefer and what they say they think cannot automatically be assumed to reflect the truth. In particular, interviewee statements can be affected by the identity of the researcher."⁴⁵ Since our North Korean respondents as well as our respondents from the international donor community are almost all engaged in foreign

⁴⁰ See Merriam (1994), op. cit., p. 27, on the *heuristic* features of the field (case) study.

⁴¹ Denscombe (1998), op. cit., p. 136.

⁴² *ibid.*

⁴³ *ibid.*

⁴⁴ *ibid.*, pp. 137, 221f.

⁴⁵ *ibid.*, p. 137.

aid relations, it can at least to some degree be expected that the respondents took the fact that Sweden is a relatively important donor into consideration when answering our questions. This could for example show itself in an emphasis on requests for activities similar to the activities supported and financed by Sweden, or at least that the answers to some extent are adjusted to suit the Swedish donor agenda. The respondents' answers may also have been affected if they for any reason did not feel totally comfortable speaking freely during the interview situation.

Comparative method

Our second aim is to *analyse* the different parties' foreign aid development strategies in light of the theoretic development models, and the economic and political realities of North Korea. To fulfil this aim we use a *comparative* method.⁴⁶ The comparative method is also used as a means to fulfil the third aim of our thesis: to study if it is possible to reduce the gap between the government of North Korea and the international donor community by defining a common foreign aid development strategy or at least specific policy areas or fields of foreign assistance where the needs, objectives and methods of both parties have been taken into consideration.

In practice, the foreign aid development strategies of the DPRK government are compared to the foreign aid development strategies of the international donor community. The possible meeting points and discrepancies are defined through the comparison of the strategies. Consequently, the comparative method is an obvious choice for the analysis.

One of the advantages of the field (case) study is that it allows for multiple methods and multiple sources of data.⁴⁷ In the analysis of our thesis, a range of secondary sources is used as a complement to our own findings from the empirical material which includes a variety of development economics literature, literature on foreign aid in North Korea, academic reports, articles and web pages.

Moreover, additional primary sources, i.e. official documents and interviews carried out off site with representatives directly involved in the foreign aid relations with North Korea have been added to broaden the analysis.

Problematisation

Validity

Qualitative field studies in general exhibit a high level of validity. We deem this to be the case also in our study.

⁴⁶ For a description of the characteristics of the *comparative* method, see Marsh, D. & Stoker, G. (eds.) (1995), *Theory and Methods in Political Science*, Basingstoke: Palgrave, pp. 173ff.

⁴⁷ Denscombe (1998), op. cit., pp. 39f.

The thesis has its major strength in its *internal* validity. The study was undertaken for three weeks on site, which means that the studied phenomenon could be observed for a longer period of time.

The empirical material consists solely of primary sources, i.e. official documents and interviews carried out on site, and the selection of respondents within both the North Korean government and the international donor community is very relevant since almost all interviewees are directly engaged in foreign aid relations.

“Direct contact at the point of the interview [also] means that data can be checked for accuracy and relevance as they are collected.⁴⁸” As a complement to the direct contact at the time of the interview, *triangulation*⁴⁹ was used. The thesis was sent to international staff in the DPRK for examination before publishing, in order to ensure factual accuracy and increase the credibility of the results.

These are all measures, which increase the internal validity of the results of the thesis.⁵⁰

The *external* validity of the study is weaker, since generalisations to other cases are hard to make from such a specific case such as the foreign aid situation in North Korea.⁵¹ There might however, be prospects for generalisation for the single reader, as the reader will hopefully be provided with insights that could possibly be useful in other situations that the reader is confronting or will confront.⁵²

Reliability

“The impact of the interviewer and of the context means that consistency and objectivity are hard to achieve. The data collected are, to an extent, unique owing to the specific context and the specific individuals involved. This has an adverse effect on reliability.⁵³”

In general, qualitative studies exhibit a low level of reliability, since they lack the property of generating the same results if carried out by other researchers on other occasions.

Our interviews are subjectively interpreted and have not been tape recorded. The answers from respondents are to some extent affected by the interviewer effect and dependent on the particular context. This will render reproducibility of the study difficult.

In order to strengthen the possibility of reproducibility, we have tried to be very explicit in our purpose, aims, definitions and assumptions of the study. We have also tried to make a thorough description of the sample and methods used while conducting our research. Hopefully, the reasoning behind the theoretical framework of the thesis further strengthens

⁴⁸ *ibid*, p. 136.

⁴⁹ *Triangulation* is the use of other researchers or other sources of information to confirm the results during a research process. See Denscombe (1998), *op. cit.*, pp. 85f.

⁵⁰ Merriam (1994), *op. cit.*, pp. 177ff.

⁵¹ Merriam (1994), *op. cit.*, pp. 183ff.

⁵² Wilson, S. (1979), “Explorations of the usefulness of case study evaluations”, *Evaluations Quarterly*, Vol. 3, 446-459, cited in Merriam (1994), *op. cit.*, p. 187.

⁵³ Denscombe (1998), *op. cit.*, p. 137.

the possibility that other researchers would reach the same conclusions if repeating the study.⁵⁴

Reliability and validity are furthermore deeply interconnected. Research exhibiting a high level of internal validity automatically increases reliability.⁵⁵ Since our study shows a high level of internal validity, reliability should consequently improve.

The lack of reliability is also to some extent compensated for through the mixture of methods used in the thesis. Through triangulation with other sources – with literature, reports, articles, web pages, documents and additional interviews of both secondary and primary character – reliability is strengthened.⁵⁶

Delimitations

As mentioned in our assumptions, we aim to study the foreign aid development strategies of the government of North Korea and the international donor community. We do not claim to survey and analyse any possibly existing *general* development strategy of North Korea.

Even though the reader is presented with more extensive background descriptions, the focus of our study is naturally limited to the empirical findings we have collected on site in North Korea. We have decided to concentrate on our empirical material since the uniqueness of this thesis lies in the information gathered in the field during July 2006. We try to work as closely as possible to our empirical material and experiences in order to answer our research questions.

Since our point of departure is our empirical material, the natural focal point of the study will also be the current situation in North Korea. The thesis will in other words concentrate on the present circumstances in the country, partly at the expense of the historical development. In the analysis the theories will be applied to our field findings and this outcome will together with the economic and political realities of today accordingly be the main basis for analysis.

⁵⁴ Denscombe (1998), op. cit., p. 213; Goetz, J.P. & LeCompte, M.D. (1984), *Ethnography and Qualitative Design in Educational Research*, Orlando, Florida: Academic Press, p. 216, cited in Merriam (1994), op. cit., p. 183.

⁵⁵ Guba, E.G. and Lincoln, Y.S. (1981), *Effective Evaluation*, San Francisco: Jossey-Bass, cited in Merriam (1994), p. 181.

⁵⁶ Goetz and LeCompte (1984), op. cit., p. 216, cited in Merriam (1994), op. cit., p. 183.

Conceptual framework: Development paradigms

In order for the reader to get a deeper understanding of our empirical material, we will try to define the conceptual, or intellectual, frameworks in which the North Korean government and the international donor community respectively are operating. These frameworks will later be used as a point of reference and helpful tool throughout the analysis of the thesis. To illustrate the frameworks, we use the concept of *paradigm* as defined by Kuhn:

...that constellation of values, beliefs and perceptions of empirical reality, which, together with a body of theory based upon the foregoing, is used by a group of scientists, and by applying a distinctive methodology, to interpret the nature of some aspect of the universe we inhabit.⁵⁷

The definition of a paradigm is consequently applied to the processes of development and/or underdevelopment as in Hunt,⁵⁸ and used as a tool for introducing the reader to the different development paradigms characterising the North Korean government and the international donor community.

Based on the above-mentioned definition, we will try to give an overview of the ideology (values, beliefs, perceptions), the body of theory stemming from the ideology and its application (methodology). Our aim is to give a very stylised and general picture of the different development paradigms with an emphasis on ideology.

It is advisable for the reader to keep the two different development paradigms in mind when reading the rest of the thesis. This will hopefully facilitate the understanding of both parties' standpoints.

Development paradigm of North Korea

The Juche-oriented idea, theory and policy of our Party on the economy are definite guidelines in the construction of an economic power...We should run the economy by our own efforts, our own technology and our own resources with a determination that we must build a socialist paradise by ourselves.⁵⁹

The development paradigm of the government of North Korea builds upon the *Juche* ideology, which is Kim Il Sung's application of Confucianism and Marxism-Leninism to North Korean conditions. The word literally means "subject", but should rather be translated to "self-identity". It is also often translated into "self-reliance" or "autonomy".⁶⁰ The concepts of independence and self-reliance are central to the *Juche* ideology and emanate from the many invasions and the 40 year Japanese colonial rule of the Korean peninsula. It

⁵⁷ Kuhn, T. (1962), *The Structure of Scientific Revolutions*, 2 ed., enlarged, 1970, Chicago: Chicago University Press. In Hunt, D. (1989), *Economic Theories of Development: An analysis of competing paradigms*, New York: Harvester Wheatsheaf, p. 2.

⁵⁸ Hunt (1989), op. cit., p. 3.

⁵⁹ KCNA (2007), "Joint New Year Editorial 2007", 1 January.

⁶⁰ Waldenström (2005), op. cit., p. 11; Lintner (2005), op. cit., p. 41.

dates back to the Confucian state philosophy of independence and nationalism as articulated by early Korean rulers.⁶¹

Lee traces the nationalist zeal and policies of self-reliance back in history:

Strategically located at the peninsular tip of the East Asian continent, Korea has long been pawn of contention between its two powerful neighbours, China and Japan. From the earliest recorded history, the Korean people have fought fiercely to maintain their independence in the face of multiple invasions by Mongols, Manchurians, Han Chinese, and Japanese pirates and samurais. The sum of these invasions may qualify Korea as the most oft-invaded territory in the world. Under the Yi Dynasty, which ruled Korea from 1392 until the Japanese annexation in 1910, Korea became a highly defensive state with a foreign policy of isolation towards the outside world. When Kim Il Sung came to power in North Korea in 1945, he arguably reverted to the highly isolationist policies of pre-modern Korea.⁶²

Kim Jong Il expresses the role of independence and self-sufficiency as follows: “Failing to resolve one’s own problems by one’s own decision under pressure or in bondage to others means losing one’s rights as master; following will of others and acting against one’s own interests means giving up one’s rights as master.”⁶³ By being independent when it comes to *Chaju*, political independence from other countries, in *Chani*, military self-defence, and in *Charip*, economic self-sufficiency, North Korea tries to establish itself as a strong socialist state, free from the influences of foreign powers.⁶⁴ *Charip* is seen as the material basis for both *Chaju* and *Chani*.⁶⁵ What is interesting though is that North Korea has never been economically self-reliant, but dependent on foreign aid throughout its history, first from the Soviet Union and later China.⁶⁶ In the following two sections in Kim Jong Il’s book “On the *Juche* idea”, he however, makes some reservations regarding possible assistance:

As the revolution and construction are their [the popular masses] own undertakings, they ought to resolve all problems arising in these undertakings by their own initiative on the principle of self-reliance. One might receive aid from others in the revolution and construction, but in any case the main thing is one’s own initiative.⁶⁷

He continues:

Building an independent national economy on the principle of self-reliance does not mean building an economy in isolation. An independent economy is opposed to foreign economic domination and subjugation; but it does not rule out economic cooperation.⁶⁸

Economic cooperation is, however, solely referred to as cooperation between socialist countries and newly emerging nations.⁶⁹ Nevertheless, one also has to consider the Marxist

⁶¹ Lintner (2005), op. cit., pp. 43f.

⁶² Lee, G. (2003), “The Political Philosophy of *Juche*”, *Stanford Journal of East Asian Affairs*, Vol. 3, No. 1, p. 108.

⁶³ Kim Jong Il (1982), *On the Juche Idea*, Pyongyang: Foreign Languages Publishing House, p. 25.

⁶⁴ Waldenström (2005), op. cit., pp. 12ff; Lintner (2005), op. cit., p. 41.

⁶⁵ Lee (2003), op. cit., p. 106; Waldenström (2005), op. cit., p. 12.

⁶⁶ Noland, M. (2004), “The Political Economy of North Korea: Historical Background and Present Situation”, paper prepared for the conference “Towards a Peaceful Resolution with North Korea: Crafting a New International Engagement Framework,” February 12-13, Washington, D.C., p. 6.

⁶⁷ Kim Jong Il (1982), op. cit., p. 25.

⁶⁸ *ibid.*, p. 48.

dialectical materialism view on history, which is clearly a significant part of the *Juche* ideology. This implies that history is a constantly changing dynamic process and that a country always has to adapt to new contexts:⁷⁰ “The revolutionary movement demands solving all problems in conformity with the changes and development in the reality and the specific conditions of the country.”⁷¹ This could justify the more recent North Korean involvement in economic cooperation also with capitalist countries, as well as the partial introduction of the market mechanism following on the “Economic Management Improvement Measures” in July 2002.⁷²

Independence is also manifested through the detachment of the society from capitalism. The aim is to establish a socialist and in the end communist society,⁷³ and the theoretical foundation, which *Juche* is built upon, is Marxism-Leninism. In the book “On the *Juche* idea”, there are several references to Karl Marx and his theories; e.g. the class perspective is very prevalent, materialism is mentioned several times and the dialectical materialist view on history as mentioned above is an integral part of *Juche*.⁷⁴ However, the North Koreans claim to have developed the theories of Marx into a higher state: “The revolutionary world outlook of the working class had been established by Marxism for the first time, and it was developed by the *Juche* idea onto a new, higher plane for its perfection.”⁷⁵ This independence from orthodox Marxism, together with the pragmatic approach to conditions specific to North Korea, has according to Frank transformed *Juche* from a predominantly socialist ideology to a nationalist one, enabling the *Military first* policy of the DPRK.⁷⁶ The significance of the *Military first* policy can be seen in the share of GDP used for defence spending, where North Korea has one of the largest percentage shares of GDP in the world.⁷⁷ The importance of the military is further emphasised through the new guiding strategy *Kangsung Taeguk*, where political, ideological and military aspects strongly dominate any economic ones.⁷⁸

The practice, or methods for reaching the goal of independence and economic self-sufficiency, is among others, to plan the economy: “The building of socialism and communism is a highly-organised undertaking which involves the whole society and is conducted in a planned manner.”⁷⁹ In contrast to the capitalist countries, North Korea wants to construct an economy that is aimed at meeting the demands of its people, rather than being geared towards generating profits.⁸⁰ However, in recent years the term “profit” has been introduced into the official language of the DPRK leadership, as a way of enhancing productivity, or “obtain maximum profits while maintaining socialist principles.”⁸¹ The means of production are owned by the state and the cooperatives, and private property is explicitly prohibited, except from “property meeting the simple and individual aims of the

⁶⁹ *ibid.*, pp. 48f.

⁷⁰ Landreth & Colander (2002), *op. cit.*, 189ff.

⁷¹ Kim Jong Il (1982), *op. cit.*, p. 58.

⁷² Kim, Y.-y. & Choi, S.-y. (2005), “Understanding North Korea’s Economic Reforms”, *Analysis on North Korea 2005-02*, Center for the North Korean Economy, Korea Institute for National Unification, Seoul, p. 7.

⁷³ See Kornai (1992), *op. cit.*, for an introduction to the socialist economy and politics.

⁷⁴ Kim Jong Il (1982), *op. cit.*

⁷⁵ *ibid.*, p. 76.

⁷⁶ Frank, R. (2005), “Economic Reforms in North Korea (1998-2004): Systematic Restrictions, Quantitative Analysis, Ideological Background”, *Journal of the Asia Pacific Economy*, Vol 10, No. 3, 278-311.

⁷⁷ In 2002 North Korea spent 25 percent (IISS), The Military Balance) to 34 percent (CIA World Factbook) of GDP on defence. The world average is around 2.4 percent. See Waldenström (2005), *op. cit.*, p. 25.

⁷⁸ Waldenström (2005), *op. cit.*, pp. 23ff.

⁷⁹ Kim Jong Il (1982), *op. cit.*, p. 68.

⁸⁰ *ibid.*, p. 46.

⁸¹ Kim & Choi (2005), *op. cit.*, p. 11. See also Frank (2005), *op. cit.*

citizen.⁸² Planning is very present in the economy, although the decision-making in agriculture and industry has been partly decentralised in line with the policy of “New Thinking” from January 2001.⁸³

The North Korean economy is also influenced by the typical socialist pattern of development when it comes to giving priority to heavy industry.⁸⁴ Additionally, after the Korean War, the North Korean infrastructure had been destroyed, and therefore the focus on machine building and manufacturing became crucial.⁸⁵ Official documents usually emphasise the parallel development of all sectors of the economy.⁸⁶ For instance, Kim Jong Il states that “in order to build an independent economy which is developed in a multifarious and comprehensive way, it is necessary, as our practical experience shows, to follow the line of giving preference to the development of heavy industry and developing light industry and agriculture simultaneously.”⁸⁷ Heavy industry is considered to be the backbone of the national economy, and would leave the simultaneous development of light industry and agriculture easier to achieve, since it would secure economic and technical independence.⁸⁸

One can conclude that the ideology of *Juche* prescribed a balanced strategy of development, as a way of making the country self-reliant and independent from above all the Soviet Union. However, as Park notes, “developing both industry and agriculture simultaneously proved to be a difficult task for the DPRK, a relatively small and resource-poor country. The DPRK’s solution was the *Chollima* movement, a mass-line movement to develop light industry and agriculture simultaneously with heavy industry, with a large amount of investment going to heavy industry.”⁸⁹ As a result, the DPRK came to follow the typical socialist unbalanced way of development, emphasising investments in heavy industry. Recent years, however, show a new emphasis on light industry and agriculture.⁹⁰

Self-sufficiency in food production is seen as being of particular importance for economic independence, and efforts to become self-sufficient in grain production in agriculture were actively pursued during the 1970s and 1980s. “Solving the problem of food on one’s own through successful farming, in particular, is of tremendous significance in providing the people with stabilised living conditions and an independent life.”⁹¹ The realisation of this ambition, however, showed to be more problematic than expected, given the extent of uncultivable and mountainous landscape in the country.⁹²

Just as important as self-sufficiency in agriculture, is the establishment of reliable and independent sources of raw materials and fuel.⁹³

⁸² Art. 24 of the DPRK constitution, cited in Frank (2005), op. cit., p. 309.

⁸³ Kim & Choi (2005), op. cit., p. 11.

⁸⁴ Email correspondence with Ruediger Frank, 22 February 2007.

⁸⁵ Waldenström (2005), op. cit., p. 13.

⁸⁶ See “Joint New Year Editorial” from various years.; Email correspondence with Ruediger Frank, 22 February 2007.

⁸⁷ Kim Jong Il (1982), op. cit., p. 46.

⁸⁸ Waldenström (2005), op. cit., p. 13.

⁸⁹ Park, P.H. (2002), *Self-Reliance or Self-Destruction? Success and Failure of the Democratic People’s Republic of Korea’s Development Strategy of Self-Reliance “Juche”*, New York: Routledge, p. 120.

⁹⁰ Email correspondence with Ruediger Frank, 22 February 2007.

⁹¹ Kim Jong Il (1982), op. cit., p. 47.

⁹² Lintner (2005), op. cit., p. 42.

⁹³ Lee (2003), op. cit., p. 107.

Finally, training for the technically engaged part of the population is considered of utmost significance for economic independence: “Technical independence is absolutely necessary for economic independence...We must resolutely implement the leader’s policy of intellectualising the whole society, further raise the cultural and technical levels of the working masses, improve the qualities of technical cadres, and train more technicians better.”⁹⁴

To sum up, the development paradigm of North Korea is ideologically based on the *Juche* idea, theoretically on Marxism-Leninism, and methodologically on the socialist planned economy with its emphasis on heavy industry and simultaneous development in light-industry and agriculture. In addition technical training is a vital component in the establishment of *Charip* – the independent economy.

Development paradigm of the international donor community

Foreign aid is, in general, provided by the international donor community in the forms of development aid and humanitarian aid. Development aid can be provided either as programme aid (budget support), project aid (specific projects) and as technical assistance (training/capacity building).

Development aid

The idea and foundation of *development aid* provided by the international donor community originally stemmed from the Marshall Plan, which was carried out to boost economic recovery in Europe after the Second World War. The Marshall Plan was also offered to the Soviet Union, on the condition that it abandoned communism. The Soviet Union, however, rejected the proposal.⁹⁵ The recovery of the war-ravaged European economies demanded huge amounts of capital, and the results of the capital transfers from the Marshall Plan were impressive.

In the 1950s and 1960s many of the former colonies became independent. North Korea gained its independence from the Japanese in 1945. The history of colonialism started to be critically scrutinised, and many negative consequences caused by the imperialist powers were brought up. The international community felt morally responsible for the damage caused, and the driving forces and support for foreign aid developed. The situation in Europe seemed to show many similarities with the underdevelopment patterns that several developing countries were demonstrating, so the Marshall Plan became a model for economic development also for the developing world.⁹⁶

Parallel to this, the World Bank, which was established in 1945 to deal with reconstruction and development after the war, gradually shifted more and more towards the developing

⁹⁴ Kim Jong Il (1982), op. cit., pp. 47f.

⁹⁵ See Parrish, S.D. & Narinsky, M.M. (1994), “New Evidence on the Soviet Rejection of the Marshall Plan, 1947: Two Reports”, Working Paper No. 9, *The Cold War International History Project Working Paper Series*, Woodrow Wilson International Centre for Scholars, Washington D.C.

⁹⁶ Karlström, B. (1996), *Det omöjliga biståndet: om utvecklingens mekanismer och det offentliga biståndets roll*, Stockholm: SNS (Studieförbundet Näringsliv och Samhälle), pp. 29ff.

countries and development aid. Also, several NGOs like Oxfam and CARE were founded during this period.⁹⁷

Today development aid provided by the international donor community still mainly consists of capital transfers, and is still ideologically coloured by typical Western values. Ideologically it takes its stance in values like liberalism, institutionalism and humanism.

The theoretical approach of the international donor community originally builds on the theories of Adam Smith and neoclassical economics. More specifically it has its starting point in the neoclassical growth theories, where capital accumulation plays a significant role for development. Paul Rosenstein-Rodan was one of the first economists, who formulated an explicit theory for development assistance.⁹⁸ It was phrased “the big push” and implied that a large amount of capital should be distributed to different sectors on a broad level, in order for an economy to develop.⁹⁹ Over the years the paradigm of the international donor community has varied, depending on trends in politics and in the field of development economics - but the neoclassical heritage has survived and is today, to a large extent, the dominant theoretical approach for providing foreign aid.

During the 1980s, the practice or method used for implementing development aid was the World Bank’s Structural Adjustment Programs (SAP). The programmes were a reaction against the previous failures of project aid and were based on liberal, free-trade oriented ideas and a strong belief in the forces of the market economy. Development aid was now going to be provided in the form of programme aid and be tightly tied to policy conditionality like macroeconomic stability, privatisation, deregulation and openness. The SAP later became known as the “Washington Consensus”,¹⁰⁰ and was a prescription that was imposed on all developing countries, as a condition for them to receive development aid from the international donor community.¹⁰¹

The Washington Consensus became heavily criticised during the late 1980s and early 1990s for pursuing a “one size fits all” approach to development. The liberal, free-trade oriented method was applied no matter of country-specific conditions, and this led to a devastating outcome.¹⁰² The Asian financial crisis was the last in a row of failures of the prevailing policies. As a result an “enhanced”¹⁰³ or “augmented”¹⁰⁴ Washington Consensus evolved. In addition to the old components, the importance of new policy areas was emphasised, related to the institutional setting of the economies. Rodrik summarizes the Washington Consensus and the Enhanced Washington Consensus in the following two lists:¹⁰⁵

⁹⁷ Forsberg, L.T. & Kokko, A. (2007), “From Growth to Poverty Reduction: The Framework for Development Cooperation in Vietnam”, European Institute of Japanese Studies, Stockholm School of Economics, pp. 2f.

⁹⁸ Karlström (1996), op. cit., pp. 44f.

⁹⁹ Blomqvist, H.C. & Lundahl, M. (1992), *Ekonomisk utveckling: En introduktion till u-ländernas ekonomiska problem*, Stockholm: SNS (Studieförbundet Näringsliv och Samhälle), pp. 38ff.

¹⁰⁰ Williamson, J. (1990), “What Washington means by policy reform”. Chapter 2 in Williamson, J. (ed.), *Latin American Adjustment: How Much has Happened?*, Institute for International Economics, Washington, D.C.

¹⁰¹ Forsberg & Kokko (2007), op. cit., p. 4.

¹⁰² For a critique of the Washington Consensus, see e.g. Stiglitz, J.E. (1998), “More Instruments and broader Goals: Moving toward the Post-Washington Consensus”, WIDER Annual Lectures 2, UNU/WIDER, Helsinki.

¹⁰³ Walter, A. (2002), “Financial Liberalization and Prudential Regulation in East Asia: Still Perverse”, London School of Economics, January, p. 5.

¹⁰⁴ Rodrik, D. (2001), “The Global Governance of Trade as if Development Really Mattered”, UNDP, New York, p. 11.

