



International Cooperation for North Korea's Infrastructure Development and ROK-Japan Relations

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North Korea's infrastructure development and the New Economic Map Initiative for the Korean Peninsula

Although the daunting task of establishing a peace regime on the Korean Peninsula, centered on the denuclearization of North Korea is a prerequisite, discussions about inter-Korean and international cooperation for North Korea's economic development seem more critical than ever. To develop North Korea's infrastructure that will serve as a primer for economic growth, what institutional framework should South Korea's approach be based on? South Korea's strategies are defined in "The New Economic Map Initiative for the Korean Peninsula." The initiative is centered on the three major economic belts: the East Sea Rim Economic Belt, the West Sea Rim Economic Belt, and the Border Region Economic Belt. Moreover, it is not limited to North Korea's infrastructure development. The initiative strives for cooperation between the North and the South encompassing all areas and aims to lay a foundation for economic unification and build a peaceful inter-Korean community, pursuant of market cooperation into one market between the two Koreas. However, the focus of this initiative is on developing North Korea's underdeveloped economic and social infrastructure rather than attracting direct investment from the private sector, which will be the major source for North Korea's future production and employment in the long term. The East Sea Rim Economic Belt focuses on energy and resource development, while the West Sea Rim Economic Belt focuses on investment in logistics and transportation infrastructure.

The most important issue here is effective financing. Economic and social infrastructure, which is characteristic of public goods, requires the intervention of public capital investment. The problem is that North Korea's low capital accumulation makes it impossible for the North Korean governmental and public institutions to invest in infrastructure necessary for North Korea's future development. Reflecting on the experience of development in the 20th century, procuring and using financial resources from foreign countries to build economic and social infrastructure commonly occurs in the early stages of development in emerging economies, and North Korea is no exception. The concern then

lies is how the state can procure the necessary financial resources for its economic and social infrastructure.

Issue of financing infrastructure development of North Korea

Realistically, it is impossible for South Korea to fully provide foreign capital required to build North Korea's economic and social infrastructure. According to the 2019 calculations by the Construction & Economy Research Institute of Korea (CERIK), 306 trillion won of investment will be required over 10 years for initial infrastructure development in North Korea. In 2011, North Korea launched the “10-Year Strategic Plan for National Economic Development” through the Joson Daepoong International Investment Group while the Institute of Land, Infrastructure and Transport of South Korea planned the “Key Development Project for the Korean Peninsula,” a basis for the initiative. They both focus on infrastructure development along the west and east coasts. When calculating projects that overlap on the two plans, the sum comes down to an estimation of 306 trillion won.

In principle, the North Korean government and public financial institutions would be responsible for financing the investment of 306 trillion won over 10 years. However, given North Korea's current national capabilities, it is difficult to expect them to invest such resources on their own. In the long term, it will be necessary to find more opportunities for financial support and cooperation from multinational development and private banks, as well as public–private cooperative financing, in the midst of North Korea's reform and opening-up along with increasing links with global financial markets. However, as North Korea lacks the links to the current international financial market and is unfamiliar with international financial norms, it is difficult for the state to proceed directly to such public–private cooperative financing. If North Korea promotes reform and opening up, the initial infrastructure investment will have to be sourced from public funds based on norms that consider political stability, rather than profitability.

South Korea is undeniably the most likely source of investment outside North Korea. Ultimately, infrastructure construction in North Korea, the basis for North Korea's sustainable development, should be considered South Korean domestic investment, given the special relationship between both South and North Korea. In the short term, as South Korean companies are most likely to be involved in infrastructure constructions in North Korea, this would provide a setting for generating economic profit. It is not realistic for South Korea to fully or largely cover North Korea's needs for infrastructure construction with resources of the South Korean government alone. South Korean government resources that can be used for North Korean infrastructure include the Inter-Korean Cooperation Fund and the Official Development Assistance/External Economic Cooperation Fund. However, although the political obstacles regarding the use of the Inter-Korean Cooperation Fund are to be resolved, it can only provide a small amount, considering the scale of the projects. Meanwhile, it is necessary to revise the law if South Korea uses its official development aid and the external economic cooperation fund for North Korean development. Even if legal revisions are made for it to be possible to use such funds in North Korean infrastructure investments, the ODA fund of 3 trillion won each year and the External Economic Cooperation Fund of 1.5 trillion won would be insufficient, considering the scale of financial resources required for infrastructure investment in North Korea. In other words, the funds can help procure the necessary financial resources for North Korea's infrastructure investment but cannot become a key financial source.

Searching for institutions for international cooperation for North Korea's infrastructure development

In addition to the funds mentioned above, it is also necessary to create a separate source for South Korea's public funds for infrastructure investment in North Korea. Still, the demand for infrastructure investment in North Korea cannot be fulfilled by South Korean financial resources. In addition, regarding the future peace initiative on the Korean Peninsula, infrastructure investment in North Korea can strengthen the links between North Korea and the world. Public funds and international financial capital from neighboring countries will provide North Korea with an opportunity to adapt to the international financial market and will serve as a foundation for supporting North Korea's successful reform and opening up. Even considering the volume of necessary financial resources, international cooperation is essential and will facilitate the international community's positive involvement in the stable development of the Korean Peninsula in the future.

