PROBLEM STATEMENT

In July of 2004, 468 North Korean defectors arrived in South Korea. This is the biggest single mass influx as of yet (Korea Times, Jul. 26, 2004). The number of defectors has been increasing rapidly. As the food shortage in North Korea worsened from mid-1990s, the number passed the 100 mark annually in the late 1990s. After 2002, the number reached more than 1,000 per annum. Currently more than 6,300 North Korean defectors are living in South Korea (Ministry of Unification: MOU, 2004).

However, the living condition of North Korean defectors is quite frustrating. The majority of the population remains unemployed depending on government allowances and become criminals. The problem has worsened as the number of North Korean defectors increasing rapidly (MOU, 2004).

According to a survey in 2004 conducted by HANAWON (meaning the House of Unity), a training establishment for North Korean defectors affiliated with South Korean government, 40.8 percent of respondents were jobless with no fixed source of income other than government allowances. 40 percent had part time or temporary jobs and 4.4 percent were working as sales men or self employed. Only 14.8 percent had full time jobs. A survey by Korea Institute for National Unification (KINU) shows 78 percent of defectors earn less than $910 (one million in Korean Won, 1 $ =1,100 Korean Won), which is roughly half of the average salary of South Koreans workers ($ 1,770, as of Nov., 2003) (Lee, 2003).

A report compiled by the National Assembly’s Health and Welfare Committee said that 77.4 percent of North Korean defectors were living on government allowances that is given for the poor South Korean citizens (Korea times, Oct. 4, 2004)
One troubling statistics is that more North Korean defectors are turning to crime. 28.4 out of 1,000 North Korean defectors committed crimes in 2002 (White Paper, 2004, MOU). Report from Korea Institute of Criminology said 16.74 out of 1,000 South Korean people committed crimes in the same year (KIC, 2002). This shows that crime rate of North Korean defectors is about 1.7 times higher than that of South Koreans.

Another striking statistics comes from a poll by a South Korean daily, conducted to 100 North Korean defectors in September 2004. It shows 69 percent of respondents prefer to go to western countries such as the U.S, Canada and Australia to stay in the South. 33 percent of those surveyed said they would return to North Korea if they could. The biggest reason for emigrating to other countries was economic difficulty in jobless situation (49 percent) followed by education (21 percent) and loneliness (17 percent) (Segye Times, Sep.15, 2004). According to MOU, which is responsible for support policies for North Korean defectors, 34 North Korean defectors actually have left again for other countries since 1990 (White Paper, 2004, MOU). An official at MOU said, “This year alone, more than 10 North Korean defectors who came into South Korea in 1990s were repatriated to the South by the U.S government after illegally sneaked into the country. They depart for the U.S after disposing of their financial assets provided by the South Korean government. With the money, they stay in Canada and Mexico seeking opportunities to enter the U.S and seek political asylum there”. He added, “Increasing number of North Korean defectors living in the South want to move to other countries after experiencing financial difficulties.”

Consequently, the public in South Korea has turned cold to North Korean defectors. Popular view is they see the North Korean defectors as lazy, inefficient and
untrustworthy. The status of North Korean defectors has relegated to a second class citizen from the status of heroes in early 1990s. They are now viewed as economic problems, burdening the native citizens, particularly when they receive assistance from the government upon their arrival. With the rise of the negative perceptions by the citizens, a majority of opinion polls have illustrated the desire of the South Korean public to keep the defectors out of the country. A 1996 poll showed over 60 percent of those surveyed replied that the defectors had a negative effect on reunification of the two Koreas, that settlement subsidy is excessive, and that the public should not be additionally taxed for these payment (Christina Shim, 2004).

Indeed, the increasing size of defectors has posed a rapid growth in the financial burden of government budget to support them. The relevant amount of official budget has increased from about $5.3 million in 2000 to $30.8 million in 2004 (MOU, 2004). Moreover, the actual spending may be quite higher than this because every year, an additional budget has been appropriated from other funds as more North Korean defectors come to South Korea than estimated in the original budget.

Under current law, a North Korean defector receives an average of $37,000 of settlement subsidy, it increases to $44,000 for two-member households, and $51,000 for three-member households (White Paper, MOU, 2004).

Of special concern is given to the effectiveness of this settlement subsidy. Up to now, it has been pointed out mostly from scholars and experts that settlement subsidy, by giving it in a lump sum and in a uniform way without considering linkage to jobs, seems to has failed in attaining its policy goal of self-sufficiency of North Korean defectors.
The main focus of criticism is that free and unconditional payment played a role to lower the will to work for North Korean defectors. In addition, lump sum payment, rather than utilized by North Korean defectors, has increased the possibility of using up the money by unconstrained spending before they get used to the concept of money and capitalism.

Given the situation, I claim that it is timely and meaningful to explore policy options that can improve the utility of current settlement subsidy in a way that can secure economic stability for North Korean defectors as well as motivate their will to work that is the key to self-reliance.

II BACKGROUND AND LITERATURE REVIEW

1. BACKGROUND

Demographics and policy changes: The number and characteristics of North Korean defectors, as well as the Korean government’s policy directions have changed. Until the early 1990s, less than 10 persons per annum defected to South Korea. At this time, most of defectors were military personnel, voluntarily surrendering spies and others defecting due to ideological reasons. They were honored as brave people for the purpose of systemic competition between the two Koreas. They were provided with generous settlement allowances, consisting of about $100,000 settlement subsidy, a spacious apartment, and an extra bonus depending on the value of intelligence they could provide. The ministry of Patriots and Veterans Affairs of South Korean government was in charge of supporting them.
Since the mid-1990s, North Korean defectors have increased to tens or hundreds of persons per annum. North Koreans defected from the North Korea in large numbers as a result of food shortage and chose to enter South Korea as there were limitations in illegally staying in a third country and also due to a fear of punishment should they return to North Korea. The South Korean government treated them as members of neglected social class. In 1993, the allowance was reduced to $13,000. The ministry of Health and Welfare was in charge of supporting them (Suh, 2002).

Recently, more than 1,000 persons per annum have come into South Korea. More North Koreans, accompanied by their family members, defected from the North with South Korea as their destination from the outset in the hopes of finding a better life. The South Korean government approached the social settlement of these people as an experiment for inter Korean social integration and handled the matter within a unification structure. Since 1997, the MOU has been in charge of handling the matter. The settlement subsidy was augmented in 1999 to $37,000 (Koh and Baek, 1999).

