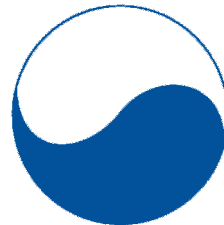


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# NORTH KOREA'S ECONOMIC DEVELOPMENT AND EXTERNAL REALTIONS

## THE NORTH KOREAN ECONOMY: NUCLEAR CRISIS AND DECLINE, OR PEACE AND REFORM IN THE LAST ASIAN DYNASTIC REGIME?

by Bernhard Seliger

### Introduction

The Democratic People's Republic of North Korea (DPRK) in recent years has moved in two seemingly contradictory directions. On the one hand, by admitting the existence of a nuclear weapons program, withdrawing from the nonproliferation treaty, and making bold official statements mixed with militaristic propaganda, the DPRK becomes more and more isolated, even alienating to a great extent its last ally, China. Its reluctant participation in the six-party talks did not change this but rather has been another opportunity to try to blackmail the international community into more aid. At the same time official statements reiterate the importance of adhering unwaveringly to communist principles. The joint new year's editorial of the three most important newspapers of North Korea—*Rodong Sinmun*, *Josoninmingun*, and *Chongnyonjonwi*—which is one of the most important guides to the political development of North Korea, in 2004 called for an “all-out struggle on the fronts of political ideology, military forces against imperialism, and economy and technology,” and stated, “It must be maintained that keeping socialism is victory, and otherwise it's death.”<sup>1</sup>

On the other hand, recent years have also seen important changes in the DPRK, which seem to be an attempt to reform the political and economic systems that official propaganda defends so staunchly. These reforms began with the official rise in 1998 of Kim Jong-il to the top of the state after the three-year mourning period for his father, Kim Il-sung. This was

also the time that a changed constitution introduced new economic concepts, and the priorities for production moved away from the unsuccessful attempt to achieve growth in light industries.<sup>2</sup> The meeting of Kim Dae-jung and Kim Jong-il in June 2000 and the subsequent increase in economic exchanges with South Korea, including the Kumgangsan tourism project and the planning for special economic zones that followed, resulted in South Korea's becoming the most important trading partner of the North in 2003—a first in the history of the divided country. In July 2002, a price and wage reform as well as a reform of the central planning system were introduced by the North; these reforms can be interpreted as the most important changes in the economic system in North Korea's history since the introduction of central planning in the late 1940s.

Both directions, the rise of political tension with the United States and the international community as well as the domestic program of reform and careful opening, originate in the fact that survival has become the foremost goal of the Kim regime. Survival is threatened by an economic decline that brought famine and malnutrition to large parts of the population, led to dismantlement of the central planning system, and brought the country to the brink of collapse. Survival is also threatened by international isolation, especially a more hostile United States.

While both responses to the threats to regime survival are following the same logic, they are inherently contradictory: The political tensions have various

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1. “N.K. stresses *juche* policy in New Year's message,” *Korea Herald*, 3 January 2004, p. 3.

2. The new constitution allowed group ownership (a term more flexible than the former sole term, state ownership) and private for-profit activities; it also introduced the idea of profit for the state sector. See Lee, Young-hoon, “Escaping the Poverty Trap: North Korea's Economic Development Strategies,” *East Asian Review* 14, no. 2 (2002): 107–21, especially page 116.

causes besides the North's nuclear program: arms sales, drug smuggling, and currency counterfeiting. These activities bring in much-needed hard currency, but they drive the country into greater isolation and reduce the chances for improving economic relations with, for example, Japan. Domestic reforms and the careful opening for foreign and South Korean investors and visitors improve the economic situation, but they also increase the instability of the regime, as shown by the outflow of refugees who are increasingly informed about the outside world.

The current North Korean situation can be understood only by seeing these contradictions as originating from one source—the struggle for regime survival. This paper focuses on the effects of domestic economic reforms in North Korea, but it does not deny the importance of the overall political situation as well as of the development of economic contacts with other economies, including the establishment of special economic zones.

