

# A Land Reform Program for the Integrated Korean Economy<sup>1</sup>

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## 1 Introduction

Since the division of the Korean peninsula in 1945, different land systems have been applied in South and North Korea. When the country will be once reunified, the integration of the different land systems into one poses one of the most difficult tasks. The direction of integration depends, *inter alia*, on how national reunification will be realized and what kind of economic system will be adopted after unification.

Regarding the mode of reunification, there are three different scenarios under consideration: the confederation scenario, the gradualist approach (convergence) and the big-bang approach. In case of the first and second scenario, there would arise little problem with respect to land system integration, because both parties would consult with each other and would be prepared to work out a new system suitable for the unified nation.

In this paper, no detailed discussions about the modus of national unification will be presented. Rather, the general problems will be put into focus that are likely to occur when the two different land systems will be integrated into one.

## 2 Historical background of the land problem in divided Korea

### 2.1 Distorted landownership since the division of the country

While in South Korea a market-oriented private landownership system is prevailing, private ownership is strictly prohibited in North Korea. The problem of different land systems in divided Korea is connected not only with the political and economic systems, but also with historical complications. Landownership has been distorted by the Korean War and the voluntary and non-voluntary migration of people from North to South and vice versa because of military, political and ideological suppressions. Therefore, the direction of land policy after reunification will be influenced largely by the question of how those events are interpreted politically and regulated by law. Against the background of the historically unique experience of landownership

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problems in Korea, there are some questions to be raised before the policy direction of a new land system can be discussed:

First, in March 1946, the North Korean ruling power initiated land reform. 1,000,325 hectares of land were expropriated without any compensation, 981,390 hectares of which were distributed to tenants. Distributed land was prohibited from sale, mortgage or lease.<sup>2</sup>

Second, in South Korea, agro-land reform was initiated in 1950. The principle was expropriation of land accompanied by compensation on the one hand and rationing of land to peasants with payment over time on the other.

Third, the North Korean regime was launched officially in 1949 and land reform in North Korea was carried out in March 1946 under the supervision of the Soviet military forces. In this connection, the question is relevant whether landownership change before September 1948 will be regarded as valid or not.

The direction of ownership policy and integration of land systems will be influenced largely by how those events are politically and legally interpreted and regulated.

## 2.2 Old landowners affected by the division of the country

Regarding the question of landownership, people affected are those who have lost their land through compulsory means such as expropriation or political and military suppression. They are immigrants like:

- 1) North, South and overseas Koreans who had been owners of land in North Korea but whose land was expropriated in the course of land reform,
- 2) North Korean residents who had been owners of South Korean land,
- 3) North Korean residents who received land from the communist military forces that occupied South Korean territories during the Korean War.

North Korean immigrants before and during the Korean War amounted to 3.5 million and 1 million, respectively. How many of them were affected by landownership change, is not known. According to a survey, 409,270 North Korean households were expropriated (in the course land reform) in March 1946. How many immigrated to the South and how many stayed in the North is also not known.<sup>3</sup>

Another survey estimates the number of South Korean immigrants to the North in the period around the Korean War to amount to 300,000. Most of them were col-

<sup>2</sup> Jeonhoo Sohn: *The experiences of land reform*, Social Science Publishing, Pyongyang 1983, quoted by Jaemyong Shin: „Processes and characteristics of North Korean land policy“, in: *North Korea*, Oct.1991, pp.129-144 (in Korean).

<sup>3</sup> Cf. Minbae Kim/Minkyong Choi: „South immigrants, North Korean land and national unification“, in: *Democratic Jurisprudence*, Vol.1, Seoul 1993, pp.167-188 (in Korean).



laborators of the North Korean regime and the „executers“ of land reform during the occupation of southern territory by North Korean military forces. After the communist forces had been driven from the South, they went to the North.<sup>4</sup>

The direction of land policy after unification depends also on how these people are to be treated.