¹⁰⁵ *ibid.*, p. 50.

The Original Washington Consensus

- Fiscal discipline
- Reorientation of public expenditure
- Tax reform
- Financial liberalization
- Unified and competitive exchange rates
- Trade liberalization
- Openness to DFI
- Privatization
- Deregulation
- Secure property rights

The Augmented Washington Consensus

The original list plus:

- Legal/political reform
- Regulatory institutions
- Corruption
- Labor market flexibility
- WTO agreements
- Financial codes and standards
- “Prudent” capital-account opening
- Non-intermediate exchange rate regimes
- Social safety nets
- Poverty reduction

The Enhanced Washington Consensus constitutes today’s development paradigm for the international donor community, and builds on a number of documents. Apart from the earlier Washington Consensus, the two most important documents are the Millennium Development Goals (MDGs)¹⁰⁶ and the Paris Declaration on Aid Effectiveness¹⁰⁷.

The MDGs have added a poverty reduction aspect to the Washington Consensus, where the aim is to reach eight explicit poverty reduction targets before the year 2015. The poverty reduction is here not only seen as a means to promote development, but also as an end in itself. The Millennium Declaration¹⁰⁸ also emphasises the importance of increasing development assistance,¹⁰⁹ and improving institutions, good governance, human capital, democracy and human rights for achieving these goals. The last target in the MDGs is to “develop a global partnership for development”, which has led to the endorsement of the Paris Declaration on Aid Effectiveness. The Paris Declaration emphasizes five priority areas for achieving aid effectiveness: *ownership*, *alignment*, *harmonisation*, *managing for results*, and *mutual accountability*. The MDGs and the Paris Declaration are currently the explicit objectives and methods of development aid for multilateral donors as well as bilateral donors.¹¹⁰

A major difference from the original Washington Consensus concerns conditionality. In short, in the Enhanced Washington Consensus, the previous donor conditionality has been replaced by recipient country *ownership* of the development strategies, through the replacement of SAP with Poverty Reduction Strategy Papers (PRSP). “PRSPs are a form of

¹⁰⁶ The UN Millennium Development Goals (2000).

¹⁰⁷ Paris Declaration on Aid Effectiveness (2005).

¹⁰⁸ UN Millennium Declaration (2000).

¹⁰⁹ For an argument for the increase in development aid, see also Sachs, J.D. (2005), *The End of Poverty: Economic Possibilities for our Time*, New York: Penguin Press.

¹¹⁰ Forsberg & Kokko (2007), op. cit., pp. 16f.

‘social contract’ between donors and recipients, where the recipient government presents a sustainable policy framework in return for debt relief and concessional credits....¹¹¹”

Forsberg & Kokko argue that the “social contract” or recipient country *ownership* prescribed in the Paris Declaration might not be unmitigated in reality. There is a risk of a “super-conditionality”, meaning that donor countries end up providing assistance only to countries that comply with some implicit, mostly political, conditions, and choose not to cooperate with countries that cannot present a development strategy with a poverty focus, or where human rights are not addressed.¹¹²

Humanitarian aid

Ideologically *humanitarian aid* has its origins in moral philosophy and humanism. It has been provided by the international donor community since the middle of the 19th century, when Henry Dunant founded the International Committee of the Red Cross after witnessing the Battle of Solferino.¹¹³

Humanity is the core obligation and guides the behaviour of all humanitarian organisations. It is referred to in all charters and codes of conduct of aid agencies. The core principle, or the ‘human imperative’ as it is also called, is stated in the UN Resolution 46/182¹¹⁴ and in the ‘Code of Conduct of the International Red Cross and Red Crescent Movement and Non-Governmental Organizations in Disaster Relief’.¹¹⁵

The right to receive humanitarian assistance, and to offer it, is a fundamental humanitarian principle which should be enjoyed by all citizens of all countries. The prime motivation of our response to disaster is to alleviate human suffering amongst those least able to withstand the stress caused by the disaster...Human suffering must be alleviated whenever it is found; life is as precious in one part of a country as another.¹¹⁶

Humanitarian aid is not building on any specific theory, but is rather built around certain agreed principles. The Stockholm Declaration on Humanitarian Aid states that “humanitarian action should be guided by the humanitarian principles of *humanity*, meaning the centrality of saving human lives and alleviating suffering wherever it is found; *impartiality*, meaning the implementation of actions solely on the basis of need, without discrimination between or within affected populations; *neutrality*, meaning that humanitarian action must not favour any side in an armed conflict or other dispute where such action is carried out; and *independence*, meaning the autonomy of humanitarian objectives from the political, economic,

¹¹¹ *ibid.*, p. 8. Not all development aid receiving countries have PRSPs in place, however. The PRSPs are based on the Common Country Assessments (CCAs) and the United Nations Development Assistance Frameworks (UNDAFs), which are carried out in the recipient country at a first stage. After the CCAs and UNDAFs are in place, PRSPs can be set up. See UN-OHRLLS, Background on *CCA/UNDAF/PRSP*.

¹¹² Forsberg & Kokko, *op. cit.*, pp. 18f.

¹¹³ To read more about how Henry Dunant impartially took care of the wounded war victims of both sides from the Battle of Solferino, see ICRC (2004), “From the battle of Solferino to the First World War”.

¹¹⁴ United Nations (1991), General Assembly Resolution 46/182.

¹¹⁵ Schloms (2004), *op. cit.*, pp. 6-29.

¹¹⁶ IFRC (1994), Code of conduct of the International Red Cross and Red Crescent Movement and Non-Governmental Organizations in Disaster Relief.

military or other objectives that any actor may hold with regard to areas where humanitarian action is being implemented.”

The practice or method for carrying out humanitarian aid is very varied and the definitions of what it actually comprises vary just as much. The Stockholm Declaration on Humanitarian Aid, however, defines that “humanitarian action includes the protection of civilians and those no longer taking part in hostilities, and the provision of food, water and sanitation, shelter, health services and other items of assistance, undertaken for the benefit of affected people and to facilitate the return to normal lives and livelihoods.”¹¹⁷

¹¹⁷ See “Annex A: Principles and good practise of humanitarian donorship” endorsed in Stockholm 17 June 2003 in OECD (2004), *Assessment framework for coverage of humanitarian action in DAC peer reviews*.

Empirical findings

In this section, which provides answers to our first two research questions, the empirical evidence from our interviews with DPRK officials and representatives of the international donor community will be presented.

For reasons already declared in the methods section, the interviewees have been made anonymous. The DPRK officials are called DPRK:A, DPRK:B etc., and the representatives of the international donor community are called INT:A, INT:B etc.

What assistance does the government of North Korea want?

Before trying to answer our first research question by outlining the foreign assistance requested by the DPRK, a short tentative schematic description will be made of the process of formulating economic policy in North Korea. Even though our insights to the planning process are very limited, they will give a grasp of how the foreign aid development strategies are actually formulated and ultimately implemented in the country.

The North Korean process of planning and policy formulation

In some of our interviews we were able to get some information on the process of planning in North Korea. Not surprisingly, the planning is organised in a top-down hierarchical process:

The economic planning comes from above. The process of policy formulation is divided into three steps. First step is goal formulation, the second strategy formulation, and the third is the establishment of the actual plan. The strategies are based on statistics and formulated by the Cabinet, and then sent to the State Planning Commission.
(DPRK:F)

The State Planning Commission makes the Government National Central Plan.
(DPRK:C)

The State Planning sets the general production targets. Then the ministries and committees make the more detailed plans. Finally the factories implement the plans; every company belongs to the Cabinet.
(DPRK:G)

Even if the plans get more detailed lower down in the hierarchy, there seems to be some scope for decision-making at the lowest implementation level:

The companies are state controlled. But they are not controlled in detail.
(DPRK:B)

All enterprises have their own management strategy.
(DPRK:C)

Context 1 and 2

Starting with the DPRK requests, as already stated, the difference between contexts 1 and 2 is caused by the strained relationships between the DPRK and most of the international donor countries, mainly due to differences of opinion related to nuclear activities. However, since the DPRK does not acknowledge this issue to be of any concern, there is naturally no difference between what foreign aid the DPRK needs and requests today in context 1 and in a future context 2.

Needs – What are the perceived needs of North Korea? What sectors need to be prioritised?

When asked about the needs of North Korea, our DPRK respondents mostly answered by naming the different sectors they think need to be prioritised for developing the country, and consequently, where foreign aid is needed. The rather general nature of these answers strengthens our belief that some inferences can be made regarding any possibly existing *general* development strategies of North Korea. However, as already stated, we will not make any claims about these, but only draw conclusion regarding the foreign aid development strategies.

On numerous occasions, we were presented with “strategies of development” in North Korea. These were not detailed in any manner, nor did they provide any operational guidance, but were rather lists and/or rankings of sectors where efforts and foreign aid are needed in order to achieve development. In short, these “strategies” focus on agricultural self-sufficiency, (heavy and light) industry, exports, and investments in science and high-tech sectors:

Until the 1980s, the strategy of Kim Il Sung was to focus on:

- 1) Agriculture
- 2) Light industry
- 3) Foreign trade

This strategy is still valid today. Agriculture is of utmost importance.

(DPRK:B)

[The] strategic development plan [is prioritising] mining, ports and energy. [We should] develop the mining industry (steel and iron) and thereby gain hard-currency. Then [in the future, we should] use this money to invest in high-tech.

(DPRK:F)

From 1996-2006 we have only had contingency planning with one year plans. At this [2006] Spring Assembly meeting a development plan was being erected. In the future [there will be a] a five-year plan. We need high technology, science and technology.

(DPRK:F)

The Chinese model will not be applicable. We take our influence from Europe and Sweden.

(DPRK:F)

Whereas the above strategies are more long-term, other DPRK authorities, who are more involved in the current foreign assistance to the country, tend to stress needs and/or priorities that better reflect the assistance that foreign donors are prepared to provide to the country under the current political circumstances. These are to a great extent, by nature, more short-term and “humanitarian”. For example the “National Coordination Committee” (NCC), which works as a counterpart to the UN agencies present in the country, made a presentation of the *2007-2009 Priority Areas and Goals DPR Korea* (see Appendix C). These priorities are North Korea’s own priorities, but have been defined during a consultation process with the UN. They can therefore also be seen as a result of the interaction with the international donor community, and correspond well to the areas of cooperation where the two sides have been able to meet.

The different areas of cooperation have even been categorised according to which of the Millennium Development Goals (MDGs) they contribute to achieve. The four prioritised areas are the following (for the complete document, including information on previous DPRK and UN priorities, see Appendix C.):

1. Improve quality of life of people (MDG 1)

Sustainable food security
Sufficient electricity through energy development
Safe water, sanitation and hygiene

2. Social development (MDG 2-6)

Strengthen statistical capacity for social sectors
Fight with epidemic diseases including HIV/AIDS, TB, Malaria, improve health care service and infrastructure
Improve quality, condition and environment of education

3. Environment (MDG 7)

Increase function and role of national environment law, and social awareness on environment protection
Management of waste and pollutants
Conservation of eco-system
Compliance to the various multilateral environmental agreements

4. Economic management (MDG 8)

Capacity building for overall economic and financial planning and management
Improve enterprise management to promote income
Enhance capacity of foreign trade and investment promotion

In the following sections more details will be provided regarding the needs in the different sectors specified by the DPRK officials as being of greatest importance, and therefore in need of foreign aid. As a way of indicating the relative importance of the different sectors, the interviewees having mentioned a particular sector will be indicated in the footnotes. One should not attach too much importance to this quantitative measure, given the qualitative nature of our empirical evidence. However, it serves to underline the importance of certain sectors.

Agriculture and food security¹¹⁸

Agriculture is currently on top of the agenda in the DPRK, and this is recognised by practically all interviewed government agencies. However, it is less clear whether this is a long-term priority or not. The country is still struggling with a structural gap in agricultural production. Once substantial progress has been made in the agricultural sector, it is possible that the focus will shift to other sectors.

Last year and this year, priority has been given to agriculture. The natural disasters in the 1990s and the US sanctions have resulted in an agricultural crisis, which is why there has been focus on this area.

(DPRK:C)

The agricultural sector suffers from a structural lack of inputs such as improved seeds, pesticides, fertilisers, machines and fuel, which are therefore demanded by the DPRK from international donors. However, the more medium-term strategy concentrates on increasing productivity, and thereby production, by improving and introducing new farming techniques in areas such as:

Seed multiplication

Improved potato farming

Double cropping production

Improvement of soil management, using “conservation agriculture”

(DPRK:D)

Energy¹¹⁹

As also shown in the above statements on “development strategies”, energy is a sector that is being prioritised by the DPRK. It is seen as a key to development in many areas, e.g. the transport sector:

We have the potential, but the problem is the energy. In the future, everything will be good.

(DPRK- B)

Natural resources/minerals¹²⁰

Several of our interviewees mention the need to develop the extractive industries. This is often seen as an important way of gaining precious hard currency.

[We should] develop the mining industry (steel and iron) and thereby gain hard-currency.

Then [in the future, we should] use this money to invest in high-tech.

(DPRK:F)

¹¹⁸ This sector was mentioned by DPRK:B+C+D+E+F+G+H. DPRK:C+G said agriculture was prioritized “at the moment”.

¹¹⁹ This sector was mentioned by DPRK:A+B+E+F+H.

¹²⁰ This sector was mentioned by DPRK:B+C+F+G.

Infrastructure/ logistics¹²¹

DPRK can possibly be a logistics hub of North-East Asia. We would like to be like the Dutch! There is a scientific study to try this. There is a port in Nampo, for marine transportation of containers. This is important for foreign trade.

(DPRK:B)

High tech sectors (bio technology, nano technology, IT)¹²²

A striking feature of the DPRK strategy is the emphasis put on high technologies and the important role these should play in the future, especially compared to industries more typical of developing countries, such as light manufacturing.

The most important is to develop high tech industries, like bio and nano technologies. We need to jump directly to high-tech. DPRK has a lot of highly-skilled people. Therefore we need new technology. This is the comparative advantage of DPRK. (...) We need to leap-frog.

(DPRK:F)

In addition, at the Spring Assembly Meeting of 2006, a five-year-plan was adopted regarding science and technology, which is the core of developing a country like this.

(DPRK:F).¹²³

Kim Jong Il has said: “The most advanced technology has to be used when developing a sector. Need of modernisation of the industry.”

(DPRK:C)

Other sectors

In addition to the above-mentioned sectors, the following have also been put forward as sectors that need to be developed in order to achieve development in North Korea:

Financial systems (modernisation in accordance with international standards to facilitate foreign investments)¹²⁴

Organic agriculture¹²⁵

Light industry (machine tools, garments)¹²⁶

Traditional medicines¹²⁷

¹²¹ This sector was mentioned by DPRK:B+C+F+G. DPRK:C especially emphasized this, mentioning it several times.

¹²² This sector was mentioned by DPRK:B+F+G.

¹²³ The authors have tried, both on location in Pyongyang and through the DPRK Embassy in Stockholm, to get an English copy of this plan. However, this has not been possible to achieve.

¹²⁴ This sector was mentioned by DPRK:C+F.

¹²⁵ This sector was mentioned by DPRK:B+F.

¹²⁶ This sector was mentioned by DPRK:B.

¹²⁷ This sector was mentioned by DPRK:B.

Foreign trade

Foreign trade is clearly a priority of the DPRK government. This is seen both as a way of generating incomes to the country, and as a way of modernising the country and increasing the know-how.

Promoting development through trade is very important.
(DPRK:D)

Exports are prioritised, but the *Juche* ideology is not considered an obstacle to imports, at least not in sectors other than agriculture.

The concept of *Juche*, self-reliance, still remains valid. This does not mean that DPRK has to lag behind with for instance obsolete machines. [We want trade in all areas], but particularly in infrastructure, coal, power, minerals. (...) We want investments locally or from outside.
(DPRK:B)

[*Juche* is about] building up an independent economy. The independency does not mean we close our economy to the outside world. Independent national economy is not equal to a closed economy. The majority of the products consumed should be produced in the country. But special products that cannot be produced, like high-tech, should be imported. Focus, however, should be on exports – as in other economies.
(DPRK:C)

Exports need to be developed in both “old” and “new” sectors. Both products and production equipment need to be modernised.

The “old” export areas are:

Magnetite
Lead
Zink
Machine tools
Traditional medicines
Garments
(DPRK:B)

However, new areas also need to be defined and developed. This is perceived to be difficult, but potential new export areas are:

Organic food, organic products
Eco culture. Today chemical fertilisers are not used.
Bio engineering
New materials (nano-materials). This can be produced on a mass level. EU provides support in this area.
(DPRK:B)

The above lists indicate that both high and low tech sectors are considered for export development.

The DPRK authorities are open to promote the development of their export industries by different measures:

We have to start now to define the areas [where exports should be developed]. Protectionism might be used.
(DPRK:B)

We also want to establish international agreements. International certification of products in order to improve the image of the products. This will improve the export competitiveness of DPRK.
(DPRK:B)

Sectors could also be developed with the objective to minimise imports:

[Investment promotion to foreigners:]
Sectors that are highly reliant on imports. We want industries that could substitute imports.
(DPRK:B)

Objectives – What are the aims and objectives of the assistance to North Korea?

Humanitarian or development?

DPRK officials acknowledge that there might still be a need for typical humanitarian assistance, but underline that this should only take place under exceptional circumstances:¹²⁸

470 mm of rain, this is bad for harvests. The climatic conditions are not good. There are wind storms in the coastal area. In this respect we can say that we need humanitarian assistance, also in the future.
(DPRK:D)

Up to 2005 mainly humanitarian aid was provided, mainly food aid and medical supplies. Only little development aid. This was valuable support, but now we have gradually recovered from the disaster and made considerable improvement. (...) Therefore the CAP was stopped and from 2006 and onwards we have completely switched to development assistance.
(DPRK:E)

Now, this is the time to go from humanitarian to aid with development characteristics. Humanitarian aid is for emergency situations, during 2-3 years. Now 10 years have passed and the situation is improved. But there is nothing left of it now. Humanitarian aid is only about providing consumer goods.
(DPRK:H)

¹²⁸ During our stay in Pyongyang heavy rains caused severe flooding with substantial damage to crops and infrastructure. These circumstances might have influenced our respondents. The following summer, in 2007, the country was once again hit by heavy rains with even more serious damage as a result.

Allowing for humanitarian aid in exceptional situations, the DPRK insists on development being the general objective of the foreign aid.

The UNDP has used the following definition of development, since the 1990s: “Sustainable human development”. This is a concept that has existed since the 1930s, when it was stated by Kim Il Sung.
(DPRK:D)

Development assistance could help economic activity and the ability to pay the debts. Trade and investment will lead to foreign exchange. (...) This would lead to better balance of trade and increased income of people.
(DPRK:B)

The role of the international assistance is to contribute to the development by enhancing the local capacity of the population in a sustainable way. [The international assistance should contribute to:] infrastructure; health (EU); prevention of natural disasters and food security; and education.
(DPRK:B)

Development assistance should be a combination of: investment, trade, research and production. But the EU does not provide this. The current projects are not sustainable.
(DPRK:B)

Agriculture

In agriculture, the objective is clearly to increase the production capacity in order to become self-sufficient.

In agriculture, the objective is rehabilitation of the sector after the catastrophe [in the 1990s]. Self-sufficiency in cereals and food is the objective of both the international community and the DPRK government. (...) It is possible to be self-sufficient; we used to be that before the crisis. But now we need the international donor community for rehabilitation.
(DPRK:D)

Capacity building

The objective has to be to facilitate communication between DPRK and the outside world, e.g. to teach terms such as GDP and GNP, not being used in DPRK. We use “growth national productivity” instead of GDP or GNP. We are not yet moving towards GDP and GNP – but if something of the economic theories is good then we can apply it.
(DPRK:F)

There is a need to breed experts and specialists in the economy, through education.
(DPRK:G)

Based on the *Juche* idea, the DPRK government has done everything to improve the human capital. (...) According to *Juche*, the man is the most valuable being in the world.
(DPRK:D)

Methods – What methods should be used when providing the assistance?

In this section the DPRK view(s) on the preferred methods of the foreign assistance will be presented. By “methods” we mean the type and form the assistance should take.

Training or equipment? (“software” or “hardware”?)

DPRK officials recognise the importance of both human capacity building and the provision of hardware, such as equipment and infrastructure.

The Koreans are talented. We need both equipment and human capital.
(DPRK:B)

Some officials even declare that:

Human capacity building is more important. The technicians/government representatives need to be trained, both on macro and micro level, both on policy and managerial level.
(DPRK:E)

The last 10 years European investments [=equipment] have been made, but we need training to use this equipment.
(DPRK:F)

We need training in basic economic theory, all economic theory existing in the Western world, basic theory and knowledge of the macro-micro economy. We need to know the basic tools. Ricardo, Heckscher-Ohlin. We are seeking to find our comparative advantage.
(DPRK:F)

However, whereas some officials underline the importance of training, it is clear that the DPRK would prefer a larger hardware component in the foreign aid. According to some officials, human capacity building is something that the donors impose:

Human capacity building is decided on the donor side. We want to have more equipment; we want the same level of capacity building and equipment, 50-50%. Today the UN is providing 80% capacity building and 20% equipment.
(DPRK:E)

We have to involve researchers and technical expertise. But ECHO also has to provide hardware. We cannot only rely on analysis.
(DPRK:B)

We want to have equipment, but it has conditions attached to it. Maybe it would be more important/relevant if the World Bank or Asian Development Bank came in. Otherwise we can only do small scale pilot projects; no donor wants to give a turnkey factory. DPRK wants certainly to have more equipment but donors don't want to give that.
(DPRK:E)

But we also want financial assistance, which is needed for investment in infrastructure. Euro will work OK. A spirit of mutual trust is important.
(DPRK:B)

In agriculture, a lot of rehabilitation is still needed. For this, the need for equipment (e.g. tractors) is greater than the need for training, according to the DPRK authorities.

Investments and foreign trade

Foreign assistance could also be in the form of investments, not just regular aid. The foreign direct investments could be in any sector except the military. Investments are needed in infrastructure, but the choice of sector is also up to the foreign investor.

[There is a need for foreign investments in several sectors:]

R&D

Special Economic Zone

Sectors that are highly reliant on imports. We want industries that could substitute imports.

International intermediary port

(DPRK:B)

[Investments should be in sectors where] both can make profits. Profits are important!

(DPRK:C)

The goal of the joint-ventures is to get high-tech.

(DPRK:G)

An export council should have been established, but this has not yet happened. I hope that development will not be affected by politics.

(DPRK:B)

***Juche* and the role of foreign aid**

The DPRK welcomes aid from foreign donors and considers it a vital part in its development strategy. The more resources the country can receive the better. However, in accordance with its *Juche* ideology, the country fiercely defends its sovereignty and right to decide which type of assistance that is needed.

The objective of the international donor community is to help the country, the nation, this is clear. But, the objective should not disregard or disrespect the recipient nation. The objective should not be to influence the national values. They should respect the national policy of the country.

(DPRK:F)

Juche does not mean that we do everything ourselves. “We are the main actor – the key concept.” But we are encouraging foreign aid. We joined all the UN organisations in 1975. But we are in the centre of this cooperation – directing foreign assistance to where we want it. We will not receive foreign assistance if the aid is tied (political).

(DPRK:E)

Development assistance should be a combination of: investment, trade, research and production. But the EU does not provide this. The current projects are not sustainable.

(DPRK:B)

Juche [is about] self-sufficiency in every field of the economy. But self-reliance is the main thing. *Juche* should be applied to every field, but it is impossible. So foreign aid and cooperation could play a role here.

(DPRK:G)

Summary of main characteristics of the foreign aid development strategy of the DPRK government

No clearly-defined single foreign aid development strategy

A first observation regarding our empirical evidence is that the answers to our questions differed depending on who we talked to, naturally reflecting the different interests and perspectives of our respondents and the agencies they represented. This is an interesting fact in itself. Given North Korea’s political system, one could have expected a very well-defined explicit foreign aid development strategy, possibly presented in a public document, that all officials could refer to and quote. Apparently, this was not the case. Every New Year, the leading North Korean newspapers publish the *Joint New Year Editorial*, where the general plans for the coming year are put forward by the DPRK government. However, given the comprehensive nature of this document, citing practically all sectors of the economy as prioritised, it does not give any guidance to what the real priorities are.¹²⁹

This lack of a common general and foreign aid development strategy comes as no surprise to us, and is actually one of the reasons to undertake this study, where one purpose is to document and analyse the DPRK view(s) on development and foreign assistance.

¹²⁹ To read excerpts of the “Joint New Year Editorials”, see the website of the Korean Central News Agency of DPRK (KCNA): www.kcna.co.jp.

Broad foreign aid development strategy without tough priorities being made

Given the wide array of answers to our questions, one can conclude that the DPRK foreign aid development strategy is very broad, without any clear guidance on what should be prioritised:

Question: What is most important, bio and nano technology or agriculture?

Answer: Both. Bio and nano technology can contribute to agricultural development.

