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NORTH KOREA DURING THE PROCESS OF CHANGE

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I. Introduction

Data from 2004 show the grain harvest in North Korea (Democratic People's Republic of Korea; DPRK) consisted of a bit more than 4.4 million tons. A nationwide campaign was announced in the agricultural sector for 2005, with the slogan "hundred-day battle," that will coincide with October 10—the 60th anniversary of the creation of the North Korean Workers' Party (NKWP). Thus, Pyongyang sees the possibility of surpassing last year's record harvest.

The figure of 4.4 million tons of grain symbolizes the change occurring in North Korea. In it one can see important shifts, occurring over the past few years, in not only agriculture but also the whole national economic complex of the country, and even in the general condition of North Korean society. Five or six years ago, the grain harvest in North Korea had fallen to 3 million tons, reflecting an acute food crisis in the country.

Although the country's current achievements are still far from the North Korean record in the olden times of large-scale Soviet help, including an unrestricted flow of fertilizers that resulted in 7.5 million tons of grain, progress reached in recent years in this vitally important sphere is impressive and forces reflection about its sources and reasons.

It is essential to discount massive humanitarian food assistance that was provided by the international community during the period under review. At the same time, however, an entire complex of internal innovation in North Korean agriculture appeared, starting in the current century as a technological plan in the framework of a not unsuccessful absorption of international experience with the "green revolution" and as an institutional organization in the framework of general economic reform starting in July 2002.

Numerous skeptical observers—Nicholas Eberstadt (2002), for example—regarded DPRK innovations as little more than "tactical and opportunistic improvisations." Members of this school of thought have preferred to answer a symbolic question, "Can North Korea reform itself?" in a pessimistic manner; and they remain pessimistic today also. Robert Dujarric and Park Young-ho (2005, 66) concluded their recent analysis with: "Therefore, despite the current attention paid much to North Korea economic reform, we may not expect systemwide transformation in the country's economy in the foreseeable future, not to mention its political system."

The number of skeptics seems to have diminished, though. For example, at the 2004 international conference dealing with North Korea hosted by the Asia Pacific Center for Security Studies, the topic of North Korea's economic reform was addressed only in the framework of discussion. But the 2005 conference included a special session

devoted to the subject (Lim 2005). Professor Moon Chung-in (2005, 20) stated, “More importantly, the July 1, 2002 administrative reform measures on price, wages, incentives, and the market began to produce erratic but profound and far-reaching changes in North Korea economy,” and today this view is more representative.

Even though U.S.–North Korean problems are escalating at the present time, economic rapprochement between North Korea and South Korea (Republic of Korea; ROK) is progressing. The development of inter-Korean cooperation, even under today’s difficult conditions, will allow North Korea to continue to transform its economic model to a transitional or mixed type of economy. Attempts by the United States to apply pressure on the DPRK and isolate the country economically have not been welcomed by the ROK, China, and the Russian Federation. To understand the evolution of the modern North Korean domestic situation, we need to review recent years’ developments.

II. Fight for Survival during the 1990s

The economic situation in North Korea has been characterized by chronic difficulties, especially during the middle and later 1990s (MOU 2003). The country’s gross national product (GNP) dropped at least twice, industry decreased by 75 percent, and agriculture decreased by 25 percent. Trade volume declined by more than 50 percent, from \$4.8 billion in 1989 to 2.4 billion in 1995. In 2002, North Korea’s GNP was \$15.7 billion, its state budget was \$10.03 billion, its foreign debt was \$12.4 billion, and income per capita was \$706. In 2001, the volume of international trade turnover was \$2.1 billion, and North Korea’s main commercial partners were China (\$585 million), Japan (\$400 million), and South Korea (\$400 million). By 2002, however, inter-Korean trade jumped 59 percent and reached \$641 million. In 2004, trade between the DPRK and China increased to approximately \$1 billion, and inter-Korean trade reached \$700 million.

The main reasons for the deep economic crisis were the dominance of the strictly centralized, planned-by-directive type of economics developing in the framework of autarchy (self-sufficiency and relying on indigenous resources); termination of cooperation with the countries of socialist fellowship because of the disappearance of the socialist bloc; and the catastrophic acts of nature that descended on the country in the middle of the 1990s (floods for two years, followed by drought).

Effects of the End of the Cold War

Especially painful for North Korea was the termination of economic relations with the Soviet Union, its main commercial-economic partner and sponsor. In 1989–90, Soviet-DPRK bilateral trade, which provided the DPRK with many vital goods such as chemical fertilizers and crude oil, totaled approximately \$1 billion, but in the mid-1990s

it dropped to \$80 million. In 2002–04, Russia-DPRK bilateral trade was approximately \$130 million. The demise of the USSR was the main reason why crude oil imports into the DPRK plummeted from 18.5 million barrels in 1990, to 8.1 million barrels in 1995, and to 2.9 million barrels in 2000. As a result, the DPRK's consumption of primary energy declined from 25.0 million tons of oil equivalent (TOE) in 1990, to 17.3 million TOE in 1995, and to 14.6 million TOE in 2000 (Lim 1997, 3). Scores of the largest and most modern enterprises in the basic branches of heavy industry built with the technical assistance of the USSR (93 enterprises in all), which had been operating with Soviet raw materials, accessories, and spare parts and had been producing to a considerable extent for the Soviet market, ceased operation and caused a great problem of unemployment in North Korea. The general decline in the economic situation was also caused by a decline in work in energy facilities.