### 3 The direction of the future land system in Korea

Even if the unified Korea will adopt a democratic and free market economic system, the question would still remain whether the political and juridical measures taken by the North Korean regime during the division should be accepted or not. According to paragraph 3 of the South Korean constitution, the North Korean regime is an illegal body. Shall this be kept this way? If so, the land reform initiated by this „illegal body“ would have to be nullified. In that case, all ownership changes initiated by the North Korean regime would have to be set back to the situation before the division of the nation.

The following problems center on this question:

First, is land reform in North Korea an act of the Soviet military forces or an autonomous act of the North Korean communist regime? Depending on the answer to this question, the decision on ownership will vary. If the legitimacy of the North Korean regime is to be negated, then all measures of this regime, including land reform and any other property right changes, would also have to be nullified.

Second, what kind of differences, from a legal point of view, are there between land reform in the South, which was carried out during American military rule, and that in the North? If the legitimacy of the North Korean regime was to be recognized, then all the measures of this regime would also have to be recognized as effective.

Third, shall the ownership change from 1945 to 1949 and that from 1950 to 1953 be treated within the same historical context or not? In East Germany, the land expropriated from 1945 to 1949 was exempted from the return principle, because that was regarded as a matter of Russian sovereignty, while the other land was returned or full compensation could be received for it.

Even when the unified nation adopts a market economic system like the present South Korean regime, another basic question to be answered is whether the land system of South Korea should be extended to the new unified nation or not.

After some comparative studies between the German case and the Korean „would-be“ case of landownership problem, some scholars stress that the German solution cannot be applied to Korea without modification. The return principle in

<sup>4</sup> Cf. Minbae Kim/Minkyong Choi: op.cit. and also Jinwook Lee: „North Korean land policy after the unification - focus on the ownership problem“, in: *Land Research*, Vol.4, No.6, Land Development Corporation, Seoul, Nov.-Dec. 1993 (in Korean).

Germany caused various kinds of confusion and problems like sluggish investment, obstacles to the expansion of social overhead capital (SOC), higher integration costs, lack of land supply, etc. Therefore, the return principle was actually substituted by the compensation principle.

Ownership documents in East Germany were available in relatively good condition and officially more than 45% of land was in private possession in 1989. In the case of North Korea, private ownership has not been allowed and all kinds of registration documents were destroyed intentionally, so that identification of the real owner will be much more difficult than in the case of Eastern Germany. Most of the first generation of immigrants from North Korea is no longer alive. And many of their families got separated, so that heirship is complicated.

All these factors together make it impossible to avoid social complications and juridical disputes.<sup>5</sup>

A dramatic change of the land system in North Korea, where a socialist land system prevailed since the division of the country, would lead to confusion. Confusion might also arise when the cooperative farms would be transformed into private farms, because „there are no farmers, but only farm laborers in North Korea“.<sup>6</sup>

In the design of the land system integration program, special attention must be paid to the interests of those people who have lived in North Korea during the whole period of division and have never had a chance to hold private property because of the communist system. By the time of unification, they could not only become poorer in absolute as well as relative terms but would also be threatened by a removal from their ground, on which they have depended for their living so far. The solution of the ownership problem demands also sufficient consideration of these people's interests.

## 4 Some policy measures to integrate the landownership system

### 4.1 Policy options

In order to work out some suggestions for land system integration in Korea, one must consider, among others, the following factors:

- 1) How should the transition period of system integration be managed?
- 2) In finding the solution to landownership, should the private property right aspect or the national economic aspect be given priority?

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<sup>5</sup> According to a survey, only 7% out of 700 questioned North Korean immigrants possess their old ownership documents. Cf. W.K. Kim; „What shall be done with the North Korean land problem after the reunification?“, in: *Monthly Chosun*, Nov. 1993, pp.494-503 (in Korean).

<sup>6</sup> Ibid.



- 3) How should the living standard of the North Korean people be secured and how can an opportunity to obtain their „starting property“ be given to them?
- 4) What measures should be taken to prevent land speculation in the territory of North Korea?