### The Rise and Decline of *Juche* in North Korea

*Juche* (or *chuch'e*) is the national communist ideology of North Korea, justifying the personality cult of Kim Il-sung (1912–94) and his son Kim Jong-il (born 1942).<sup>3</sup> It is the official state ideology of North Korea prescribed in the charter of the North Korean Workers' Party (NKWP). Literally, *juche* means “subject,” meaning the subject thinking and acting to master the world. As such, it is an anthropocentric ideology, based on the superiority of willpower and ideology over environmental conditions. Although it is based on Marxism-Leninism, it is to some extent contradictory to Marx's analysis of the social conditioning of mankind. *Juche* and its twin notion of *chajusong* (self-determination) do not mean individualism but, instead, a collective movement under the firm guidance of the NKWP and the leader (*suryong*).

Kim Il-sung first used the term *juche* in his speech, “Eradicating Dogmatism and Formalism by Consoli-

dating *Juche*,” in December 1955. He later claimed, however, to have developed the theory of *juche* much earlier—in the 1930s—during his alleged struggle against the Japanese occupation. During the development of *juche*, it became an ideological and economic system comprising practically all of Kim Il-sung's and Kim Jong-il's thought. Much of this thought can be traced back to Stalinist and Maoist ideology, but in the ideological struggle between the Soviet Union and China in the 1960s it was developed as North Korea's own style of communism (*urisik sahoejui*).

When Kim Il-sung and the NKWP took office in 1946, they introduced a system of Soviet-style communism with the help of Russian advisers. It included agrarian reform; the nationalization of industry, banks, transport and communications; and the modernization of North Korea's society by introducing, for example, a law on the equality of the sexes. After the Korean War (1950–53), the collectivization of farming, commerce, and services completed the introduction of a Soviet-style economy.

Three problems led to the subsequent development of the *juche* ideology, however. First, after the death of Stalin in 1953, the personality cult in communist countries was increasingly criticized and needed a new basis. Second, Kim Il-sung wanted to purge various opposing factions in the NKWP. Third, the increasing differences between China and the Soviet Union, the two main supporters of North Korea, had to be addressed. In this situation, Kim Il-sung proposed *juche* as an ideological system in 1955, justifying North Korea's equidistance between China and the Soviet Union. In 1956, when aid from the Soviet Union and China declined, Kim extended *juche* to the economic sphere, where it meant the development of a self-reliant economy. In 1962, *juche* was interpreted as the guiding thought for military self-defense and, in 1966, as the principle of political independence. Both extensions reflect the policy of equidistance from the Soviet Union and China. In 1970, at the fifth NKWP meeting, *juche* was introduced as the party's guiding principle together with Marxism-Leninism; and in 1972

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3. For an overview and comparison, see Hwang Eui-gak, *The Korean Economies: A Comparison of North and South* (Oxford: Clarendon, 1993); Yang, Sung-chul, *The North and South Korean Political Systems: A Comparative Analysis*, rev. ed. (Seoul: Hollym, 1999).

it was described as the leading guideline in the new communist constitution. After that, *juche* experienced numerous variations, especially through mass campaigns in the 1970s and 1980s, after the collapse of the Soviet Union, and during the subsequent economic problems of North Korea. These variations included a careful ideological and economic opening process.

As an economic system, *juche* was originally developed to resemble Soviet-style central planning. Economic decisions were formulated by the State Planning Commission under the political leadership of the NKWP's Central Committee. The role of markets was extremely limited. Plans were formulated in an iterative process among plants and cooperatives, local planning commissions, ministries, and the State Planning Commission. They were implemented by the dual administrative and party structure and controlled monetarily by the North Korean Central Bank. Spending was highly centralized, with 85 percent of the budget allocated to the central government and 15 percent to the local level. Much as in other socialist states until the end of the Soviet Union, production focused on heavy industry and the production of military goods and political prestige goods like the ubiquitous monuments to Kim Il-sung. Savings were mainly raised by socialist accumulation, in other words, forced domestic savings. Borrowing from Western countries and access to their technology in the early 1970s came to an abrupt halt with the DPRK's default on foreign debt in 1975.

As in China, there was an expectation that mass movements should lead to leaps forward in economic development. In 1958, Kim Il-sung announced the Flying Horse Movement (*chollima wundong*) for the systematic mobilization of labor for the development of heavy industry. In 1960, he announced the *Chongsan-ri* method—named after on-the-spot guidance from a collective farm in Pyongnam province—for ideologically motivated increases in productivity. In 1961, the *taean* work system of economic management by the masses under the collective guidance of the party committee was introduced.

