

# **Purposeful Engagement: Working Toward US-DPRK Mutual Prosperity**

Marcus Noland

Peterson Institute for International Economics and the East-West Center

June 2019

“With deepening economic exchanges and cooperation...the North Korean economy will overcome to a considerable degree its capital shortage and technological backwardness through its policy of open doors to the outside; and will show greater vitality in its economic relations with the outside world. As the planned economic system gradually turns toward a market economy, the North Korean economy is expected to experience rapid growth, and the economic disparity with South Korea will begin to narrow. When and if such developments occur, along with improved living standards for its citizens and the inevitable change in their world view and/or perception of the outside world, we would project that there would inevitably be demands for changes even in their political system. As these trends take root, it would be unavoidable for the North Koreans to tolerate or even accept the multi-party system and the principle of free elections.”

--South Korean President Kim Dae-jung

# Overview

- What explains shift in North Korean behavior?
  - Maximum pressure, maintain sanctions
  - North Korean agency, offer engagement
- Standard argument is that economic engagement will encourage transformation in desirable directions:
  - Socialization and learning effects on policy makers in target countries
  - Create different cost-benefit trade-offs to alternative courses of action
  - Tilt composition of governing coalition toward interests more amenable to international cooperation
- North Korea attempts to forestall these effects
- Do existing conditions of engagement support transformational vision?
- If not, how can engagement be reformed? What is the US role?

# Engagement: Two Conceptions

- Quid-pro-quo inducement (Roh Moo-hyun)
  - Classic bargaining problems
    - Advance payment/moral hazard risk
    - Ex post/credible commitment issue
  - Coordination problems
- Long-run transformation (Nixon, Brandt, Kim Dae-Jung)
  - Fundamental endogeneity problem—domestic institutions as a prior condition
  - Modalities matter
  - Coordination problems
- South Korea in the driver's seat
  - China and Russia have no interest in transforming North Korea's economy
  - US, Japan, and EU have interest, but little influence. KORUS could become flashpoint
  - Survey from 2010; reasonable starting point for understanding engagement moving forward
  - Modalities of engagement: arm's length transactions; processing on commission; Kaesong Industrial Complex

# Methods of Hiring North Korean Labor

NK Employee Hiring Method	Total		KIC (n = 33)		Non-KIC (n = 13)		POC (n = 8)		Arms-Length (n = 5)	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
<b>Directly</b>	1	2%	0	0%	1	8%	0	0%	1	20%
<b>From a North Korean government labor agency</b>	38	83%	31	94%	7	54%	7	88%	0	0%
<b>Our North Korean partners supply the workers</b>	5	11%	1	3%	4	31%	1	13%	3	60%
<b>Other</b>	2	4%	1	3%	1	8%	0	0%	1	20%
<b>Total</b>	<b>46</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>13</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>5</b>	<b>100%</b>

- 83% hire via North Korean government labor agency, 11% via partners—workers pre-screened
- KIC more tightly controlled
- Some belief that workers had to pay bribes or be KWP members to be hired