If the return principle were to be applied, there will arise, *inter alia*, three serious problems. First, the financial burden will dampen North Korean economic recovery, which in turn will have an impact on the Korean economy as a whole. Second, in order to identify the former owners of the land a lot of juridical and administrative efforts will be required. Third, the interests of the tenants of the land and the North Korean inhabitants in general will be hurt seriously.

All these points imply that the land problem requires a very cautious approach.

Considering the complexities of the land problems mentioned above, there are a number of proposals, most of which can be regarded as transitional in nature:

- 1) To keep all real estate in the hands of the state as national ownership. In this case, priority should be given to reserving land for the regional economic reconstruction of North Korea, at least until a comprehensive national development plan will be completed.
- 2) The cooperatives' ownership should be transformed into state ownership, but private ownership should be allowed for a limited amount of land, for example, for housing and self-cultivating farm land as well as for self-managed private economic activities.
- 3) Instead of introducing the South Korean private ownership-oriented land system a „user-oriented“ land system should be introduced to the North, at least during a limited span of time.
- 4) North Korean land should be privatized gradually according to a privatization schedule.

These alternatives are not exclusive but complementary to each other. So, any combinations of them are possible for policy implementation.

## 4.2 The necessity of privatization

All countries that are undergoing system transformation consider privatization of national properties as an unavoidable political step. And real estate is not exempted. There is no doubt that private property rights constitute an indispensable substance of a democratic market economy. This does not necessarily imply an immediate transformation of the land system in terms of a big bang. Privatization must not be accomplished at once but rather step by step when the purpose of land use is clarified. Not only the „cost“ of national unification but also the future well-being of the whole nation heavily depends on the direction of land policy. Once unification will

be effected, conflicts will emerge between old landowners and those people whose living foundations depend on that land. Therefore, social and economic chaos can be avoided only when North Korean land - actually the only wealth of North Korea as a whole - will be managed with national well-being in mind. Transformation of ownership may thus proceed gradually, i.e. according to a plan of successive privatization.

A clear-cut guideline must be drawn from the question of how land will be privatized and who will have priority in acquisition. For example, the land that belongs to farmers' cooperatives can be privatized and the members of the cooperatives concerned will have priority in acquisition. But because they will not be in a position to pay for the land, they can be granted the usufruct right to cultivate it until they will be able to pay in several years' time and to secure ownership of the land.

A leasehold system can be applied at the beginning stage of transformation. But this can be regarded only as a transitional step before the privatization process and not as final solution because a leasehold system only in the area of North Korea would mean a permanent separation of the land market in one and the same country. Furthermore, a nation-wide leasehold system will produce an enormous amount of administrative work which might be accompanied by arbitrary intervention and corruption.

## 5 Different ways of privatization for different uses of land

The territory of North Korea comprises an area of 122,762 km<sup>2</sup>. 17.4% of it is agricultural farm land, 76.5% forests and 6.1 % serve other purposes. It is divided in five categories: agricultural farm land, forests, urban land, land for special purposes, and others.<sup>7</sup>

Different patterns of land use lead to different ways of privatization of the once socialized land. For example, the German privatization agency Treuhandanstalt (THA) distinguishes five different processes of privatization. They are: a) free sale, b) bidding (Bietverfahren), c) limited open tender (beschränkte Ausschreibung), d) public open tender (öffentliche Ausschreibung) and e) public auction (öffentliche Auktion). To which category land will belong depends on the pattern of land use or its purpose in terms of economic and urban development.<sup>8</sup>

At the initial stage of German land privatization, the option of free sale was applied most frequently, especially when the production unit concerned had concluded a cooperation agreement with a West German partner. In the bidding process, only

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<sup>7</sup> For more details cf. Haeung Ryu: „Land use system of North Korea“, in: *Land Research*, Korea Land Development Corporation, Seoul, Jul.-Aug. 1993, esp. Tab.2, p.116.