<table>
<thead>
<tr>
<th>Year</th>
<th>-1989</th>
<th>1990-1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Total</th>
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<tbody>
<tr>
<td>Number of Persons</td>
<td>607</td>
<td>488</td>
<td>312</td>
<td>583</td>
<td>1,139</td>
<td>1,281</td>
<td>1,894</td>
<td>6,304</td>
</tr>
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**Motives for defection:** MOU survey found that 55 percent gave poverty as their main reason to leave North Korea, while 20 percent left to join family members in the South. 9 percent cited political discontent while another 9 percent said they fled to evade punishment. 3 percent mentioned family troubles. This shows that political oppression in North Korea is not playing as big a role as we thought (MOU, 1998).
**Defecting process:** The most common routes taken by North Korean defectors to South Korea involve moving first to third countries and then escaping to South Korea. Other routes involve direct escape to the South by sea or by crossing the DMZ (Demilitarized Zone, established between South and North border). In the 1960s, 60 percent of defectors came to South Korea by sea or through DMZ. After the 1980s, the majority of them escaped by way of third countries such as China and Russia (Park, Kim, and Lee, 1996). In the late 1990s, however, it became difficult to seek political asylum in China and Russia, so defectors began taking long detours through such neighboring countries as Mongolia, Thailand, and Vietnam (Yoon, 1999).

Although it is impossible to get an exact figure of North Korean defectors staying overseas, the South Korean government estimated in October 1999 the number as 10,000-30,000. Although Chinese government has set the number at around 10,000, South Korean civil organizations that support them in China estimated the number between 100,000 and 300,000 (Lee, 2004). United Nations High Commissioner for Refugees (UNHCR) estimates the number as 100,000 (Park, 2000).

Those who flee North Korea attempt to apply for political asylum as refugee. The Chinese government has consistently claimed that North Korean defectors are economic migrants, not political refugees, and it has continued to deport arrested defectors to North Korea. Since the mid-1990s, many North Korean defectors began resorting to illegal methods such as passport forgery and maritime smuggling to arrive South Korea.

The experience of a North Korean defector, Jeon Mi-ae, provides a typical process of defection. Ms. Jeon said “I crossed the frozen TUMEN River (The river that marks the border line of China and North Korea) into China in search of a better life. To make my
escape less a matter of life and death, I paid a bribe of $187 to North Korean border guards. They then told me when and where to sneak across the border. After I crossed the river, I once hid inside a chicken coop to avoid a round-up by Chinese police." Ms. Jeon added, “After months of hiding in China, I ran into a broker who promised to help me reach South Korea. After I signed a contract promising to pay $4,800 upon my arrival in the South, the broker arranged a boat trip from NANJING (a port city of China) to HANOI (the capital city of Vietnam).” In September 2003, Ms. Jeon and 10 other defectors began their trip, and she, along with her companions, at last made it to Seoul (the capital city of South Korea) in May 2004.

Paying a brokerage fee is a common practice among North Korean defectors in China who wish to come to South Korea. The amount of money given to brokers varies according to routes. Direct air travel with a forged passport is known as the most costly means, adding up to about $10,000 per defector (Korea Times, Nov. 22, 2004). The problem is that as the number of brokers has increased, the defection becomes more like a business. In other words, it becomes more like an economic trade than humanitarian aids. A North Korean defector, Lee Gui-ok, stated “It was a den of armed robbers. All they wanted was to make money off us. They locked us in an apartment and covered all windows so that we could not see out or go out. At the right moment, they made us jump into a foreign embassy in front of T.V cameras they arranged beforehand. What kind of humanitarian work is this? Once captured by them, there is no escaping.”

**Settlement support system:** Official policy directions of South Korean government is that accept all North Korean defectors desiring to enter South Korea and that support them so that they may successfully settle as quickly as possible (MOU, 2003).
Major settlement support measures are: initial social adaptation education (3 months), initial financial support (settlement subsidy, housing deposit), and social safety net such as medication and education (Suh, 2002).

Arriving defectors take the following steps into South Korean society. Immediately following their arrival at the airport, they are taken to a facility for investigation operated by the intelligence command under the ministry of National Defense (Yoon In-Jin, 2001). After a month-long interrogation, they move to HANAWON to receive social adjustment education for three months. After three months at HANAWON, the defectors are discharged and registered as South Korean citizens. They are issued citizen cards and are set up with housing in low-income rental apartments (Christina Shim, 2004).

In order to assist newly arrived defectors at an early stage, South Korean government provides financial assists. Settlement subsidy is provided to assist initial living expenses as long as it does not exceed the amount of the minimum wage per month (about $516 as of 2003) multiplied by 200 at any given time. Specific amount of subsidy is calculated according to the grades ranging from one to five depending on the number and characteristics of the family members. On average, a North Korean defector without family members receives about $37,000 and two member households and three-member households can get about $44,000 and 51,000 respectively. Settlement subsidy is given to the defectors when they leave HANAWON in a lump sum amount without any conditions. The housing deposit of about $6,800 is also given at the same time. The monthly livelihood protection payment of about $470 is given to defectors who cannot support themselves (ordinary South Korean citizens receive $290). To deal with the issue
of employment, public or private job training is provided for free. In order to increase participation, the defectors receive money for transportation, food and household management expenses during the training periods. In addition, South Korean government gives job subsidy to the employers of North Korean defectors within the limit of about $700 for two years. North Korean defectors can attend public universities for free. In case of private universities, 50 percent of tuition fee is exempted. Other supports like medication are also provided (White Paper, 2004, MOU).

2. LITERATURE REVIEW
Relevant literatures are selected in three themes: Similar cases of settlement experiences that imply some lessons to North Korean defectors; Situations of North Korean defectors and causes of difficulties in settlement; Different perspectives on government policy on using subsidies or grants.

(a) Lessons from Soviet Union and Vietnamese experience to North Korean Defectors

Settlement is the state and process of an individual coming into harmony with diverse social circumstances and conditions. More specifically, settlement can be seen as a condition in which an individual’s inner, psychological desires come into harmony with external, social environments, enabling him or her to live satisfied without desperation and insecurity (Yoon In-Jin, 2001).