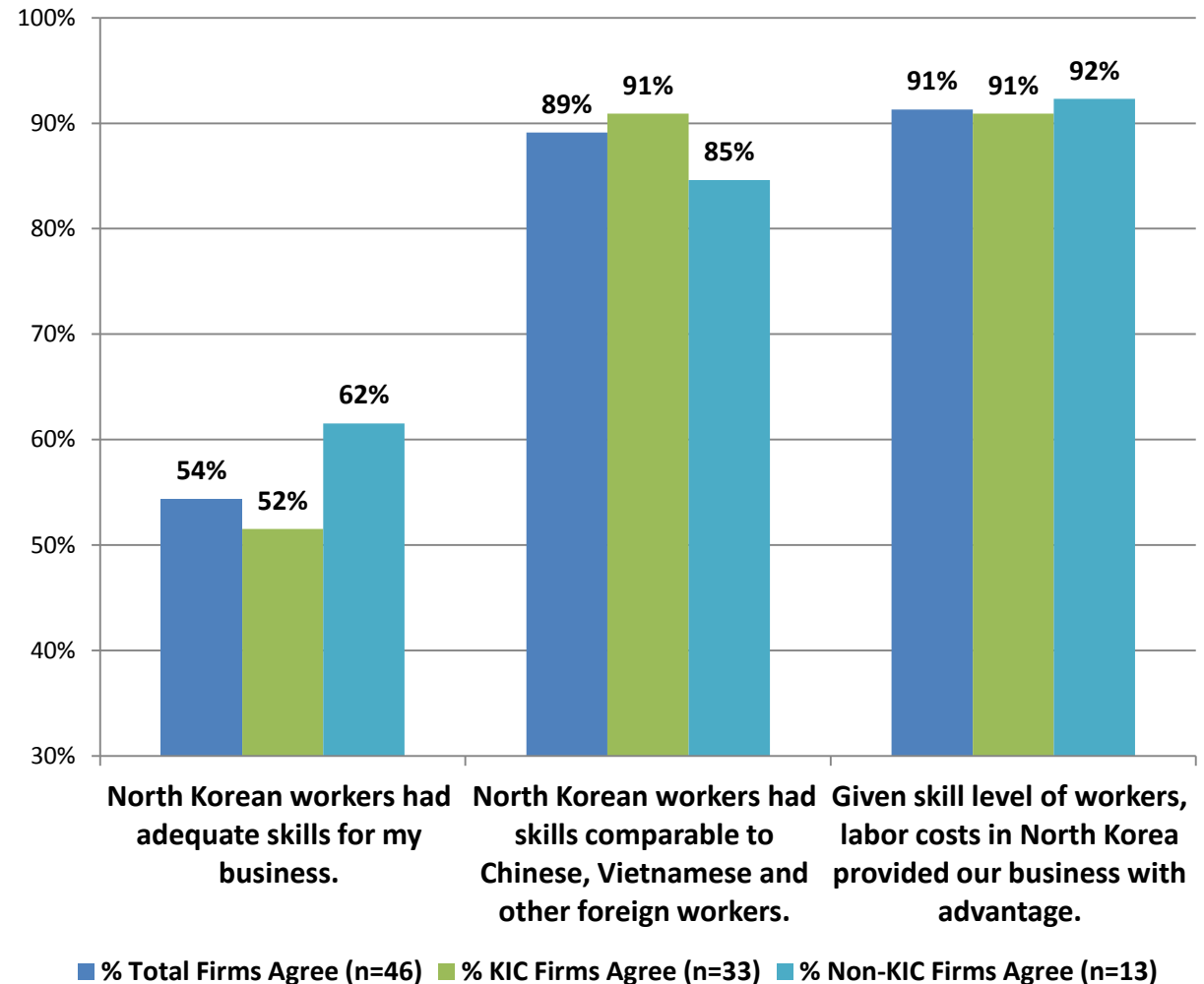
# Wages and Payments to North Korean Workers

Compensation Methods Practiced	Total (n = 46)		KIC (n = 33)		Non-KIC (n = 13)		POC (n = 8)		Arms-Length (n = 5)	
	Frequency	% Total	Frequency	% KIC	Frequency	% Non-KIC	Frequency	% POC	Frequency	% Arms Length
Pay hourly wages	41	89%	31	94%	10	77%	6	75%	4	80%
Make piece-work payments to North Korean labor	7	15%	4	12%	3	23%	2	25%	1	20%
Make overtime payments to North Korean labor	10	22%	9	27%	1	8%	1	13%	0	0%
Make bonus payments to North Korean labor	3	7%	2	6%	1	8%	1	13%	0	0%

- Wages generally set by North Korean government, paid to North Korean government in US dollars
- Evidence suggests that government absorbs significant share of these payments
- Some evidence of incentive pay—though even this operates through intermediaries
- KIC more tightly controlled
- See no evil: When asked directly,
  - Majority refused to answer the question
  - Those who did respond split evenly
  - **Bottom line: only 1/5 firms know how much their workers receive**