As an economic system, *juche* was a disaster. The forced industrialization, resulting in the highest degree of industrialization among socialist countries besides the Soviet Union, could be maintained only

through massive Soviet and Chinese aid; even with aid, growth rates declined beginning in the late 1960s. Reliable statistical data have not been available since 1965. Since the collapse of the Soviet Union and certainly since the mid-1990s, famine and malnourishment have become chronic despite international aid. Central planning declined because of an absence of resources to allocate, and controls on personal travel ceased to be effective when people had to leave their places of work in search of food. Factories, which work to only a small percentage of their capacities, were stripped of everything movable, which was then sold, often over the border to China.

The death of Kim Il-sung in 1994 brought not only an extended period of uncertainty about the North Korean leadership transition but also a changed economic policy. During a buffer period in planning, from 1994 to 1996, the economic priorities were changed to agriculture, light industry, and a trade-first policy. However, these changes did not achieve the expected result of an improved situation for consumers because the change of economic priorities was not related to improved incentives for production or improved availability of resources for the companies in the priority sectors. Subsequently, in 1998, the old priority of heavy industry as the basis of economic growth was reintroduced. The period from 1995 to 1997, when reportedly hundreds of thousands of people died, has been called the “period of the arduous march” in North Korean official terminology. This was followed by 1998, the year of the “desperate march for socialism.” The economic situation improved slowly afterwards (*Table 1*), mainly because of international aid; but malnutrition and poor living conditions remained ubiquitous even after the economy began to grow slowly once again.

It has often been pointed out that the decline of the North Korean economy resulted from the discontinuation of energy deliveries by the Soviet Union, coupled with the flooding and droughts of the mid-1990s. While these factors definitely played important roles, it is important to see that the decline of *juche*-style central planning began much earlier. Energy supplies—the most important form of economic aid from the Soviet Union—plus aid from China allowed North Korea to uphold the illusion of successful economic development for a long time, and they definitely led to

**Table 1: Major Economic Indices of North Korea, 1995–2002**

		Unit	1995	1996	1997	1998	1999	2000	2001	2002
GNP		\$ 100 million	223	214	177	126	158	168	157	170
GNP/person		\$	1,034	989	811	573	714	757	706	762
Rate of economic growth (GDP)		%	-4.1	-3.6	-6.3	-1.1	6.2	1.3	3.7	1.2
Total trade volume		\$ 100 million	20.5	19.8	21.8	14.4	14.8	19.7	22.7	22.6
Foreign debt		\$ 100 million	118	120	119	121	121	125	N.A.	N.A.
Energy industry	Coal production	10,000 tons	2,370	2,100	2,060	1,860	2,120	2,250	2,310	2,190
	Power generation	100 million kWh	230	213	193	170	186	194	201.5	190.4
	Petroleum import	10,000 tons	110	94	51	50	32	39	57.9	59.7
Agricultural products	Grains	10,000 tons	345	369	349	389	422	359	396	413
	Rice	10,000 tons	121	134	150	146	163	142	168	173

Source: Ministry of Unification, North Korea: Facts and Figures, [www.unikorea.go.kr/en/](http://www.unikorea.go.kr/en/).

an overestimation of North Korea’s economic strength, similar to the overestimates of the strength of the German Democratic Republic (East Germany) in Europe.<sup>4</sup>

North Korea, especially since the transformation of other socialist economies, desperately tries to defend its “own style of socialism.” It is important, however, to see that *juche* communism is, first of all, Soviet-type central planning plus some Chinese-style additions, with all the problems related to that well-known economic system: constant shortages and bottlenecks in production; soft plans (easy to fulfil for the producers); bureaucratization; low innovative capacity and a subsequent widening technological gap; a “ton ideology” that stresses quantitative goals rather than qualitative goals and subsequent low product quality; a distorted price structure; and quantitative

rather than qualitative growth, resulting in zero or negative growth rates once all factors of production are employed. Although it is sometimes helpful to understand the North Korean political system as a special form of communism in an East Asian context, the economic system can best be understood from the well-known features it has in common with other socialist, centrally planned economies.

### **The Economic Reform of July 2002—A First Assessment**

Although the constitutional change of 1998 prepared for changes in economic policymaking instead of actually changing the policymaking, in July 2002 important changes were enacted, especially a thorough price and wage reform.<sup>5</sup> These reforms were described officially as an “economic adjustment policy

4. Because reliable data do not exist, much of the discussion of the economic results is guesswork and must rely on occasional observations of, for example, capacity utilization of North Korean companies, which is estimated at around 30 percent to as low as 10 percent.