<sup>8</sup> For a very detailed description and analysis of the privatization work in Germany cf. Wolfram Fischer et. al. (eds.): *Treuhandanstalt, Das Unmögliche wagen*, Forschungsberichte, Berlin 1993.



such limited and selected potential investors were invited who were considered to be suitable and qualified to take over the objects in question. Most companies belonging to the chemical, paper, iron and steel industries in East Germany have been privatized by means of this process. The third way of privatization, limited open tender, has been applied to small and medium-sized industrial firms with a relatively simple internal structure.

The fourth way of privatization, public open tender, draws special attention. By means of this process, more than 30,000 retail business units in East Germany were privatized by January 1991. Even though this was the process of public open tender, in most cases, only East German inhabitants were qualified to participate in the bidding. This process is also called „small privatization“ and is distinguished from the „big bang“ that was applied to most industrial firms of former East Germany.<sup>9</sup> Public auction was never applied in the course of privatization in East Germany.

In the following, the methods and sequences of privatization for various kinds of land in North Korea will be discussed.

### 5.1 Privatization of land for housing and lodging facilities

Even though private ownership in North Korea is not allowed, it is known that the usufruct right of family houses or apartments is recognized. This usufruct right can be extended after unification. But because the quality and market value of residential facilities vary, it is not fair to transfer the usufruct right directly to ownership without any complementary measures. Rather, it is worthwhile to privatize residential facilities immediately after unification. But this may not happen in the sense that the „occupant“ automatically becomes the owner of the facilities. Rather, the „occupant“ will be granted the pre-emptive right so that he can acquire the facilities and lands in question against payment.<sup>10</sup>

Needless to say that most North Korean inhabitants are not in a position to pay for a house or an apartment. Therefore, their interests must be protected in such a way that they should be privileged to acquire their residential facilities much cheaper than at market price and be allowed to pay for them in a step-by-step manner over several years.

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<sup>9</sup> For more details of the strategy of privatization cf. K.D. Schmidt: „Strategien der Privatisierung“, in: W. Fischer et. al.: *Das Unmögliche wagen*, op.cit., pp.211-240.

<sup>10</sup> In this context, the experiences of Russian housing privatization are suggestive. To occupants of residential facilities, up to 18 m<sup>2</sup> per family member ownership was granted free of charge, while exceeding space was allowed only against payment. Prices were set according to the size of exceeding space. When occupied space was less than 18m<sup>2</sup> per family member, financial compensation was granted. Transactions concerning residential facilities were allowed only after some time had elapsed.

## 5.2 Privatization of agricultural farm lands

17.4% of North Korean land is used for agricultural purposes with farm land accounting for the biggest share in North Korea. Also, about 37% of the whole population is involved in agricultural activities.<sup>11</sup> From this data, one can see how important the right approach to the question of landownership can be.<sup>12</sup> In order to protect the interests of farmers, they must be given a chance to acquire farm land even after some time when they will be in a position to pay for it. Long-term loans, low interest rates, payment over time and other preferential measures should be offered to them.

In 1963, the last year for which statistics are available, there were 3,732 agro-cooperatives with 1,837,000 hectares of fields and 190 state-owned farms with 159,000 hectares of fields.<sup>13</sup> According to the latest statistics, North Korean agricultural land now covers 2,141,000 hectares, 69.9% of which are dry fields and 30.1% are rice paddy fields.<sup>14</sup>

Presuming that the land of the 190 state-owned farms will be preserved under state ownership even after unification, the agro-land to be privatized will comprise 1,837,000 hectares that are owned by cooperatives. This can be privatized in various ways: grants to individual farmers with no compensation, ownership transfer to cooperatives, privatization by sales, etc.

Sales of land do not necessarily mean that the free market principle must be applied from the very beginning. North Korean inhabitants have been prevented systematically from accumulating wealth and are not allowed to own land. Therefore, they first must be given an opportunity to acquire farm land. The so-called „minimum bang“ approach is recommendable. This means, among other things, that land will not be sold to the person who offers the highest price. Rather the right to acquire farm land must be restricted to those people who have been farmers and members of agro-cooperatives and who intend to be farmers in the future.<sup>15</sup>

In North Korea, the effective working units of agriculture are not the cooperatives themselves but their subunits, the so-called *sojo*, which comprise 5 to 15

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<sup>11</sup> Based on data of the Board of National Unification. Cf. also Haeung Ryu: „The land use system of North Korea“, op.cit.