# Industrial Relations

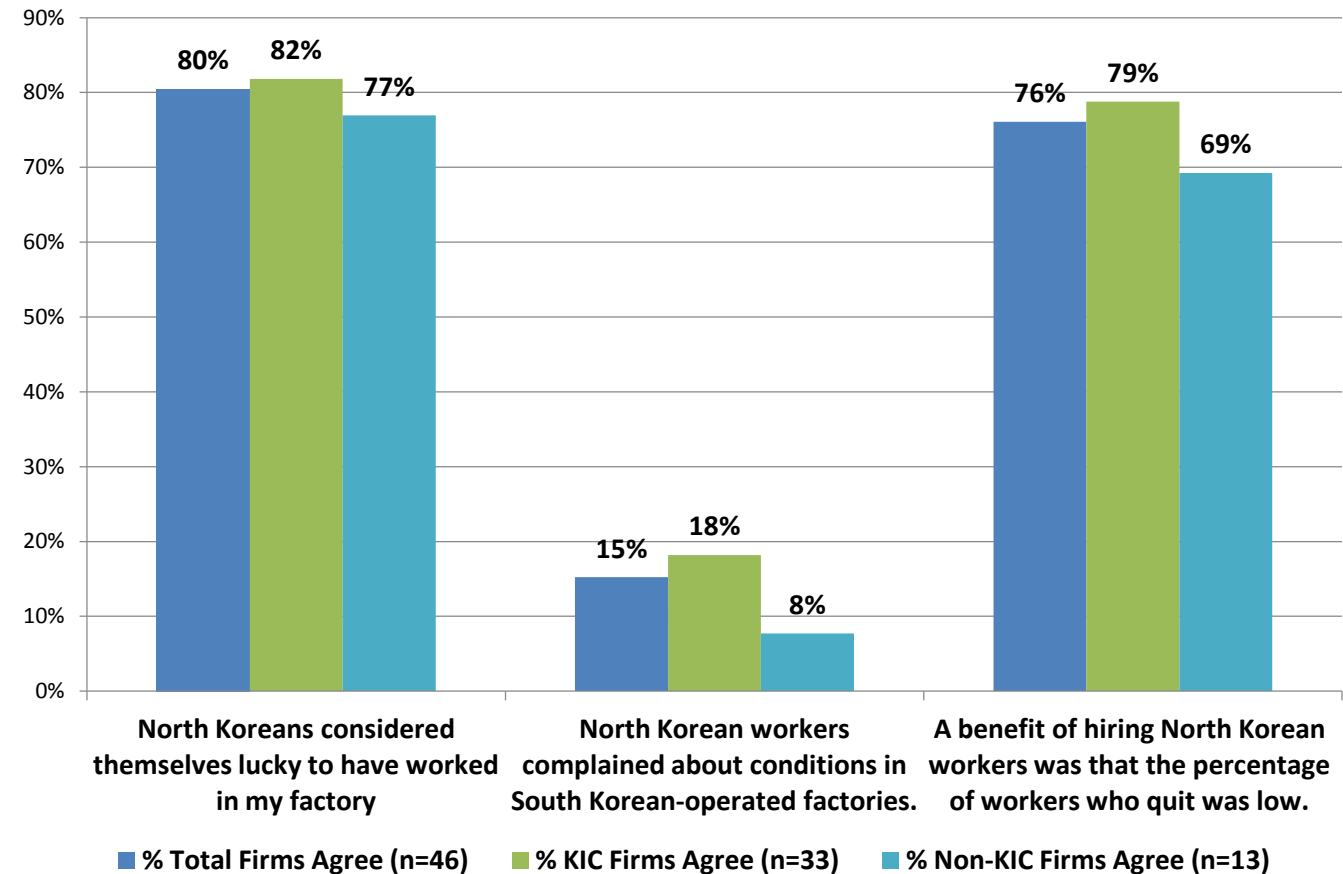
- South Korean managers normally do not supervise North Korean workers; supervision is done indirectly through North Korean intermediaries
- South Korean managers generally positive appraisal of North Korean workers
- Some evidence that indirect supervision problematic, possibly due to the political nature of North Korean intermediaries
- Direct supervisors were more likely to have negative appraisals of performance
- But no correlation between direct supervision and
  - Beliefs about worker attitudes, complaints, happiness
  - Knowledge of bribery and other pre-screening issues
  - Knowledge of wage payments retained by state