(DPRK:G)

However, there seems to be a sequential preference, or, in other words, a distinction between short and long term priorities, with the medium term strategies being less evident.

In the short term, agriculture is undoubtedly the main priority, where there are great needs to cover in order to rehabilitate and develop the sector. The objective here is self-sufficiency.

In the short/medium term, there is also a focus on attracting foreign investments and promoting exports, especially in the extractive industries.

In the medium/long term, there is an ambition to develop the foreign trade even more, and to shift the focus from heavy industries to high-tech industries. This requires foreign input of both human and real capital. Despite the importance attached to human capital by *Juche*, the North Koreans seem to put more emphasis on attracting foreign real capital.

What assistance does the international donor community want to provide?

In stark contrast to the North Korean process of formulating foreign aid strategies for the country, most actors of the international donor community need to explicitly take into account the strained relationship between the DPRK and the rest of the world. In other words, their foreign aid development strategies depend on the assumed context: context 1 (today's situation) or context 2 (nuclear issue resolved). In the following, we will first answer our second research question which assumes today's situation, i.e. context 1. After that, our findings related to hypothetical context 2 will be presented under a separate heading.¹³⁰

¹³⁰ In the previous section, outlining the foreign assistance requested by North Korea, information was provided in footnotes regarding the number of DPRK respondents stating a particular sector in need of foreign aid. This was possible due to the respondents' tendency to explicitly state specific sectors. The international representatives were much less focused on specific sectors, making it less relevant to provide corresponding information for the international donor community.

Context 1: Needs – What are the perceived needs of North Korea? What sectors need to be prioritised?

Are there still humanitarian needs in North Korea?¹³¹

Given the North Korean announcement in August 2005 that humanitarian aid provided by the international donor community was no longer desired, it is naturally interesting to see what assessment the international donor community makes regarding the needs of the North Korean population. In short, most international actors agree that the situation has improved substantially during the last few years. However, the situation is still considered to be fragile and the needs are still great. Whether the needs are *humanitarian* or not, is more a question of definition or semantics:

The objectives [of foreign aid] are humanitarian at the moment. There is a need to stabilise the humanitarian situation.

(INT:U)

The humanitarian situation is stabilising but there are still humanitarian needs.

The situation in DPRK is still very precarious. Much depends on the coming harvest. The harvest might not be good. [Authors' note: Interview conducted before the July 2006 flood.]

(INT:E)

There is still a need for emergency assistance for many groups.

(INT:H)

The situation is stabilising. [...] Everybody agrees however, that the situation is very fragile. The game can be lost in one day. E.g. WFP used to feed one third of the population.

(INT:G)

All sectors are important, but the humanitarian needs are the greatest. [...] Due to the bad food security, it is not a question of *if*, but of *when* there is a crisis. [...] It is a stable humanitarian catastrophe. It is an emergency, although similar situations exist around the world.

[Authors' note: Interview conducted after the onset of the July 2006 flood.]

(INT:P)

The activities of the European Commission are a good example of the fragile situation, and how international actors might change their views and decisions on the DPRK. In June-July 2006 there was an inspection visit to the DPRK by officials from EC headquarters in Brussels, who came to the conclusion that there was “no longer a humanitarian crisis here at

¹³¹ As indicated in the background on the present foreign assistance situation, the country has experienced severe problems in food production due to a lack of fertilisers and the heavy floods that struck the country in 2006 and 2007. Consequently, the humanitarian situation with regards to food has deteriorated since our stay in the country, and risks doing so even more in the coming months.

all, but that development aid [was] needed.¹³²” In June 2006 and in December 2007, there were calls by AidCo for proposals for development aid activities in the field of food security, amounting to EUR 3 million and EUR 8 million respectively.¹³³

The ECHO office in the DPRK was supposed to be shut down. However, due to floods in July 2006, the European Commission decided in November 2006 to grant EUR 8 millions in continued humanitarian assistance to the DPRK.¹³⁴ The sponsored activities mainly focus on the continuation of previously started ECHO-funded projects, in order to finish projects, especially in the fields of water and sanitation and health. In the call it was clearly stated that ECHO will close down in 2008.¹³⁵

Most international actors seem to agree that there are both humanitarian and more development-oriented needs, and that these need to be met simultaneously. However, a minority thinks that the needs are almost exclusively developmental in nature:

Classical humanitarian assistance doesn't bring the country much further; it even helps to create some dependency. [...] DPRK needs both humanitarian and development assistance. This is an observation that can be made.
(INT:N)

There's a need for extensive development assistance, in almost all areas. Humanitarian aid is not needed anymore. People have found alternative sources. People are coping, even though at a low level.
(INT:D)

The Koreans are right. The assistance should be developmental. I agree with that. It should not be humanitarian for 10 years. It is against all development theory. It makes them weak! There are certainly humanitarian needs, but this is the case in many poor countries, e.g. in Africa. [...] Distribution [of food and drugs] is rubbish. Humanitarian assistance is only there due to political reasons. [...] The humanitarian aid should be stopped, maybe with a phasing out period. There is a recipient mentality among the Koreans: “give us cement and diesel”.
(INT:Q)

Strategies focus on the short-term needs of the people, rather than on sector preferences

Whereas our North Korean respondents spontaneously indicated general strategies for North Korean development, citing specific sectors in the economy that need to be prioritised, the international donor community tended to stress more the short-term needs related to the social welfare of the population, and more closely related to their own activities in the country.

¹³² Interview with ECHO representative.

¹³³ INT:Q.

¹³⁴ ECHO (2006), Humanitarian Aid Decision 23 02 01: Humanitarian aid in favour of vulnerable groups in DPRK, Decision reference number: ECHO/PRK/BUD/2006/01000.

¹³⁵ INT:Q.

The international representatives tended to stress that needs exist in practically all areas:

All areas need to be supported.
(INT:D)

Every sector is important.
(INT:E)

For natural reasons, the members of the international donor community tended to underline the needs of their respective sector(s) of intervention. However, they also mentioned other areas, especially relating to the areas of food security and agriculture, energy supply, and health care.

The following are the priorities of both the DPRK government and the international community:
Energy (UNDP)
Food (China and South Korea)
Medicines
(INT:A)

Below we will present the different sectors that present the greatest needs according to the international donor community.

Agriculture and food security

This sector is the overwhelmingly most cited one among the international representatives. It is mentioned both from a humanitarian and developmental perspective. The former with regard to the fact that food has to be imported in order to feed the population and large parts of this gap are filled by donations from South Korea in particular; the latter with regard to the measures that need to be taken in order to develop the production capacities of the DPRK in a sustainable way.

This country is every year having a structural deficit. They need 5 million tons of grain, but can only produce 4 million.
(INT:H)

The lack of fertilisers is considered to be one of the reasons for the difficult current situation, whereas most observers argue that a sustainable agriculture cannot rely too heavily on fertilisers, both for economic and ecological reasons.

It is not sustainable economically or environmentally to bring in fertilisers all the time. DPRK has not got the foreign exchange to buy fertilisers, and has to move away from this. Therefore, organic agriculture is the target for FAO activities, which requires rethinking in crops management.
(FAO representative)

Related to the agriculture and food sector is the need to stop the deforestation and the need to introduce environmental management, such as erosion control and organic agriculture.

Several respondents also mentioned that agriculture is the declared top priority of the DPRK representatives.

Energy supply

The lack of energy and fuel is singled out as one of the major causes of North Korea's many problems. For instance, the hospitals cannot be heated, fishing boats cannot operate, industries stand idle, water and sanitation do not work etc. The lack of heating also creates the additional need for the insulation of buildings.

DPRK is a car that has no fuel. The infrastructure is there, but the country has no fuel.
(INT:O)

Health and the provision of medicines

The international representatives stress the very important needs in the health sector, ranging from the provision of essential drugs to the upgrading of medical facilities and the construction and upgrading of water and sanitation infrastructure.

Agriculture, health and water/sanitation, [these] needs are all interconnected.
(INT:E)

Other needs that are identified are: maternal health and nutrition, low-level primary health care, reproductive health, training of medical staff, dental care.

There is a very low level of knowledge, and the Koreans want to jump to the high-tech solutions. They think very big (showcase), which is not realistic. E.g. they want to have machinery/equipment that they don't have the skills to operate. [...] We need to tell them to work on primary health level with basic health, that they need to go step by step.
(INT:I)

In conclusion, health and nutrition are the most important areas in DPRK.
(INT:O)

Given their humanitarian nature, the health-related activities constitute a large share of the foreign aid provided by the international donor community. Many of the interventions are directed towards women and children, the most vulnerable people.

Statistics

In addition to the mentioned sectors of food/agriculture, energy and health, the international representatives highlighted the need for more and accurate statistics, as a basis for both short-term humanitarian-oriented activities and more long-term development-oriented programmes.

There is a lack of statistics! This means that the aid community (and possibly the government) only has impressions as foundation for the decisions taken.
(INT:G)

This [discussing a foreign aid development strategy for DPRK] is not very constructive, but it is difficult to have a constructive meeting because we don't have the national picture. We all only have fragments. That's why it is so... we can only guess...
(INT:L)

The needs of DPRK? It has to come from the government. They are the only ones who know, who have access.
(INT:T)

The UN system and the *Strategic Framework*: both contexts 1 and 2

As a result of the consultation process with the DPRK government, a common United Nations strategy for North Korea was elaborated during 2006. This *Strategic framework for cooperation between the United Nations and the Government of the Democratic People's Republic of Korea 2007-2009* was signed by all resident UN agencies as well as the DPRK government, and is the most explicit document outlining an agreement on a foreign aid development strategy between North Korea and the international donor community. The *Strategic framework*¹³⁶ outlines needs, objectives and methods attributable to both contexts 1 and 2. As the executive summary concludes:

Some of the outcomes foreseen in the strategy may appear ambitious considering the likely resources available to the United Nations and the three-year duration of the strategy. But the United Nations strategy also aims to provide a blueprint for key development needs that have to be addressed if the Democratic People's Republic of Korea is to fully achieve the Millennium Development Goals and to benefit from greater participation in the global economy.¹³⁷

A UN representative also stated that:

In the coming years, the UN will help the Koreans to define its priorities. We plan to support the government concerning what they want to do. Trying to make the priorities more detailed. The DPRK government has not been very specific. They haven't given much detail.
(INT:F)

¹³⁶ The *Strategic Framework* is a slimmed version of the normal programming document called *United Nations Development Assistance Framework* (UNDAF).

¹³⁷ Office of the United Nations Resident Coordinator (2006), *Strategic framework for cooperation between the United Nations and the Government of the Democratic People's Republic of Korea 2007-2009*, United Nations, Pyongyang, p. 6.

The *Strategic framework* identifies five key priority areas, agreed together with the DPRK government.¹³⁸

1. Economic management

National priority 1: Enhanced economic management

Strategic outcome: Economic growth, foreign trade and investment increased and generate additional resources for social and economic development

2. Sustainable energy

National priority 2: Sufficient energy is supplied for economic development

Strategic outcome: Availability and utilisation of sustainable energy sources improved

3. Environmental management

National priority 3: Improved environment for sustainable development

Strategic outcome: Environmental management improved and contributing to sustainable use of environmental resources

4. Increased food availability

National priority 4: Sustainable food security to improve the quality of life

Strategic outcome: Increased food availability at the household and national levels

5. Basic social services

National priority 5: Social development to improve the quality of life of the people

Strategic outcome: Quality basic social services with a focus on public health, child and maternal health and nutrition, education, water and sanitation improved

The first two priority areas are predominantly under the mandate of the UNDP. As a result of the UNDP suspending its operations in March 2007, current programmes of resident agencies are in the remaining three areas. Activities in the areas of increased food availability and basic social services are carried out by all five resident UN agencies and account for 85.9% of the *Strategic framework* target resources.¹³⁹ One could argue that agreed activities in the areas of economic management and sustainable energy first belonged to context 1, but moved to context 2 when the UNDP and the DPRK government failed to reach agreement on the new conditions put forward by the UNDP Executive Board.

Some areas were proposed by UN, but the DPRK government was not interested:

Vulnerable groups

The gender issue (DPRK denies gender inequality)

Statistical capacity (transparency, openness)

However, these areas were merged into “Social issues”. “Human rights” were not even proposed, in order not to destroy for other areas. It is better to work with these indirectly, e.g. in reproductive health.

(INT:G)

¹³⁸ *ibid.*, p. 9-13.

¹³⁹ UNDG (2008), *op. cit.*, pp. 1-2.

Context 1: Objectives – What are the aims and objectives of the assistance to North Korea?

The objective of the United Nations interventions in the DPRK is outlined in the *Strategic framework*

The overall objective of the United Nations strategy is to support the Government in restoring the quality of life of its citizens to levels reached before the onset of economic and humanitarian difficulties in the mid-1990s and to achieve the Millennium Development Goals.¹⁴⁰

Humanitarian and/or developmental?

Most international actors claim that their activities are both “humanitarian” and “developmental” in nature, with an increasing development focus:

Regarding the nature of the aid, one can say that it is both humanitarian and developmental at the same time.

(INT:E)

So, it is a mix of humanitarian and development aid. Everything is labelled as “humanitarian” to donors, since physical rehabilitation of the infrastructure is essential for the provision of health care. The DPRK visualises the aid as “development” aid.

(INT:I)

We have made it clear [to donors] that it is important to show [to the Koreans] that our activities are moving towards developmental-type of activities: from emergency to “Emergency rehabilitation”.

(INT:J)

A minority of international representatives wants the objective of foreign aid to be solely developmental:

Asians never give a gift without wanting something back. So, humanitarian aid looks suspicious to the North Koreans. They don’t understand that. Development aid would be much better, where real companies are involved. Business is the best.

(INT:C)

Presence in the country

For some interviewees, the most important reason to be in North Korea is to keep an international presence in the country, in order to be able to respond to future humanitarian catastrophes as well as to promote development. They also want to contribute to North Korea’s relations with the outside world.

¹⁴⁰ Office of the United Nations Resident Coordinator (2006), op. cit., p. 6.

NGOs and international organisations could easily switch to the humanitarian aid again. That's also why it is important to be here. [...] The *raison d'être* of the NGOs in the DPRK is to be on the ground.

(INT:K)

The most important role of the international community is to keep presence in the country and continue the engagement [with North Korea].

(INT:J)

The aim [of our technical assistance and capacity-building] is to prepare for changes, to prepare the civil servants for the future, maybe in another institutional setting. [...] The *Strategic framework* is developed partly assuming this different future context.

(INT:J)

Our aim is to assure food security by changing the methods within agriculture, introducing modern methods. The ultimate goal is to integrate North Korea into the world.

(INT:N)

Context 1: Methods – What methods should be used when providing the assistance?

In this section the international representatives' view(s) on the preferred methods of the foreign assistance will be presented. By “methods” we mean the type and form the assistance should take.

More training and technical assistance

There is a widespread opinion that much more training is needed. Some also stress the need for increased use of (short term) technical consultants.

[We] would like to do more training. Also, [we] would like to have more technical consultants coming in short-term (but not only technical consultants!). But it is difficult to get the visa. [We] would like to have more of a balance between equipment and training.

(INT:R)

[There is a need of] technical assistance in general. It should not be too high-tech, but up to date with latest technology.

(INT:G)

In the future, we want to develop, plan and carry out projects together with the Koreans, in a more participatory way. We need more cooperation with the counterparts, need to give more responsibility to the Koreans. But, this requires that capable Koreans are assigned to work with.

(INT:Q)

A number of interviewees indicated that the DPRK officials wanted less training than the international representatives would have preferred:

The DPRK has a different view on development. It is more focused on capital accumulation (equipment and raw materials), and the international donor community more on capacity building. This is the major difficulty when working with the DPRK. They want hardware, we want to provide software.

(INT:G)

Attitudes are changing, generations differ a lot. There are two groups that are interested in capacity building and should be focused on:

Managers in ministries etc.

Technical experts and researchers

These need to get access to information. People are educated here. It is probably important to expose civil servants.

(INT:G)

Further demands from the international donor community

In addition to more capacity building activities, the international representatives have several demands regarding the methods of providing foreign aid to North Korea:

More monitoring of the provision of aid

More international staff allowed in the country

More statistics and surveys, e.g. regarding crops or nutritional status

Finally, there is also a wish for a larger share of untied money from donors.

Context 2: When international relations don't hinder development aid

As previously mentioned, the representatives of the international donor community tended to focus on the needs, objectives and methods of foreign aid possible today, under context 1. However, on our request, they also gave us their views on possible foreign aid strategies for North Korea in a different, more beneficial, situation where development aid is politically possible to a greater extent, i.e. in what we call context 2

Massive mobilisation of resources

Virtually all interviewed representatives of the international donor community believe that a realised context 2 would entail a large mobilisation of resources among international donors in order to contribute to the development of North Korea.

[Our organisation] basically agrees that the country should continue towards development aid. This is, however, impossible due to the political situation. But if the Koreans negotiate they could probably get a lot out of it.

(INT:A)

Lots of donors will be interested in coming in if the political situation is resolved.

(INT:D)

In context 2, there would probably be more funding coming in. AidCo have called for proposals; EU will be able to call the aid “developmental”.

(INT:E)

If the nuclear issue is resolved, resources would be unlocked. Key donors are waiting. There would be increased international engagement in the DPRK if the nuclear issue is resolved. It might also imply changes in the DPRK strategy towards external relations. But we can only speculate about that.

(INT:F)

DPRK has enormous potential if the nuclear crisis is resolved and the country opens up. It has a good education [system] and a skilled, inexpensive and disciplined workforce. The IMF and the World Bank would come in. Yes, it will take off!

(INT:I)

The context 2 could enable the opening of the borders, with China first. [Industrial] activity could move from China to DPRK.

(INT:R)

If there is a small or medium ray of sunshine, a massive mobilisation of resources will occur. It might lead to an absorption capacity problem for the government. Their staff is too small. E.g. the World Bank works in a different way than the UN.

(INT:O)

However, some underline the fact that North Korea would need to embark on serious economic reforms in order to be eligible for resources from the development banks:

If the nuclear issue is resolved, one can assume that the economic reforms are continuing, unless someone stops them. Solving the nuclear issue equals changing the economic system. And the support given will be tied to this, especially if the international financial institutions (World Bank, Asian Development Bank) are to come to the country.

(INT:J)

[In a context 2], regional actors (countries) would be more active. There is a long way before the banks come in.

(INT:K)

Other interviewees do not dare to hope that a resolution of the nuclear issue will materialise in the foreseeable future:

I have not thought about it [context 2], because it is so far away.

(INT:L)

Needs shifting in nature

Representatives of United Nations witness of preparedness to adapt (and possibly cease) their activities if context 2 materialises:

In this context, both scale and content would be affected. There would be changes in the number of staff and the scale of the operations, as well as in the nature of activities. The “needs” defined by the DPRK and the UN system will change. If the Koreans’ definition of needs/response is changed, the UN strategy will automatically change.

(UN representative)

If the nuclear issue was resolved, WFP would be out pretty soon. Investments would come and they would be able to buy the food they cannot produce themselves. [...] WFP would continue focusing on vulnerable groups and malnutrition [also in context 2].

(WFP representative)

When there is a possibility of foreign development aid, the international actors identify needs in addition to the more humanitarian and social needs already identified in context 1. These needs relate both to institutions (better financial system; considered a prerequisite of development assistance) and physical capital accumulation, e.g. in infrastructure.

All areas need to be supported. [There is a need for investment in] infrastructure: roads, apartment blocks, railways, power generation and power transmission.

In the North west, there is abandoned industrial material/capacity. The industries are run worn out. They are the most needed to upgrade, since they are required for further development. [...] Capital accumulation is the most required, investments.

(INT:D)

Objectives changing to more long term and deeper change

Most international organisations already have a development perspective in context 1 and would therefore not change their objectives in context 2. However, a few indicate that their objectives might be broadened:

I hope [the objective of foreign aid in context 2] would be developmental assistance: supporting the institutional, legal and social reforms! If we could have a solution I think we could start supporting within the good governance field. Not human rights, but good governance. This will also have an influence on the policy level.

(INT:Q)

Our organisation would try to have a more long-term impact of the development assistance: replicability and institutional change.

(INT:Q)

Methods: Even more consultation and training

In context 2, a greater need of interaction between the DPRK and foreign donors would arise:

There is a misunderstanding about what development aid means. For us it is something that you do together, by collecting and analysing data etc. For the Koreans it is more like “give us the money and we do the rest”, or “provide us with turnkey solutions/projects”. We differ in the methods. With humanitarian aid we are much clearer...

(INT:A)

The mandate would change; there would be a very different situation. Inter-governmental exchanges will expand if the nuclear issue is resolved. There would be a lot of aid. Even more training, relatively. Training is in focus. But equipment and training go side by side.

(INT:I)

Development strategies proposed by the international donor community

When it comes to proposing a development strategy for North Korea, there is unanimity among the interviewees of the need for the country to open up to the world and embrace foreign trade and an export-oriented strategy.

Biggest potential is in export-market industries: mining, assembly, light industry, garment. DPRK has well-qualified labour.

(INT:C)

Foreign trade and FDI is the only way for the Koreans to get money, since they get no loans or export credits.

(INT:C)

Self-sufficiency in agriculture in the long-run? No, they should produce TV sets instead!

(INT:H)

The development needs are enormous. The country is at a very low level. It cannot be sustainable in agriculture. It has to trade in agriculture. Therefore DPRK should focus on industrial development instead. In the 1980s DPRK was an industrialised country, but today and in a medium term perspective, basic industrial development is needed. Focus should probably be on the same sectors as other developing countries:

Textile

Mining

Basic chemistry

Leather

Some agricultural goods

Service sector: tourism

(INT:U)

Summary of main characteristics of the foreign aid development strategy of the international donor community

Context 1: Humanitarian assistance, agriculture and energy

As a result of the nuclear stand-off, the vast majority of the international donor community does not accept to provide any assistance other than one of humanitarian nature. However, the focus on humanitarian aid is not only a reflection of the diplomatic situation; the international donor community still thinks there are social needs in the DPRK that could be classified as humanitarian, such as the need for essential drugs, water and sanitation.

Related to the basic social needs of the population is the question of agriculture and food security – a top priority of the international donors and the original reason for initiating activities in North Korea in the 1990s. Also an increased supply of energy is considered of utmost importance in order to enable the North Korean economy to recover, though relatively little aid is targeting this area, reflecting the fact that the main solution to the problem is political and depends on a diplomatic rapprochement.

The international donor community recognises the vast needs of investment in physical infrastructure in North Korea, and rehabilitation projects are being carried out. Nevertheless it emphasises the great needs of more training and technical assistance, as a preferred method to provide assistance.

Context 2: Large amounts of development aid

In the case of a normalisation of relations between North Korea and the outside world, the international donor community would be willing to provide substantial resources for development-oriented activities. These would include the provision of physical capital, but primarily focus on consultation and training in order to support institutional, legal and social reforms as well as to promote foreign direct investment to the country.

The international donor community expresses a willingness to accommodate to the development strategies chosen by North Korea, but strongly suggests that the country should open up to the world and international trade, focusing on exports of natural resources and light industrial goods, and allowing imports of agricultural produce.

Analysis

In this part of the thesis, the empirical material will be analysed. The analysis is divided into two parts, the first trying to answer research questions 3-5, and the second part takes on our final, 6th, research question. Throughout the analysis, references will be made to the two development paradigms.

Theoretic, economic and political analysis of the foreign aid development strategies

The first part of the analysis is divided into a number of sections based on the most important themes that emanate naturally from our empirical evidence, and also correspond to major strands in the development economics literature. Each section starts out with answering research question 3 by generating the theoretical framework underlying the respective foreign aid development strategy. As already stated, we take as the point of departure for our analysis Frank's claim that it is possible and important to relate the case of North Korea into standard economic frameworks of analysis. Based on this statement we analyse our empirical material with the help of inductively, or rather abductively selected theoretic development models.

The theoretical framework has the role of formalising and categorising the empirical findings, and contributing to a deeper and broader understanding of the foreign aid development strategies proposed by both parties. We hope that identifying the theoretical foundation of the foreign aid development strategies will make the further analysis regarding the economic and political realities, as well as a possible gap reduction between the parties, both easier and more informative.

Having identified the theoretic development models underlying the foreign aid development strategies, we continue, in each section, answering research questions 4 and 5. Here we analyse whether the foreign aid development strategies of the two sides are realisable, given the economic and political realities of North Korea.

Movement from humanitarian assistance towards development aid

The responses from the North Korean government show that despite acknowledging a continuous need for humanitarian assistance, it is advocating a shift from humanitarian assistance towards development assistance.