As a result, the economy of North Korea today comprises the military-industrial complex, civil branches of the economy, and “shadow” economies. The military-industrial complex has a privileged position and functions as the most important sector, which allows it to maintain a competitive edge in manufactured products. Purchase of modern equipment from external markets for this sector continues, and North Korea continues to export arms. During the Clinton administration, the United States learned that the DPRK was producing adequate medium-range missiles, the export of which was earning North Korea an income of \$100 million annually and contributing to the well-being of the country's military-industrial complex.

Civil branches of industry, on the contrary, are in a difficult situation. A lack of financing and deficiencies in raw materials and modern equipment caused not only a drop in industrial production but also a weakening of intraindustry and interindustry liaisons and, in a number of cases, even deindustrialization and primitivization of North Korea's technological processes. Some of these run-down enterprises cannot be salvaged. The situation is also difficult in the agricultural sector, where the main problems are still the lack of cultivable land (80 percent of the territory of the DPRK is mountains not suitable for agriculture), depletion of soils, a deficiency of fertilizers, and weak technical equipment.

A natural result of the economic crisis has been a decrease in the people's standard of living, a physical and moral weariness, and signs of indiscipline. Because a considerable part of the population has had to look for additional sources of income, which have become more diverse and accessible, parts of society are breaking down, which has led to theft, corruption, and illegal economic emigration—mostly to China.

The DPRK's official term for the period of the 1990s is the “arduous march.” Other government mobilization and propaganda measures include “Even if the road is hard, let's make it with a cheerful smile.” The DPRK's uninterrupted strict command-

administrative system with its well-adjusted mechanisms of total ideological manipulation, regimentation, and control of all aspects of people's lives allows the country's government to keep its internal processes under strict control and provide political stability. Significant for describing the social-political atmosphere of 1990s is another popular slogan: "Despite everything, we want to live and die in our own way."

Structure of Power in North Korea

During the 1990s, considerable political changes took place. A 1998 edition of the country's constitution legally fixed the changes, which took place after Kim Il-sung died in 1994. According to the new constitution, the head of the state is formally and legally the chairman of the Supreme People's Assembly, a position currently occupied by Kim Yong-nam. However, in reality, the election of Kim Jong-il as chairman of the National Defense Commission has officially authorized him the greatest power in the government, and the National Defense Commission itself became the de facto center of the new political system. The most important political, military, and economic issues are under its authority. The position of military personnel in the higher governmental structures was strengthened considerably. The government created the concept of "military-oriented politics" and implemented the concept into the life of the country. The military apparatus to a large extent came to support Kim Jong-il. Military forces are in a privileged position, and Kim Jong-il personally and regularly (several times per month) inspects military units. Military units are used widely for the completion of various economic tasks, including construction. Military personnel have also formed their own part-time farming operations—livestock and fisheries—and this has become a characteristic feature of military life.

The declared course of building a strong and prosperous state (*kangsung daekuk*)—the greatest task, according to the government of North Korea—reflects further militarization of all parts of the country's life. Currently up to 25 percent of the country's GNP is spent for defense purposes, and one million citizens are in military service. It is generally understood within North Korea that two of the three components necessary for creation of a "powerful state"—ideology and military strength—in greater or lesser degrees are already provided, and the third—economic strength—needs much attention and work.

It is apparent that the North Korean leaders, being pragmatists, clearly understand that under modern conditions there is no chance for success if force is used in an attempt to unite North and South Korea. Kim Jong-il, unlike his father, does not contemplate capturing the South; instead he is concerned about the self-preservation of the regime in the North. Thus, the North's current military-oriented rhetoric is only to provide strict control over society and threaten potential aggressors.

Simultaneously with the rise of the military, in the country's power structure there was a considerable decrease in the importance and role of the elective bodies and governing personnel of the NKWP. The very fact that, in violation of party bylaws, the NKWP has not been summoned into session since 1980 and the last plenum of the Central Committee of the NKWP took place in 1993 clearly signifies reversals for the party. Nevertheless several analysts' point of view that the party has suffered a dramatic loss of its former command positions stands on shaky ground. The party apparatus doubtless keeps its influence on the regional and local levels. Also, the process of the formal legitimization of Kim Jong-il's status as leader began in 1997 (at the end of the three-year mourning period for his late father), with Kim occupying the most important position in the NKWP hierarchy—general secretary. This also indicates the stability of the positions and influence of the NKWP in the political life of the country.

The new concept in North Korea includes military-first politics and building a strong and prosperous state. The moving forces of society are no longer the working class and its political avant garde; instead, they are the NKWP and the army—the country's current superclass and fundamentally less ideological component.