5. For an overview, see Hong, Ihk-pyo, “A Shift Toward Capitalism? Recent Economic Reforms in North Korea,” *East Asia Review* 14, no. 4 (Winter 2002): 93–106.

for a strong and prosperous state.” The reform of prices and wages was the cornerstone of the new economic policy. Prices and wages (the price for labor) had been administered by the government for more than 50 years, resulting in prices that, because they had no relation to market prices, continued to reduce incentives for production.

In addition to the price changes cited in *Table 2*, a number of prices for social services, rents, and fees were also increased. The reform, by and large, increased prices more than wages, especially for important basic consumption goods like rice. These goods had formerly been heavily subsidized and before 2002, in years of the severest economic crises, had been rationed. This put a heavy burden on the state budget, which was alleviated by the price reform. The price reform also narrowed the gap between the official state price for consumer goods and the prices on the private markets (the former farmers’ markets). These markets gained additional importance as the official economy became unable to provide sufficient food to the people. While farmers’ markets—where farmers could sell the produce from

their private plots—existed in all centrally planned economies and functioned to alleviate shortages of food, the role of these markets in North Korea had grown considerably in the years preceding the reforms. The government had to acknowledge their new role by changing the old, now unsustainable, price structure in the official markets. The role of markets will grow in the future, with ten markets planned in Pyongyang and an additional one or two in every city (*si*) or county (*gun*), which amounts to approximately 300 markets in North Korea.<sup>6</sup>

The wage reform, which was enacted at the same time, only partly offset the effects of the price reform. Moreover, it changed the relative wages, with the greatest increases going to the people earning especially low wages in the personal service sector. The second greatest increases went to the army and special workers; the next group to benefit greatly was people doing manual labor.

Not only were prices changed, but the price-fixing mechanism was revised. The state still sets a standard price for goods, but since July 2002 local facto-

**Table 2: Changes in Prices, Wages, and the Exchange Rate in North Korea, 1 July 2002**

	Prices before 1 July 2002 (DPRK won)	Prices after 1 July 2002 (DPRK won)
<b>Commodities</b>		
Rice (kg)	0.08	44
Corn (kg)	0.07	33
Beans (kg)	0.08	40
Beer (per bottle)	0.50	50
Electricity (kWh)	0.035	2.1
Subway fare (per sector)	0.10	2
<b>Wages</b>		
For a laborer (per month)	110	2000
In the personal service industry (per month)	20–60	1,000–1,500
For a military lieutenant (per month)	95	2,970
<b>Exchange rate</b>		
U.S. \$ equals	2.15 DPRK won	150 DPRK won

Source: People’s Korea, 17 August 2002, [www.korea-np.co.jp](http://www.korea-np.co.jp); Gey, Peter, “Nordkorea: Reform sowjetischen Typs und Erosion der Staatswirtschaft” (in German), *Internationale Politik und Gesellschaft* no. 1 (2004): 127.

6. Ministry of Unification, “2004 analysis of North Korea’s economy (in Korean),” 5 January 2004, [www.unikorea.go.kr/data/pds0101/000158/attach/pds0101-158A.pdf](http://www.unikorea.go.kr/data/pds0101/000158/attach/pds0101-158A.pdf) (retrieved 10 January 2004).

ries can set specific prices that differ from this standard price if they first gain approval from a supervisory organization. This is part of a reform, which was clarified somewhat by Kim Jong-il in October 2002, that envisages more autonomy from central planning. Planning on the national level will concern only the most important economic variables, and concrete production plans will be made at lower levels of planning, thereby moving the North Korean economic system in the direction of indicative planning, where only broad political guidelines are provided but no firm-specific quantitative goals are set (for example, a system similar to that used in France in the period after World War II). Factories under the new planning system are at least partly in charge of procurement as well as selling their output—a major change away from orthodox central planning that also calls for an autonomous accounting, which in turn leads to more autonomy and responsibility for the factories overall.<sup>7</sup>

The new exchange rate of the U.S. dollar to the North Korean *won* was also an attempt to narrow (but not close) the gap with the free-market rate—in other words, the black-market rate. The former distinction between various kinds of *won* (for foreigners and for North Korean citizens) was set aside, and the exchange rate was unified. The move in 2003 to introduce the euro as official foreign currency also helped to control the holdings of foreign currency, which grew through increased exchanges with foreigners and the currency holdings of traders who crossed legally or illegally into China. The black-market exchange rate is still around five times the new official rate, however. Control of the circulation of money—for budgetary reasons as well as because of concerns about inflation—seems to be the motivator for the issuance in mid-2003 of People's Life Bonds, non-interest-bearing bonds complemented by a lottery system, for the first time since the Korean War.