Now, this is the time to go from humanitarian to aid with development characteristics. Humanitarian aid is for emergency situations, during 2-3 years. Now 10 years have passed and the situation is improved. But there is nothing left of it now. Humanitarian aid is only about providing consumer goods.
(DPRK:H)

Development assistance could help economic activity and the ability to pay the debts. Trade and investment will lead to foreign exchange. (...) This would lead to better balance of trade and increased income of people.
(DPRK:B)

Humanitarian aid is still the desired form of aid during a natural disaster, but should otherwise be replaced by development assistance. Development assistance is suggested to consist of measures that can contribute to “sustainable human development”. To achieve sustainable human development, North Koreans are of the opinion – following the MDGs – that quality of life (MDG 1), social development (MDG 2-6), environment (MDG 7), and economic management (MDG 8) need to be improved (see Appendix C). The general response by our respondents was that these goals could consequently be approached or fulfilled by investments in agriculture and organic produce, hardware such as heavy industry, infrastructure and other equipment, in software such as education and science, in trade, in FDI through joint-ventures and by investments in technology and high-tech. NCC, however, takes a less development-oriented approach in its means for achieving these goals. For example, it includes the importance of improving safe water, sanitation and hygiene, strengthening the statistical capacity for social sectors, fighting epidemic diseases such as HIV/AIDS, TB and malaria and improving the health care system. These measures in general have a higher humanitarian content than the means that were commonly suggested by our other North Korean respondents.

Whether the two concepts of *humanitarian aid* and *development aid* are as dichotomous as they may appear depends on the definitions used. For instance, the Swedish government, in line with established humanitarian law and tradition, defines humanitarian aid as “efforts to save lives, alleviate suffering and maintain human dignity for the benefit of people in need who are, or are at risk of becoming, affected by armed conflicts, natural disasters or other disaster situations”, and states that “in principle, it should be discontinued when the immediate needs of an affected population have been met and conditions have been restored to a situation similar to that before the outbreak of the disaster.”¹⁴¹ Already this rather strict definition gives room for different interpretations, e.g. whether malnutrition (as opposed to starvation) is sufficient for referring to “suffering” or “immediate needs”.

However, the definition is further blurred by the fact that some “development-oriented” activities might be classified as “humanitarian” since they contribute to alleviating humanitarian needs. An illustrative activity is the rehabilitation of water and sanitation facilities after a natural catastrophe. People’s lives are not immediately threatened, but without access to clean water they will soon suffer from simple but life-threatening diseases like diarrhoea. Similarly, technical and more policy-oriented assistance, normally categorised as “development aid”, could be considered to be “humanitarian” if they contribute to food security or access to basic health care. The Swedish government outlines this in a text that partly seems to fit the North Korean situation remarkably well:

Likewise, preventive development-oriented measures can help to prevent or resolve protracted humanitarian crises that may appear to be caused by sudden natural disasters, but are in fact due, wholly or in part, to policy failures. For example, the effects of flooding may be greatly exacerbated by deforestation and other inappropriate land use. Recurring deficits of agricultural or other essential products may be due to flawed agricultural or trade policies.¹⁴²

¹⁴¹ Government Communication (2004/05:52), The Government’s Humanitarian Aid Policy, p. 6.

¹⁴² *ibid.*, p. 12.

This rather imprecise definition of “humanitarian” is probably the main reason why the international respondents come to different conclusions regarding the need for humanitarian assistance to North Korea. The small size of the international donor community in DPRK, as well as their internal regular meetings for coordination and information-sharing, provide for a common understanding of the realities in the country; yet they seem to make slightly different assessments of the situation and needs in North Korea. The fact that most of them claim that North Korea needs both humanitarian and development assistance, is most likely not only a description of realities, but also a way of dealing with the humanitarian/development controversy.

Another way to handle the humanitarian/development dichotomy is to refer to the EU “Linking Relief Rehabilitation & Development” (LRRD) approach, where both humanitarian and development activities are combined and coordinated, in order to “maintain and strengthen a coherent approach between humanitarian, development, and other policies.”¹⁴³

The reason for the NCC to suggest a more humanitarian-oriented foreign aid development strategy is probably due to the fact that the NCC is, in practice, the North Korean agency that negotiates directly with the UN for foreign assistance. Experience from previous negotiations has most likely shown that requesting foreign assistance for investment in sectors like heavy industry, infrastructure, technology and high-tech will not lead to an agreement with the international donor community (UN), for both economic and political reasons.

The North Korean economy is certainly in need of development assistance, and would definitely benefit from an increase in both scope and scale of the foreign aid activities. However, given the current international context (context 1), this will not happen. The ongoing nuclear stand-off definitely impedes any long-term development aid efforts that most actors and observers agree would follow an implemented agreement. As for now, with no solution in sight, the DPRK can only hope for foreign aid qualifying as “humanitarian”.

Nevertheless, since 2005 there has been an apparent focus on development and development assistance on the North Korean side, and this gives us the possibility to analyse the empirical material from a standard development economics perspective, rather than from a humanitarian one. The foreign aid development strategies advocated by the North Korean government can accordingly be associated with different theoretic development models rather than with the “human imperative” as the point of departure.

But: Development assistance in the spirit of *Juche* and *ownership*

Dependency theory

Inspired by theories of imperialism developed by Marx and Friedrich Engels and later Vladimir Lenin,¹⁴⁴ the neo-marxist Paul Baran and the structuralist Raúl Prebisch, among others, in the 1950s became the founders of a school of thought called *dependency theory*.

¹⁴³ NGO Voice (2002), *Resolution on Linking Relief Rehabilitation & Development*.

¹⁴⁴ Bigsten, A. (2003), *Utvecklingens ekonomi och politik*, Lund: Studentlitteratur, p. 64.

Dependency theory was a reaction to the colonial powers' exploitation of the colonies, which could explain the surplus of wealth in the central developed countries and the deficit in the peripheral developing countries.¹⁴⁵ According to this world view, the globe is divided into a centre consisting of industrial nations, and a periphery consisting of producers of raw materials. The Prebisch-Singer-Hypothesis suggests that the terms-of-trade in the peripheral developing countries will gradually fall, since the export prices of the raw materials they produce will fall faster than the export prices for industrial manufactured products. The reasons for this are the relatively lower income elasticities for the products produced by the peripheral countries,¹⁴⁶ and the tendency for raw material prices to fluctuate more than prices for industrial goods.¹⁴⁷ This will in turn force the peripheral developing countries to export relatively more raw materials to buy a stable amount of industrial good, whereas the central countries can buy more raw materials from the periphery with the same amount of exported goods. Consequently there exists a structural relation of dependency between the centre and the periphery, which will lead to a static surplus in the industrial countries, and a static deficit in the developing world.¹⁴⁸

The solution to the structural imbalance was, according to dependency analysts, to break free from the central developed countries. "De-linking strategies" based on independence and self-reliance were adopted as official development strategies in many former colonies in the 1970s.¹⁴⁹ In practice disintegration from the world economy was necessary, and this should, according to Prebisch, be achieved through change in the economic structure of the periphery. The means for altering the structure was for the developing country to substitute imports of industrial goods through different measures of protectionism, e.g. tariffs.¹⁵⁰ By starting to produce light industry manufactured goods domestically instead the country would build up its industrial base, which as a result would lead to a switch from the production of raw materials to industrial goods. The periphery would raise the value added and thus in the end alter the established structure of comparative advantage between the centre and the developing countries. Additionally, the technology developed in the industrial sector would diffuse into other sectors of the economy and improve the overall productivity of the national economy. For this disintegration to take place, Prebisch called for "an active role of the state in allocating public resources, including state planning and 'guidance of private economic activities'".¹⁵¹

The dependency theory, to a great extent, reflects the world view and preferences of the North Korean society. The ideas of *Juche*, as described in the DPRK development paradigm as well as shown in the empirical material, are clearly influenced by the thoughts of de-linking from foreign powers, the centre – keeping in mind that North Korea is considered to

¹⁴⁵ The dependency analyst Andre Gunder Frank expressed the central developed countries as "metropolises" and the peripheral developing countries as "satellites". See de Vylder, S. (2007), *Utvecklingens drivkrafter: Om fattigdom, rikedom och rättvisa i världen*, Stockholm: Forum Syd, p. 31.

¹⁴⁶ According to Engel's Law an increased income will decrease the proportion of income spent on food (raw materials), despite the absolute income spent on food is increasing. This implies an income elasticity for food lower than 1.

¹⁴⁷ Perkins *et al.* (2006), op. cit., pp. 672ff.

¹⁴⁸ Lundahl (1992), op. cit., pp. 47f; Frank (2006a), op. cit., pp. 12f.

¹⁴⁹ de Vylder (2007), op. cit., pp. 32f.

¹⁵⁰ The theory of import substitution will be discussed later in this chapter under the section "Foreign trade and investments".

¹⁵¹ Prebisch, R. (1950), *The Economic Development of Latin America and Its Principal Problems*, New York: United Nations, p. 180, cited in Frank (2006a), op. cit., p. 12.

be one of “the most oft-invaded territories in the world.”¹⁵² The de-linking is not only to be seen in the ideological foundation of *Juche*, but also in how the economic structure is built up. The economy clearly follows the pattern of development suggested by the dependency theory, where industrial development is generally prioritised over the production of agricultural goods. Currently, however, due to the recurring natural disasters, agriculture seems to be of highest priority.

As previously mentioned, one is tempted to argue that foreign aid would increase dependency on foreign powers and put the *Juche* idea into question, but according to Kim Jong Il and our respondents there is still a possibility for foreign assistance to play a role in development if the donors respect the national policy of the country:¹⁵³

Juche does not mean that we do everything ourselves. “We are the main actor – the key concept.” But we are encouraging foreign aid. We joined all the UN organisations in 1975. But we are in the centre of this cooperation – directing foreign assistance to where we want it. We will not receive foreign assistance if the aid is tied (political).
(DPRK:E)

The objective of the international donor community is to help the country, the nation, this is clear. But, the objective should not disregard or disrespect the recipient nation. The objective should not be to influence the national values. They should respect the national policy of the country.
(DPRK:F)

Juche [is about] self-sufficiency in every field of the economy. But self-reliance is the main thing. *Juche* should be applied to every field, but it is impossible. So foreign aid and cooperation could play a role here.
(DPRK:G)

The international donor community acknowledges, to a certain extent, the North Korean policy of pursuing independence and the possibility to make their own decisions. However, this does not seem to be founded on any dependency theoretical argument. On the contrary, this would not have been in accordance with the prevailing development paradigm of the international donors. The concurrence emanates from the discussion regarding humanitarian versus development aid, where some of the international respondents expressed concern for the DPRK becoming dependent on humanitarian aid:

Classical humanitarian assistance doesn’t bring the country much further; it even helps to create some dependency.
(INT:N)

The Koreans are right. The assistance should be developmental. I agree with that. It should not be humanitarian for 10 years. It is against all development theory. It makes them weak!

¹⁵² Lee (2003), op. cit., p. 108. When DPRK elaborated its strategy of self-reliance in the 1950s, the “centre” for North Korea was primarily not the typical European colonial powers or any other Western power (nor its old coloniser Japan), but two other socialist countries: the Soviet Union and China. DPRK feared that integration into COMECON would make them too dependent on the Soviet Union. See Park (2002), op. cit., pp. 29-30.

¹⁵³ Kim Jong Il (1982), op. cit., pp. 25, 48. Referring to the quotations stated in this paper’s section on the development paradigm of North Korea.

(INT:Q)

As described in the section on the development paradigm of the international donor community, the Enhanced Washington Consensus, including the MDGs and the Paris Declaration, are today the tools governing both multilateral and bilateral aid in North Korea, in conjunction with the principles on humanitarian action. The last target in the MDGs about developing a global partnership resulted in the Paris Declaration on Aid Effectiveness giving *country ownership* a significant role. The change from conditionality to *country ownership* emphasised in the PRSPs, or in this case in the *Strategic Framework* also increases the international donor community's respect for the national policy of the country:

If the Koreans' definition of needs/response is changed, the UN strategy will automatically change.

(UN representative)

The principle of *ownership* contributes to the international representatives expressing some degree of comprehension for the policy of self-reliance, but this does not mean that they support any strategy of isolating the country or becoming completely self-sufficient in agricultural goods. More on this issue later on.

Prebisch argued that foreign assistance would not be of any help in freeing the developing countries from the dependency on the central developed countries, no matter if it implied national *ownership* or not. In order to achieve development, a structural change in the periphery was necessary.¹⁵⁴ As illustrated above, North Korea has in fact undergone the structural de-linking strategy proposed by the dependency analysts, and has accordingly pushed its industrialisation process in the direction of self-sufficiency. This disintegration from the world economy has, however, in the case of North Korea, in later years not proved to be very successful and the country has, despite following the path suggested by the dependency analysts, become dependent on aid. This dependency has become more obvious since the disasters in the mid 1990s, but, as explained in the background, has always existed throughout the country's existence.

Dependency theory has generally been criticised in recent years, since it has been hard to prove that the terms-of-trade are gradually falling as the dependency analysts predicted. The fast development in many former peripheral East Asian countries has also proved that it is possible to achieve development even while being dependent, in the sense of being integrated into the world economy, and trading with other countries.¹⁵⁵

Other structuralists, like Singer, suggest that foreign aid should always be given to the peripheral countries, in any form. The role of foreign aid to North Korea is highly debated. Haggard and Noland argue that foreign aid should only be provided with some conditionality attached to it,¹⁵⁶ whereas Frank argues that foreign aid is always positive since it increases the total supply of food, enabling the development of a food market, parallel to the state distribution system: "the conclusion is simple: more food aid means more market."

¹⁵⁴ Frank (2006a), op. cit., p. 12.

¹⁵⁵ Blomqvist & Lundahl (1992), op. cit., p. 49.

¹⁵⁶ Haggard, S. & Noland, M. (2005), *Hunger and Human Rights: The Politics of Famine in North Korea*, Washington, D.C.: US Committee for Human Rights in North Korea; cited in Frank (2006 a), op. cit., p. 12.

This hybrid system with a market component gives incentives for producers to increase supply.¹⁵⁷

Even if one concludes that foreign aid should be given to North Korea, and that the main responsibility lies with the country to decide on its foreign aid development strategy, in accordance with the principles of *Juche* and *ownership*, there might still be both economic and political constraints to this. The volume of the North Korean demands for assistance will probably always exceed what the foreign donors consider possible to provide. Not only is it a question of money, but also whether the North Korean strategy appears realistic and convincing, and whether the outside world can support economic change without political change in North Korea. This question will be further elaborated on later when answering research question 6.

Planned development or economic liberalism?

Development planning

The independence, or de-linking, from foreign powers is further manifested through the detachment of the North Korean society from capitalism in favour of socialism. The dependency analyst Baran argued that socialism was the only way out of the deficit problem for developing countries, since the “economic surplus” would otherwise be captured by foreign or domestic capitalists.¹⁵⁸

After gaining independence from the colonial powers in the 1950s and 1960s, many developing countries thus adopted the socialist model of development. This was especially the case in African and Asian countries,¹⁵⁹ among them North Korea, which still today officially proclaims itself to be “a planned socialist economy and has no intention of embracing the capitalist developmental model.”¹⁶⁰

As described in the development paradigm, Marxism-Leninism is the theoretical foundation of *Juche*, and the practice or method for reaching self-reliance is to build a socialist and eventually a communist society through economic planning.

The strategy of *development planning* builds on Marx’s “labour theory of value”. The prices, which in a market economy are determined by supply and demand, are here replaced by the “the amount of labour time necessary to produce commodities that governs their relative prices.”¹⁶¹ In other words, only the supply side is considered, and production quantities are determined without taking demand or opportunity costs into account. The management of a centrally planned economy and the establishment of the central development plan require a large, hierarchical bureaucracy in order for the complex production and distribution system to be organised. This, since the bureaucracy basically has to take over the coordination and

¹⁵⁷ Frank (2005), op. cit., p. 282.

¹⁵⁸ Baran, P. (1957), *The Political Economy of Growth*, New York: Monthly Review Press, cited in Frank (2006a), op. cit.

¹⁵⁹ Blomqvist & Lundahl (1992), op. cit., p. 223.

¹⁶⁰ Korean Friendship Association (2007), *DPR Korea FAQ*.

¹⁶¹ Landreth & Colander (2002), op. cit., p. 198.

allocation function that the market handles in a capitalist economy.¹⁶² The state bureaucracy is also typically vertically integrated, with directives coming from “above” and, as in the case of North Korea, through the State Planning Commission down to the ministries and committees. The horizontal integration between different ministries or economic sectors is generally very low.

Development planning in the DPRK to a large extent follows the planning procedure as it is described in theory. Blomqvist and Lundahl divide the process of planning into four parts: goal formulation, identification of restrictions, identification of the means, and finally choice of action, which leads to the development plan with a typical length of five years.¹⁶³ This procedure is quite similar to the three steps of goal formulation, strategy identification and establishment of the actual plan as described by one of our DPRK respondents. The time length of the development plans in North Korea have varied considerably over the years, from the post-war reconstruction plan of three years, to several seven year plans, some of them even extended to ten years.¹⁶⁴

It is hard, however, to know how the exact planning procedure in North Korea is undertaken, and what planning techniques are being used. What we do know from the interviews, however, is that by 2009 North Korea is aiming to restore their five-year plans – given that the economic situation has improved. One of our respondents is even mentioning the use of six-year development plans.¹⁶⁵

From 1996-2006 we have only had contingency planning with one year plans. At this [2006] Spring Assembly meeting a development plan was being erected. In the future [there will be] a five-year plan. We need high technology, science and technology.
(DPRK:F)

Time will tell when development planning will start again in North Korea. Due to the measles outbreak and floods in 2007, one year contingency plans seem to continue to be the pursued way of planning.

Despite efforts to create balanced growth by stressing the need to develop agriculture and light industry, the planned structure of the North Korean economy is following the typical socialist pattern where heavy industry is prioritised and is considered the economic and technological basis for the rest of the economic sectors. Investments in heavy industry would simultaneously lead to economic and technological *linkages*¹⁶⁶ and drive the development in sectors such as light industry, agriculture and high-tech:

[We should] develop the mining industry (steel and iron) and thereby gain hard-currency. Then [in the future, we should] use this money to invest in high-tech.
(DPRK:F)

As mentioned before, the parallel development of all sectors is usually emphasised in official documents, so it is therefore sometimes hard to distinguish the economic priorities of the

¹⁶² Blomqvist & Lundahl (1992), op. cit., pp. 225f.

¹⁶³ *ibid.*, p. 235.

¹⁶⁴ Park (2002), op. cit.

¹⁶⁵ DPRK:E

¹⁶⁶ See Perkins *et al.* (2006), op. cit., pp. 688ff for a description of backward and forward linkages resulting from industrial development.

government. Generally, however, heavy industry has been the major concern, even though there has been a tendency to give higher priority to agriculture and also light industry in recent years.

Overall, the development paradigm of the international donor community is very negative to planning. Being based on the Enhanced Washington Consensus, it promotes strategies including liberalisation, deregulation and privatisation, inherently contradictory to detailed planning by the state.

However, in the case of North Korea, our interviews do not reveal any greater ambitions within the international donor community to promote economic liberalism. Rather, the international representatives seem to have adapted to the institutional realities of the DPRK, accepting that planning plays an important role in North Korea. As a matter of fact, all the activities of the international donor community take place in a planning environment, with the UN *Strategic Framework* as the prime example. In order to be able to assess where the aid efforts should be directed, the international donor community underlines the need for statistics:

There is a lack of statistics! This means that the aid community (and possibly the government) only has impressions as foundation for the decisions taken.

(INT:G)

Nonetheless, one should note that planning by the international donor community is common in many developing countries, not only due to the institutional setting in the recipient countries, but also due to the fact that foreign aid is directed towards the public sector, where planning is much more common.

In cases where the international representatives express a view on a general development strategy or sector preferences, they tend to favour a balanced growth strategy, much in line with the all sector preference communicated in the *Joint Editorials* by the DPRK.

All areas need to be supported.

(INT:D)

Biggest potential is in export-market industries: mining, assembly, light industry, garment. DPRK has well-qualified labour.

(INT:C)

Empirically, the centrally-planned economies with their large bureaucracies are leading to inefficiencies because of the complexities which a modern society exhibits. It is impossible to gather all the information required to establish the right prices. This leads to a distorted and inefficient economy with overproduction or underproduction as a result.¹⁶⁷ The large bureaucracy also leads to immense red tape. All visitors to North Korea can provide anecdotal evidence of the striking inefficiencies that occur in daily life, e.g. the permits needed to cross a regional border, or the parallel existence of several telephone systems, making it impossible to make a phone call from a regular phone to a phone number belonging to an international organisation in the country. Frank concludes that “in a non-

¹⁶⁷ Blomqvist & Lundahl (1992), op. cit., pp. 222ff.

transparent, inefficient, centrally administered bureaucratic socialist economy the costs of a transaction can be so restrictively high that the transaction itself does not take place.¹⁶⁸

As described in the empirical section, the economic policy-making, or the structure of planning, is vertically integrated or “compartmentalised”. This further impedes the free flow of useful information between concerned parties and deters necessary coordination, for instance between the line ministries and NCC and KECCA, responsible for contacts with the UN and EU aid agencies. Besides problems caused to the provision of relevant foreign aid, this phenomenon naturally thwarts economic growth in general by preventing spill-overs and linkages between different economic sectors. The transfer of resources from the raw materials export industry to agriculture, light industry, and possibly high-tech industry, might not materialise if the different sectors are run by different isolated parts of the DPRK society.

Despite the very general and comprehensive nature of the officially presented plans, the non-homogenous answers to our questions do exhibit the pattern of short-term priorities of agriculture and also medium/long term focus on heavy industry. There is, however, little reference to light industry development. Rather a future shift to high-tech industry is emphasised by the FDI and export-oriented trade for heavy industry. This is interesting, since neither the FDI nor exports are mentioned as being part of the general development strategy in the *Joint New Year Editorials* for 2006, 2007 and 2008.

After the end of the Cold War, the number of “pure” planned economies, where the price mechanism was eliminated in most or all of the economy, has decreased substantially. Today, North Korea remains one of very few economies that could be characterised as “planned”. The inherent economic inefficiencies of the planned economy could be mitigated during the Cold War, with support from ideological allies like the Soviet and China. Despite its own economic problems, North Korea was even able to provide assistance to poor countries in Africa. But with the end of the Cold War, the chances to continue as before disappeared, making it increasingly lonely to continue being a planned socialist economy in a capitalist world. Other communist or socialist countries like China and Vietnam have managed to decrease the extent of planning and thereby allow for considerable economic success. The question is if North Korea really has a choice about whether or not to follow suit.

Economic reforms and gradualism

Parallel to the contingency planning, there have been tentative market-oriented reforms, or “adjustments”, ongoing in North Korea since July 2002, although these reforms to some degree have been reversed during the last years.¹⁶⁹ For example, private initiatives have increasingly been sanctioned both within the agricultural sector as well as the industrial sector. Basically, a *dual track* price system has been accepted to some extent, meaning that the output which exceed that which is required according to the plan can be sold at markets at market prices, while the DPRK government at the same time continues setting prices for goods produced within the plan. The Public Distribution System (PDS), which is responsible for the public food distribution to the population, has due to the lack of agricultural goods in the economy been complemented with around 300-350 markets, where agricultural products

¹⁶⁸ Frank (2006a), op.cit., p. 7.

¹⁶⁹ Haggard *et al.* (2008), op. cit., pp. 14f.

along with other consumer and industrial goods are being sold.¹⁷⁰ In the industrial sector state subsidies are no longer being provided, and the managers are responsible for covering their own costs and are also allowed to generate profits.¹⁷¹ Moreover, there have been reforms in the degree of openness of the country, e.g. in the fields of trade and foreign direct investments, which will be further elaborated later on in the thesis.

According to theory, there are two major ways of introducing market-oriented reforms. One way is through *shock therapy*, meaning that all market reforms are rapidly carried out at the same time,¹⁷² and the second is through *gradualism*, implying gradual market-oriented reforms while still maintaining the bulk of the socialist economic system in place.¹⁷³ What can be seen from the replies from our respondents, as well as from other observers, is that the DPRK is unquestionably experimenting with gradual adjustments, not unlike the early reform stages of China and Vietnam.¹⁷⁴ However, North Korea is claiming its own path of socialism, just like many socialist leaders such as Lenin and Mao Zedong have done throughout history. Already in 1955 Kim Il Sung stated: “Some people say, either the Soviet or the Chinese way is the best. But isn’t it time that we create our own method?”¹⁷⁵ Today the DPRK officially claims that “while the comparison between the North Korea and ‘China in the 1980s’ is frequently evoked by many so-called ‘experts’ these days, it is completely incorrect and misleading.”¹⁷⁶ Or as stated by one of our respondents:

The Chinese model will not be applicable. We take our influence from Europe and Sweden.
(DPRK:F)

For carrying out gradual market-oriented adjustments in the North Korean economy, it is essential for DPRK government representatives and managers to be trained in market economy skills. Kokko argues in an article about skill requirements and economic reform in the DPRK that “apart from the shortages of investment capital, the main constraint is a lack of relevant skills in economics, business, and management. Unlike the technology sector, where DPRK arguably possesses some capacity, there is no pool of managers and policymakers with the kinds of knowledge and experiences needed in a market economy.”¹⁷⁷ In the *2007-2009 Priority Areas and Goals DPR Korea*, “Economic Management (MDG 8)” is accordingly listed as the fourth priority and includes capacity building in economic and financial planning and management, in enterprise management and in foreign trade and investment promotion (see Appendix C). The importance of training in economic management was also mentioned by our respondents:

¹⁷⁰ Lintner (2005), op. cit., p. 53.