The involvement of the Multilateral Development Bank (MDB) is essential for international cooperation on North Korea's infrastructure development. However, for the MDB's investment to be used as resources for investment in North Korea, North Korea must demonstrate and prove in the long term that it can become a stable member under the multilateral development finance regime. As it is not easy for North Korea to become a member state to receive concessional financial support from international financial institutions, relevant countries including South Korea may contribute funds to create a Multi-Donor Trust Fund before joining the institutions, which has been discussed as the most feasible way of international cooperation for North Korea's infrastructure investment. In the process of transitioning from current international cooperation in humanitarian aid to infrastructure investment, a trust fund operated by the United Nations Development Group may be first launched, and then the World Bank may run a trust fund in the process in which North Korea is incorporated into the rules and norms of the international community.

The need for regional multilateral cooperation in North Korea's infrastructure development

International cooperation on North Korea's infrastructure development requires not only the global system centered on the Multilateral Development Bank, but also the regional cooperative system in Northeast Asia.

Discussions on the establishment of the Northeast Asian Development Bank, a multilateral development bank for Northeast Asia, which entails investment in North Korean infrastructure development, have been made since the 1990s. Amid the boom of regionalism during the post-Cold War era, the need for additional international finance to meet demands for development in Northeast Asia has been mentioned as well. The Northeast Asian Development Bank is understood to be related to investment in North Korea's infrastructure because there were discussions in South Korea about restarting the Northeast Asian Development Bank initiative and using it to finance North Korean development in the 2000s. However, although discussed as a regional cooperative financial institution for development cooperation on North Korea, it is difficult for the bank to play a leading or different role from other multilateral development banks. Still, seeking regional institutional frameworks in addition to a multilateral framework is meaningful in terms of diversifying cooperation. However, if international financial regimes have strong norms, it is difficult to expect a highly formalized or institutionalized system to be conducive to development cooperation for North Korea. Considering North Korea's development in the long term, cooperation at the regional level is difficult to be realized

immediately through formal institutionalization.

On the other hand, individual regional development initiatives led by each neighboring country in Northeast Asia and related development funds supported by the countries can be meaningfully discussed at the initial stage of North Korea's infrastructure investment. Korea, China, Russia and Japan all have regional development plans. The regional development initiatives of each country have emerged from efforts to enhance each country's international status and influence within the region through development cooperation that goes beyond their own borders and reinforce their ties with neighboring regions. Examples are China's Belt and Road Initiative, Russia's New Eastern Policy, Korea's New Southern Policy and New Northern Policy. In geographical terms, North Korea's development is essential to some extent in order for these countries' regional development initiatives to be successfully implemented. In the case of Japan, its regional initiatives have focused on the Indo-Pacific region centered on the maritime axis, but the remaining tasks of normalization of North Korea-Japan relations show the strong potential of Japan's involvement in North Korea's development.

If North Korea proceeds with denuclearization and returns to the international community, active discussions to link regional development initiatives to the development of North Korea will be made. Neighboring countries of the Korean Peninsula show a clear interest in North Korea's infrastructural development. China is very interested in both the west and east coast axes. The axis of the west coast is directly connected to the center of Northeast China via the Gyeongui Railway Line. In addition, the east coast axis connected to Jilin Province of China will serve as a means to facilitate maritime access to northeast China. Russia is also very interested in the construction of transportation and energy infrastructure in the east coast axis that passes through North Korea and reaches South Korea. Japan is highly interested in North Korea's east coast axis in order to enhance the network of the East Sea region. In addition, the high volume of Japanese funds to North Korea, which is expected to be made after the normalization of DPRK-Japan relations, suggests that Japan's involvement in North Korea's infrastructure development would not be limited to the east coast axis.

North Korea's infrastructure development and Japan

ROK-Japan relations, which have deteriorated in the present day, have hindered regional and international cooperation between the two countries for North Korea's infrastructure development. Regarding the establishment of relations with North Korea, the South Korean and Japanese governments have been unable to reach a consensus on which route they aim to pursue. However, prior to considering their different positions on North Korea, the dispute between Korea and Japan centered on the issue of historical perception has already exacerbated the state of ROK-Japan cooperation in all matters. Even if North Korea's infrastructure development becomes a task that can be implemented immediately, room for regional and international cooperation between South Korea and Japan for financing North Korean infrastructure development is very narrow. Rather, when North Korea implements reform and opening-up, the two countries may become rivals in the development of North Korea's economic and social infrastructure. If South Korea is to maintain its global leadership regarding international cooperation for North Korea's reform and opening-up, it needs to build plans to encourage neighboring countries including Japan to participate and promote complementarity.

The Kim Dae-jung administration (1998-2003) tried to address issues of inter-Korean relations, the reconciliation of Korea and Japan, and East Asian regionalism as a connected one rather than separate tasks. His diplomatic strategy implies that ROK-Japan relations must be constantly managed for future initiatives of peace and prosperity on the Korean Peninsula. ■

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