Overall, the reforms of July 2002 achieved their goal of narrowing the price gap between the official state prices and the prices on the private markets. But it remains to be seen whether this effect is sustainable or whether inflation in the private markets will widen the gap again. For a stable relationship between offi-

cial prices and private-market prices, production must react to price increases quantitatively, by increasing the amount of goods offered. From the point of view of private actors in the markets—the traders—there is certainly an incentive to procure more goods for resale. Accordingly, private sellers of all kinds of goods can increasingly be seen in North Korea, selling Chinese consumer goods as well as foodstuffs and domestic products. In the long run, the knowledge of this new class of petit entrepreneurs might help transform North Korea into a full-fledged market economy. After all, the scarcity of entrepreneurial spirit is one of the great obstacles to economic transformation, and the new markets allow for the development of entrepreneurs.

While the distribution side of the economy is improving, the economy looks less promising on the production side. Although prices have become more realistic (i.e., close to market prices), they remain essentially fixed prices, not directly subject to the law of supply and demand. This is an important difference from the price reforms introduced in China in 1984, a reform sometimes cited as similar to the North Korean move of July 2002. The option to fix prices on the factory level by merely submitting them for approval to a supervisory agency is an improvement over nationwide fixed prices because it allows for more differentiated prices, but it is not the same as price liberalization. Also, the agricultural sector—which is in a sense pivotal because of the chronic food shortage in North Korea—still operates on a system of work squads instead of on a system based on families. It is a system that has been improved, but it is not yet a replica of China's family-based system that in the 1980s, by guaranteeing families that they could retain profits from increased production, set off China's agricultural growth. Until North Korea reforms itself on the family-based Chinese model, a dramatic change of output in North Korea's agricultural production cannot be expected.

So, while distribution improves owing to market incentives, industrial production and agricultural production are less apt to improve. Price and wage reforms will not only increase inequality among the North

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7. Hong (2002), *op. cit.*, p. 97

Koreans—an effect that might even be desirable, given the related incentives—the reforms will also be, to a greater extent than before, based on money, not only as a means of exchange but also as a measure of value. The economy will become monetized, an important but not a sufficient precondition for efficient production.

The price changes have also produced a new class of urban poor, estimated to number approximately 1 million people.<sup>8</sup> These new urban poor are people who, until the reforms, could rely on more or less regular rations of food but who now have to cope with increasing prices without being able to buy goods in the private markets. The costs are simply too high for them, and they cannot grow or gather food like the rural population. Because these urban poor are concentrated in the big cities, they also pose a greater challenge to the regime than the more dispersed and less-well-informed population of the countryside.

The motivation for the changes of July 2002 was the desperate economic situation of recent years, but it is important to see that the situation provided a motivation for an improvement of the system, not for a change of the economic system.<sup>9</sup> Some of these changes—like the narrowing of the price gap and the new, more realistic exchange rate—were inevitable. Others also followed reality more than they introduced something genuinely new. For example, the introduction of indicative planning and autonomy of the factories merely followed reality, because the central planning system had been dismantled in the mid-1990s, when the cen-

tral plan became less and less operational. Indeed, some changes—like the policy of approving differentiated prices on the factory level—could be interpreted as allowing for a certain recentralization.

In this respect it is interesting to look again at the new year's joint editorial of North Korea's leading newspapers, *Rodong Sinmun*, *Josoninmingun*, and *Chongnyonjonwi*. This editorial, printed in early 2004, maintains:

It is necessary to hold fast to and thoroughly implement the line of economic construction in the *songun* [military-first policy] era. In order to inject dynamism into the overall economy of the country it is necessary to channel main efforts into the development of the power, coal mining, and metal industries and the railway transport.<sup>10</sup>

Transport, energy, and heavy industry, interpreted as base industries for infrastructure development, are certainly important for the long-term growth of North Korea. These priority areas are also the traditional priority areas of Soviet-type central planning. The allocation of funds to these areas will not only reduce the much-needed funds for the production of food but will also achieve at best merely additional quantitative growth.<sup>11</sup> The 2004 new year's editorial and official statements issued during 2003 also call for the use of modern information technology, but the first official priority seems to be heavy industry, which might signify a return to the Soviet developmental model.