¹⁷¹ Noland (2003), op. cit., p. 14ff; Kokko, A. (2005b), “Economic Systems and the Role of the State”, paper prepared for 2nd Workshop on Economic Reform and the Development of Economic Relations between the EU and the DPRK, Pyongyang, October 12-14.

¹⁷² Examples of shock therapy are the reform processes initiated in Eastern Germany (see Frank (2006a), op. cit., pp. 19f.) and some of the Eastern European Countries after the fall of the Berlin Wall (see Perkins *et al.* (2006), p.174.).

¹⁷³ Perkins *et al.* (2006), op. cit., pp. 173ff.

¹⁷⁴ See Perkins (2006), op. cit., pp. 174f. for an illustration of gradual reform in China and Vietnam.

¹⁷⁵ Kim Il Sung (1973) “On Eliminating Dogmatism and Formalism and Establishing Juche in Ideological Work”, Pyongyang: Foreign Languages Publishing House, cited in Frank (2006a), op. cit., p. 18.

¹⁷⁶ Korean Friendship Association (2007), *DPR Korea FAQ*.

¹⁷⁷ Kokko, A. (2005a), “Economic Reforms and Skill Requirements in DPRK”, *Future Multilateral Economic Cooperation with the Democratic People’s Republic of Korea*, The Stanley Foundation, Iowa.

We need training in basic economic theory, all economic theory existing in the Western world, basic theory and knowledge of the macro-micro economy. We need to know the basic tools. Ricardo, Heckscher-Ohlin. We are seeking to find our comparative advantage.
(DPRK:F)

The objective has to be to facilitate communication between DPRK and the outside world, e.g. to teach terms such as GDP and GNP, not being used in DPRK. We use “growth national productivity” instead of GDP or GNP. We are not yet moving towards GDP and GNP – but if something of the economic theories is good then we can apply it.
(DPRK:F)

Our DPRK respondents also touched upon the importance of functioning institutions, mentioning the significance of modernizing the financial system in order to facilitate foreign investments.¹⁷⁸

As mentioned in the development paradigm, the international donor community to a large extent builds its development assistance on values favouring economic liberalism. For the international donor community, the theoretical heritage of Adam Smith and neoclassical economics are still the dominant applied approaches for achieving development. Consequently the international donor community has naturally supported the North Korean government in their requests for training or capacity building in western economic thinking and institution building.

According to theory, there is no single way to pursue when it comes to the timing and speed of market-oriented reforms. Some countries such as East Germany have pursued shock therapy, and others such as China and Vietnam have gradually adjusted towards the market. “What is feasible in individual countries will depend on the nature of the government and the base of its political support.”¹⁷⁹ This is in accordance with the *Juche* interpretation of dialectical materialism and the own socialist path advocated by the DPRK.¹⁸⁰

One lesson from earlier transition experiences is the need to accompany market-oriented reforms with institutional change in other areas of society, some of them demanding rather substantial changes. Kokko argues: “One of the tasks of the transition state is to create the institutional infrastructure needed in a market economy – this will not emerge spontaneously in the transition process. Establishing property rights, developing a rules-based legal system, and ensuring macroeconomic stability are therefore some of the most essential new challenges for the state.”¹⁸¹ Whether, and to what extent, the DPRK is prepared to take these measures remains to be seen, but without them, the DPRK will probably not reap much benefit from the economic “adjustments”.

Similarly, looking at the examples of China and Vietnam, the role of economic interaction with the outside world cannot be overstated. Domestic economic reforms might do good, but Kokko concludes that “it would probably not be sufficient to lead North Korea onto a sustainable growth path. External resources will be needed to facilitate a restructuring of the

¹⁷⁸ This sector was mentioned by DPRK:C+F.

¹⁷⁹ Perkins *et al.* (2006), op. cit., p. 175.

¹⁸⁰ Kim Jong Il (1982), op. cit., The historic significance of the *Juche* idea, Chapter 5, pp. 71ff.

¹⁸¹ Kokko (2005b), op. cit., p. 3.

industrial sector, and normalized trade relations with other countries are necessary for sustainable growth and development.¹⁸²

Agriculture – self sufficiency or prevention of starvation?

Traditionally the agricultural sector is the dominating sector in a developing country.¹⁸³ In the DPRK, however, the agricultural sector, which organisationally consists of state farms and cooperatives,¹⁸⁴ only constitutes 30 percent of the national economy.¹⁸⁵ This partly has its explanation in that the northern parts of the former united Korea used to be the industrial base of the country – rich in minerals and endowed only with a low share of arable land – whereas the southern parts were abundant in arable land, and therefore concentrated their production to the agricultural sector.¹⁸⁶ As a consequence, after the division the DPRK was already biased towards industry and the ROK towards agriculture, even though most of the industrial base was destroyed during the Korean War and had to be rebuilt.¹⁸⁷

The economic structure of North Korea is, of course, also a result of the typical socialist pattern of prioritising heavy industry and regarding the sector as leading the development of the national economy. The question is whether there traditionally has been too much emphasis on industrial development, given that the official North Korean strategy for agricultural development is self-sufficiency?

In agriculture, the objective is rehabilitation of the sector after the catastrophe [in the 1990s]. Self-sufficiency in cereals and food is the objective of both the international community and the DPRK government. (...) It is possible to be self-sufficient; we used to be that before the crisis. But now we need the international donor community for rehabilitation.
(DPRK:D)

Dual economy

In the 1950s Arthur Lewis, among others, developed the theory of *economic dualism*.¹⁸⁸ According to this theory the economy consists of a traditional, labour-intensive agricultural sector and a modern, capital-intensive industrial sector. Since the wages are higher in the industrial sector – as is also the case in North Korea¹⁸⁹ – it attracts the surplus labour from

¹⁸² Kokko (2005a), op. cit.

¹⁸³ Blomqvist & Lundahl (1992), op. cit., p. 116.

¹⁸⁴ Noland (2003), op. cit., p. 3.

¹⁸⁵ Office of the United Nations Resident Coordinator (2006), op. cit., p. 11. In the agricultural sector, also horticulture and fisheries are included.

¹⁸⁶ Noland (2004), "The Political Economy of North Korea: Historical Background and Present Situation", paper prepared for the conference "Towards a Peaceful Resolution with North Korea: Crafting a New International Engagement Framework," February 12-13, Washington, D.C., p. 4.

¹⁸⁷ Waldenström (2005), op. cit., p. 13; Noland (2004), op. cit.

¹⁸⁸ Lewis (1954), "Economic Development with Unlimited Supplies of Labour", *Manchester School of Economic and Social Studies*, Vol. 22, pp. 139-191.

¹⁸⁹ In recent years nominal wages have increased dramatically (however, less than nominal prices) in DPRK, but a comparison of different wages tells that heavy industry workers (miners) earn up to 6.000 won per month, as compared to regular workers (there among farmers) who earn up to 2.000 won per month. See: Jo, D. (2003), *The Changes of North Korean Economic Policies and the Role of Inter-Korean Economic Cooperation*, Korea Development Institute, December, cited in Kokko (2005a), op. cit., p. 6.

the agricultural sector until the wages equalise in both sectors.¹⁹⁰ The effect is, however, a shift in production from agricultural goods to industrial products. The economic structure changes, with a larger proportion of the population working in the industrial sector, and a larger share of GDP stemming from the industrial sector. Building on the theory of economic dualism, Michael Lipton claimed that economic dualism also arises between rural and urban areas.¹⁹¹ There exists an *urban bias*, meaning that the cities are favoured when it comes to e.g. wages and taxes, education, health care and infrastructure. This prioritisation occurs at the expense of wage and tax levels and investments in the rural areas. Following Lipton's way of reasoning, efficiency and the distribution of economic resources would improve if additional resources were shifted to the rural areas.¹⁹²

The pattern of prioritising heavy industry at the expense of agriculture can be seen at varying degrees throughout the history of North Korea. This is possibly also one of the reasons for the traditional agricultural sector facing such severe difficulties. The industrial sector is suffering from stagnation and is badly in need of modernisation, and the linkages that the industrial sector was supposed to provide to agriculture and light industry have to a large extent failed to occur, which, as stated before, is often the case in socialist vertically integrated economies.

According to Renaud, the DPRK is also showing a relatively high level of urbanisation. Around 60 percent of the population today live in cities having grown from around 30 percent since 1945.¹⁹³ Jo and Adler present evidence that investments in urban industrial areas have been prioritised since the 1970s at the expense of regional balance; "...most of the population increase and industrial development have occurred in the vicinity of Pyongyang, while the other regions have experienced slower growth or even reduced levels of development."¹⁹⁴

Self-sufficiency

During the last years, however, our empirical evidence shows that there is at least a short-term high priority of agriculture due to the food crisis. In total seven out of eight of our North Korean respondents mentioned agriculture as a top priority, and "Sustainable food security" is first on the list under the first priority area "Improve the quality of life of people (MDG 1)" in the *2007-2009 Priority Areas and Goals DPR Korea* (see Appendix C). The prices of corn and grain were raised by 40,000¹⁹⁵ percent and the agricultural workers' wages by 900 percent in order to increase the supply of food.¹⁹⁶ The explicit aim is to reach self-sufficiency levels in production.

¹⁹⁰ In North Korea, other factors than salary are probably more relevant when determining in which sectors people prefer to work, for instance to what extent the work ensures privileges like higher food rations.

¹⁹¹ Lipton, M. (1977), *Why Poor People Stay Poor. Urban Bias in World Development*, London: Temple Smith.

¹⁹² Blomqvist & Lundahl (1992), op. cit., pp. 44ff.

¹⁹³ Renaud, B. (2003), "The Urban Dimension of the North Korean Economy", in Choi, E.K. et al. (ed.), *North Korea in the World Economy*, London: Routledge, pp. 96-117. Page 99 shows a comparison from the UN Population Division of urbanization levels in ROK (82%), Japan (79%), Russia (78%), DPRK (61%), China (32%) and Vietnam (20%) in year 2000. Until the 1970 the DPRK urbanization levels were equal to or higher than the levels in the ROK.

¹⁹⁴ Jo, J.C. & Adler, S. (2002), "Urban Changes and Regional Balance", *Cities*, Vol. 19, No.3, pp. 205-215.

¹⁹⁵ This figured can be compared to the 25 percent increase in grain prices during the reform in China in 1979. See Noland (2003), op. cit., p. 17.

¹⁹⁶ Noland (2003), op. cit., pp. 16f.

Economic planners are always faced with the issue of deciding the extent to which a country should be self-sufficient in food production. Self-sufficiency in agriculture can according to theory take on many different meanings. The first and most extreme version is the national defence argument, which views self-sufficiency as a means for staying independent from foreign powers. The second considers food merely as a basic or strategic good and is a less extreme and more common approach. A third view argues that the world surplus of food is diminishing, and there is therefore a wish not to rely on food imports due to the risk of a heavy increase in import prices.¹⁹⁷ Following this reasoning, North Korea would fit well into the first version, claiming self-sufficiency on the terms of de-linking and independency from foreign powers.

Since the DPRK does not wish to be dependent on food imports, the farmers need to support both the rural areas as well as the urban population. As the population in the cities increases, the productivity in agriculture must accordingly also increase.¹⁹⁸ We also see that the farmers, with the help of the international donor community, are trying to raise productivity by improving and introducing new farming techniques in seed multiplication, potato farming, double cropping, and conservation agriculture. But in order for the new techniques to be realised there is, according to our North Korean respondents, a large need for input factors like fuel, chemical fertilisers and equipment (e.g. tractors).

Sustainable food security is also at the top of the agenda of the international donor community. Despite the fact that the international donors seem to consider self-sufficiency as unrealistic, they accommodate to the North Korean strategy and support the agricultural sector with both humanitarian assistance in the form of food aid (prevention of starvation), and with rehabilitation through development efforts in the form of training in new farming techniques. In accordance with their development paradigm the international donors favour food imports before self-sufficiency, but acknowledge the need to increase productivity in the DPRK agricultural sector, not least in order to avoid future humanitarian emergencies.

Environmentally-sustainable development

Partly due to the lack of fuel and chemical fertilisers, North Korea is aiming at adjusting more and more towards organic agriculture. Some of our respondents mentioned that they use ecological farming for the production of organic food and other organic products, and that they want to engage in bio-engineering in the future. “Environment (MDG 7)” is also mentioned as the third priority area in the *2007-2009 Priority Areas and Goals DPR Korea* (see Appendix C).

If the international donor community accepts the North Korean strategy of self-sufficiency in agricultural products for pragmatic reasons, it more readily supports the efforts of making the North Korean agriculture more environmentally-sustainable by decreasing the use of fertilisers, for instance:

¹⁹⁷ Perkins *et al.* (2006), op. cit., pp. 610f.

¹⁹⁸ *ibid.*, p. 609.

It is not sustainable economically or environmentally to bring in fertilisers all the time. DPRK has not got the foreign exchange to buy fertilisers, and has to move away from this. Therefore, organic agriculture is the target for FAO activities, which requires rethinking in crops management.
(FAO representative)

In spite of efforts to promote organic agriculture, the environmental sustainability of North Korean agriculture can undeniably be questioned. The approach of industrialised agriculture pursued on the scarce arable land to reach the goal of self-sufficiency in food production causes soil depletion due to the over-utilisation of land, acidification because of the traditionally extensive use of inputs such as chemical fertilisers,¹⁹⁹ and soil erosion, river silting and severe floods as a result of the decision to cut down the trees and to use the hillsides to increase the availability of arable land.²⁰⁰

Agriculture is a renewable resource, but is under severe stress in the DPRK and might have reached a high *rate of depletion*.²⁰¹ Along with theory, natural resources – in this case land – can be seen as a form of natural capital, equivalent to physical capital and human capital, exhibiting depreciation (or depletion) over time. Following the reasoning of standard economic growth models, to compensate for the depletion of natural capital, either more land must be discovered, investments made in physical capital, or new technology in physical and/or human capital that can increase productivity of the land must be introduced.²⁰² In the case of North Korea, more land was “discovered” through the usage of the hillsides for agricultural activities. This discovery, however, rather increased the rate of depletion instead of contributing to its productivity. Needed investments in equipment, the physical capital, are hard to carry out due to lack of resources in the DPRK, and the international donor community is strained in their provision of equipment for political reasons.²⁰³ There are, however, ongoing efforts which are attempting to increase productivity in human capital through the introduction of new farming techniques – *inter alia* organic production technology – which to some extent might offset the rate of depletion in the longer run.

Being on-site in North Korea, gives the opportunity to compare the differences in development between the urban and the rural areas. In particular the heavy investments in Pyongyang and the surrounding area, as compared to investments in other parts of the country, appear strikingly unbalanced. Despite agriculture being communicated as the most important priority, no reinvestment is made in this area using domestic resources. The dual economy which exists between the more affluent Pyongyang and the rural areas is obvious.

Although the food situation in the DPRK has improved, the country is far from being self-sufficient. According to most international observers, it is not possible for North Korea to be self-sufficient due to the harsh climatic conditions and the mountainous landscape.²⁰⁴

¹⁹⁹ *ibid.*, pp. 1f.

²⁰⁰ Noland (2004), *op. cit.*, pp. 7f.

²⁰¹ The rate of depletion is the difference between how much is harvested and the rate of growth in agricultural production. If the rate of harvests exceeds the rate of growth in the agricultural good, the rate of depletion increases. See Perkins *et al.* (2006), *op. cit.*, p. 761.

²⁰² *ibid.*, pp. 787ff.

²⁰³ This will be further elaborated on in the section below on physical capital accumulation.

²⁰⁴ Park (2002), *op. cit.*, p. 97, concludes that DPRK probably achieved agricultural self-sufficiency by the middle of the 1980s, but that this level of production relied on the use of large amounts of imported energy and fertilisers, making North Korean agriculture neither self-reliant nor sustainable.

Only 18-20 percent of the land is arable.²⁰⁵ This is not enough to feed a population of 22 million. There is today a structural gap which fluctuates around 20 percent of the domestic needs (or around 1 million metric tons of grain) which has to be filled by food imports, commercially or in the form of aid from donors.²⁰⁶ The famine between 1995 and 1998 shows how vulnerable the situation is and during our visit in North Korea, we observed (probably partly informal/private) agricultural and poultry farming at almost every single green plot available. Even the military posts have their own farming plots. North Korea clearly has a comparative disadvantage in producing food, due to its mountainous topography and low share of arable land.²⁰⁷

It is, however, very positive that North Korea is prioritising agriculture given the difficulties which face the agricultural sector. The famine in the beginning of the 1990s and the recurring natural disasters are a clear sign of an agricultural sector in need of much rehabilitation and reconstruction. Increasing productivity in agriculture through new farming techniques and organic production can almost certainly raise output in the long term,²⁰⁸ and now in a more sustainable way. The attempts to increase supply through increasing prices and wages has however, lead to extreme inflation.²⁰⁹

Taking the economic and environmental realities that are facing the agricultural sector into consideration, increased food imports would be preferable to aiming for complete self-sufficiency, both in a short and long-term perspective. In the short run, the food gap probably needs to be filled on a non-commercial basis, but in the long run, North Korea should be able to pay for its imports with export revenues from sectors where it has a comparative advantage. The currently high global food prices certainly provide a (temporary) argument for increasing agricultural self-sufficiency, but this does not change the underlying comparative advantages and disadvantages of the North Korean economy.

Considering the political reality, the chosen path is, however, to follow the *Juche* idea, which prescribes self-sufficiency in agriculture. The reasons for self-sufficiency in agriculture are apparently non-economic: “The country has opted, in spite of climatic factors (long winters, vulnerable location in regard to such natural occurrences as typhoons, tidal surges, hail and droughts), and a scarcity of arable lands, to produce food crops and orient policies toward agricultural self-sufficiency when other nations might possibly have opted for increased food importation.”²¹⁰

When analysing the rationale of *Juche* and the new guiding strategy *Kangsong Taeguk*, political, ideological and military aspects undoubtedly dominate any economic ones.²¹¹ In line with the arguments of Drèze and Sen, that “famines rarely happen where a nation is democratic or governed by other form of pluralistic politics,”²¹² one is bound to believe that there is a link between the recurrent food shortages in the DPRK and its institutional setting. Without a military-first policy, and a less strict interpretation of the *Juche* idea of self-reliance (but in

²⁰⁵ Lintner (2005), op. cit., p. 38.

²⁰⁶ INT:H. Due to the 2007 August floods, FAO projects the 2008 food gap to be 1.66 million metric tons. WFP (2008).

²⁰⁷ Interview with Doris Attve, Sida, 28 December 2005.

²⁰⁸ Perkins *et al.* (2006), op. cit., pp. 612ff.

²⁰⁹ Noland (2003), op. cit., p. 17.

²¹⁰ Office of the United Nations Resident Coordinator (2006), op. cit., p. 11.

²¹¹ Waldenström (2005), op. cit., p. 23.

²¹² Perkins *et al.* (2006), op. cit., p. 614.

accordance with the *Juche* principle of adapting to new circumstances²¹³) the food situation would probably be much better.

Investment in physical or human capital?

As mentioned in the agricultural section, there is, according to our North Korean respondents, a large need for physical capital such as equipment and other input factors in order for the training, or human capacity building, to be efficiently implemented. Although raising human capital is recognised as an important factor for development by the DPRK government, especially in the technical fields as illustrated in the development paradigm and also in the government field as suggested by some of our respondents,

Human capacity building is more important. The technicians/government representatives need to be trained, both on macro and micro level, both on policy and managerial level.
(DPRK:E)

the DPRK representatives generally think that foreign aid is too heavily biased towards software, i.e. training, as compared to hardware components such as equipment. Most respondents would consequently like to see a larger component of hardware in the foreign aid:

Human capacity building is decided on the donor side. We want to have more equipment; we want the same level of capacity building and equipment, 50-50%. Today the UN is providing 80% capacity building and 20% equipment.
(DPRK:E)

We have to involve researchers and technical expertise. But ECHO also has to provide hardware. We cannot only rely on analysis.
(DPRK:B)

Whereas the North Koreans tend to emphasise the need for physical capital, the international donor community usually stresses the important role of human capital for development.

The DPRK has a different view on development. It is more focused on capital accumulation (equipment and raw materials), and the international donor community more on capacity building. This is the major difficulty when working with the DPRK. They want hardware, we want to provide software.
(INT:G)

This preference for human capital corresponds well with the development paradigm of the international donor community, which focuses on institutions and policy measures, rather than on physical investments in specific economic sectors. However, as we shall see in the coming section, there has been a recent renaissance in the donor agenda of stressing the

²¹³ Kim Jong Il (1982), op.cit., p. 58. Referring to the quotations stated in this paper's section on the development paradigm of North Korea.

importance of investment in physical capital, but this has so far not affected the international donor community in the case of North Korea. This is probably due to the impossibility to provide much physical capital under the current context 1, and because it is much more costly.

When speculating of needs to meet in a hypothetical context 2, one international representative acknowledges the great need of investments in DPRK:

All areas need to be supported. [There is a need for investment in] infrastructure: roads, apartment blocks, railways, power generation and power transmission.

In the Northwest, there is abandoned industrial material/capacity. The industries are worn out. They are the most needed to upgrade, since they are required for further development.

[...] Capital accumulation is the most required investments.

(INT:D)

Physical capital accumulation

Balanced vs. unbalanced growth

The importance of the hardware component, or physical capital accumulation, for developing a country was the dominating concern among the first development economists during the 1950s and 1960s. Inspired by the standard economic growth models, e.g. the Harrod-Domar growth model and the Solow neoclassical growth model,²¹⁴ and by the empirical evidence from the Western European industrialisation process, Rosenstein-Rodan developed his theory of *balanced growth*, where he prescribed state-planned investments in physical capital on a broad level for achieving development. There was a general lack of trust in the market mechanism after the Second World War, and the state was therefore considered the key mechanism in accumulating and allocating the necessary physical capital needed for generating growth.²¹⁵ Physical capital could be accumulated either through domestic savings or through the inflow of foreign capital.²¹⁶ Rosenstein-Rodan considered the demand in a developing economy too low to provide a sufficient market for the goods produced by only one or a few large industries, and therefore all sectors in the economy required simultaneous investments in physical capital in order to create the necessary linkages.²¹⁷

As a reaction to Rosenstein-Rodan's balanced growth model, Albert Hirschman later developed his theory of *unbalanced growth*. According to Hirschman, the physical capital investments in the economy should be deliberately unbalanced. Disequilibrium situations should be created, targeting strategically important industries, which would drive the development in other economic sectors through emerging overcapacities and linkages.²¹⁸ Balanced growth would not be possible, due to resources in developing countries being too

²¹⁴ Bigsten (2003), op. cit., pp. 43-50.

²¹⁵ Blomqvist & Lundahl (1992), op. cit., pp. 229f.

²¹⁶ *ibid.*, p. 42.

²¹⁷ Bigsten (2003), op. cit., pp. 53f; Blomqvist & Lundahl (1992), op. cit., pp. 40f.

²¹⁸ Frank (2006a), op. cit., p. 9; Bigsten (2003), op. cit., p. 55.

scarce. Physical capital investments should therefore instead be concentrated to where they generate most growth.²¹⁹

This line of thinking gave rise to the development planning that could be seen in large parts of the developing world after decolonisation.²²⁰ Also the development experiments in the Soviet Union at this time were inspired by the theories of physical capital accumulation for achieving industrialisation and growth.²²¹ Due to official documents usually emphasising the parallel development of all economic sectors, one could be tempted to think that the DPRK is following a path of balanced growth. Nevertheless, physical capital accumulation in North Korea has historically followed an unbalanced growth model.²²² As explained earlier, focus has been on investments in the industrial sectors in the urban areas, at the expense of investments in the agricultural sector and rural areas. Typically heavy industry has been prioritised, and has been considered the engine for generating the necessary overcapacities and linkages that could contribute to the development of agriculture and light industry. There is, however, according to our North Korean respondents, a tendency that the DPRK is moving away from the unbalanced growth path towards a more balanced growth model, at least in the shorter term.

Until the 1980s, the strategy of Kim Il Sung was to focus on:

- 1) Agriculture
- 2) Light industry
- 3) Foreign trade

This strategy is still valid today. Agriculture is of utmost importance.

(DPRK:B)

As already mentioned, the main priority of the international donor community is today the agricultural sector, together with basic health services. This is first and foremost attributable to the present humanitarian focus of foreign aid to the DPRK, where agricultural activities are the ones that most easily can be categorised as both humanitarian and developmental. The efforts of balancing the economy through improving the productivity of the agricultural sector are therefore indirectly strongly supported by the international donor community.²²³

Regarding strategies in a context 2, the international community seems to lean towards a balanced strategy, but without too much focus on agriculture, since it is deemed inefficient and more or less impossible to achieve agricultural self-sufficiency:

The development needs are enormous. The country is at a very low level. It cannot be sustainable in agriculture. It has to trade in agriculture. Therefore DPRK should focus on industrial development instead. In the 1980s DPRK was an industrialised country, but today and in a medium term perspective, basic industrial development is needed. Focus should probably be on the same sectors as other developing countries:

Textile
Mining

²¹⁹ Frank (2006a), op. cit., p. 9.