Changes in the North Korean Economy

Currently there are reasons to believe that the peak of the economic crisis has passed and that since 2002 the country is slowly improving its socioeconomic situation. When the country celebrated the NKWP's 55th anniversary in October 2000, it was officially announced that the "arduous march" had ended and that a "forced march" was beginning. Beginning in 2001 the country showed a 2–3 percent growth of GNP, and industrial production grew as well. In 2001 also, for the first time since 1995, the country managed to increase the production of agricultural products to a total of 3.54 million tons. The production of cereal grains increased 38 percent. Fundamental economic problems were not eliminated, however, and the country continued to suffer shortages. On 21 September 2005, the *Seoul Herald* reported that World Food Program experts estimated that for 2001—considered a good year—four to six million people suffered to some extent from a lack of food.

The economic situation in the DPRK has been somewhat stabilized since 2000 because:

- Humanitarian assistance, which began in the late 1990s and was carried out by international organizations, provided up to 1 million tons of food annually, with a value of \$384 million in 2001. South Korea, Japan, the United States, China, and the European Union were the leading donors.

- The government of the DPRK appeared to be receptive to recommendations of numerous international organizations that had opened offices in North Korea, at least to the part of the recommendations that advocated introducing achievements of the “green revolution” into the country’s agriculture. Thus, Korea began a massive and successful cultivation of the potato—not a traditional food in Korea—and used a highly productive variety furnished by the United States to be planted in the farthest North and in mountain provinces of the country. Before this, the population in the northern areas had tried to grow rice and some other cereals, but the soil there was useless for those crops. Fisheries that take advantage of underground thermal springs and that specialize in fast-growth, warm-water fish are now in use. The government also now encourages the breeding of poultry and other small domestic animals not only in the countryside but also in the cities, even in modern blocks of flats.
- The North Korean government instituted a wide set of agricultural and construction projects, including reprofiling fields, increasing the amount of land tilled, and beginning large ameliorative projects like building the 150 km Kaechon–Lake Thaesong waterway. Reprofiling the fields provided the country with a 10 percent gain in arable land. The Kaechon–Lake Thaesong waterway construction is also complete. Also the government is trying to remedy the not fully successful results (because of substantial water losses) of the 300 km Penma-Cholkil’ concrete-bottom water channel.

The main factor in North Korea’s economic innovations is the unpublicized readiness of the government to accept evolution in the direction of a market orientation of the country’s economy. Events of recent years point to the conclusion that the North Korean government, at least Kim Jong-il and his team, even if without enthusiasm, have concluded that reform of the existing economic system has become necessary and inevitable. This explains their increased interest, first of all, in the experience of transition to market economies in the former socialist economies of Russia, China, Vietnam, and a number of other countries. This interest explains the visits of Kim Jong-il to China in 2000 and 2001 and then to the Russian Federation in 2001 and 2002, as well as the railway format of Kim’s trips—during which the North Korean travelers in the most thorough manner have tried to understand the essence of the transformations taking place in the economic models of the former socialist sponsors of the DPRK, which in their time served as a prototype of the North Korean economy.

Because the economic structure of the modern DPRK—with its high degree of industrialization and its relatively limited agrarian sector—is much closer to that which existed in the former USSR than to the system in China, the interest of Pyongyang in the pluses and minuses of the Russian variant of transferring to a market economy is noteworthy. Even if the North Korean elite for understandable reasons is not

enthusiastic about the avalanche character and shock methods of the reforms in Russia, representatives of the elite who accompanied Kim on his trips around the Russian Federation found in Russia many things positive and educational.

The North Koreans probably believe that if they can retain the DPRK's monolithic political superstructure and the government's leading role in the process of transformation, they will manage to avoid the Russian excesses and evolve in their own way. Their evolution could be the creeping privatization of property with the silent approval of the higher state government, in which the military and the secret services as well as party and regional elites would participate.

Under the influence of South Korea's experience, it might be possible for North Korea to form large financial-industrial groups (similar to the South's *chaebol*) under the umbrella of the country's authoritarian political regime; thus the North might gradually drift from *juche*-socialistic ideological schemes to *juche*-nationalistic ones. Prototypes of such local *chaebol* are already appearing in the form of autonomously functioning international commercial companies whose property is already not fully governmental. It is apparent that in the evolution of the North Korean system, the key role will be played by South Korea: a broad penetration of the South's capital-stimulating, export-oriented vector of economic transformation and gradual changes in the nature of the current regiment.

It is natural that such a variant of North Korea's evolution is possible only when the North is certain of its own security and feels itself sufficiently comfortable with its relations with the external world. Now, at the beginning of the twenty-first century, the DPRK finds itself in just such a situation. Its overall international position is improved with breakthroughs in inter-Korean and Japan–North Korea relations (after the bilateral summits in Pyongyang in June 2000 and September 2002), an increase in Russia–North Korea cooperation, stable development of China–North Korea cooperation, a period of diplomatic recognition on the part of European Union, and constructive interaction with the United States late in the Clinton administration.