The underlying ideas of settlement are twofold. Theorists assume that people tend to want to move from regions of restricted freedom and little material goods to areas allowing more freedom and more materials. Scholars then assume that when such
immigrants reach their destination, they unhesitatingly accept the individual liberties and material increase because they are theoretically much better off than before (Kunz, 1981).

Studies illustrate that refugee experience from two communist societies, the former Soviet Union in the 1940s and 1970s and Vietnam in the 1970s have similarities with North Korean defectors in that all three nations oppressed their people and found their inhabitants leaving and desperately searching for life in another world. In addition, the general similarity prevalent among all the societies is the socialist attitude, which teaches its citizens to be reliant, dependent, and feel secure in the system.

For Soviet Union civilians, Stalin’s Great Terror Era of the 1930s terrorized them and the progressing communist forces frightened many soviets into voluntarily moving out to the West in 1940s. Harvard Refugee Project illustrates that the Soviet refugees had at least economic self-sufficiency in the United States in comparison to their former lives. According to a study, the crucial factor of their successful settlement in the U.S is their high levels of education (Inkels and Bauer, 1968). This study pointed out that though much of their education may have been useless for jobs in the states, being learned helped them grasp English more quickly, which in turn directly correlated with the income they earned.

The lifestyle in North Korea can be somewhat compared to the hardships that citizens in the Soviet Union experienced during and directly after the Great Terror Era. Shortages of food and materials and the great inequality between the privileged and average civilian were the characteristics of their life. The crucial difference is that while the Soviet Union encouraged higher education and technical training for societal
advancements, North Korean education remains politically focused and indoctrinated (Christina Shim, 2004).

Many Soviet Jews left the Union in the 1960s and 1970s after making their desire of leaving known and garnering support of western governments that pressured the USSR government. At this point, diplomatic relations between the East and the West were even somewhat estimated through the number of Jews the Soviet Union allowed to go out (Cohen, 1990). Soviet Jews who emigrated to the U.S were skilled, educated and familiar with urban life, further, they enjoyed refugee status and therefore eligible for a variety of resettlement services, training programs, cash assistance and permanent resident status in the United States (Gold, 1992). The education level of the soviet Jewish population, an average of 13.5 years compared to an average of 12.5 years for the United States population, helped them greatly in settlement. The total family income was $20,000 in 1980 and $34,000 in 1989 for those who had been in the United States for at least 8 years. They also had a relatively low unemployment rate of 9.7 percent in 1981 (Gold, 1992).

Soviet Jews refugees had less in common with North Korean defectors than average Soviet refugees from the 1940s. However, they did share a similar tendency to refuse less prestigious jobs because of their pride. This tendency is not helpful for the employment of North Korean defectors who have hardly any successful factors that soviet Jews possessed. The only advantage that North Korean defectors have is the amount of resources allotted to them by the South Korean government (Christina Shim, 2004).

After the 1975 fall of South Vietnamese government, hundreds of thousands fled the country. A second wave of migration occurred after 1978 because of the conflict with Cambodia and China, the increased agony of living conditions under the socialist rule,
and the economic constraints (Nguyen, 1991). Those refugees who selected the U.S as their destination were trained in settlement camps for three months at one of two refugee processing centers. After the training, the refugees were met by their sponsors or agents from the resettlement agencies and set up with apartments in refugee neighborhoods (Gold, 1992).

A study done in the 1980s showed 61 percent of the Vietnamese population in San Diego were living under the poverty level and 64 percent were welfare-dependent on government cash assistance (Balaran, 1983). This study analyzed that such a high percentage of dependency on government assistance programs indicates that individuals were not active using their available human resources to find jobs they needed. However, this study pointed out, by late 1980s, 31 percent of refugees who came in 1975 were able to earn an annual income of $21,000 and this might have been due to their higher education levels, endurance, and diligence.

The Vietnamese refugee experience has more similarities to that of North Korean defectors in that they both experienced risky process of defection, faced with negative reactions by the host citizens of their arrival and had high unemployment rate and had to depend on welfare assistance. The Vietnamese did seem, nonetheless, to create a makeshift to deal with their problems that the North Korean defectors do not.

Key lessons from the above experiences are that attaining economic self-sufficiency is the most crucial factor of successful settlement in another land and that in attaining economic self-sufficiency, refugee’s skills, level of education, and the effort to get and maintain jobs are crucial factors.
(b) Situations of North Korean defectors and causes of difficulties in settlement

Successful experiences presented above are not the case for North Korean defectors living in South Korea. North Korean defectors exhibit on going troubles settling in South Korea. The majority of North Korean defectors have failed to attain materialistic foundation in terms of job security and mean monthly income. By comparing several survey results, a study concludes that the unemployment rate of North Korean defectors range from 34 percent to 41 percent (Yoon, 2000). Their average monthly income is about $636 (700,000 in Korean Won), and three quarters of them have incomes lower than $910 (1,000,000 in Korean Won). Major sources of their income were turned out to be the monthly allowances from government ($470) and supports from religious and humanitarian organizations that provide North Korean defectors with materials such as towels and clothes and small amount of cash (Lee, 2003).

With regard to the cause of failure in materialistic settlement, most studies pointed out the following characteristics of North Korean defectors as crucial factors.

First, Lack of practical skills needed to work. Many defectors experienced significant problems when facing the competitive labor market in the South in which they had to promote their capabilities. The education they received in the North did not provide them with what was needed in the South, such as computer skills or fluency in English language (Sun, 1995). 93 percent of North Korean defectors have no experience of using computer (Korea Institution of Information Culture, 2004). Many even had difficulties with the Korean language, particularly with imported English words and the frequent use of Chinese characters, which have been banned in North Korea since 1949 (Yoon, 2003)
Second, their lack of will to work: usually the defectors do not know why they have to work hard in the South in spite of seeing how wealthy it is compared to North Korea (Christina Shim, 2004). A study analyzing the result of in-depth interviews with 32 North Korean defectors shows that the major factor that hinders self-reliance is their high expectation for government support while they do not make effort to get jobs (Jeon, 2000). In addition, because they are accustomed to a strong class distinction between blue collar and white-collar labor, they prefer white-collar jobs, shun the so-called 3D jobs (Dirty, Dangerous and Difficult) or quit them on impulse (Suh, 2002). Among those who have been employed from 2000 to 2003, roughly 32% have changed their occupation, and the average employment period for these workers is only 5.8 months (MOU, 2004).