²²⁰ Bigsten (2003), op. cit., p. 54.

²²¹ Karlström (1996), op. cit., p. 45.

²²² Frank (2006a), op. cit., p. 9.

²²³ Whereas the international donor community considers agricultural development to be of utmost importance, current aid activities do not reflect this concern since the major part of total funding is channelled towards strictly humanitarian activities, such as food aid.

Basic chemistry
Leather
Some agricultural goods
Service sector: tourism
(INT:U)

The unbalanced growth model applied by the DPRK has not led to the expected linkage effects to the rest of the economy, due to its typical vertically integrated economy. Hirschman also includes the component of markets and private investments for linkage effects to spread, which, however, have been absent in the case of North Korea. Hirschman later also criticised his own work, claiming that unbalanced investment may not only divert new investment from other sectors, it may also pull existing resources from these sectors – leaving them worse off than before, with negative growth as an effect.²²⁴ This might have happened in North Korea, especially in the agricultural sector, since the DPRK is exhibiting characteristics of dual economy and urban bias.

Perhaps a balanced growth model would have been more successful in North Korea? This is also being tried now as the agricultural sector is prioritised, at least in the short term. A balanced growth model could perhaps have created more linkage effects through strengthening demand in all sectors simultaneously especially since the aim is to be “self sufficient in every field of the economy?”²²⁵ However, in order to seriously try a balanced growth strategy, context 2 needs to materialise.

Big Push and Stages of Growth

Later on, the theoretical debate was not only concerned with whether investments in physical capital should be balanced or unbalanced, but the size of the investments in physical capital also became important. Rosenstein-Rodan developed his *big push* theory, the first attempt to give foreign aid a theoretical foundation.²²⁶ Just as with the theories of balanced and unbalanced growth, the state was given a strong role in carrying out the physical capital investments.²²⁷ The state was in charge of delivering a big push, “...a large one-time injection of capital into the system” for lifting the economy out of the “poverty trap” – a low and stagnating equilibrium with zero growth – to a stage where a dynamic growth process could get started.²²⁸ The big push should be carried out in the form of targeted investments in areas of the economy where the physical capital accumulation would generate the highest increasing returns and most linkages.

Following this reasoning, North Korea has so far had two big pushes, the first one occurring during the Japanese colonial period in the 1930s and 1940s, when large investments were made in heavy industry and the chemical industry as well as in infrastructure and the educational system. The second big push took place just after the Korean War, when socialist Soviet and China provided the DPRK with considerable physical capital investments

²²⁴ Frank (2006a), op. cit., p. 9.

²²⁵ DPRK:G.

²²⁶ Karlström (1996), op. cit., pp. 44f.

²²⁷ Frank (2006a), op. cit., p. 8.

²²⁸ The poverty trap is more specifically defined as an economic state where needed investments are much higher than actual investments. In this state, depreciation is higher than savings. See Lee (2002), op. cit., pp. 108ff.

for rehabilitating and enlarging the war ravaged industrial base.²²⁹ When foreign aid from the Soviet Union and China decreased in the early 1970s, the DPRK tried to initiate a third big push, wanting to increase productivity by importing rather substantial amounts of modern machinery and technology from Western Europe and Japan. However, due to the international oil crisis and deteriorating terms-of-trade, North Korea could not afford these imports on commercial terms, and soon had to abandon this strategy and defaulted on its debt, thereby spoiling its credit worthiness on the international capital markets up until this day.²³⁰

Lee finds evidence that North Korea is also today trying to accumulate resources to initiate a big push. By trying to attract foreign investment or capital in the form of export earnings or foreign aid, the DPRK is trying to escape its poverty trap.²³¹ This big push attempt is also, to a large extent, confirmed by the standpoints of our North Korean respondents, who also emphasise the need for foreign direct investments (FDI), export-oriented trade and foreign aid inflows – especially in the form of physical capital, such as, equipment and large investments in infrastructure and energy:

We want to have equipment, but it has conditions attached to it. Maybe it would be more important/relevant if the World Bank or Asian Development Bank came in. Otherwise we can only do small scale pilot projects; no donor wants to give a turnkey factory. DPRK wants certainty to have more equipment but donors don't want to give that.
(DPRK:E)

But we also want financial assistance, which is needed for investment in infrastructure. Euro will work OK. A spirit of mutual trust is important.
(DPRK:B)

We have the potential, but the problem is the energy. In the future, everything will be good.
(DPRK- B)

Walt Rostow continued to further elaborate on the connection between physical capital accumulation and economic growth, and in 1960 he proposed his theory of the *stages of economic growth*. According to Rostow, all societies inevitably have to go through five stages in their development process. The first stage is the traditional, mainly agricultural phase. The second stage is characterised by modernisation efforts where technology is developed, markets expand and investments are carried out in infrastructure. After this, enough resources would have been accumulated for the economy to enter the third stage – “take-off” – implying a stage of self-sustained growth where technology and markets are further developed and investments rapidly increase to above 10 percent of national income. In the fourth stage the economy reaches maturity and investments are further increased. The fifth and final stage is the age of mass consumption, the stage where all industrialised countries are considered to be at today.²³²

Applying the stages of growth theory to any country is hard, and this is also the case for North Korea. It could, however, be claimed that the DPRK has already had its take-off

²²⁹ Frank (2006a), op. cit., p. 9.

²³⁰ Park (2002), op. cit., p. 109.

²³¹ Lee (2002), op.cit.

²³² Bigsten (2003), op. cit., p. 56.

during its two big pushes, during which the economy failed to become self-sustaining and instead stagnated and went back to the second, pre-take-off stage. Another approach is to see the DPRK as still being in stage two, trying to accumulate the necessary physical capital resources for take-off.²³³

The legacy of Rostow's theory on the stages of growth can also be traced to the international representatives on site in North Korea. The following quote assumes a realization of context 2:

DPRK has enormous potential if the nuclear crisis is resolved and the country opens up. It has a good education [system] and a skilled, inexpensive and disciplined workforce. The IMF and the World Bank would come in. Yes, it will take off!
(INT:I)

The theories of big push and stages of growth went out of fashion for a few decades, but have during recent years once again gained ground in the Western world. Concepts such as big push, poverty traps and take-offs are today explicitly or implicitly experiencing a renaissance.²³⁴ One of the most well-known proponents is Sachs, arguing for large-scale investments in developing countries under the direction of a United Nations country team.²³⁵ Other scholars, like Easterly, criticise the idea of a big push, underlining that the empirical evidence of poverty traps and take-offs is very weak.²³⁶

However, even though the academic debate is still undecided, the international development paradigm clearly favours a rather dramatic increase in the aid provided to developing countries, in accordance with the big push theories. This strengthens the argument that a massive mobilisation of resources would indeed occur, were the nuclear issue resolved and if North Korea embarked on a road of reform and development that sufficiently fulfills any international criteria of (super-) conditionality.

The linkage effects stemming from the big pushes require markets in order to spread. This can explain why “these gigantic efforts abated in the North and resulted in stagnation”, while “they ignited a chain reaction in the South and created dynamic development.”²³⁷

The problem with the big push efforts in the DPRK today, according to Lee, is that North Korea has difficulties in attracting the large amounts of needed foreign investments and capital. And even though it had the possibility “...the North may not be able to enjoy the effects of increasing return, given the continued inefficiency in production, economic actor's low incentives and the underdeveloped status of key industries.”²³⁸

According to the *Juche* idea, self-sufficiency in raw materials and fuel is just as important as self-sufficiency in agriculture. The DPRK economy, however, exhibits a massive shortage of fuel, which has to be supplied by bilateral donors. North Korea is instead dependent on foreign powers for equipment and larger investments in infrastructure and energy, since it is

²³³ Frank (2006a), op.cit., p. 11.

²³⁴ Easterly, W. (2005), “Reliving the 50s: the Big Push, Poverty Traps, and Takeoffs in Economic Development”, New York University, New York.

²³⁵ Sachs (2005), op.cit., cited in Easterly (2005), op. cit, p. 2.

²³⁶ Easterly (2005), op. cit.

²³⁷ Frank (2006a), op. cit., p. 9.

²³⁸ Lee (2002), op. cit., p. 120.

not possible for the DPRK to accumulate the needed resources through domestic savings. Since the UNDP had to leave North Korea, activities in the second priority area of the *Strategic Framework* – “Sustainable Energy” – have been put on hold. This might make the energy situation in the DPRK even more fragile.

Just as Hirschman, Rostow also prescribes the existence of markets and private investments. Rostow was one of the early liberals, and even called his book on the stages of economic growth “a non-communist manifesto”.²³⁹ Already in the second pre-take-off stage, he assumed expanding markets, which could explain why North Korea has not managed to reach self-sustained growth.

As briefly mentioned above, the needed investments in physical capital are today, in context 1, impossible to finance, for political reasons, but would, on the other hand, seem highly reasonable in a context 2. The “massive mobilisation of resources”, projected by the international donor community is an indication of this.

The question is how effective and sustainable is such a big push without the accompanying changes in the institutional setting of North Korea. According to Lee there needs to be a “regime change” to obtain the development effect aimed at.²⁴⁰ A powerful counter-argument would be to point at countries like China and Vietnam, where economic development has been possible without any drastic change of government.

In his theory on the stages of growth, Rostow assumes, apart from the existence of expanding markets, a need to destroy the traditional institutional structure.²⁴¹ There is a need for the technological development to win over the “ceremonialism” in order for development to take place. According to the institutionalist Clarence E. Ayres, there are five ways in which ceremonialism prevents economic development. One of them is “a social system of indoctrination which emotionally conditions individuals to accept the dominant ideology, mores and class and social stratification.”²⁴² North Korea is, however, clearly defending and upholding its traditional ceremonial system:

The most serious lesson of the collapse of socialism in several countries is that the corruption of socialism begins with ideological corruption, and that a breakdown on the ideological front results in the crumbling of all socialism’s fronts and ends in the total ruin of socialism... Giving priority to ideological work is essential for accomplishing socialism.²⁴³

North Korea is a strong proponent of technological development though. The question is whether it can win over the ceremonial forces.

Taking into consideration that North Korea is already an industrialised country, and if the political situation were to improve, it could, however, – within a conducive institutional setting – possibly enter what some might call a third Rostowian stage of the development process and take-off.

²³⁹ de Vylder (2007), op. cit., pp. 27f.

²⁴⁰ Lee (2002), op. cit., p. 121.

²⁴¹ Frank (2006a), op. cit., p. 10.

²⁴² Ayres, C.E. (1951), “Economic Development: An Institutional Perspective”, cited in Frank (2006a), op. cit., p. 13.

²⁴³ Kim Jong Il (1995), Giving Priority to Ideological Work is Essential for Accomplishing Socialism, Pyongyang, June 19, cited in Frank (2006a), op. cit., p. 13.

Accumulation of human resources

The Solow neoclassical growth model, focusing on physical capital accumulation and domestic savings was the dominant growth model underlying the economic development theories during the 1950s to the 1970s. Technology was seen as exogenous – as given and accessible to all countries – and if countries applied the same savings rates their incomes would in the end converge. Empirical evidence, however, soon showed that even if applying the same domestic savings rates, income differences between countries remained large. There was accordingly a significant growth “residual” that could not be explained within this framework.²⁴⁴ When trying to explain the residual, one could in the first place see that there were significant differences in the educational levels between developed and developing countries. Differences in health and nutrition levels were also large.²⁴⁵ In the 1980s, as a consequence, the *endogenous* growth model was developed as an extension of Solow’s *exogenous* growth model. In this new framework, technology was seen as endogenous – as something which could be directed and determined *within* a country. Technological development could be boosted through domestic research and development, and internal investments in human capital – especially in the forms of improved education and health – became of considerable importance.²⁴⁶

Basic needs approach

The addition of human capital accumulation to the theories of economic growth was driven by the rising concerns during the 1960s and 1970s of the apparent missing link between economic growth and trickle down effects, or re-distribution, to the poorer layers of the population. So far development economists had treated economic growth and development as synonymous. Either the fruits of economic growth were assumed to automatically trickle down to the poor, or it was assumed that growth would be unevenly distributed for a start, in order to facilitate the accumulation of necessary domestic savings. At a later stage resources would then be re-distributed, in line with the development path of the industrialised countries.²⁴⁷ Neither of these assumptions, however, seemed to materialise in practice and new approaches, which would change the view on and redefine how we look upon the concept of development today, were presented. One of them was the structuralist *basic needs* approach, which referred to the human imperative and emphasised the need for investments in basic public and social services for the poor in order to secure a self-sustaining minimum standard of living for the whole population in society. More specifically, basic education, basic health care, food and nutrition and water and sanitation facilities were to be supplied. These basic services were seen as necessary in order to allow for any development at all.²⁴⁸ There was originally also a request for support in land reform.²⁴⁹

The basic needs approach was in particular endorsed by many Asian countries. At an early stage of development, state investments in basic education and basic healthcare were undertaken. Sen refers to the early recognition and state investment in basic public and social

²⁴⁴ More specifically, half of the growth could be attributed to the residual. See Blomqvist & Lundahl (1992), op.cit., p. 167.

²⁴⁵ Blomqvist & Lundahl (1992), op. cit., p. 167.

²⁴⁶ Bigsten (2003), op.cit., p. 50ff.

²⁴⁷ Blomqvist & Lundahl (1992), op. cit., p. 49.

²⁴⁸ *ibid.*, p. 94.

²⁴⁹ Hunt (1989), op. cit., pp. 71f; Blomqvist & Lundahl (1992), op. cit., pp. 49f.

services as “an Eastern strategy”, China and the “East Asian miracle” being two of the main examples of how an early investment in basic education and health have contributed to both human and economic development; human development through increasing the quality of life by increasing literacy rates, raising life expectancy and reducing morbidity rates, and economic development through these measures also facilitating industrial expansion and improving the overall productivity in the economy.²⁵⁰ Also North Korea invested heavily in basic public and social services early in its development phase. According to Lintner, “in principle, North Korea enjoys one of the best health infrastructures in the Third World. The country has more than eight thousand hospitals and clinics catering for 22 million people, with nearly three qualified doctors for every thousand citizens.²⁵¹” During the 1990s, however, the health infrastructure started to severely deteriorate.²⁵² Also the public education system as well as water and sanitation facilities need to be rehabilitated. With the support from the international donor community, the DPRK government is now “committed to improving the equitable access to quality social services to reach the standards of human development that were achieved in the 1980s.”²⁵³

Although the need for basic public and social services were not frequently mentioned by our North Korean respondents, some references to the basic needs approach can be found in our material:

The role of the international assistance is to contribute to the development by enhancing the local capacity of the population in a sustainable way. [The international assistance should contribute to:] infrastructure; health (EU); prevention of natural disasters and food security; and education.

(DPRK:B)

The request for basic public and social services can also be found in the first two priority areas of *2007-2009 Priority Areas and Goals DPR Korea* suggested by NCC: “Improve quality of life of people (MDG 1)” and “Social development (MDG 2-6)”. In the first priority, the DPRK includes, among others, sustainable food security and safe water, sanitation and hygiene. In the second priority area, the public healthcare service and infrastructure as well as the fight with epidemic diseases including HIV/AIDS, TB and malaria are mentioned. The government’s second focus area also includes improvements in public education (see Appendix C).

Priority of “basic social services” is additionally a part of the outcome in the joint UN *Strategic Framework*, developed by both the UN and the DPRK government. Here focus on basic needs is considered the fifth national priority aiming at delivering “quality basic social services with a focus on public health, child and maternal health and nutrition, education, water and sanitation.”²⁵⁴

²⁵⁰ Sen, A.K. (1999), “Beyond the Crisis: Development Strategies for Asia”, presented at the conference *Second Intellectual Dialogue on Building Asia’s Tomorrow - Sustainable Development and Human Security*, Singapore, 12-13 July. Published by Center for International Exchange, Tokyo, pp. 6ff.

²⁵¹ Lintner (2005), p. 39.

²⁵² See chapter 4, “North Korea’s public health pays the price of isolation”, in IFRC (2000), *World Disasters Report: Focus on Public Health, 2000*, Geneva: International Federation of Red Cross and Red Crescent Societies (IFRC), for an account of the public health situation in DPRK.

²⁵³ Office of the United Nations Resident Coordinator (2006), op. cit., p. 12.

²⁵⁴ *ibid.*, p. 12.

Whereas the DPRK representatives do not make many references to the basic needs of the North Korean population, the current activities of the international donor community could to a large extent be categorised as carried out in accordance with the concept of basic needs. According to the UN, today 85.9 percent of the activities within the *Strategic Framework* belong to the areas of Food Security and Basic Social Services. The other donors present in North Korea, ICRC/IFRC and the organisations under the ECHO umbrella, are also carrying out most of their activities within these fields, focusing on typical basic needs components like basic public health and water and sanitation.

The “Eastern strategy” of giving priority to human capital accumulation was not fully endorsed in the Western public discussion until the 1980s and 1990s. Or rather, human capital accumulation was extended to focus on human development also as an end in itself, and not just as a means for achieving economic growth by “filling” the residual in Solow’s growth model. This development could largely be attributed to Sen, who in 1990 inspired the UNDP to publish the first Human Development Report (HDI) with “the single goal of putting people back at the center of the development process.”²⁵⁵ Today, human development concerns are additionally emphasised through the incorporation of the MDGs.

However, the overwhelming basic needs share of foreign aid to the DPRK is naturally not only attributable to the increased poverty reduction focus among international donors, but to the fact that these activities can be classified both as “humanitarian” and low-level “development” assistance.

Capacity-building through training

The full recognition of the importance of human development and accumulation of human capital has also been driven by the strong empirical evidence on the impact of education in all forms on economic growth.²⁵⁶ In the case of North Korea, the population is considered being “well educated and disciplined,”²⁵⁷ with literacy levels mounting to 95-98 percent.²⁵⁸ Expanding human capital has always been a national priority, which is stated by Kim Jong Il, “...we must resolutely implement the leader’s policy for intellectualising the whole society...”²⁵⁹ as well as by our interlocutors:

Based on the *Juche* idea, the DPRK government has done everything to improve the human capital. (...) According to *Juche*, the man is the most valuable being in the world.
(DPRK:D)

There is, in line with the prioritisations of human capital accumulation in the DPRK, a continuous strong request for further capacity building through training in the technical field, in new farming techniques, and in the field of economic management in particular:

²⁵⁵ UNDP (1990), *Human Development Report 1990*, New York: Oxford University Press, cited in Perkins *et al.* (2006), op. cit., p. 45.

²⁵⁶ See e.g. Perkins *et al.* (2006), Chapter 8 (pp. 275-314). This relationship is very strong on the micro-level in individual countries, but becomes weaker in cross-country macro-level studies.

²⁵⁷ Frank (2006a), op. cit., p. 21.

²⁵⁸ UNDP (2004), *Human Development Report 2004*, New York: UNDP, cited in Frank (2006a), op. cit., p. 5.

²⁵⁹ Kim Jong Il (1982), op. cit., pp. 47f. Referring to the quotations stated in this paper’s section on the development paradigm of North Korea.

There is a need to breed experts and specialists in the economy, through education.
(DPRK:G)

The international donor community is generally very supportive of activities related to human capacity building. Sometimes they are even more positive to capacity building and training than the North Koreans, especially since the North Koreans think that physical capital might be more useful:

[We] would like to do more training. Also, [we] would like to have more technical consultants coming in short-term (but not only technical consultants!). But it is difficult to get the visa. [We] would like to have more of a balance between equipment and training.
(INT:R)

Most of the current training is related to humanitarian needs such as food security and health, but more development-oriented training was also agreed upon in the *Strategic Framework*. However, due to the cessation of the UNDP's activities in the DPRK, almost no activities will be carried out in the first two priority areas, "Economic management" and "Sustainable energy", which contained large components of capacity building.²⁶⁰

In a context 2, the development character of training could be emphasised even more, as the following international representative indicated:

There would be a lot of aid. Even more training, relatively. Training is in focus. But equipment and training go side by side.
(INT:I)

Gender and development

Empirical evidence shows that raising human capital by investing in women's education in particular is perhaps the most beneficial investment to a country's development.²⁶¹ "Education of girls has a particularly strong effect on growth, both the direct impact on their skills and the indirect impact in the next generation on their children's health and education."²⁶²

The DPRK does make a reference to "Gender" as the fourth priority area in the *2002 DPRK CCA Sector Analysis* communicated in the *2007-2009 Priority Areas and Goals DPR Korea* (see Appendix C).²⁶³ North Korea also, to some extent, takes part in gender-oriented courses and is following the requirements of gender mainstreaming in all UN activities in accordance with the *Strategic Framework 2007-2009*.²⁶⁴ In agreement with the UN, it is also prioritising "primary healthcare and essential medical services with particular focus on maternal, child, and reproductive health as well as family planning", as can be seen in the *2002 DPRK CCA Conclusion* (see Appendix C).

²⁶⁰ There are however other ongoing programmes on economic management carried out by some bilateral donors.

²⁶¹ de Vylder (2007), op. cit., p. 44.

²⁶² Perkins *et al.* (2006), op. cit., p. 80.

²⁶³ The Common Country Assessment (CCA) is a UN document, but was prepared in cooperation with the DPRK government.

²⁶⁴ Office of the United Nations Resident Coordinator (2006), op. cit.

The international donor community incorporates a gender perspective in all of its activities, as the following excerpt from the UN *Strategic Framework* indicates:

United Nations assistance will continue to address the needs and rights of children and women, in particular pregnant women, young children, adolescents and populations in remote and underserved areas. Gender is mainstreamed in each of the United Nations strategic framework outcomes in order to ensure that resources channelled through the United Nations benefit equally women and men. All interventions will consider the role of women and programmes will be designed to be gender responsive. United Nations support to data collection and development of statistics capacities will take into consideration production of gender-disaggregated data.²⁶⁵

According to Jung and Dalton, women and men are treated as equals according to the state ideology *Juche*. One of our international respondents even claimed that “DPRK denies gender inequality.”²⁶⁶ The authors, however, show that, in practice, much inequality prevails between the sexes, e.g. mentioning that women’s salaries only amount to 70% of the men’s salaries, and that women and men to a large extent take on traditional roles.²⁶⁷ For example, women are well represented in higher education, but usually do not continue pursuing a professional career; instead they take care of their families. Hence, gender activities carried out by the DPRK and the international donor community could contribute to improvements in this field.

When assessing the needs to be met by a foreign aid development strategy, one could analyse the physical to human capital ratio, in order to get an idea of where the needs are the greatest. For instance, if there is relatively little physical capital, one might argue that the marginal productivity of physical capital is high and that investments in physical capital are the most important to focus on.

Applying this line of thinking to North Korea, the country has historically suffered from a labour shortage. As a result of the many deaths and displaced persons during the devastating Korean War, human capital formation has been a top priority of the DPRK.²⁶⁸ How to assess the current situation is less clear cut. As a result of the famine in the 1990s, large numbers of people have either starved to death or suffered from malnutrition and bad health. Together with the fact that North Korea has been virtually cut off from external influences for several decades, making knowledge transfer impossible, this would indicate that human capital is in relatively short supply. However, the general impression must still be that physical capital is even scarcer, with the most prominent examples being the bad condition of infrastructure, industries and housing, as well as the urgent lack of energy, food, fertilisers and medicine. This view is confirmed by the emphasis put by DPRK representatives on investments in these areas.

However, as the history of development economics has shown, both physical and human capital is needed in order to achieve development. Not to any great surprise, a big push only

²⁶⁵ *ibid.*, pp. 13f.

²⁶⁶ INT:G.

²⁶⁷ Jung, K. & Dalton, B (2005), “Mothers of the Revolution: Rhetoric versus Reality for the Women of North Korea”, *CACOM Working Paper, No. 71*, Sydney.

²⁶⁸ Park (2002), *op. cit.*, p. 37.

in physical capital would be wasted without the accompanying training. There is also a need for institutional changes, since, as empirical studies show, “a better-educated workforce is no guarantee of more rapid economic growth. Human capital, just like physical capital, can be squandered in an environment that is not otherwise supportive to economic growth.”²⁶⁹ Therefore, a common foreign aid development strategy in a context 2 would need to contain all these elements.

Bigsten argues that a country with a low production compared to its human capital, has a large potential to catch-up on other countries.²⁷⁰ One might argue that this is the case in North Korea today, and together with increased capacity building and training, especially for women, there should be great potential for development in the DPRK. However, this requires that context 2 materialises.