It is not surprising that during this period the signs of the DPRK government taking its first practical steps toward the gradual reformation of its economy began to be somewhat clear. By this time certain presumptions had matured, making possible careful movement in the direction of embryonic market relations. Despite common opinion, even in the 1990s North Korea was not a frozen, static society. Specialists were aware of early phenomena such as a step-by-step broadening of the independence of agricultural cooperatives as well as the possibility of an individual working in both the countryside and the city; the most important change, however, was the gradual broadening of the infrastructure of cooperative markets. Peasant markets—at times

prohibited, at times allowed—currently are viewed as an important and integral element of the daily economic life of the country.

Approximately 300 such marketplaces exist in the country now. They offer a variety of food and household goods drawn from the production of local cooperatives and fields cultivated by peasants as well as partly from international food assistance. Ordinary citizens obtained as much as 60 percent of their food in the informal sector in the late 1990s. An important channel for the acquisition of consumer goods during the past decade was the special economic zone of Rajin-Sonbong, in which great volumes of cheap but much-needed goods from China enter North Korea to be distributed throughout the country.

A natural result of the broadening and stable functioning of the network of cooperative markets is the appearance of a group of people who originate internal commercial capital. These traders—wealthy by local standards—are forming a new type of North Korean person, who is less saturated with *juche* ideas, is oriented toward pure pragmatism in business and household relations, and is marked with an enterprising spirit. Bradley O. Babson, during informal comments in 2005, described the great spiritual liberation for the ordinary person of transacting a simple purchase at the market instead of at a state shop.

A rather numerous group of wealthy North Koreans, comprising top-ranking military personnel, state and party officials, and employees of international economic organizations, has appeared; they regularly visit currency stores, restaurants, and innovations such as a luxurious bowling alley in Pyongyang. In practice, North Korean society is becoming divided into people who do have foreign currency and those who don't, which reflects a material division of the population that is increasing. Currency notes of leading economies such as the United States, China, and Japan are now in free circulation not only in the special economic zones but all around the country.¹ Thus, in Pyongyang practically all the large stores offer currency exchange offices (Vorontsov 2002). Stephen W. Linton (2005, 9) notes: "The North Korean economy today is far more integrated with the world economy than before. Once again, in permitting commoners to acquire and hold foreign currency, North Korea's government has backed way from absolute state control of the economy."

In the first years of the new century, therefore, leaders of the DPRK not only finally realized the necessity of beginning economic reform, but they also believed that advantageous external and internal conditions existed for reform, including the strengthened infrastructure of cooperative markets. The advantageous conditions

1. Beginning in late 2002, U.S. dollars were excluded and were replaced by euros.

inevitably broaden the role of the markets in providing the population with necessities and facilitate the takeover of the functions of the state distributing system, which had begun to fail.

III. Beginning of Reform

In July 2002 Pyongyang took a number of important steps to broaden the use of commodity-monetary levers the country's economics. The essence of the reform resulted in a sharp contraction in the coupon-distribution rationing system that had prevailed since the inception of North Korea. Pyongyang adopted far-reaching price reforms. Wages of workers and employees were increased 15 to 20 separate times. Directors of enterprises were now given wide authority to vary the wages of employees in relation to their real input and to stimulate their enterprises in other ways. For example, when I visited the Moranbon garment factory in Pyongyang in 2003, I was told that salaries varied from 3,000 to 10,000 *won* (Vorontsov 2003, 13); at the Pyongyang Embroidery Institute the wage differentiation was from 2,000 to 6,000 *won* (Vorontsov 2004).

Greater autonomy was given to local plant managers. The state leadership depoliticized economic decision making at the local level and transferred managerial rights from party cadres to plant managers. In the agrarian sector, because purchasing prices for the products of cooperatives were considerably increased, the possibilities for farmers to work individually on their own small fields were increased.

A limited convertibility for the national currency for North Korea was introduced, and the exchange rate for U.S. dollars was close to the market rate: 150 *won* equaled \$1.00. (On the black market, the rate is approximately 200 *won* to \$1.00.) Before the reform, the official rate was 2.15 *won* to \$1.00.

Simultaneously, and on an even larger scale, the prices for goods, tariffs for transport, the cost of communal services, charges for household utilities, and the rates for rents were raised. For example, the cost of rice increased from 8 *chon* up to 40–50 *won* per kilogram, and a trip on public transportation increased from 10 *chon* to 2 *won*.

As a result, as I managed to glean from talks with local citizens during a trip to North Korea in late 2002, to be able to afford sufficient daily rice—700 grams is the usual amount cited—residents of North Korea need 900–1,000 *won* per month. In 2002, part of the population felt rather bewildered at first, and everyone had to get used to the new situation, including those who had had free access to the supply system. In general, North Koreans say it is possible to live, but they can't afford to relax. The general mood regarding these innovations is understanding but not enthusiasm. Price increases became a permanent process. In August 2004, I visited a Pyongyang peasant

market at which the rice cost 500 *won* per kilo; at the time the average monthly salary was 3,000 *won* (Vorontsov 2005, 164–69). This single fact highlights the contrast between workers' salaries and the actual cost of living in today's North Korea.