Third, inability to manage financial challenges: Lacking the experience of handling money and the availability of countless goods, they often failed to meet the challenges associated with managing their finances. Often they jump into a business without sufficient understanding of the South Korean economy. Most North Korean defectors use up their settlement subsidy before long. This is critical reason for most North Korean defectors lose their foundation of establishing self-supporting life (Park and Kim, 1996). It is estimated that 45 percent of North Korean defectors loose their settlement subsidy within one year and only two percent of those who started business (mostly run restaurants) are successful (Lee, 2003).

Studies conclude that the addition of freedom and choice to North Korean defectors confuse them, the settlement subsidies the South Korean government gives them are often mismanaged and misused. This suggests that support policy for North Korean defectors should be focused on securing economic stability at an initial phase and
building human capacities so that North Korean defectors can become self-sufficient in a sustainable way.

**Perspectives on using government subsidies/grants**

Relevant policy issues about distributing government subsidy address four themes: the adequate amount, lump sum or allotment, linkage to work, and duration of support.

**Adequate amount:** One view is that settlement subsidy should be increased to provide practical help for North Korean defectors. This view is based on the concept of social justice emphasizing that North Korean defectors are the people who risked their lives for freedom. They are socially disadvantaged, and need more support in order to overcome initial disadvantages facing in a new political and economic system. It is not right to equate them with the unemployed and the homeless who once had a chance to compete (Yoon, 2001). This view pointed out that current amount of settlement subsidy is unrealistic because it is calculated based on the minimum wage. To be more realistic, the base should be changed from the minimum wage to the average wage of South Korean workers (Suh, 2004).

Another view is that current amount of settlement subsidy is excessive compared to the amount of monthly allowances given to low income South Korean citizens ($290 as of 2004), which comprise 10 percent of total population (Jae, 2002). This view criticizes the idea of increasing the settlement subsidy in terms of equity between the two groups. In addition, this view argues that just increasing settlement subsidy will not yield any positive results. The reality would be that North Korean defectors spend the increased money on luxurious cars and bringing their family members to the South.
This view also emphasizes that increasing the settlement subsidy has a low possibility for the following reasons: (1) Negative public opinion about increasing financial burden entailed by growing number of North Korean defectors. (2) It might cause international political conflict among South Korea, China, and North Korea. China and North Korea have raised concern that settlement subsidy of South Korean government encourages defectors to go South Korea using illegal measures such as passport forgery and smuggling. They consistently has claimed that settlement subsidy should be abolished (Christina Shim, 2004).

**Lump sum or basic income:** Ackerman and Alstott justify their ideas for lump sum by appealing to the notion of ‘real freedom’ (Ackerman & Alstott, 1995). This is roughly one’s ability to do whatever one might want to do. They believe basic income allotment would be less real freedom promoting than lump sum grants would be. This is because the basic income would not allow people to capitalize their monthly grant into a large sum to use for investment purposes or some other endeavor. Lump sum grants, by providing people with quite amount of lump sum, would allow for such endeavors.

Another view advocates monthly allotment that secures basic income (Van Parijis, 1995). This view argues that the appropriate criterion for the distribution of freedom is the “Maximin” principle: maximize the real freedom of those who have least freedom. According to this view, social justice can be achieved by securing a basic income for the least disadvantaged individuals and basic income is a powerful instrument of social justice that would promote real freedom.

Another study argues that basic income approach would be a much better deal for those who are prone to imprudent decisions (Michael, 2004). This study emphasizes
lump sum grant does not fit for those who are not familiar with capitalism and their choices are not based on economic rationality because these persons have been known to go on shopping binges where thousands of dollars are spent in a very short period. He maintains that it is unlikely that the monthly allotment would be big enough for someone to blow it all on a sports car or some other extravagant item, these types of bad decisions would be constrained. In addition, basic income approach provides recipients with second chance of making rational decision even after they blow away their basic income. Under the lump sum grants, this cure may come too late after one has blown all of his money.

**Unconditional or conditional:** One view argues that economic rights, different from political rights that are given unconditionally, were designed as highly conditional ones (Atkinson, 2000). According to this view, it is necessary to be in formal employment at least for a certain number of hours every day to receive economic benefits. The spread of welfare-to-work policies during recent years relies to a great extent on the philosophy of reciprocity, a concept that justifies the intensification of the link between work and the right to an income guarantee. Stuart White adduces that economic justice necessarily embodies some ‘fair reciprocity’ principle: citizens have some degree of responsibility for the common good (White, 2003). A rationale of this view is that as recipients of welfare establish regular and stable work patterns, their earnings will grow and they will become economically self-sufficient (Holcomb et al., 1998).

In the U.S, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996 ended the federal entitlement of cash assistance for needy families and created the Temporary Assistance to Needy Families Program (TANF). TANF provides transitional assistance conditional on work or the performance of work-related
activities; it requires most recipients to go to work within two years of entering the program. This Welfare reform has been reported to have substantially decreased caseloads. They had been declined, between August 1996 and March 1999, by 40 percent (US Department of Health and Human Services, 1999).

Other view argues that the linkage of welfare to work is ineffective. This view points out that while most participants get jobs, a large proportion lose those jobs within a year because of personal attributes, low schooling, lack of work experience and large family that constrains recipient’s employment (Hershey & Pavetti, 1997). Another factor that discourages work may be work-related expenses. The costs associated with going to work outweigh the benefits for many recipients (Primus et. al., 1999).

This view argues the caseload reductions and unemployment decreases are accounted for, a large part, by economic situation of the time (Figlio & Ziliak, 1999).

**Duration of Support:** Establishing an appropriate period of government support is important for successful settlement because it is related to the will to work. Too long periods of government support will increase their dependency. On the contrary, too short periods of support may force defectors to go out to competitive society before they are ready. A Korean study suggested that three years are appropriate for supporting North Korean defectors (Suh, 2004). HANAWON survey supports this suggestion. In the survey, the time period needed for North Korean defectors to settle in South Korean society turned out to be that 53 percent replied it would take at least three years, 27 percent two years, and 20 percent replied as one year.