<sup>12</sup> Cf. D.S. Park: „Community farms in North Korea and the land problems after reunification“, in: *North Korea*, Oct. 1993, pp.121-129 (in Korean).

<sup>13</sup> Cf. Chung, Joseph Sang-Hoon: *The North Korean Economy. Structure and Development*, Hoover Institution Press, Stanford 1974, p.33.

<sup>14</sup> Data from the Board of National Unification.

<sup>15</sup> For more details of the different sequences and strategies of privatization cf. S. Johnson/H. Kroll: *Strategy, Structure and Spontaneous Privatization*, Washington, D.C. 1992 and also IMF: *Privatization in East Germany. A Survey of Current Issues*, IMF Working Paper WP/92/8, 1992.



households. It is recommended to dissolve the cooperatives into subunits and then to grant the right to acquire agro-land to these subunits.<sup>16</sup>

### 5.3 Privatization of industrial and commercial estates

In terms of organizational form, the industrial production units in North Korea are either national corporations (*kukyoung kiupsso*) or combines (*yonhap kiupsso*). They possess not only the plant sites for the production process but oversee also many subordinated work brigades for special purposes.

Since investment in the industrial sector has a primary importance for the development of the future Korean economy as a whole, the privatization of industrial estates must be carried out with the aim of inducing potential investors from South Korea as well as from foreign countries.

There are many ways of privatization of land for industrial and commercial purposes, depending on the circumstances. Coupons or vouchers, for example, can be distributed to the population as shares of „the people's property“ or a commercialization process can be introduced before privatization begins.

For hotels and restaurants, retail shops, service firms and firms of handicraftsmanship as well as for small-scale industrial firms, the so-called „small-scale privatization“ can be applied. By this method ownership can be given to a private person either through an open bidding procedure and public sales or to persons with pre-emptive rights. Management buy-out (MBO)/management buy-in (MBI) can also be considered as a kind of small-scale privatization.<sup>17</sup>

The main purposes of small-scale privatization are the following two: reactivation of the North Korean service sector and small and medium-sized enterprises through a prompt commercialization of these sectors, and promotion of local (North Korean) inhabitants' participation in the capitalization of national property. Therefore, it is recommended to allow only North Korean inhabitants to participate in this privatization process so that some „starting property“ will be granted to them.

For large state-owned firms and combines, „large-scale privatization“ should be undertaken. The main objective here is not the promotion of local entrepreneurship or distribution of national property to local inhabitants but the inducement of

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<sup>16</sup> Poland has experimented with self-determination of farm landownership by entitling the members of a cooperative to elect a representative of their cooperative and to treat the ownership problem internally in a democratic way. Cf. D. Mario Nuti: „Privatization of Social Economies. General Issues and the Polish Case“, in: H. Blommestein/M. Marrese (Hrsg.): *Transformation of Planned Economies. Property Rights Reform and Macroeconomic Stability*, OECD 1991.

<sup>17</sup> In Germany, until February 1994, out of 13,643 privatized firms, 2,591 were MBO/MBI. Cf. Treuhandanstalt: *Dokumentation 1990-1994*, Bd.14/VII: *Neuordnungen der Agrarstruktur*, pp.92.

investment capital and technological and managerial know-how into the North Korean economy.

Even though the plant sites are, in many cases, the only valuable assets of industrial firms in North Korea, special attention must be paid to the privatization of these firms in order that the estates will be used for industrial activities after privatization. Otherwise, potential investors might be interested only in the acquisition of land and not in the operation of production activities of the firms concerned. In the latter case, plants would have to shut down, production would come to an end and employees would be laid off on a massive scale, so that the region concerned would be ruined industrially.

