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PRACTITIONER TO
PRACTITIONER
SERIES

Talking Points: North Korea

Part 2

Talking Points on Private Foreign Investment and
Special Economic Zones

Author
Ambassador Thomas Schäfer

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The Center for Asia Pacific Strategy is a multi-national, non-political, and nonprofit think tank that provides pragmatic policy recommendations and strategic insight and analysis to leading decision-makers for improving security and collaboration in the Asia Pacific region. Our team of leading experts and practitioners fosters discourse that educates business, defense, and academic leaders on the region's unique geopolitical dynamics.

CAPS leverages its extensive military and diplomatic expertise to develop independent and 'actionable' policy recommendations, customized for governments in the region. Assuming a position of neutrality and non-partisanship, we strive to enhance Asia Pacific regional security by strengthening the synergy and effectiveness of the strategic coalition of democratic nations.

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Editor's note:

The three-part "Talking Points: North Korea" papers are the inaugural publications in the Center For Asia Pacific Strategy's "Practitioner to Practitioner" series which seeks to provide practical and actionable policy recommendations for practitioners from practitioners.

Talking Points: North Korea Series

by Ambassador Thomas Schäfer

Part 1:

Encouraging A Different Mindset In North Korea: Introduction And Recommended Talking Points On Agriculture, Food Security, Private Economic Activities, And The Enterprise Reform

Part 2:

Talking Points On Private Foreign Investment And Special Economic Zones

Part 3:

Talking Points On Military Spending, Objectives Of Nuclear Armament, Nuclear Negotiations, "Hostile Policy," A Peace Treaty, And An End-Of-War Declaration

Ambassador Thomas Schäfer served two tours in Pyongyang as the German Ambassador to the Democratic People's Republic of Korea (DPRK) or North Korea, and is the most qualified practitioner with direct knowledge of and experience with the North Korean regime to provide the recommendations included in this three-part series.

INTRODUCTION

Contrary to what Pyongyang's propaganda wants us to believe, North Korea is not a "monolithic" country with everybody wholeheartedly following the Workers' Party's line to the letter, but composed of different interests and social groups that pull into different directions. That there are different views in the elite, has occasionally been admitted to foreigners residing in Pyongyang. There have also been internal policy discussions that have been reflected in official media, albeit only to some extent and at certain times. The leadership is under pressure as not only the elite, but ordinary North Koreans are well aware of the huge gap between official propaganda and reality, and of the fact that life in neighboring China and South Korea is far better than their own. General discontent and differing opinions within the elite provide an opportunity for the international community to exert some influence on policy discussions among North Koreans.

Based on its overall motto "From Practitioners to Practitioners", the Center for Asia Pacific Strategy aims to provide actionable recommendations and solutions. In the case of secluded and self-isolating North Korea, one of the challenges of the international community is to make the best use of the scarce opportunities of interaction with North Koreans. This paper contains proposals for suitable topics and –in the form of talking points (in bold type) followed by background information- for possible ways to present them. The suggested topics in the realm of economic policy including agriculture, private economic activities, enterprise reform, foreign investment, special economic zones have all been controversially discussed in the country's leadership in the last twenty years. Talking about them might help relaunch such discussions.

In addition, some talking points are suggested that might be raised in the course of security policy discussions. Even if these points refer to statements or policies by Pyongyang in the past, the interlocutor's answer might help shed a light on fundamental North Korean attitudes.

Depending on the context, it is suggested to actively address human rights – or particular cases - although Pyongyang has often reacted with protests and

refusals to talk whenever the topic was brought up. The regime in Pyongyang cares about its image abroad, and the North Korean population should not get the impression that the trampling of human rights in North Korea is of minor interest to foreign countries. Moreover, in the case of North Korea, appeasement tactics generally do not work.

This paper is based on the author's experience who has had countless conversations with North Koreans. As North Koreans often try to evade delving into details or even skip some topics altogether, the talking points were selected with a view to help provoke substantial talks about North Korean policy choices. They are suggestions only and should be complemented and adapted to the specific situation. Their objective is not only to get information but to encourage the voices in North Korea that advocate reforms.

North Korean officials are well trained in trying to unsettle or divide foreign interlocutors by flattery, brusqueness or even insults. In most cases, it seems best to ignore flattery, react seriously to insults while remaining friendly in general – and speak one's mind, as any other reaction would be interpreted as weakness. Being persistent might help.

TALKING POINTS ON PRIVATE FOREIGN INVESTMENT AND SPECIAL ECONOMIC ZONES

In the last twenty years, DPRK at times seemed to welcome private foreign investment, but then rejected it. At the (second) inter-Korean summit in 2007, Kim Jong Il and the South Korean President Roh Moo-hyun agreed upon the prospect of comprehensive South Korean aid and investment, but only months later, the use of foreign capital and technology was declared undesirable by Pyongyang. DPRK has also repeatedly agreed to a rail link from the Chinese to the inter-Korean border, which would be beneficial to all three countries involved, but nothing came of it. The new Chinese built highway bridge across the Yalu River remains unused. Why does DPRK not open up to investment? Why this wavering? Provided that sanctions were lifted, DPRK could develop fast with foreign capital on the basis of a more forthcoming DPRK attitude.

Of course, other conditions would have to be met, e.g. foreign investment and access or travel restrictions are not compatible. Working conditions of North Korean workers would have to meet certain standards.