Effects of Changes in North Korea's Economy

It is significant that the administration in Pyongyang avoids using the term “reform.” Officially the changes are called “measures for improvement of socialist economic mechanism” or simply “state measures.” But two years after the first changes were announced, the leadership in Pyongyang began to tolerate not only the term “reform” but even “capitalism (albeit a modified form of it), which is no longer a dirty word in North Korea” (Linton 2005, 10). Possibly a number of experts judge that the current transformation is of a limited, experimental character, an overture brought in only to introduce forms of *khozrastchet* (commercial self-accounting) reform tested in the Soviet Union and the People's Republic of China and to evaluate the possibilities of implementing China's and Russia's experiences in North Korean conditions.

In their significance and effects, especially over the long term, these measures can be much more broad. It is not important what these changes are called. The introduction of modern methods incorporating the green revolution in official propaganda is presented as an independent achievement of *juche* agro-technical science. However, the name of something does not change the essence of phenomena. It is most important that these transformations concern every citizen of the country and that they represent a turning away from an orthodox planned system of economics and the beginning of a drift in the direction of more liberal models. The North Korean government itself stepped over the symbolic psychological barrier and included the whole population in the considerably modernized system of psychological value-orienting points and coordinates that determined that economic interests took priority over ideological interests.

It is possible to assume that the changes in North Korea can include a creeping privatization of state property with the blessings of the country's leadership. The main power structures—military, party, local, secret services—would participate in the changes. The result would be the creation of economic conglomerates resembling South Korea's *chaebol*, but with a greater role for the state. Economic changes of the kind under discussion would bring North Korea's economic system out of permanent crisis but would preserve the country's authoritarian political regime, which would be slowly abandoning socialist rhetoric in favor of nationalistic expressions.

These changes would be possible if the country could attract foreign (most important, South Korean) capital and develop an orientation toward exports. The lives of the common people would not improve sharply, but people would stop starving, the absolute

power of the state would become narrower, and the transfer to a new economic system would not be turbulent. Kim Jong-il's heir (according to North Korean tradition, that person should be identified now) after 15–20 years would govern a completely different country—with mixed government (capitalist economics and a strong state sector), not truly democratic but not less acceptable to the world than many current Islamic or African states. North Korea's economy would be inseparably connected with the ROK, which would provide for far more stability on the peninsula. After a couple of generations, North Korea and South Korea could start thinking about uniting Korea—at the initial stage on the basis of a confederation or a commonwealth of states (Bulychev 2003, 93–94).

The above considerations are based on some hard evidence from inside North Korea not readily available to researchers. The evidence shows that, after the consolidation of his power in the second half of the 1990s, Kim Jong-il started to look for a way out of the tradition of *juche*. Moving away from *juche* is a difficult task because Kim Jong-il cannot openly revise the heritage of his father, although sometimes he has tried. For example, he apologized to the Japanese for the earlier kidnapping incidents. Kim has chosen not to risk disorder in the established system of power, which he inherited from his father. However, when he came out of isolation, bridged the gap with South Korea, pursued normalization of relations with Japan and the European Union, attempted economic reforms, and created an open sector in economics, Kim clearly showed where his interests lay. This is exactly the reason the president of Russia, Vladimir Putin, called Kim “an absolutely modern person” and began to assist Kim, including Putin's efforts to be an intermediary in the standoff between the United States and the DPRK.

Political and Cultural Considerations in North Korea

In the realpolitik world of the Gulf War and the Yugoslavia crisis, Kim Jong-il realized he needed to defend against the country's enemies. Thus, since he first assumed leadership, Kim has sought to strengthen the DPRK's military component during periods of internal change in order to ward off outsiders' attempts to overthrow his government. Conservatives in his retinue, citing Mikhail Gorbachev's experience in Russia, constantly remind him of the possibility of being unseated. Of course, Kim Jong-il wants to keep his power and control the state, but that does not necessarily mean that he, known for his interest in Western life, would see barracks socialism as an ideal. Most probably he would prefer an enlightened monarchy or an authoritarian state, resembling a mix of Brunei, Malaysia, South American states, and Park Chung-hee's South Korea, as a more attractive option for making his nation independent and at least relatively wealthy (with an extremely cheap and sufficiently qualified labor force).

Some experts emphasize how Kim shows a keen interest in learning about South Korea's experiences of economic development—the New Village movement, the heavy-chemical industrialization plan, and an export-led growth strategy—during the Park Chung-hee period. When these experts examine the facts, they conclude: “The developmental dictatorship model, which characterized the essence of political and economic governance under Park Chung-hee, may well attract the attention of North Korea leadership” (Moon 2005, 21; Kim 2003).

On the basis of the reform measures in North Korea, some see the first steps on the way to more broad economic innovations. Evidence for this view includes acceptance of the simultaneous establishment of three special economic zones: the Sinuiju Special Administrative Region (SSAR), the Kumgang Tourist Zone (KTZ) and Kaesong Industrial Zone (KIZ) set up to attract foreign investment. When these laws were developed and the zones set up, the DPRK used not only foreign experience but also its 12 years of practice in the Rajin-Sonbong Economic Special Zone.