Industrial complexes possess land not only for direct production purposes. Therefore, a clear division of land categories is necessary before the privatization negotiations will begin.<sup>18</sup>

## **6 Further policy considerations regarding land system integration**

### **6.1 Measures to be taken in the transitional period**

When North and South Korea will once be unified, economic integration of both parts will take more than just a few years. The economic gap between them will have to be narrowed and political consensus will be necessary in many aspects. One important point over which consensus exists seems to be that North Korean land, even if it was once expropriated, cannot be the property of a certain individual person or a group of people. Rather, after unification, North Korean land will have to be regarded as a public good that serves the well-being of the whole nation.

Some basic studies and surveys about the land use pattern and the geographic information system are indispensable for the integration of the land system.

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<sup>18</sup> In East Germany, for example, THA separated the land that was not directly related to production activities from the firms to be privatized and commissioned this land to its daughter organization, Liegenschaftsgesellschaft der Treuhandanstalt mbH (TLG), in order to sell it for other purposes. All land except that for agricultural purposes and forests are to be privatized by TLG, which was established in 1991. For the detailed report on the activities of TLG, cf. Treuhandanstalt: *Dokumentation 1990-1994*, Bd.8: *Liegenschaften und Wohnungsprivatisierungen*, Berlin 1995, pp.341-581.



## **6.2 Measures to secure the living foundations of North Koreans and to guard against the land speculation**

The restitution principle applied in Germany after unification held various kinds of uncertainty for investors. Even though the property law was amended in an earlier stage of integration to loosen the return principle, the expected economic boom was delayed in Eastern Germany for longer than expected.

The economic gap between the North and the South is big. The GNP per capita of North Korea is about one tenth (1996) of that of the South. Besides, people in the South have accumulated property as much as they could, while their neighbors in the North were not allowed to have property. With these facts in mind, some measures are urgently needed to support the North Korean population in the process of accumulating property. The following measures can be considered: First, distribution of social and national property in North Korea to the people living there in the form of coupons or vouchers; second, distribution of some portion of the land to North Koreans; third, supply of land exclusively to North Korean end-users (inhabitants) in the form of leasehold, usufruct, or ownership on favorable terms.

The new ownership arrangement must not widen the wealth gap between North and South, which is already broad. A sell-out of North Korean land to speculators must be avoided.

## **6.3 Setting up an institution in charge of land system integration**

The institutional framework for privatization policy in reform countries varies from country to country.<sup>19</sup> Whatever institutional form may be chosen, some policy considerations are necessary to take into account the special position of leaseholders, pre-emptive tenants and occupants, workers and members of cooperatives, etc.

At this moment, it is difficult to discuss what form of institution and what organizational structure will be most suitable to accomplish the task of land system integration. It depends heavily on the mode, timing and sequencing of national unification and economic integration of the two parts. But the chosen institution must carry out the following works in a functional and periodical manner:

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<sup>19</sup> Land reform institutions can be identified as the following three types: First, the central and/or regional government is involved directly in privatization and restructuring of the ownership pattern. For example, Poland and the Czech Republic established a Ministry of Privatization as part of the cabinet. Second, some countries set up a new institution to deal with privatization and restructuring tasks. German THA and Hungarian SPA (State Privatization Agency) are the most well-known examples. Third, some countries allow members of cooperatives, managers and workers of combinates, brigades and other production units to deal with „their“ properties and to solve ownership problems internally.

First, in order to prepare land policy after national unification, an institution must be established soon. This institution must be equipped with

- a data base and a GIS (geographic information system) for all kinds of information regarding land in North and South Korea,
- staff qualified to appraise and evaluate the land and other national property,
- a regional and nationwide business information network to prepare structural adjustment and urban development in the course of the economic integration of North and South Korea.

Second, once Korea is unified, an integrated land system should be adopted in North as well as in South Korea. In order to implement this system, a public institution in charge of privatization should be established. This institution can be regarded as a procurator of the state whose task is to deal with potential claimants and buyers of land which has been designated by state authorities for gradual privatization. But the planning and coordination of land policy as well as the control of privatized land must be retained by state authorities, so that the function of the new institution is limited to the privatization of land.