Foreign trade and investments

Part of the gradual economic reforms, or adjustments, carried out in the North Korean economy includes enhancement of and capacity building in foreign trade and foreign direct investments (FDI). Both trade and FDI have slightly increased over the last years, with the total value of trade mounting to USD 1.7 billion in 1998, and increasing to USD 2.0 billion in 2004.²⁷¹ FDI have increased from virtually nil around the turn of the millennium, to USD 197 million in 2004 and USD 113 million in 2005.²⁷²

While maintaining the *Juche* ideology of self-reliance, there is – just as in the case with foreign aid – still a role for foreign trade and investments to play in economic cooperation with the DPRK. As previously mentioned in the development paradigm and stated by Kim Jong Il: “Building an independent national economy on the principle of self-reliance does not mean building an economy in isolation.”²⁷³ “Enhancing capacity of foreign trade and investment promotion” is accordingly a part of the *2007-2009 Priority Areas and Goals DPR Korea* (see Appendix C), under the fourth priority area “Economic management (MDG 8)”, and the importance of increasing the degree of openness of the economy is also confirmed by our respondents:

The concept of *Juche*, self-reliance, still remains valid. This does not mean that DPRK has to lag behind with for instance obsolete machines. [We want trade in all areas], but particularly in infrastructure, coal, power, minerals. (...) We want investments locally or from outside.
(DPRK:B)

[*Juche* is about] building up an independent economy. The independency does not mean we close our economy to the outside world. Independent national economy is not equal to a closed economy.
(DPRK:C)

²⁶⁹ Perkins *et al.*, op. cit., p. 81.

²⁷⁰ Bigsten, op. cit., p. 52.

²⁷¹ Office of the United Nations Resident Coordinator (2006), op. cit., p. 9. These figures are also confirmed in a paper that the authors received from the DPRK government stating a total value of trade of USD 1.775 billion in 1998 and a value of USD 1.977 billion in 2004. The figures are probably including Inter-Korean trade.

²⁷² UNCTAD World Investment Report, cited in Haggard, S. & Noland, M. (2007), *North Korea's External Economic Relations*, Working Paper 07-7, Peterson Institute for International Economics, Washington, D.C.

²⁷³ Kim Jong Il (1982), op. cit., p. 48.

Promoting development through trade is very important.
(DPRK:D)

Despite the willingness to increase international trade and investments, communicated by our North Korean respondents as well as by the *Strategic Framework*, there are still few signs of real improvements in this area. In agreement with last years' *Joint New Year Editorials*, actual DPRK trade policies are still much more in line with the theory of import substitution.²⁷⁴

Import substitution

Historically, trade in North Korea has mainly been conducted in line with the theory of *import substitution*.²⁷⁵ Import substitution has been used by most developed countries at one time or another for achieving industrialisation. After the Great Depression and the Second World War, when the import possibilities of industrial goods had been very limited, most developing countries adopted a development path of import substitution. The aim of import substitution is to move away from dependency on production and exports of low value added raw materials, and instead achieve industrialisation through substituting higher value added imported industrial goods with domestically-produced industrial manufactures. The substitution is achieved through various measures of protection of the domestic industry. Among others, tariffs and quotas on competing imported goods are applied, and the state can provide the domestic industry with a production subsidy to protect it from foreign competition.²⁷⁶ Another means of substituting imports is to uphold an undervalued exchange rate, which makes imports more expensive as compared to domestically-manufactured goods.²⁷⁷

As previously mentioned, import substitution was the development path advocated by the dependency analysts. In order to be able to break free, to de-link from foreign powers, the developing countries had to become self-reliant and start climbing the value added chain and thereby change the economic structure and comparative advantage in favour of industrial production. According to Lim, empirical results show that the DPRK, to a large extent, has managed to alter its comparative advantage from production and exports in raw materials to production and exports in light industry manufactures.²⁷⁸ As stated by one of our respondents the current export areas are in minerals, machine tools, traditional medicines and garments.²⁷⁹ According to data from the Korea Trade-Investment Promotion Agency, Seoul, the main North Korean export products in 2002, excluding inter-Korean trade, were animal products (USD 261.1 million), textiles (USD 123.1 million), machinery and electronic goods (USD 85.6 million), and minerals (USD 69.8 million).²⁸⁰

²⁷⁴ Email correspondence with Ruediger Frank, 22 February 2007.

²⁷⁵ Lee, Y.-h. (2005), "An Analysis of the Effect of North Korea's International and Inter-Korean Trade on its Economic Growth", *Economic Papers*, Vol.8, No. 1, 175-211.

²⁷⁶ Perkins (2006), op. cit., pp. 723f.

²⁷⁷ Perkins (2006), op. cit., pp. 717-728; Blomqvist & Lundahl (1992), op. cit., pp. 143-150.

²⁷⁸ Lim, K.-T. (1997), "Analysis of North Korea's Foreign Trade by Revealed Comparative Advantages", *Journal of Economic Development*, Vol. 22, No. 2., 97-117.

²⁷⁹ DPRK:B.

²⁸⁰ Korea Trade-Investment Promotion Agency (Seoul), cited in The Economist Intelligence Unit (2008), *Country Report North Korea*, February, London, p. 8.

Export orientation

The DPRK government shows high ambitions in continuing to increase the added value of its production through focusing on science and advanced technology. At the Spring Assembly Meeting of 2006, a five-year plan was adopted regarding science and technology,²⁸¹ and in the 2007 *Joint Editorial* the following can be read: “Latest science and technology, combined with the great revolutionary ideas of our Party, will bring about startling changes. All sectors and units should put themselves on a modern footing by drawing on the latest science and technology.”²⁸² The 2008 *Joint Editorial* continues in the same spirit: “Science and technology precisely means an economic power. The climate of attaching importance to science and technology should be created across the country, and the high-tech production system be set up in industrial establishments.”²⁸³ According to our respondents, North Korea is trying to find its new comparative advantage through jumping from production of raw materials and light industry manufacturing directly into high technology production, which will consequently also define the country’s new areas for exports:

The most important is to develop high tech industries, like bio and nano technologies. We need to jump directly to high-tech. DPRK has a lot of highly-skilled people. Therefore we need new technology. This is the comparative advantage of DPRK. (...) We need to leap-frog.

(DPRK:F)

We have to start now to define the areas [where exports should be developed]. Protectionism might be used.

(DPRK:B)

Potential new export areas are defined to be in organic products and ecological farming, in bio-engineering, and in new materials, e.g. nano materials.²⁸⁴

There seems, however, to be a sequential time perspective involved, where exports in the old areas of production are promoted in the short or medium run, whereas development of a comparative advantage in high technologies are considered with a medium or longer time horizon in mind:

The majority of the products consumed should be produced in the country. But special products that cannot be produced, like high-tech, should be imported. Focus, however, should be on exports – as in other economies.

(DPRK:C)

All in all, there appears to be an increasing emphasis on *export orientation* in North Korea. This approach means that produced goods are gradually more and more exposed to foreign market prices and competition, rather than protection. An export-oriented development path, nevertheless, does not rule out government intervention or protection in the form of

²⁸¹ DPRK:F.

²⁸² KCNA (2007), “Joint New Year Editorial, Pyongyang”, 1 January.

²⁸³ KCNA (2008), “Joint New Year Editorial, Pyongyang”, 1 January.

²⁸⁴ DPRK:B.

subsidies to the exporting industry. Maintaining an undervalued exchange rate is also a government measure which will indirectly work as a subsidy to domestic exporters,²⁸⁵ a development strategy which China has followed in recent years.²⁸⁶

Many Asian countries have followed a path of export orientation for achieving development – the East Asian miracle being cited as the main example. According to the *flying geese* model, developed by Kaname Akamatsu in the 1930s, countries in Asia have moved up the value added production chain by taking over each other's comparative advantages and export areas following the gradual improvement of the development level in each country. For example, Hong Kong, Taiwan and South Korea overtook the apparel and textiles exports from Japan in the late 1960s early 1970s, while Japan shifted into exporting e.g. transport equipment and electronics. About a decade later, Taiwan and South Korea had changed their comparative advantage into electronics, while China and South East Asian countries entered into apparel and textiles production. Today many South East Asian countries have moved into electronics production. Consequently, in the beginning of development, low-skilled labour-intensive products such as raw materials and light manufactures are exported. As skills and technologies are improving, the comparative advantage can change into more skilled labour and more capital intensive products and the industrialisation process continues step by step.²⁸⁷

North Korea, however, seemingly refrains from following the export-oriented development path suggested by the flying geese model, rather it prefers to *leap-frog*²⁸⁸ directly from raw materials and light industry production into production of high technology goods. But according to Lim and Lee, even the light industry products exported by the DPRK are of low quality and have a hard time competing on the global market.²⁸⁹ Lim concludes that “for the foreseeable future, it seems that it will be difficult for North Korea to enter the more advanced stage, where the goods using advanced technology are taking a significant portion in the trade.”²⁹⁰ Whether or not there would be a possibility for North Korea, or any other developing country to leap-frog, is debatable. This discussion also has an impact on how to look at exogenous and endogenous growth models. The Solow growth model which assumes technological change to be exogenous might, in the case of low-income countries, actually be more appropriate than the endogenous growth models, “since many low-income countries can achieve rapid growth by adapting the technologies developed in countries with more advanced research capacities rather than making the investments in research and development themselves.”²⁹¹

Leap-frogging or not, our North Korean respondents are aware of the quality problems in the current export areas, and efforts are made trying to diversify and improve the quality of exported products:

²⁸⁵ Blomqvist & Lundahl (1992), op. cit., pp. 150ff.

²⁸⁶ See e.g. Perkins *et al.* (2006), pp. 726f.

²⁸⁷ *ibid.*, p. 736.

²⁸⁸ Sjöberg, Ö. (2004), “The developmental state: industrial policies”, Lecture at the Stockholm School of Economics, 26 January.

²⁸⁹ Lim (1997), op. cit.; Lee (2005), op. cit.

²⁹⁰ Lim (1997), op. cit., p. 116.

²⁹¹ Perkins *et al.* (2006), op. cit., p. 135.

We also want to establish international agreements. International certification of products in order to improve the image of the products. This will improve the export competitiveness of DPRK.
(DPRK:B)

According to theory, export orientation will also in itself improve export competitiveness by enabling information-related externalities: “Perhaps the most important advantage of manufactured exports is that it provides a channel through which a developing country can gain new technologies and new ideas.”²⁹²

Foreign Direct Investment

As part of the policy to support export orientation, *Special Economic Zones* (SEZ) have been established in various border areas in the DPRK. In Kaesong an SEZ for the manufacturing industry has been established, in Mt. Kumgang the focus is on tourism, in Rajin-Sunbong an SEZ for trade and distribution has been set up, and in Sinuiju an international business complex has been created.²⁹³ SEZs are aimed at attracting FDI through creating an enclave of competitive environment in an otherwise protected domestic market, where firms have access to duty-free imports, and exports are facilitated through prioritised clearance in customs. Additionally, often the infrastructure is improved and red tape is reduced.²⁹⁴

FDI in the form of *joint-ventures* are considered the best way of ensuring the transfer of technology to the host country,²⁹⁵ and North Korea has consequently followed this path, focusing on information technology in particular.²⁹⁶

The goal of the joint-ventures is to get high-tech.
(DPRK:G)

According to our respondents there is a need for FDI in research and development, in the SEZs, in industries that can substitute imports, and in international transit port facilities.²⁹⁷ But it is also up to the foreign investors to choose the sectors in which to engage in joint-ventures with the DPRK:

[Investments should be in sectors where] both can make profits. Profits are important!
(DPRK:C)

As outlined in the description of the development paradigm of the international donor community, international trade and investment are at the forefront of both the old and the augmented Washington Consensus. Integration to the world economy is seen as something pivotal and today support for policies like import substitution is very limited.

²⁹² *ibid*, p. 737.

²⁹³ Lim, K.-T. & Lim, S.-H. (2005), *Strategies for Development of a North Korean Special Economic Zone through Attracting Foreign Investment*, Seoul: Korea Institute for National Unification.

²⁹⁴ Perkins *et al.* (2006), *op. cit.*, pp. 730ff.

²⁹⁵ Blomqvist & Lundahl (1992), *op. cit.*, p. 217; Perkins *et al.* (2006), *op. cit.*, p. 427.

²⁹⁶ Oh, S.-y. (2005), “North Korea’s International Economic Relations: Trends and Future Prospects”, p. 58, in Korea Economic Institute and Korea Institute of International Economic Policy: *Korea’s Economy 2005*, Washington, D.C.

²⁹⁷ DPRK:B.

The North Korean strategy to increase exports is therefore well received by the international donor community. For instance, in the *Strategic Framework*, it is stated that “the United Nations system will assist the Government to increase export orientation and improve prospects for economic revitalization.”²⁹⁸ A more practical example is given by Sida-sponsored activities supporting “capacity building for production and export of organic farm produces in the DPRK.”²⁹⁹

In accordance with the increased emphasis on institutions and regulations in the current international development paradigm, international donors have come to realise the importance of supporting developing countries to formulate policies and legislations that enable them to benefit from trade liberalisation; activities often labelled “aid for trade”. Opening up to the world without preparing the country in terms of institutions, infrastructure and human capital, might result in negative consequences offsetting the benefits of international trade. This view also is reflected in the *Strategic Framework*, where the priority area “Economic Management” includes activities for the “improvement of the enabling environment for external trade and capacity for diversifying the export base”. Furthermore, the *Strategic Framework* states that “trade and investment arbitration needs to be made more consistent with international practice.”³⁰⁰

However positive the international donor community might be towards export promotion, an important number of activities related to this area have now been put on hold, following the departure of the UNDP.

If the international donor community supports the export-oriented strategy, as opposed to import substitution, this does not mean that it agrees with the North Korean choice of preferred export sectors. Whereas DPRK representatives clearly indicate an ambition to leap-frog, this is not deemed realistic by the international donors, who rather favour a strategy in line with the flying geese model:

In the 1980s DPRK was an industrialised country, but today and in a medium term perspective, basic industrial development is needed. Focus should probably be on the same sectors as other developing countries:

- Textile
- Mining
- Basic chemistry
- Leather
- Some agricultural goods
- Service sector: tourism

(INT:U)

Biggest potential is in export-market industries: mining, assembly, light industry, garment. DPRK has well-qualified labour.

(INT:C)

²⁹⁸ Office of the United Nations Resident Coordinator (2006), op. cit., p. 10.

²⁹⁹ Government of the DPRK & Sida (2006), *Capacity Building for Production and Export of Organic Farm Produces in the DPRK*. Unpublished.

³⁰⁰ Office of the United Nations Resident Coordinator (2006), op. cit, pp. 9-10.

North Korea has to face a wide array of challenges related to its choice of stance towards international trade. In addition to political constraints to international trade related to the nuclear issue, there are several economic problems caused by its industrial and trade policies.

Even though North Korea to some extent has managed to change its comparative advantage from production and exports of raw materials to production and exports of light industry manufactures, empirical evidence shows that the import substitution strategy in DPRK has led to a high demand for imported factors of production like machinery. As also confirmed by one of our respondents, there are sectors in the economy that are highly reliant on imports.³⁰¹

According to Lee, North Korea has always had a negative trade balance apart from in 1978 and 1979. Recently the trade deficit has increasingly widened to the extent that imports are almost twice the amount of exports.³⁰² Estimates for 2006 indicate North Korean exports of USD 1,467 million and imports of USD 2,879 million, resulting in a trade deficit of USD 1,412 million.³⁰³ Running into balance of payments problems from trade deficits is a classical problem of import substitution. The imports that are replaced by domestic industrial production need input factors, especially more capital intensive ones, which need to be imported from abroad.³⁰⁴

Exports from North Korea are hampered for several reasons. Two important ones are the low quality of some of its products, and the lack of institutions to handle trade. This is concisely summed up in the *Strategic Framework*, indicating that the DPRK and the international donor community share the same view: "...the gains [from exports] are limited to a narrow product and market base and low value added and constrained by limited conformity to international quality standards."³⁰⁵ DPRK exports are further reduced due to the country's overvalued exchange rate. This leads to difficulties exporting and earning the foreign currency badly needed for purchasing the necessary input factors for the import-dependent industries, not to mention the food that is not produced in the country. The North Korean won was dramatically devalued as part of the July 2002 economic adjustments,³⁰⁶ but since then observed unofficial exchange rates reveal the need to further depreciate the currency, in order to adjust to market rates and facilitate international trade. Jin shows that there is a positive causal effect of openness on growth in North Korea.³⁰⁷ The DPRK would consequently benefit from increasing its export competitiveness and trade.

Problems have, however, also occurred at the export-oriented Special Economic Zones, which have not worked very well. For instance, the Kaesong Industrial Complex has been marred with red tape and various constraints, such as, no access to the internet or mobile phones for the South Korean managers in the zone.³⁰⁸ However, these obstacles to exports are mostly not economic in nature, but political.

³⁰¹ DPRK:B.

³⁰² Lee (2005), op. cit. For data on the North Korean trade balance from 1990-2003, see Table 2:2, p. 180.

³⁰³ The Economist Intelligence Unit (2008), op. cit., p. 8.

³⁰⁴ Perkins *et al.* (2006), op. cit., p. 728; Blomqvist & Lundahl (1992), op. cit., pp. 149f.

³⁰⁵ Office of the United Nations Resident Coordinator (2006), op. cit., p. 9.

³⁰⁶ Frank (2005a), op. cit., pp. 299f.

³⁰⁷ Jin, J.C. (2003), "Openness and growth in North Korea – Evidence from time series data", in Choi, E.K. *et al.* (ed.), *North Korea in the World Economy*, London: Routledge.

³⁰⁸ The Economist Intelligence Unit (2008), op. cit., p. 16.

International economic interaction is also constrained by several issues of disagreement between North Korea and the outside world, with the nuclear issue being the most important, resulting in sanctions on trade and financial transactions with North Korea, primarily with the United States as the country of origin. Following the North Korean nuclear test in October 2006, the United Nations Security Council adopted UN Resolution 1718 imposing sanctions on North Korea, “the strongest reprimand the Security Council has adopted against North Korea since the Korean War.”³⁰⁹ These sanctions limit the possibilities for the DPRK to engage in financial transactions necessary for international trade, and for the imports of technology and equipment classified to be of “dual-use” nature (i.e. also possible to use for military purposes).³¹⁰

In addition to the United States sanctions, there are also other legal barriers to trade between the DPRK and the United States. These laws, dating back to the early phases of the Cold War, impose higher import tariffs and financing restrictions on trade with “communist” countries like the DPRK.³¹¹

The uncertain political situation of North Korea, both with regard to internal conditions for private business ventures, as well as the strained relationship with other countries, further dampens the possibilities to attract foreign business partners. The political and commercial risks are simply perceived to be almost insurmountable. Despite this, a few Western companies have recently made investments in the country.³¹²

³⁰⁹ Lee, K. & Choi, J. (2007), *North Korea: Economic Sanctions and U.S. Department of Treasury Actions 1955-September 2007*, Washington, D.C.: The National Committee on North Korea, p. 31.

³¹⁰ Frank, R. (2006b), “The Political Economy of Sanctions against North Korea”, *Asian Perspective*, Vol. 30, No. 3, pp. 5-36.

³¹¹ Lee & Choi (2007), op. cit.

³¹² The Economist Intelligence Unit (2008), op. cit.

Foreign aid in North Korea – Can we meet?

In this final part of our analysis, with the help of our previous analysis, we intend to answer our 6th and last research question:

Under what circumstances, and to what extent, are the foreign aid development strategies of North Korea and the international donor community compatible? Is it possible to reduce the gap between the two parties by defining a common foreign aid development strategy, or at least specific policy areas or fields of foreign assistance, where the needs, objectives and methods of both parties have been taken into consideration?

Humanitarian and development

Despite humanitarian and development aid being very different in principle, one can in practice argue the existence of a continuum of different foreign aid activities, ranging from acute life-saving humanitarian activities (the provision of food, water, clothes, shelter and first-aid) to long-term development activities (e.g. institutional change and capital accumulation). With this continuum in mind, it is easier to understand the foreign aid operations that actually take place in North Korea today, despite the rhetorical clash between the DPRK and the international donor community. These activities, mostly low-level development-oriented aid, constitute the overlap of both parties' definitions of "development" and "humanitarian" aid respectively.

Without the nuclear issue being solved, it is hard to imagine the two parties reducing the gap regarding humanitarian and development aid, at least officially. Due to the current critical situation regarding food supply, there is a risk that more humanitarian aid might be needed. If offered by the international donor community, and accepted by the DPRK government, aid volumes might increase again. Unfortunately this increase will not be the result of any enhanced understanding between the two sides, but only a testament of the fragile and unsustainable situation in the DPRK.

Juche and national ownership

In what might appear a fortunate historical coincidence, the North Korean ideas of self-reliance and independence seem to correspond more than they have for a long time with the international development paradigm. Not with regard to isolation/autarky (which neither the Koreans advocate) or self-sufficiency, but in the sense of self-determination, or *ownership* in the language of the current international aid and development paradigms. For the international donor community this is an instrumental stance more than anything else (foreign aid works much better if it has the support of the recipient country, which is achieved through recipient *ownership*), whereas it is an ideologically-founded stance for the DPRK. For the first time in many years, the DPRK and the international donor community are in accord on principles. This might hopefully facilitate the meeting of the two parties in the future, especially in a context 2.

Nonetheless, even though assuming North Korean *ownership* of the foreign aid development strategies, the actual *ownership* of these strategies can be restrained for various reasons. International receptiveness is likely to be greater today to North Korean foreign aid development strategies than it would have been ten years ago, even if the strategies do not

correspond entirely with the analysis made by foreign donors. However, it is not possible for the international donor community to meet all the requests from the DPRK government given the economic situation of the country. Firstly, the total foreign aid budget for North Korea is simply not large enough to accommodate all the DPRK requests and perceived needs. In a context 2, one might envisage much larger available resources, but Korean demand will almost certainly be greater than the supply from the international donor community. Secondly, the lack of human and institutional capacities on the North Korean side might cause an absorption problem for incoming aid. Thirdly, the international donor community will probably not be able to comply with the North Koreans demands for reasons concerning the previously mentioned “super-conditionality”. As a result of the two parties subscribing to different development paradigms, they will propose different foreign aid development strategies. For instance, the international donor community might prioritise the development of basic social services and basic manufacturing industry, as opposed to high-tech industries, suggested by the DPRK. Unless the foreign aid development strategy appears convincing to both parties, it will not be funded by the international donor community.

Indication of this conditionality is also provided by Morrow who discusses possible World Bank assistance to North Korea. He expects the World Bank to “appreciate the uniqueness of circumstances in North Korea (...) and not attempt to hold the DPRK to any particular blueprint for economic development. Nevertheless, it would expect to see a serious effort to rapidly expand the scope for markets in economic decision making and to commensurate reforms in macroeconomic management.”³¹³

This “super-conditionality” will probably also apply for political reasons. Today’s political reality does not allow for much support, if any, in the form of development-oriented assistance. In a possible context 2, the North Korean claims of independence and self-reliance would probably be met with more sympathy, and sanctions would be lifted. The resolution of the nuclear issue would give the DPRK a lot of political and diplomatic credit in its relations with the outside world. Nevertheless, it is doubtful whether most Western donors (and taxpayers in these countries) would accept providing increasing amounts of aid in the long run, without observing any changes to the institutional setting in North Korea. This political constraint might decrease the possibility of the DPRK to independently decide on their foreign aid strategies.

Planning

The development paradigms of both sides offer completely contradicting views on the role of planning in the economy. In a long-term perspective they seem irreconcilable. However, in the short and medium term, there seems to be considerable room for common ground since both parties agree on necessary measures related to the public sector and investments that need to be made. Given the extraordinary circumstances of the North Korean case, the international donor community appears willing to accept foreign aid development strategies that presuppose a high degree of planning, as is demonstrated in the *Strategic Framework*.

³¹³ Morrow, D. (2006), “Possible World Bank Assistance to North Korea: Issues and Challenges”, *Asian Perspective*, Vol. 30, No. 3, p. 46.

To the extent that the international donor community expresses any views on a more general development strategy, it advocates a balanced growth strategy not only focusing on heavy industry. The current DPRK strategic direction is not completely clear as regards to a balanced or unbalanced strategy. The latter, however, historically seems to be the most applied development path, but there now seems to be a shift towards a more balanced growth path – making agreement with the international donor community possible.

Economic reforms

As observed earlier, there is no difficulty finding support from the international donor community for economic reforms in the DPRK. However, since the UNDP left the country, activities related to the first priority area of the *Strategic Framework* “Economic management” have basically been stalled. Hence, the foreign aid development strategies of the North Korean government and the international donor community used to be compatible and realisable in the field of support and training in economic management, but this is no longer the case for political reasons. However, an ongoing evaluation by the UNDP will decide whether the organisation could return to the DPRK in context 1, implying that activities in the area of “Economic management” might resume.

It will be interesting, however, to see what impact the undertaken reforms will have on economic development planning in the future. Given a context 2, there should be ample opportunities for agreement on development aid aiming at facilitating economic reforms.

Agriculture

In the area of agriculture, the compatibility of the North Korean and international foreign aid development strategies seem to match, mostly due to pragmatic approaches from both sides, adapting to the economic and political realities. Whether the North Korean interest in sustainable and organic farming is genuine and long-term, or only the result of a current lack of fertilisers, remains to be seen, but the Korean strategy of self-reliance should fit well with the international strategy of decreasing the use of fertilisers which have to be imported. In a future context 2, where other parts of the DPRK economy have the possibility to develop, it is not certain that international donors would like to continue supporting the efforts towards complete agricultural self-sufficiency. However, by then the DPRK might want international aid to focus on other sectors anyway.