Foreign specialists were especially impressed by the program of development of the SSAR, not only by the scale of the planned joint economic programs but also by the DPRK's unprecedented liberalism in the legal setup for foreign participants. For the first time the DPRK limited the reach of the country's constitution in the SSAR. In their development of the law on the SSAR, the North Koreans in many details followed China's experience in founding its Free Economic Zone of Shenzhen. The DPRK also eliminated limitations that still existed in the Rajin-Sonbong zone. Moreover, Pyongyang for the first time ceded administrative authority in the SSAR to a foreign businessperson. Despite the failure of Sinuiju as a business venture, the attempt was remarkable.

Such economic transformations were accompanied and, even more precisely, anticipated by a considerable transformation of the political-ideological system in the DPRK. Since the early 1990s (following closely the end of socialism in the USSR and Eastern Europe), the government of North Korea has gradually transferred Marxism-Leninism postulates to traditionally Confucian beliefs. Internally, the political appeal to national traditions and the cultural-historical heritage started to be used more broadly. In its search for a new basis for legitimization, the DPRK looked to its descent from the ancient Korean states—Koguryo and Koryo. To consolidate the society on the basis of nationalism, the DPRK leadership has begun to exploit the myth of the legendary ancestor of the Korean nation—Tangun—who lived four millennia ago. Despite South Korean assertions that Tangun died on the territory of what is now the modern ROK, his tomb was operatively found not far from Pyongyang, where a monumental mausoleum was erected. The tomb became an object of organized pilgrimage in North Korea.

The North Korean leadership began to cultivate Confucian feudal norms and traditions—in particular, the cult of ancestors—in people’s daily lives. A clear indication of this was Kim Jong-il observing three years of mourning when his father, Kim Il-sung, died in 1994. This was a scrupulous realization of Confucian customs and rules of behavior. It was for this reason—not other reasons such as weakness of power, existence of serious opposition in the country and the government, and intellectual deficiency that many foreign analysts suspected—that Kim Jong-il refused to occupy higher state positions, meet with foreign delegations, and travel abroad. Kim’s period of mourning was a correctly planned political and psychological step that met the expectations of the North Korean population.

An integral part of the cultivation of Confucian heritage and the assertion of the origins of the national and cultural basis for North Korea was demonstrated in the renaissance of traditional holidays such as the Lunar New Year, which is now a three-day holiday, as well as the formal reconstruction of religious rights. Not so long ago North Korean functionaries were proud that the population of their country consisted completely of atheists, now they are proud of the fact that Buddhist and Christian temples are opening. During a visit to Russia, Kim Jong-il on his own initiative visited a Russian Orthodox church in Vladivostok and promised to build one in Pyongyang. In a very good location in East Pyongyang, construction began in July 2003 on the Trinity Church for 550 believers, and construction finished quickly. After Kim Jong-il decided to construct the Orthodox church, he was interviewed by a member of the press in Russia during his visit to Russia’s Far East region. When he was asked whether there were Orthodox believers in North Korea, Kim Jong-il replied, “I will become the church’s first guest and believer and will bless the changes in our country. I will ask the God to direct our development not along the Russian way because Moscow started its first changes in the political field, not in the economic one” (Maltseva 2004, 3).

As a result, the North Korean government currently looks less to socialism and Marxism and more frequently turns to Korea’s national-historical roots and Confucian values, which are considered an efficient means of counteracting the penetration of Western mass culture into the country.

IV. Conclusions

The present domestic situation in North Korea formed by the current standoff between Washington and Pyongyang leads to a discussion of the following key factors and possible variants on the situation.

First, it is apparent there is a serious risk that the processes of economic transformation and political microliberalization in North Korea, which have evolved even during the

U.S.–North Korean confrontation, could be either blocked temporarily or completely shut down.

A slowdown or a shutdown would be regrettable. Kim Jong-il during the period under consideration distinctively set forth the course of the country's economic development—the course for normalization of relations with all the leading powers of the world, including, first, the United States; integration into the world community in the international political aspect; and an evolution toward market-oriented reformation of the national economy.

Russia, China, and also the ROK—which announced its Sunshine Policy—believed in the seriousness of the intentions of the North Korean leader and in the practical possibility of realizing his goals. Also, the European Union, the Clinton administration during its final months, and Junichiro Koizumi during his sensational 2002 visit to Pyongyang believed in it. All these international players supported the policy of engagement with North Korea, although each perceived specific nuances and approached the DPRK differently from the others. They each saw an advantage to the evolution scenario of the DPRK's transformation. They understood that such politics can be successful only when such changes can be realized gradually over a considerable period of time.

However, the George W. Bush administration in the United States did not want to wait for a “maturation of the fruits”; it had no patience for an evolutionary approach and did not tolerate the existence of North Korea. As a result, the White House implied a revolutionary course aimed at regime change and the departure of Kim Jong-il. This is the main reason for the current crisis in U.S.–North Korean relations.

Second, hopes for a situation in which powerful external pressure and strict economic isolation of North Korea will cause the North to fall apart in a short time are not sufficiently grounded. One must remember that North Korea's experience has been one of prolonged existence within a hostile encirclement and under conditions of military threat. Oriented toward self-sufficiency and the self-provision mobilization model of the command-administrative economic system, it has large reserves of stability and survivability in crisis situations. The political system of the DPRK, which under conditions of external pressure will inevitably become more strict, provides a high degree of solidarity, consolidation, control over society, and a rather high moral spirit.