## 7 Summary and conclusion

The ownership question vis-à-vis North Korean land after national unification can not be answered in the context of the South Korean constitution alone. Rather, the solution must be in accordance with the political, economic and historical context. If land was to be returned to the old owners, there would not only arise huge „unification costs“ but also social and economic crisis that might well threaten national stability.<sup>20</sup>

Among other things, we can expect the following problems:

First, confusion regarding the real estate price system. Because a real estate market has not yet been established, an introduction of new ownership rules in North Korea would lead to price instability of real estate, which in turn would influence house rents and prices of daily necessities.

Second, unequal opportunities for North and South Koreans to acquire real estates. If North Korean real estate were to be privatized without any supplementary measures, ownership of real estate would be concentrated in the hands of South Koreans because North Koreans will not be in a position to pay for a real estate. This would widen the North-South gap even more than before privatization.

Third, shortage of land for public uses. If old ownership claims were to be recognized and other real estate were to be privatized, the long-term needs of the public

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<sup>20</sup> Cf. M.B. Kim/M.K. Choi: op.cit.



sector and the needs of commercial and industrial users would not be satisfied so that national economic development would be confronted with land shortage problems.

In anticipation of these contingencies, the desirable direction of policy measures can be summarized as follows:

- 1) The coordination of landownership questions and economic integration needs detailed preparation, which should be undertaken already in the transition period. In order to gain time for preparation, a transitional period of system transformation should be considered. In this time period, North Korean territory would be treated as a „special economic zone“.
- 2) In order to prevent massive landownership disputes in case of an unprepared reunification, some political decisions and national consensus should be reached before turbulences will arise.
- 3) The living foundations of North Koreans must be guaranteed. This can be achieved by giving occupants a guaranty of the usufruct right to the land as long as they will buy it or give it back to the state.
- 4) Over the last 50 years, North Koreans have had no chance to accumulate private property. In order to narrow the wealth gap vis-à-vis South Koreans, some policy measures are urgently needed. North Koreans may be granted the usufruct right, which can be extended to the pre-emptive right to buy the land for their own use. These privileges are, however, subject to the restriction of transactions for some time so that speculative transactions can be prevented.
- 5) In the privatization process, different sequences and methods must be applied to different kinds of land for different purposes and with different patterns of use:
  - Agricultural land cannot be privatized at the beginning of the process of land system integration because the tenants, mostly members of the agricultural cooperatives in North Korea, are not in a position to finance the acquisition of land. Therefore, leasehold and usufruct right should be given to, and only to, local farmers who also hold the pre-emptive right to buy the land later.
  - Residential houses and attached sites must be sold primarily to the occupants or other local families. Considering the weak financial position of these people, acquisitions will be supported financially and administratively.
  - Hotels, restaurants, retail shops and other small service facilities must be privatized as early as possible, with the pre-emptive right given to local inhabitants so that their economic activities will be promoted and the pressure on labor market will be reduced.
  - Combinates, industrial and other large estates for commercial and industrial purposes must be privatized in such a way that, in the short run, the industrial

subsistence of North Korea will be sustained and massive capital and technology-intensive investment from South Korea and from abroad can be induced afterwards.

- Land for SOC, other public facilities and all forests must be kept under state ownership. The same can be said of such agricultural and forest areas that are suitable and/or necessary for urban development or industrial and commercial activities.

Acquisition rights to land that hosts small shops, restaurants, other personal service activities, etc. should be granted exclusively to North Koreans and payment can be spread over several years. The revenue from privatization of other large sites can be used to build up SOC and/or distributed to North Korean inhabitants in the form of coupons or vouchers.

- 6) In order to integrate land systems in a united Korea, an independent institution should be set up. This institution would have the task to identify the goals of land policy, to appraise the objects concerned, to deal with potential buyers of the relevant objects, to grant usufruct right and pre-emption of certain categories of land, etc.
- 7) All lands and sites that are not used for direct production purposes should be preserved for a comprehensive nationwide development plan. Special attention must be paid to the long term-demand for land in line with SOC needs and public usage.