Another study on the case of Vietnamese refugees’ settlement in the U.S shows the duration has changed from initial three years to one year. The U.S provided government
support for three years in the first stage then it was reduced to 18 months and finally reduced to 12 months. The U.S noticed that the support level make Vietnamese think that they can lead a better life than in Vietnam consequently lowering the will to work and make them depend on government support. Thus the U.S reduced the periods of support (Hur, 1990).

III METHODOLOGY AND EVALUATIVE CRITERIA

1. METHODOLOGY

Information provided in this analysis was collected using the following methods:

(1) Reviewing and synthesizing literatures pertaining to North Korean defectors and to the policy of distributing settlement subsidy. Much of information came from Korean literatures, reports compiled by MOU and KINU, and media.

(2) Data used in this study mostly came from four independent surveys on North Korean defectors: (a) Korea Institute for National Unification (KINU) survey which was conducted by mail in 2003 involving 2,510 North Korean defectors who entered South Korea since 1993. This survey received 780 answers and was analyzed by a senior researcher, Lee Kum-Sun, of the institution. Thus, much of the result of this survey is cited as (Lee, 2003). (b) HANAWON survey which was conducted by mail in 2004 involving 356 North Korean defectors who graduated HANAWON in that year. 206 respondents were analyzed. (c) MOU survey conducted by mail in 1998 with 214 respondents from the 161 defector households who had escaped to the South since 1990. Respondents to this survey comprised 75 percent of the total defectors residing in South Korea at the time. (d) The Segye Times survey conducted with combined method of face
to face interviews and mail questionnaires. It was conducted between September 1-15 in 2004, including 330 North Korean defectors living in Seoul.

These surveys provide information on the general social and economic situation of North Korean defectors in South Korean society. Surveys differ in characteristics such as sample size, sampling frame, and questions asked. Therefore it is difficult to compare their results. Nevertheless, the credibility of the data can be acknowledged because they show similar and consistent results along the same criteria.

(3) I myself conducted two separate interviews. One is conducted with three North Korean defectors, another is conducted with four experts including officials at MOU. Interviews with North Korean defectors were carried out between March 1-5, 2005. These interviews are intended to verify the result of surveys mentioned above. Focuses of these interviews were: (a) How are they living in South Korea? (b) What are the difficulties? (c) How did they defect from North Korea and entered into South Korea? The defectors were arranged by MOU. Interviews were carried out by telephone for an average of 30 minutes with each defector in the following order.

**Defector #1**: Lee Gui-Ok, a 35 year-old male, defected to South Korea in 2002

**Defector #2**: Jeon Mi-ae, a 50-year-old North Korean woman, defected North Korea in January 2003 and came into South Korea in May 2004.

**Defector #3**: Kim Seung-Chul, a 43 year-old male, defected to South Korea in 1995.

Interviews with four experts were conducted to evaluate policy options. Interviewees were composed of two officials from MOU and two experts from related organizations. Two experts from other organizations were introduced to me by MOU. Interviews were conducted between March 18-21, 2005. Each interview was conducted
first by telephone for about 30 minutes, and then carried out by email. By telephone, I explained policy options and evaluative criteria and asked their tried assessment on each option according to given criteria. The final assessment and ideas were collected by e-mail.

**Expert #1:** Ko Kyung-Bin, Director General of Humanitarian Bureau, MOU

**Expert #2:** Jung Dong-Moon, Section Chief of Department of Supporting North Korean Defectors at Humanitarian Bureau, MOU

**Expert #3:** Lee Kang-Rak, senior consultant for North Korean defectors at HANAWON

**Expert #4:** Lee Kum-Sun, senior researcher at the Center for North Korean Human Rights, Korea Institute for National Unification.

One limitation of this paper is that most of the materials are written in Korean. Because the North Korean defector problem and further, the policy of Korean government for supporting them is unique one, there were virtually no studies written in English. Thus I had to translate various words in English. In the process of writing in English, it is inevitable that the exact meaning could not be delivered.

Another limitation is that interviews with North Korean defectors and experts were made through telephone and e-mail. By this method, it was difficult to make a candid and detailed discussion as in face to face interviews. Moreover, North Korean defectors were somewhat reluctant to give detailed information because of their concerns regarding their anonymity.
2. CRITERIA

Criteria selected are representative of the major issues discussed in problem statement and literature review. Three criteria will be used to evaluate the proposed options: Initial economic stability, motivation to work, and administrative feasibility. Each criterion will be measured on a decision scale using ranking of high, moderate, and minimal each with an assigned numerical score from 3 to 1.

**Initial economic stability**: refers to whether an option provides economic stability to North Korean defectors during an initial phase of settlement (about 3 years). This is measured by monthly income that a North Korean defector earns. This criterion is critical to accomplish policy goal of self-sufficiency because without initial economic stability, North Korean defectors can never go through further settlement stages. Data sources for this criterion are literatures, government reports (mostly from MOU), and opinions from experts.

**Motivation to work**: refers to whether an option provides North Korean defectors with a practical help to employment, the key to a long-term, sustainable settlement. This criterion measures how well settlement subsidy is linked to job seeking efforts such as vocational training, attaining skill certification, and how well North Korean defectors adapt in one workplace. Data sources for this criterion are academic literatures, surveys, and opinions from experts.

**Administrative Feasibility**: refers to the degree of smooth implementation of identified options. This includes the need to make a new law (regulation), efforts to secure financial support, and management efforts to implement specified options. Information related to this criterion was developed largely from MOU reports and
experts’ assessments. Options that have low administrative feasibility may not be smoothly implemented. However, it does not mean an absolute impossibility of implementation. It only represents relative complexity of implementation among three options presented.

IV MANAGEMENT POLICY OPTIONS

Possible options regarding the methods of distributing settlement subsidy are:

1. Unconditional lump sum (current method),
2. Unconditional monthly allotment,
3. Unconditional monthly allotment combined with incentive. Each option was evaluated based on the criteria presented: initial economic stability, motivation to work, and administrative feasibility.

Constraints in exploring possible options should be noted. (1) Options for increasing the level of settlement subsidy are excluded because it is unlikely to be adopted under current trend of negative public opinion on increasing financial burden entailed by rapidly increasing number of North Korean defectors. In addition, it has potentials to cause international political conflict with China and North Korea as mentioned in literature review. (2) Decreasing the mount of settlement subsidy is also excluded. This option is likely to cause a lot of political bickering in terms of humanitarian aspects.