It is important not to forget the facts of the recent past. In the mid 1990s many politicians and experts believed in the inevitability of North Korea's collapse and its merging with ROK. U.S. policy toward North Korea was built in the period of the Agreed Framework, which did not last. In those years North Korea actually met its most difficult crisis since the Korean War. Now its economic situation is somewhat

better and the international situation is considerably better than it was five to seven years ago. The Korean population, especially people in the harsh northern regions of the country, historically (before appearance of the DPRK and even before the period of Japanese colonial rule) have had an ability to survive in extremely hard conditions. Thus, the agony—as the current situation of the North Korean regime is characterized by some political observers—can continue for a long time.

Which alternative to a gradual, slow, often zigzag, and painful growth (inclusion) of the DPRK into the universal world traditions and rules can we imagine? The collapse of today's system in the absence of an internal potential for revolution is possible only with the use of external force. One cannot count on internal opposition movements within the DPRK—all dissidents are oppressed by the government's iron hand. In addition, the government's total control over the population and sources of information allows no opportunity for the appearance of an opposition. A palace revolt (or the physical liquidation of Kim Jong-il, which seems not to be excluded by the some circles in the United States) would result in either the continuation or even an aggravation of the DPRK's previous politics toward the external world if military conservatives come to power (which seems most probable) or the situation results in chaos.

Another outcome could be the total liquidation of the whole system of management of the DPRK, causing it to fall under the control of an "occupation" administration of South Korea. In this, the degree of alienation of North Koreans is not fully considered. Alienation could be based on "system differences" as well as traditional regional feuds and the unwillingness of the people of North Korea to become second-rate people in a joint Korea. The North Korean army (2–3 million strong) would be left not just with nothing but would also expect to be repressed by the South. Such a concern would not be without foundation if we remember the legal prosecution and severe sentences given to former presidents by democratic leaders of the ROK. These expectations could force DPRK military personnel into an armed, guerilla-type opposition that would be looked on with sympathy by many in the population. Most likely plans for such opposition exist in the DPRK. Lessons of many centuries of Korean history teach that conflict with neighboring countries can continue for decades. This would derail a prospering South Korea and prevent it from retaining its leadership position in world economics, which it claims today. Such would be the price of pressuring Kim Jong-il out of power even if large-scale military action involving the destruction of ecologically dangerous enterprises could be avoided.

Prominent South Korean scholars divine such considerations and concerns. For example, Moon Chung-in (2005, 21) states:

Apart from the high costs of unification, South Korea lacks social and psychological tolerance, underscored by its handling of defectors and refugees from North Korea. Despite initially being welcomed, they have been marginalized in the process of settlement in the South, and their grievances are known to be more serious than those of East Germans after German unification. More importantly, an increasing number of younger generations, workers, and the poor in South Korea are questioning the virtue of unification by absorption that would be undertaken at the expense of their welfare. Unless a more mature civil society and democracy are institutionalized, unification by absorption can be seen as a perilous path.

Third, under today's conditions, to a greater degree than before, the importance of the inter-Korean factor has increased. We are seeing that cooperation between Pyongyang and Seoul has not terminated even though there have been periods of sharpening tension on the Korean peninsula; in fact, cooperation has even achieved a second wind. The fear of a new war in Korea—although the initiator in this case would be external forces, not internal ones—has brought the North and the South closer together than they were during Kim Dae-jung's Sunshine Policy. This same fear of a new Korean war was also an important factor in the coming to power of the current South Korean president, Roh Moo-hyun, who has wanted to deepen Kim Dae-jung's policies toward full-scale cooperation.

This line is consistently supported by the North Korean government as well. Pyongyang in late 2002, although in a standoff with Washington, changed its laws to give a green light to the establishment of special zones oriented toward the South Korean capital. According to the *Korean Information Bulletin*² of November 2002, the DPRK proposed large-scale projects—the Kaesong Industrial Zone and Kumgang Tourism Zone—very near Seoul. *Korea Focus* (September–October 2002, 82–83) reported that official Seoul does not hide the fact that North Korea's plans could result in an “economic commonwealth” of the North and the South. Both the Kaesong project and the joint tourist zone occupy land on a mountain shared by both countries—the North Korean Kumgangsán and the South Korean Seoraksán.

The Bank of Korea estimates that, for North Korea, the annual output from the KIZ is expected to contribute 0.3 percent of North Korea's gross national income (GNI) in four years and as much as 12.4 percent of North Korea's 2003 GNI in 17 years. South Korea's contribution is estimated to increase from 0.4 percent of South Korea's

2. See the Korean Unification Bulletin at www.globalsecurity.org/wmd/library/news/rok/2002/rok-0211-interkorean01.htm.

2003 GNI in four years to 3.1 percent in 17 years (Lim 2005, 10). There are reasons to believe that the plans are working. On 14 January 2005, South Korea's vice minister of unification said in Seoul³ that "a total of around 857,000 people visited Mt. Kumgang, and last year alone 268,420 people went to Mt. Kumgang." The vice minister continued: Out of 13 companies that received business license for cooperative partnership projects from the government, 10 are now running or constructing their factories. . . . We expect that all 13 companies in the model site will have completed construction of factories by the second quarter of this year. . . . The Kaesong Industrial Complex project started last year with only 3 persons going into the area, and now, the number of people working for the project stands about 1,800. 1,400 North Korean workers and around 400 South Koreans are working together for the smooth operation of the Kaesong Industrial Complex project.