Special Economic Zones:

For a time, it seemed that DPRK wanted to attract foreign investment to special economic zones. During the first years of Kim Jong Un's reign, the provinces were allowed to designate new zones. But the existing zones encountered difficulties: The Diamond mountains zone was closed in 2008, the Kaesong Industrial Zone experienced closures by the military in 2009 and 2013, and was definitely closed in 2016. The zone at the Chinese border near Dandong with existing Chinese built infrastructure and the highway bridge nearby were never inaugurated. Kim Jong Un has never promoted one of these zones through a visit. Except in the Wonsan Tourist Zone, there has been hardly any DPRK investment. The DPRK commitment seems half-hearted at best. Why is that? How do you hope to attract investors in that way?

Background:

Discussion about foreign investment in general:

Since the turn of the century until about 2015/16, the DPRK leadership has discussed time and again whether the country should be open to cooperation, trade, foreign investment. Repeatedly, timid reform steps alternated with measures to again tighten state control, depending on whether reform-minded people or their opponents in the leadership were more influential. In 2007 such a discussion was taking place even after Kim Jong Il clearly appeared to have set the course through his agreement with the South Korean President. The result of the discussions in the leadership at that time was presented in the joint commentary of the important newspapers on New Year's Day 2008. It said that the existing planned economic system should be maintained without compromise. Economic development "based on our own strength, technology and resources" and raising living standards were deemed the main tasks. The pursuit of profit and an increase in exchanges with foreign countries were considered the right thing to do—this was a positive novelty in a commentary of this sort. However, there was no longer any mention of the procurement of foreign technology or capital. It was also said that the indoctrination of the population should be stepped up as compensation for the ideologically dangerous contacts with foreign countries.

Discussion about special economic zones:

There were four special economic zones at the beginning of Kim Jong Un's reign. Rason, founded in the early 1990s and bordering China and Russia, had mainly received Chinese investment. It served Chinese companies as an extended workbench. The Kaesong Industrial Zone on the inter-Korean border operated from 2004 to 2016. South Korean companies employed more than 50,000 North Korean workers in contract manufacturing during Kim Jong Un's time. The 2002 established Diamond Mountains tourism zone, also in the border area with South Korea, had been effectively closed in 2008 after a South Korean tourist was shot dead by a North Korean border guard. In 2011, some basic infrastructure was built

by China on the North Korean islands of Hwangumpyong and Wiwha in the Yalu river near the Chinese city of Dandong; however, companies had not settled there. The infrastructure in Rason had been largely paid for by China and Russia; in Kaesong and the Diamond Mountains it had been paid by South Korea. The zones were supplied with electricity by China and South Korea. Apart from providing the workforce, North Korea's contribution was minimal in all zones.

In 2013, the Central Committee of the Workers' Party decided to allow the provinces to create more special economic zones to attract foreign investment. A total of around twenty new special economic zones were designated. They were different in size and purpose (tourism, agriculture, technology, contract manufacturing, etc). What they all had in common—other than the Wonsan tourism zone – was that the foreign investor was expected to provide capital, technology, and markets and build the infrastructure, including energy, water, and transport. North Korea would provide nothing but a plot of land and the workforce. Even more relevant was the fact that the concept of special economic zones was not supported by the whole leadership: In 2013, only a few weeks after the decision to allow new zones, the North Korean armed forces closed the Kaesong Industrial Zone for several months in clear contradiction to the Workers' Party line. The controversy in the leadership was also manifest by the fact that the country's leaders have made no public gestures of support (e.g. through a visit by Kim Jong Un) for the special economic zones since the transition from Kim Jong Il to Kim Jong Un.

Tug-of-war in the leadership between 2008 and 2015/16:

Right after Kim Jong Il's stroke in 2008, a shift towards more conservative positions in internal, external, economic policy as well as ideology occurred. Conservative forces were empowered as a physically and politically weakened Kim Jong Il had to pay a political price to the armed forces and other members of the elite to accept Kim Jong Un as successor. But not all members of the elite were happy with the conservative shift and pushed back. The years from 2008 to 2015/16 were

a transition period characterized by a confrontation within the leadership about the course the country should take. Differences of opinion were notable in nuclear policy (mainly as to the speed with which nuclear armament should be pursued), budget priorities (military vs. civilian sector; heavy vs. light industry), Pyongyang's South Korea policy, the attitude towards economic reforms, the degree of self-isolation. To be sure: There was also large consensus in basic questions as, for example, the maintenance of the Stalinist system and control of the population, by, among other things, increasing supervision and indoctrination efforts. The hardliners give more importance to these political objectives than economic growth and see in aid, foreign investment, special economic zones, and other forms of economic cooperation less of an opportunity than a risk to the regime's stability.

After Kim Jong Il's death at the end of 2011, the power struggle in the leadership intensified. Discussions about nuclear policy continued as became evident with the breakdown of the Leap Day Agreement in 2012 and the adoption of the Policy of Parallel Development that gave rise to a further increase in military spending to the detriment of the civilian economy. Other examples include the closure of the Kaesong Industrial Zone in 2013, preparations for an inter-Korean family meeting in 2014, the attempt in October the same year to improve relations with Seoul and the inter-Korean "mine incident" in August 2015. It was evident – and in private talks sometimes admitted even by high level officials – that there were divergent views within the leadership about the political direction North Korea should take. Since 2016, there have hardly been any signs of a power struggle within the leadership: the hardliners have prevailed.

ABOUT THE AUTHOR



H.E. Thomas Schäfer hails from Oldenburg, Germany and he is a member of the Board of Advisors to the Center for Asia Pacific Strategy. During his career in the German Foreign Office, he was posted several times to East Asia and is the former German Ambassador to North Korea (2007-2010 and 2013-2018), and Guatemala (2010-2013). He has PhD in German history from the University of Kiel in 1985. He is the author of the book, *From Kim Jong Il to Kim Jong Un: How the Hardliners Prevailed: On the Political History of North Korea (2007-2020)*.

See full biography on the CAPS website [here](#)

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