Therefore, options are confined to the method of distributing settlement money, while maintaining the overall level of support.

Again in exploring options under above restrictions, there exist some constrictions to consider. In theoretical base, options such as conditional lump sum and conditional monthly allotment could be included. However, these options are regarded as too extreme
because they are totally conditional. When we consider that North Korean defectors come to South Korea without any economic basis and settlement subsidy is virtually the only source of providing living expenses, these options might endanger the very existence of North Korean defectors who can not meet established conditions on receiving settlement subsidy.

**Option 1: Unconditional lump sum (current method)**

Currently, settlement subsidy is given to North Korean defectors in a lump sum amount without any conditions.

**Initial economic stability:** For North Korean defectors, one time lump sum settlement subsidy is more likely to increases the possibility of using up the money before they build the capacity to adapt. Most North Korean defectors don’t have experience of living in capitalistic society and hence, they are vulnerable to fraud by brokers, prone to mismanagement or squandering (Jae, 2002). It is estimated that 45 percent of North Korean defectors blow away their settlement money within a year (Lee, 2003).

A report shows a significant portion of settlement subsidy is used for purposes other than original policy purpose of providing initial living expenses. Many North Korean defectors use a chunk of settlement subsidy as broker fees for bringing himself or other family members to South Korea. Among North Korean defectors who came to South Korea in 2004, 83 percent of all surveyed defectors turned out to have used brokers and 72 percent of them have paid their settlement subsidy as commission to brokers (MOU, 2004). According to HANAWON survey, the average amount of commission for
a person was about $5,000. KINU survey shows that 90.1 percent out of 780 respondents said they were willing to spend their settlement subsidy and other incomes to assist family members to enter South Korea (Lee, 2003). This result causes concern that this kind of spending will act as a hamper to financial stability of North Korean defectors (Christina Shim, 2004). Although we can understand this kind of spending in terms of human behavior, it is not in line with the original purpose of settlement subsidy and deprives defectors of their livelihood at the initial stage of their settlement (Yoon, 2001).

In addition, many North Korean defectors spend their settlement subsidy in an extravagant way such as buying luxurious cars. A North Korean defector verifies this by stating, “People I know just spend their money on big grand cars because to us, the money seems like a great deal in the beginning, but it is not actually that much. They are very aware of social status and so will spend the money and buy Benz”. This illustrates the cases of mismanagement of settlement subsidy that can lead to severe financial difficulties later on. Experiences show that a lot of North Korean defectors jump into a business with the dream of becoming rich overnight. However, the success rate is extremely low. Only about two percent are estimated successful mostly in running a restaurant (Lee, 2003).

Above statistics show that unconstrained consumption and mismanagement stemming from lump sum settlement subsidy is critical reason that causes North Korean defectors to fall into financial difficulties from the very first phase and make them unable to establish the foundation of a self-supporting life.

Most experts agreed that current settlement subsidy, by giving in lump sum, has failed to provide initial economic stability to North Korean defectors. One different view
from experts is that lump sum settlement subsidy is desirable to maximize the satisfaction of North Korean defectors from using it. He made it a point that allowing the leeway of choosing how to spend his money is a liberty that should be granted to every citizen. Therefore, North Korean defectors, as one of South Korean citizens, should also be allowed how to use their settlement subsidy to maximize their utility.

Considering critics from literatures and experts’ assessments, this option is graded as “minimal” in providing initial economic stability to North Korean defectors.

**Motivation to work**: Extremely high rate of unemployment, short employment period in one workplace, and low monthly income raise questions about the efficiency of the current unconditional distribution of settlement subsidy. It has pointed out that current unconditional settlement subsidy has strengthened psychological dependency for compensation to the defection and has made North Korean defectors more dependent on external support rather than achieve independence (Yoon, 2001).

NGO and humanitarian circles criticize that current unconditional distribution of settlement subsidy has contributed to making a strikingly large number of North Korean defectors rely on free money with a majority of them rejecting 3D jobs and not settling on one job even when afforded the opportunity (Christina Shim, 2004).

Although free vocational training is provided for North Korean defectors, most of them attend the training course only to receive some allowances provided as costs for transportation and daily expenses during training period (MOU, 2004). The rate of attaining certification after training course is less than 10 percent for North Korean defectors. Even worse is that the rate of completing a year course of training is only 25
percent. This rate is quite low compared to about 60 percent that of South Koreans (MOU, 2004).

Indeed, North Korean defectors themselves admit their problems. A North Korean defector stated, “Many adults are not eager to find jobs, so there is something called the ‘White Hand Club’ where they do nothing and just eat and waste time together.” he added, “The major factor that hinders their self-reliance is the high expectation for government support while they do not make effort to get jobs.”

Experts agreed that current unconditional settlement subsidy has failed to encourage North Korean defectors to actively seek jobs. They called for a system to be arranged in which North Korean defectors are taught practical job skills and assisted in finding employment. They emphasized that it is more important to teach North Korean defectors how to fish than simply give them fish. Current unconditional settlement subsidy is more like the latter.

Considering critics from literatures and experts’ assessments, this option is graded as “minimal” on this criterion.

**Administrative Feasibility**: This option requires no further effort such as establishing new laws and regulations as it has already established law (Protection of Defecting North Korean Residents and Settlement Support Act, 1997: hereinafter, North Korean Defector Act) and regulations. Settlement subsidy is funded by government budget. A budget of about $42.6 million has been allotted for the fiscal year of 2005 (MOU, 2005).

The implementation systems have already been established. The Social and Cultural Exchanges Bureau of MOU is in charge of implementing supporting program.
Association for Supporting North Korean Defectors, a quasi-governmental organization, is subsidized by MOU to keep a closer contact with North Korean defectors and to take care of them. In addition, current method of lump sum and unconditional distribution is quite simple requiring minimal effort to manage it. Experts estimated there is no problem in administrative feasibility with this option. This option can be graded as “high’ in administrative feasibility.

**Option 2: Unconditional monthly allotment**

This option refers to while maintaining the overall amount of settlement subsidy, it is provided in unconditional monthly allotment to North Korean defectors.