The North and the South have also jointly expressed their intention to continue work on another grand project to not only change the face of inter-Korean cooperation but also enhance the role of the Korean peninsula in the economic relations of the whole region: join the railways of North Korea and South Korea and also join them with the Trans-Siberian Railway. Moscow hosted a trilateral meeting in April 2004 to discuss the proposal. Despite the fact that at the beginning 2005 Pyongyang decided to suspend the project because of the increasing political tension in its relations with Washington, the venture remains very promising.

While setting up the recent North Korea–South Korea economic programs, several transportation routes were established through the Demilitarized Zone (DMZ), which for decades had been an impenetrable wall between North and South. These changes, combined with working out military confidence-building measures, will transform the DMZ. Clearing away mines from parts of the DMZ has already been completed, and inter-Korean roads through the DMZ were opened for traffic in February 2003. These changes, including changes in the psychology of Koreans in both the South and the North, have led to a situation in which Koreans, for the first time since the Korean War, do not perceive Koreans on the other side of the DMZ as enemies.

Thus, even though U.S.–North Korean problems are escalating, the process of economic rapprochement between the North and the South is progressing. In the near future, bilateral economic cooperation will be spoken of as not inter-Korean, but as intra-Korean. At least two conclusions follow from such a forecast.

First, the George W. Bush administration's intention of forming a broad international front to apply pressure on the DPRK and isolate the country economically has not

3. Vice Minister's Weekly Briefing (Friday, January 14, 2005), www.unikorea.go.kr/index.jsp.

been greeted with enthusiasm by the ROK, China, the Russian Federation, and, possibly, a number of other states.

Second, the continuation of the dynamic development of inter-Korean cooperation, even under today's difficult conditions, will allow North Korea to continue to transform its economic model to a transitional or mixed type of economy, thus gradually transforming the North into a component of a common Korean economic complex. North Korea economic reforms receive quite a positive assessment by many professional economists. The question no longer is whether economic reform exists in North Korea; instead, the question is how to manage the reform better. Some experts on Korea regard the first three years of DPRK reform as showing a more remarkable result than China's initial period of reform: "DPRK transition to a market economy is already underway. . . , the EU already is engaged in training activities related to the issues of transition and a number of DPRK delegations have visited China and Vietnam to learn from their experience. Looking ahead, the IFIs, EU, and UNDP should all be expected to play major roles in supporting DPRK's transition" (Babson 2005, 5–15). Regarding the practical questions of management of the reform: "The two most critical issues that will need to be addressed are the establishment of a policy dialogue and aid coordination mechanism on transition issues, and reaching an understanding on division of labor and leadership roles among donors on different parts of the transitional agenda." Babson (2005, 15) concludes: "Integrating the DPRK into the International Economic System is a long-term process that needs to be addressed with appreciation of specific conditions on the Korean peninsula and potential for expanded economic cooperation in Northeast Asia."

Alongside these important economic reforms in North Korea is the country's return to using mobilization measures for the economy—expressions such as "hundred day battle"—that might alarm supporters of reform and indicate that market-oriented reform could be delayed in North Korea. Shifting policy emphases by the North Korean leadership takes place for a number of reasons, but it undoubtedly reflects the growing concern in Pyongyang that conducting any serious economic reform could cause the buildup of negative and potentially dangerous consequences for the stability of the state. For example, the appearance of and increase in various levels of remuneration—some people becoming richer than others—can leave some members of the population with a decreased standard of living and feeling they have lost out. Also the growth of a mobile society with expanding freedom of movement both within the country and as well as beyond its borders (for example, into the bordering areas of China) will have the consequence of weakened state control over the people.

All these events point to a process of important economic reorganization and, probably, were foreseen by the developers of North Korea's 1 July 2002 manifesto. It is clear, however, that the unforeseen crisis in relations with the United States that started in

October 2002 and the especially energetic, systematic, and institutional actions of Washington, including passage in the fall of 2004 by the U.S. Congress of the North Korean Human Rights Act⁴ were intended to cause internal political destabilization of North Korea. The North Korean leadership perceived these as the latest in a series of hostile actions, and the U.S. actions were a serious argument for postponing the reform processes in Pyongyang. Pyongyang's reaction will most likely only slow down reforms, however; Pyongyang will not phase out economic reforms.

A dilemma thus confronts the international community: whether to support and manage the North Korean reform and transition to a market economy through some kind of an updated version of an engagement policy or whether to freeze or even undermine the North Korean reforms by pressuring and cornering the DPRK.

4. *North Korean Human Rights Act*, Public Law 108-333 (2004).

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