Note: Bars represent percent of firms out of sub-sample that responded positively to the corresponding survey question. Positive responses aggregate "Agree" and "Totally agree."

# Firm Opinions on North Korean Worker Satisfaction

- Only 15% report complaints
- No correlation between direct supervision and complaints—not lack of familiarity
- 80% believe North Koreans consider themselves lucky
- Docility is prized--83% report never having experienced a strike or work stoppage
- No standard method of resolving disputes



Note: Bars represent percent of firms out of sub-sample that responded positively to the corresponding survey question. Positive responses aggregate 'Agree' and 'Totally agree.'



# Labor Standards Context

- South Korea and US are members of ILO and OECD
- South Korea, US, and North Korea all members of UN
- South Korean constitution claims entire peninsula, hence operations in North Korea could arguably be subject to South Korean law
- So what constraints, if any, do various international agreements place on the participants?

# OECD and UN

- OECD Guidelines for Multinational Enterprises oriented toward constraining MNC use of capital mobility to thwart hosts' attempts to maintain standards, not denial of standards by host
- Invoke International Covenant on Economic, Social, and Cultural Rights (DPRK a signatory)
  - Songbun eviscerates non-discrimination clause
  - Freedom of assembly, association, form unions denied
- Yet also contains clause to follow local law
- UN Guiding Principles for Business and Human Rights faces similar issues, though also raise possibility of extraterritorial enforcement

# South Korean and US Law

- South Korea has only applied South Korean law extraterritorially when complainant is South Korean citizen
- Article 3 claims whole peninsula
- Article 33 grants workers rights to association, collective bargaining and collective action
- Article 6a recognizes international treaties as like domestic law
- Ergo, there is a legal basis for improving labor practices of South Korean firms; constraint is political
- Engagement with the US constrained by law and regulations
- Possibility of duty-free treatment under KORUS could force the issue

# Private Activism / Voluntary Codes

- Sullivan Principles (1977) directed at apartheid era South Africa
  - MacBride Principles (Northern Ireland)
  - Slepak Principles (Soviet Union)
  - Miller Principles (China and Tibet)
  - Maquiladora Standard of Conduct (Mexico)
  - Ceres nee Valdez Principles (environment)
- Implementation of Sullivan Principles symbiotic with anti-apartheid/ divestment/ selective purchase initiatives
- Subsequently reformulated as Global Sullivan Principles (1999)

# Conclusions

- Outside world should have modest expectations about our ability to influence North Korea. But engagement is a component of a broader diplomatic approach.
- North Korea has successfully circumscribed exposure to South Koreans, new ways of doing business.
  - Labor market practices of South Korean firms in North Korea resemble practices elsewhere in the North Korean economy.
  - Doubtful that positive change will come from North Korean regime or South Korean firms.
- Multinational obligations not well-suited for case at hand.
- US engagement constrained by law and regulation. KORUS could become a flashpoint
- Successful transformative engagement will require South Korean government action, which in turn requires political pressure.
- Public pressure necessary precursor in any event
  - Activist campaign around labor codes, rooted in international and national law, one possibility
  - Could be more than a poison pill designed to end engagement
  - Could address South Korean progressives lack of coherent stance on North Korean human rights
- Could contribute to engagement more consistent with Kim Dae-jung's transformative vision
- Otherwise, engagement risks enabling dangerous military modernization

# Thank You For Your Attention