*Initial economic stability:* It is most important to secure basic income for those who have benefited least from their society (Parijs, 1995). For those who are not familiar with capitalism and their choices are not based on economic rationality, monthly income allotment is a more appropriate way of providing practical help than lump sum grants (Lewis, 2003).

This suggest that for North Korean defectors, most of them do not have experience in capitalistic society, vulnerable to unconstrained spending, using up their settlement subsidy in a very short period, monthly allotment of settlement subsidy may provide more practical help than lump sum payment.

Most Korean literatures support for giving settlement subsidy in monthly allotment so that North Korean defectors can have an constant income needed for living expenses until they can build the ability of self-sufficiency (Suh, 2004).
They expected that monthly allotment curb various side effects and misuses of settlement subsidy caused by lump sum payment (Lee 2001). It is also expected to provide North Korean defectors with opportunities to make a prudent decision, give them time to adjust (Yoon, 2000).

Most experts agreed that monthly allotment is more desirable than lump sum payment. They assumed that North Korean defectors should be protected from capitalistic way of competition for about three years to become self-sufficient. When assuming three years of monthly allotment subsidy, the monthly income for a North Korean defector receives would amounts to about $1,445 per month (monthly allotment $1,028 + monthly living allowances from social welfare system $417). This much of monthly income is more than twice the minimum monthly wages ($516 as of 2003) and more than the minimum monthly living expenses for a four-member family ($1,136 as of 2003). Overall, experts estimated this much of a monthly income could provide economic stability for North Korean defectors. An interesting view was presented from an expert. He said that monthly allotment have the effect of increasing the real income of North Korean defectors by curbing a chunk of money used as brokerage commission. Because monthly allotment is not supposed to be big enough to pay this commission which amounts to an average of $5,000 per person, North Korean defectors are unable to pay it. Moreover, they need not bear legal responsibility to pay this fee because it is mostly based on illegal act such as passport forgery, smuggling, and so forth. Thus monthly allotment might naturally decrease the money that goes into broker’s pocket and lead to an increase of the income of North Korean defectors.
A minor view opposing monthly allotment option was that it could severely constrain the possibility of capitalizing when a North Korean defector goes into business.

Considering support from literatures and general experts’ assessments, this option can be graded as “high” in providing North Korean defectors with initial economic stability.

**Motivation to work:** Because settlement subsidy is given unconditionally, this option is the same to option one in terms of motivation to work. It has no linkage to work efforts.

Most experts estimated that this option has even higher possibility of making North Korean defectors dependent on government subsidy than option 1 as their monthly income is secured. An official at MOU stated, “Should this option be implemented, people will not look for jobs anymore.” One view advocating this option said this option might have positive psychological effects on job seeking. Because this option can provide a stable life, North Korean defectors can concentrate on job seeking efforts without being frustrated by financial difficulties.

Considering support from literatures and overall experts’ assessments, this option is graded as “minimal” in motivating North Korean defectors to work.

**Administrative Feasibility:** Experts assessed that this option requires a revision of the Enforcement Ordinance of the North Korean Defector Act. The current North Korean Defector Act regulates the upper limit of settlement subsidy and relegates specific method of distributing to the Ordinance. This option changes the method of distribution stipulated in the Enforcement Ordinance. In addition, this option is estimated to require more administrative effort than option one. It assumes that North Korean defectors are
managed for a certain period of time, for example three years, as they receive monthly allotment. Considering the number of North Korean defectors who came into South Korea is about 1,600 this year, the number of North Korean defectors being managed for three years would be around 5,000 people. Although the task of managing settlement subsidy is quite routine and simple, the sheer number being managed would require more workers and efforts. In terms of budget, organization and other implementing systems, this option has the same level of high administrative feasibility as option 1. Based on above reasons, this option is graded as “medium” in administrative feasibility.

**Option 3: Unconditional monthly allotment + Incentive**

This option refers to, while maintaining the overall level of settlement subsidy, reduce unconditional portion and use the remaining portion as incentive subsidy related to defector’s efforts to be self-sufficient. For example, use 70 percent of total settlement subsidy as unconditional monthly allotment and use 30 percent as incentive.

**Initial Economic Stability:** Although the total amount of monthly income a North Korean defector receives may vary according to the proportion of incentive subsidy, experts estimated this option can offer a high level of monthly income as long as incentive potion does not exceed 30 percent of total settlement subsidy. Assuming 30 percent out of total settlement subsidy ($37,000) is used as incentive and 70 percent as monthly allotment, a North Korean defector may secure a basic monthly income of $1,190 (monthly allotment $720 + $470 of monthly living allowances from social welfare system). This much of a monthly income is more than double the average minimum monthly wage and slightly more than the minimum monthly living expenses for a four-
member family. In addition, North Korean defectors will be able to receive up to $11,100 in additional financial incentives if they undergo job training, obtain certificates and start jobs. Experts estimate, if the portion of incentive subsidy is less than 30 percent, this option can provide a high level of basic income as in option two. In this sense, this option can be graded as “high” in securing initial economic stability. If the proportion of incentive exceeds 30 percent of total settlement subsidy, the grade is subject to change.

Motivation to work: The fact that most North Korean defectors are passive in seeking job and lack in skills required to meet tasks is a critical cause of difficulties in successful settlement in South Korean society. North Korean defectors themselves recognize that learning a practical job skill and job security is more important (42 percent) than simply increasing cash supports (21 percent) (Segye Times, Sep.16, 2004).

Successful experiences of refugee settlement and lots of scholars illustrated in literature review emphasize the importance of job for self-sufficiency. In addition, the dominant trend of welfare reform is to reduce free money and to motivate beneficiaries to work using financial incentives.

In line with this trend, South Korean scholars emphasize that the key lesson for supporting North Korean defectors should be that the best way to successful settlement is through diligence in the workplace (Lee, 2001), and through lessons on market economy (Suh, 2004). Protect them from misguided ideas about work, and their rash confidence in free enterprise should be prevented (Yoon, 2000). Based on the lessons so far, they emphasize that support policy for North Korean defectors must be established with a linkage to work. In summary, they concluded that as long as defectors want to be a free
rider depending on government support, the policy goal of self-sufficiency is difficult to achieve.