Big push

As a result of the current international development paradigm, with its focus on increasing the amounts of aid provided to developing countries, a big push could be attempted and facilitated by the international donor community in context 2, especially if North Korea manages to become a member of the IMF and the multilateral development banks. The World Bank would probably not provide very large amounts of financial capital, but would on the other hand be able to coordinate and catalyse the assistance from other donors.³¹⁴

³¹⁴ *ibid.*, p. 58.

In order to offer development aid worthy of being called a big push, the international donor community would certainly require genuine commitment from the DPRK government to take the necessary policy measures to accompany the investments in physical capital.³¹⁵ Whether the DPRK government is ready to take these measures remains to be seen, but a future context 2 where the nuclear issue has been solved (which is a prerequisite for any large increase in development aid) would be an indication that changes and bold decisions are possible.

This commitment and *ownership* from the side of the DPRK government also requires an institutional capacity to formulate foreign aid development strategies and coordinate their implementation together with the international donor community, something that according to some observers seem to be lacking.³¹⁶ Our own experience from North Korea concurs with this view. The North Koreans might have good foreign aid development strategies, but they need to enhance their capacities to communicate these effectively to the international donor community. Our North Korean respondents expressed similar views:

The objective has to be to facilitate communication between DPRK and the outside world, e.g. to teach terms such as GDP and GNP, not being used in DPRK. We use “growth national productivity” instead of GDP or GNP. We are not yet moving towards GDP and GNP – but if something of the economic theories is good then we can apply it.
(DPRK:F)

Human resources

The humanitarian nature of the basic needs theory makes it the most obvious meeting point between the DPRK and the international donor community today – the point where they can meet on the continuum of foreign aid.

Also in a context 2, human capital accumulation constitutes an area where the two development paradigms seem to have much in common. The Western focus on training and institution building could very well be reconciled with the *Juche* emphasis on education and the view that “the man is the most valuable being in the world.”³¹⁷ Today the DPRK officials seem very eager to increase the country’s knowledge base in areas like economic and technical management, which bodes well for future cooperation with the international donor community. A difference between the two sides, which potentially could cause problems in the future, is the North Korean priority to shift directly to the most advanced technologies, whereas the international donor community suggests a more successive approach.

The negative effects of the continuously strained relationships between the DPRK and the international donor community are clearly demonstrated in the field of human capital and training. The potentially very important training in economic management and energy sustainability, prioritised by both parties, had to be put on hold when the UNDP left North Korea in 2007. Investments in human resources are therefore at the moment almost exclusively carried out according to the basic needs approach. This further reinforces the gains from a solution to the nuclear issue and the potential activities in a context 2.

³¹⁵ *ibid.*, p. 40-41.

³¹⁶ *ibid.*, p. 49.

³¹⁷ DPRK:D.

Foreign trade and investments

The promotion of foreign trade and foreign direct investments constitute an area of foreign assistance where there should be room for a great deal of agreement between North Korea and the international donor community. North Korea obviously puts the activities promoting the increase of exports and FDI at the centre of their foreign aid development strategy. Meanwhile, the international development paradigm favours international trade and openness to FDI.

However, in the current situation, context 1, the chances of cooperation have drastically decreased in this area. The *Strategic Framework* includes development-oriented components related to economic management, trade and investments, which have now been suspended following the departure of the UNDP. Whether the UNDP can resume its operations in context 1 remains uncertain, but should not be ruled out.

If cooperation is difficult, if not impossible, in context 1, the opportunities for trade and investment-centred development aid should, on the other hand, be great in context 2. There seems to be a common understanding that the DPRK needs to develop its institutional capacity to engage in international trade, which would facilitate an expansion in scope and scale of these development-oriented assistance activities.

There seem though to be more difficulties to agree upon when it comes to the international trade strategy to be pursued by North Korea. The international donor community suggests an export-oriented strategy, with low levels of protection and import substitution, according to the flying geese model, where exports should focus on natural resources and low-skilled labour intensive manufacturing. In the short run, the DPRK might agree to the need to export natural resources in order to gain hard currency, but they simultaneously want to engage in leap-frogging, developing high-tech export industries.

According to the principle of *ownership*, the international donor community should respect the choice of North Korea, and support its foreign aid development strategy. Nevertheless, due to the economic reality facing North Korea – with a structural deficit in agricultural production and a record of previous famine, and with today's severe risk of recurring starvation – the international donor community will have problems answering the requests of physical capital and training needed in order to shift from the traditional export areas of North Korea to developing a comparative advantage in high-tech industries. According to the international donor community, the country first and foremost needs to secure its basic needs for food, and public and social services. Unless these needs are fulfilled in a sustainable way, which would require exports of more raw materials and light industry manufactures in order to pay for needed imports, it is highly unlikely that the international donor community will contribute to a high-tech development of the North Korean economy.

Conclusions and policy implications

The first aim of this study was to document the current foreign aid development strategies of North Korea and the international donor community, based on our empirical evidence. Our results reveal two views that partly concur on the needs of North Korea, but also diverge in important areas, especially with regard to the long-term policies to pursue. Both parties agree on the short-term needs of securing a sufficient food and energy supply. They moreover share the view that the DPRK needs to develop its export industries. Training and human capital accumulation is considered to be important by both parties, even though the international donor community stresses this more, relative to physical capital accumulation.

There are several important differences between the two strategies. The first concerns the emphasis on humanitarian needs, which the international donor community still considers to be of importance in the DPRK. Furthermore, as a result of the nuclear issue, the international donor community focuses much less on the long-term development needs, whereas the DPRK does not make any distinction between context 1 and 2. A general characteristic on the North Korean side is the lack of a clearly-defined strategy, where distinct priorities are being made.

Our second aim was to analyse the foreign aid development strategies and identify the underlying theoretical development models, as well as to evaluate their realism by taking the economic and political realities into account.

We observed the DPRK demands for development aid, arguing that this is necessary in order to achieve “sustainable human development”, and the refusal to receive humanitarian aid, except in case of a natural disaster. Meanwhile the international donor community insists on only providing humanitarian aid due to the unresolved nuclear issue, claiming that there are still humanitarian needs in the DPRK. These seemingly irreconcilable positions have not totally stopped the two parties from finding room for agreement, and foreign aid activities do take place today in North Korea. This can be explained by the different definitions of “humanitarian” and “development” that the two parties use and that these two overlap each other on the continuum of possible foreign aid activities. Unless the nuclear issue is resolved, it is hard to imagine the two parties reducing the gap regarding humanitarian and development aid. Nevertheless, due to the very critical food situation in North Korea, there is a risk that the humanitarian supplies of food will have to increase substantially in order to avoid a human catastrophe.

The *Juche* ideology of self-reliance and national independence corresponds well with the dependency theories of de-linking from foreign powers, resulting in a focus on industrialisation and import-substitution. The international donor community does not agree with the theory of import substitution, but there is a common ground with *Juche* as regards the idea of self-determination, or *ownership* as it is called in the development paradigm of the international donor community. This facilitates agreement between the two parties, especially in context 2. However, it is not probable that the international donor community will agree to whichever foreign aid development strategy proposed by the DPRK, for both economic and political reasons, implying there might still be a “super-conditionality”.

As a result of its Marxist-Leninist heritage, as well as the adopted dependency theories, development planning has played an important role in North Korea. The planned economy follows the typical socialist model of vertical integration and an unbalanced growth strategy with focus on heavy industry. The development paradigm of the international donor

community offers a completely opposite view on planning, stressing liberalisation and deregulation. Whereas the two perspectives appear irreconcilable in the long term, there seems to be considerable room for agreement in the short and medium terms because both parties agree on necessary measures related to the public sector and investments that need to be made, and given that the international donor community accepts the important role of planning in the North Korean society, as demonstrated by the planning characteristics of the *Strategic Framework*.

Since July 2002 there have been tentative market-oriented reforms in North Korea, although they have been partially reversed during the last years. This policy of gradualism implies increased needs of capacity building in economics, business and management, as well as the development of new institutions. The international donor community used to be willing to provide support in these areas. However, due to a policy change by the UNDP Executive Board, these development-oriented activities have to a large extent been put on hold following the departure of UNDP in March 2007. Whether these activities can resume depends on future diplomatic developments, not necessarily implying a resolution of the nuclear issue.

Compared to other developing countries, the DPRK has a relatively small agricultural sector, due both to its unfavourable geographic and climatic conditions, and its typical socialist pattern of prioritising heavy industry. This pattern corresponds well with the theories of economic dualism, especially that of urban bias. However, in recent years there has been an increased focus on agriculture in order to respond to the food shortages and to achieve self-sufficiency in line with *Juche*. Lacking fuel and chemical fertilisers, North Korea is increasingly shifting towards more economically and environmentally sustainable agriculture, which is supported by the international donor community. The North Korean priority of agriculture is matched by a similar priority among the international donor community, which in accordance with its humanitarian mandate seeks to increase the country's food security. In the long term, nonetheless, the two parties disagree on the possibility and desirability of North Korean self-sufficiency in agriculture.

North Korean development strategies have historically been inspired by the theories of unbalanced growth, but is today to some extent shifting towards a more balanced strategy. The agreement with the theory of a big push is still manifest, especially in the expressed request for FDI and foreign aid in the form of physical capital such as infrastructure. The international donor community is now experiencing a revival of the big push arguments, which provides for the possibility of a "massive mobilisation" of resources in a context 2. However, in order for the big push to be effective, institutional changes will have to be made, and will probably be a condition for large-scale assistance from the international donor community.

Human capital accumulation constitutes an area which is prioritised by both parties. The *Juche* ideology puts the capacities of the human being at the centre, and North Korea has historically invested heavily in education and basic health services. The development paradigm of the international donor community has incorporated the basic needs approach with reference to the human imperative, as well as to the view on human capital as a source of endogenous growth. Due to the current nuclear stand-off, the humanitarian nature of the basic needs theory makes it the most natural basis for agreement between the DPRK and the international donor community today. In a future context 2, there are great prospects to agree on development activities involving training in several areas considered important by both parties, such as economic and technical management. If an agreement is reached

regarding the operational conditions for the UNDP, their capacity building activities in economic management and sustainable energy could resume.

The DPRK has pursued a strategy of import substitution for some time, and this still prevails, albeit of necessity. The North Korean government clearly communicates a willingness to shift to an export-oriented growth strategy and requests foreign aid to support this. In the short term, the focus is on exports of natural resources and light industry manufactures in order to gain hard currency, but the ambition is to change its comparative advantage to high-tech goods in accordance with the theory of leap-frogging. The international donor community agrees with the need to open up to the world economy, but disagrees with the strategy of leap-frogging and instead promotes the exports of natural resources and light industry goods, consistent with the flying geese model. However, there are still great possibilities to agree on a common foreign aid development strategy in the area of promoting exports and FDI, especially in context 2. The *Strategic Framework* includes development-oriented components related to economic management, trade and investments, which have now been stalled for political reasons.

One can conclude that there are policy areas where the two parties act in accordance with their respective development paradigm, and other areas where their pursued policies do not correspond to these. This has different effects on the possibilities of reaching agreement between the two sides. For instance, in the area of agriculture, agreement is possible since the foreign aid development strategies are consistent with *Juche* and the *humanitarian imperative* respectively. On the other hand, in the area of economic reforms, where the two development paradigms would indicate agreement to be very difficult to obtain, this should in fact be possible as a result of the recent reforms initiated by the North Korean government. However, here agreement is hampered by the nuclear issue and the political situation.

A conclusion is that economic and political realities directly affect the foreign aid development strategies of the two sides, and the extent to which these correspond to the respective development paradigms. They also determine the possibilities for the two parties to reconcile their foreign aid development strategies and to concur on foreign aid activities.

Our main conclusions relate to our aim of an increased understanding of when and where there is room for agreement between the two parties. There are important differences between the two development paradigms, between the theoretical foundations, as well as between the perceived needs, objectives and methods. Nevertheless it is possible to settle on a common foreign aid development strategy in several policy areas.

We conclude that in the current context, it is possible to meet in the humanitarian-oriented areas of agriculture and basic social services. The international donor community does not support the long-term objective of North Korea to become self-sufficient in agricultural production, but in the short run the agriculture requires a lot of efforts in order to increase food security.

In a future context, where the diplomatic differences related to the nuclear issue have been resolved, there should be ample opportunities to agree on a wider range of foreign aid activities. These activities would also be more development-oriented than in the current context. Both parties agree on the need for investments in physical capital, especially infrastructure. Likewise, the shared understanding of the importance of human capital accumulation provides for agreement on capacity building activities, such as training and

technical assistance. This is also related to the area of economic reforms and changes in both management techniques and various institutions, where both the North Korean government and the international donor community recognise the need for development aid activities. These changes are considered essential for integrating North Korea into the world economy, which is a major concern of both parties. International trade and FDI are jointly agreed to be of utmost importance to develop.

However, there is a North Korean ambition to both become self-sufficient in agricultural production as well as develop a high-tech export sector. The international donor community disagrees with both of these objectives, due to the comparative disadvantage of the DPRK in both of these sectors, instead advocating imports of agricultural products and exports of natural resources, light industry goods and organic farm produce. Despite the ambition of national *ownership*, it is highly unlikely in the foreseeable future that the international donor community will support activities to develop a high-tech industry, in line with a North Korean strategy of leap-frogging.

It is important to remember that this study relies on our empirical evidence. We had the opportunity to meet with the DPRK officials working directly with foreign aid to the country, which speaks in favour of the relevance of the foreign aid development strategies communicated to us and described in this thesis. However, one must keep in mind that other parts of the North Korean society and leadership, especially the military, probably have a great impact on the policies ultimately chosen, including foreign aid development strategies. Similarly one should remember that the ultimate policies of the international donor community are not solely at the discretion of the international donor community represented in North Korea, but also depend on other actors outside North Korea and their priorities and interests.

It is equally important to keep in mind that this is a study of foreign aid development strategies, and that there are many other factors than foreign aid which will determine the development of North Korea. However, if the foreign aid is effective, its impact should be more important than its quantitative share of the North Korean economy would suggest.

A final observation concerns the great discrepancies between the priorities communicated in the official *Joint New Year Editorials* and the priorities communicated by our DPRK respondents. This further underlines the ambiguity that exists regarding the DPRK foreign aid development strategy. We hope, however, that the above conclusions contribute to increasing the understanding of the foreign aid development strategies of the two parties, and how they relate to each other, in line with our third aim of this study.

Whatever our contributions, there certainly is a great need for North Korea to present a more clearly-defined general development strategy, where priorities are explicitly made between different sectors and needs. This is a precondition to develop a similarly clear and explicit foreign aid development strategy to which the international donor community can relate.

A clearly defined foreign aid development strategy would enable foreign potential donors to prepare for a deeper engagement in the development efforts of North Korea, once the diplomatic relations have normalised. Our research indicates that these efforts could be substantial both in scale and scope, which makes it even more important to be thoroughly prepared.

This study underlines the importance of a resolution of the nuclear issue, both for North Korea and its people, as well as for the rest of the world. Our empirical material, as well as other secondary sources, indicates that this would entail a readiness among the international donor community to significantly increase the amount of assistance to North Korea. Even so, one should keep in mind that the nuclear issue is not the only political concern where there is disagreement between North Korea and many donors. After a resolution of the nuclear issue, and the expected increase of aid, it is not likely that substantial amounts of resources will continue to be offered to the DPRK without any signs or ambitions of further political and institutional changes in the country.

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Interviews in North Korea

Interviews with representatives of the North Korean government

Academy of Social Sciences, 20 July 2006

We met with one woman and one man. However, we did not get their names.

Cabinet Economic Institute, 20 July 2006

Song Kil Nam

Committee for Cultural Relations with Foreign Countries, 4 July 2006

Ryu Sung Rim	Vice Director
Jong Un A	Officer, Department of Europe

Foreign Trade Bank, 12 July 2006

Ko Chol Man	Director Foreign Markets
Yoo Yin Kim	Senior Manager Markets & Information Department

Korea Europe Cooperation Coordinating Agency (KECCA), 20 July 2006

Tae Hun Il	Project Coordinator
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Ministry of Agriculture, 18 July

Jang Si Pil	Director, External Cooperation Department
Kim Sun Hui	Manager, External Cooperation Department

Ministry of Foreign Trade, 11 July 2006

Jo Jong Nam Director, General Bureau for Cooperation with International Organizations
Ri Song Su State External Economic Affairs Commission
Programme officer (name not recorded)

National Coordination Commission (NCC), Ministry of Foreign Affairs, 18 July 2006

Kim Dong Ho Division Director, International Organizations Department

Interviews with representatives of the international donor community

Embassy of Sweden, 19 July 2006

Mats Foyer Ambassador

Embassy of the United Kingdom, 21 July 2006

John Everard Ambassador

Embassy of Germany, 21 July 2006

Friedrich Löhr Ambassador

EUPS Unit 1/Première Urgence, 21 July 2006

Morgan Gauthier

EUPS Unit 2/Save the Children UK, 13 July 2006

Libby Kennard Programme Manager

EUPS Unit 3/Concern Worldwide, 7 July 2006

Fiona McLysaght

EUPS Unit 4/German Agro Action (Deutsche Welthungerhilfe), 21 July 2006

Karin Janz Country Director

EUPS Unit 5/Triangle, 13 July 2006

Olivier Corbet Head of Mission

European Business Association, 6 July 2006

Felix Abt President

European Commission Humanitarian Aid Office (ECHO), 7 July 2006

David Hill Representative DPRK/PRC

Food and Agriculture Organization of the United Nations (FAO), 13 and 18 July

Mike Stapleton Programme Co-ordinator

International Committee of the Red Cross (ICRC), 6 July 2006

Paul-Henri Morard Head of Mission

International Federation of Red Cross and Red Crescent Societies (IFRC), 5 July 2006

Jaap Timmer Head of delegation

Italian Development Cooperation (IDC), 14 July 2006

Massimo Urbani Consular Correspondent

Swiss Development Cooperation (SDC), 17 July 2006

Rainer Baudendistel Country Director a.i.

United Nations Children's Fund (UNICEF), 17 July 2006

Michel Le Pechoux Programme Coordinator

United Nations Development Program (UNDP), 10 July 2006

Vineet Bhatia Deputy Resident Representative

United Nations Population Fund (UNFPA), 10 July 2006

Yu Yu Head of Office

World Food Program (WFP), 11 July 2006

Abraham de Kock Deputy Country Director

World Health Organization (WHO), 11 July 2006

Umesh Gupta Programme & Administrative Officer

Other interviews

In addition to the interviews conducted in North Korea, the following interviews were made. The majority of them were used to gather background information, and to follow up, on the foreign assistance situation in DPRK.

European Commission Humanitarian Aid Office (ECHO)

Eszter Nemeth Desk Officer China and DPRK, Brussels, 23 February 2007.

Food and Agriculture Organization of the United Nations (FAO)

Noureddin Mona Representative China, DPR Korea and Mongolia, Beijing, 30 June 2006.

International Council of Swedish Industry (NIR)

Harald von Matérn Programme Manager, Stockholm, 8 June 2006.

Ministry for Foreign Affairs [of Sweden]

Paul Beijer Ambassador and Special Advisor to the Swedish Government on Korean Peninsula Issues, Stockholm, 20 January 2006.

Henrik Garmer Desk Officer, Stockholm, 16 September 2005.

PMU Interlife

Sven-Erik Johansson Project Manager, Stockholm, 5 April 2006.

Sven-Erik Johansson Project Manager, Stockholm, 19 February 2007.

Swedish International Development Cooperation Agency (Sida)

Doris Attve Deputy Head, Division for Humanitarian Assistance, Stockholm, 28 December 2005.

Doris Attve Deputy Head, Division for Humanitarian Assistance, Stockholm, 10 April 2008.

Camilla Lindström Desk Officer, 20 December 2005

Appendices

Appendix A: Questionnaire to DPRK officials

Foreign Aid in DPRK – Where can we meet?

"A survey and analysis of development strategies for the Democratic People's Republic of Korea proposed by its government and the international donor community"

Research question to be discussed with the government of DPRK:

“What assistance does the government of DPRK want from the international donor community?”

Needs – What are the perceived needs of DPRK? (WHAT?)

1. In general: Which sectors are most important? Priorities?
2. Within your area of expertise, what is prioritized?

Objectives – What are the aims and objectives of the assistance to DPRK? (WHY?)

1. In general: What *is* the objective of the international assistance, according to you?
2. In general: What *should* be the objectives of international assistance?
3. What are the specific objectives of international assistance in your area of expertise?

Methods – What methods should be used when providing this assistance? (HOW?)

1. How is international assistance provided to you today? What methods *are* being used?
2. How would you like international assistance to be provided to you? What methods *should* be used?

Does the international donor community have a coordinated development strategy for the DPRK?

Does the DRPK have a coordinated development strategy?

Appendix B: Questionnaire to the international donor community

Research question to be discussed with the international donor community:

“What assistance does the international donor community want to provide to the DPRK?”

Context 1: Today’s situation with the imminent political realities

Needs – What are the needs of the DPRK? (WHAT?)

In general: Which sectors are most important? Priorities?

Within the organizations specific sector: What is prioritized?

Objectives – What are the aims and objectives of the assistance to the DPRK? (WHY?)

In general: What *are* the objectives of the international donor community, according to you?

In general: What *should* the objectives be?

What are the objectives of your organization?

Methods – What methods should be used when providing this assistance? (HOW?)

What methods are you using today?

What methods would you like to use?

Context 2: Assuming a situation where the imminent political tensions are resolved

Needs – What are the perceived needs of DPRK? (WHAT?)

The same as today, right...?

Objectives – What are the aims and objectives of the assistance to DPRK? (WHY?)

In general: What *would be* the objectives of the international donor community?

In general: What *should* the objectives be?

What *would be* the objectives of your organization?

Methods – What methods should be used when providing this assistance? (HOW?)

Does the DPRK have a coordinated development strategy?

Does the international donor community have a coordinated development strategy?

Appendix C: “2007-2009 Priority Areas and Goals DPR Korea, January 2006”

Document provided by National Coordination Commission (NCC), DPRK.

2007-2009
Priority Areas and Goals
DPR Korea

January, 2006

2002 DPRK CCA Sector Analysis

1. Food Security
2. Health and Nutrition
3. Water and environmental Sanitation
4. Education
5. Gender
6. Environment and Energy
7. Development Co-operation

2002 DPRK CCA Conclusion

1. The government's urgent priority task is to ensure food security. Thus UN system must continue with its humanitarian response, at the same time synergies should be sought between the CAP and envisaged UNDAF for a smooth and sustained transition towards long-term development
 2. Support the Government's effort in areas such as food security, sustainable rural energy, rural development and environmental protection
 3. Strengthen technical and management capacities of Government department concerned
-

2002 DPRK CCA Conclusion

4. For long-term sustainability, it is vital to move towards development, thus focus increasingly on rebuilding and improving the quality of basic social services: primary health care and essential medical services with particular focus on maternal, child, and reproductive health as well as family planning; public health; early childhood care; education; and water and sanitation
-

Possible areas of Cooperation proposed by UNCT

1. Long term food security
 2. Maternal and child nutrition
 3. Access, quality and financing of basic social services
 4. Availability and utilization of data and information resources for national planning processes
 5. Economic growth, management and livelihood
 6. Environmental protection
 7. energy
-

Since 1996

Government's Main Policy and Goal

Restore the quality of life of people to levels achieved before economic and humanitarian difficulties in mid 1990s

Since 1996

Government strategy

- Increased production, distribution and management in agriculture, industry and basic services such as agricultural production, provision of coal and electricity, efficient transport services
 - Improved public health and education facilities
-

2004-2006

DPRK Government's Priorities

1. Food security
 2. Energy development
 3. Rehabilitation of social & economic sector
 4. Improve Economic management
 5. Stop CAP, swift from humanitarian towards development
-

2007-2009

The Government's Focused Areas in the context of MDGs

1. Improve quality of life of people (MDG 1.)
 2. Social development (MDG 2-6)
 3. Environment (MDG 7)
 4. Economic management (MDG 8)
-

2007-2009

Government's Focused areas and goals

1. Improve quality of life of people (MDG 1.)
 - Sustainable food security
 - Sufficient electricity through energy development
 - Safe water, sanitation and hygiene
-

2007-2009

Government's Focused areas and goals

2. Social development (MDG 2-6)
 - Strengthen statistical capacity for social sectors
 - Fight with epidemic diseases including HIV/AIDS, TB, Malaria, improve health care service and infrastructure
 - Improve quality, condition and environment of education
-

2007-2009

Government's Focused areas and goals

3. Environment (MDG 7)

- Increase function and role of national environment law, and social awareness on environment protection
 - Management of waste and pollutants
 - Conservation of eco-system
 - Compliance to the various multilateral environmental agreements
-

2007-2009

Government's Focused areas and goals

4. Economic management (MDG 8)

- Capacity building for overall economic and financial planning & management
 - Improve enterprise management to promote income
 - Enhance capacity of foreign trade and investment promotion
-