A government report says from 2000 to 2004, the total budget of $68 million was used for North Korean defectors. Among this budget, only 6.3 percent were used in job security activities such as employment subsidies (5.3 percent) and allowances for job training (1.0 percent). Most of the budget was used as settlement subsidy and deposit for housing (MOU, 2004). It recommended more budgets be allocated to job training, education and other capacity building activities to maximize the positive utility of the assistance.

Most experts agreed that a financial incentive system is to be devised to provide more job training and education for North Korean defectors. They viewed current support program for North Korean defectors is based on the philosophy of “compensation and protection” which is appropriate for helping a small group of North Korean defectors. To cope with the rising number of North Korean defectors, it is necessary to review and upgrade the general policy toward capacity building for self-support. They assessed this option could be more cost-effective in the long run by making defectors more competitive within available budget. In addition, they assessed incentive system could provide North Korean defectors with opportunities to learn capitalistic way of thinking.

A specific idea of implementing this option was proposed from an expert:

(a) Offer 30 percent of settlement subsidy as incentive subsidy. Remaining 70 percent is used as unconditional monthly allotment. (b) Incentive is given as follows:
Incentive for vocational training: offer incentives to those defectors who have completed vocational training for an occupation registered as one recommended by the Ministry of Labor.

Incentive for Skill certifications and education: among defectors who have completed vocational training, offer subsidies to those who attend a polytechnic college, or have obtained certification related to priority occupations.

Incentive for employment: Offer subsidy to those defectors who have worked for the same employer for more than one year.

Considering strong support from literatures, current trend of work oriented welfare reform, and experts’ evaluations, this option can be graded as “high” in motivating North Korean defectors to work.

Administrative Feasibility: Experts assessed this option requires a revision of The Enforcement Ordinance of the North Korean Defector Act. In addition, a concrete regulation on criteria and procedures should be established to distribute incentive subsidy. This option requires more administrative effort than option one and two as it assumes to manage monthly allotment and incentive subsidy as well.

Other than above measures, this option can be implemented with established budget and support systems. No additional budget is needed because the amount of settlement subsidy does not change. In some sense, it could save budget as it is expected that some North Korean defectors may not be fully entitled to receive all the incentives. Experts presented two limitations of this option. One is that there might be strong resistance from North Korean defectors and humanitarian organizations. They may recognize this option as an attempt to virtually reduce the amount of settlement subsidy because it requires
more efforts to get the same amount of subsidy. Another limitation is that this option is difficult to be fully applied to all North Korean defectors. Because the aged and students are not expected to work, the conditions and the proportions of incentive subsidy need to be customized for these groups. If criteria are considered discriminatory to these people, smooth implementation may not be secured. Considering above assessment, this option is graded as “minimal” in administrative feasibility.

V CONCLUSIONS

The analysis presented three alternatives in distributing settlement subsidy, while maintaining the same level of total amount, in order to magnify the abilities of North Korean defectors to settle to the life in South Korea. They are: (1) unconditional lump sum (current method), (2) unconditional monthly allotment, (3) unconditional monthly allotment combined with incentive. The alternatives were evaluated on initial economic stability, motivation to work, and administrative feasibility.

The following table summarizes the analysis.

<table>
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<tr>
<th>Table 2- Summary of Options and Evaluative Criteria</th>
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<td>Initial Economic Stability</td>
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<tr>
<td><strong>Lump sum</strong></td>
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<td><strong>Monthly allotment</strong></td>
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<td><strong>Monthly allotment + Incentive</strong></td>
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Scale: High=3, Moderate=2, Minimal=1

Unconditional lump sum option ranked minimal on initial economic stability and motivation to work. This is because most North Korean defectors don’t have experiences
of living in capitalistic society and hence, they are vulnerable to any fraud posed by brokers, mismanagement or misuse of settlement subsidy. 45 percent of North Korean defectors blow away their settlement subsidy within one year. A significant portion of settlement subsidy is used as broker fees and many North Korean defectors spend the money in an extravagant way such as buying luxurious cars. Some North Korean defectors jump into business with only 2 percent of estimated successful rate. Above results show lump sum subsidy has failed to provide economic stability for North Korean defectors. It also has failed to boost defectors’ will to work by giving free money. This option ranked high on administrative feasibility because it is currently implemented one. It has an established law, budget, organization, and other systems. In addition, this option is simple requiring the least administrative efforts compared to other options.

Unconditional monthly allotment option ranked high on initial economic stability. It is estimated that this option can provide a North Korean defector with a monthly income of $1,445 for three years. It is more than double the minimum monthly wage ($516) and more than the minimum monthly living expenses for a four-member family ($1,136). However, this option has a high possibility of making North Korean defectors dependent on government support by securing higher level of monthly income compared to other options. Thus it ranked minimal on motivation to work. In terms of administrative feasibility, the rank will fall into moderate. It requires revision of The Enforcement Ordinance of the North Korean Defector Act. It also requires more administrative efforts than option one as it assumes North Korean defectors are managed for about three years as they receive monthly allotment. Other than these measures, this option has the same level of high administrative feasibility as option one.
Unconditional monthly allotment combined with incentive option graded high on both initial economic stability and motivation to work. As long as the incentive proportion stays within 30 percent, this option is estimated to provide a high level of initial economic stability. According to this option, a North Korean defector may secure a basic monthly income of $1,190, which is more than double the minimum monthly wage and slightly more than the minimum monthly living expenses for four-member family. In addition, North Korean defectors will be able to receive up to $11,100 in additional financial incentives if they undergo job training, obtain certificates and start jobs. This option is expected to have potential effect of making North Korean defectors to be more actively involved in job seeking efforts by linking their efforts to the amount of incentive they can receive.

In terms of administrative feasibility, this option graded as minimal. This option may face with some resistance from defectors and humanitarian organizations because it might be viewed as an attempt to reduce the amount of settlement subsidy. In addition, this option is difficult to fully apply to the people who are not expected to work such as students and the aged. This requires the conditions and proportions of incentive subsidy be customized according to categories of defector groups. Otherwise, it is subject to raising some sense of discrimination from those who feel disadvantaged by this option. This option requires more administrative efforts than other two options because it has to manage incentive subsidy as well as monthly allotment.

Assessment of the options indicates that unconditional monthly allotment combined with incentive option scores the highest and would be the most viable option. Therefore, this option is recommended.
References