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8. Masood Hyder, coordinator of the UN aid program to North Korea, supplied this estimate, which was reported by South Korea via its Korea Trade Investment Promotion Agency (KOTRA); see "NK Economic Policy Churns Out 1 Mil. Urban Poor" UN Officer Says," KOTRA Bulletin, no. 236 (Digital KOTRA NK, 17 December 2003), <http://crm.kotra.or.kr/main/info/nk/eng/main.php3>. The total number of North Koreans dependent on food aid is estimated to be approximately 6.5 million out of a total official population of 22 million, roughly one in three.

9. The author experienced this firsthand in meetings with North Korea officials; they reject the word "reform" and speak instead of "adjustment" or "interesting changes."

10. Korean Central News Agency, 1 January 2004, [www.kcna.co.jp/index-e.htm](http://www.kcna.co.jp/index-e.htm). The *songun* policy became an increasingly important slogan for the Kim Jong-il government. It signifies not only that the military sector and military readiness are most important for North Korea but also that the whole society is militarized, that is, organized according to the example of the military.

11. Quantitative growth means the increased use of factors of production rather than an increase in total factor productivity through innovations in technology, management, and organization.

Also, the wording of the section of the editorial related to economic management is open to interpretation:

It is important to increase the role of the Cabinet, the economic headquarters, and improve the economic management. To this end it is necessary to establish a proper work system guiding and administering the economy and science and technology in a uniform manner and closely combine science and technology with production.<sup>12</sup>

The expression “in a uniform manner” indeed might mean a recentralization.

A discussion of the reforms of the North Korean economy in recent years is not complete without an analysis of the attempts to open the economy to foreign capital and technology, especially through the special economic zones.<sup>13</sup> The introduction of a special tourism zone for foreigners in the Mt. Kumgang area and the planned industrial special zone in Kaesong for South Korean and, maybe later, foreign companies producing under capitalist rules are among the most visible signs of change in North Korea.<sup>14</sup>

Like the domestic economic changes, the introduction of these zones should improve the economic situation of North Korea without destabilizing the political monopoly of the Kim regime. Contacts are minimized between North Koreans and foreigners, especially South Koreans; and fences and walls should physically prevent the free flow from the zones to the

rest of the country. The special economic zones are inspired by China’s success in attracting foreign investment through such zones without endangering the political and economic system in the rest of the country. It is doubtful, however, whether North Korea can repeat China’s success. Differences in the internal markets of Korea and China (China’s domestic market was very important in taking up goods produced in the special economic zones that could not be exported), differences in the costs of special economic zones vis-à-vis competitors (costs were low in China in the 1980s and 1990s, but they are not especially low in North Korea), the lack of infrastructure in the zones, and other differences might prevent the zones from becoming successful. But they will surely add to the number of North Koreans exposed to the market economy and working under market conditions as well as improve the flow of information into North Korea.<sup>15</sup>

### **Conclusion—What Impact Will the Economic Changes of July 2002 Have?**

Friedrich August von Hayek once noted that social science is a science of the unintended consequences rather than the intended consequences of human action.<sup>16</sup> The discussion of the economic changes in North Korea and their impact is a good example for this distinction: the changes were introduced to alleviate the pressure on the Kim Jong-il regime that was coming from a desolate economic situation, chronic food shortages, and a decline of the former system of central planning. But the changes may well go much

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12. Korean Central News Agency, 1 January 2004, [www.kcna.co.jp/index-e.htm](http://www.kcna.co.jp/index-e.htm).

13. For a more thorough discussion of the special economic zones, see the discussion in Seliger, Bernhard, *Die nordkoreanischen Sonderwirtschaftszonen—eine Wiederholung des chinesischen Erfolgsmodells?* (in German), in *Korea Jahrbuch 2003*, ed. Patrick Köllner (Hamburg: Institut für Asienkunde, 2003), 262–85; Jung, Eliot Syunghyun, Kim Young-soo, and Takayuki Kobayashi, “North Korea’s Special Economic Zones: Obstacles and Opportunities,” in *Confrontation and Innovation on the Korean Peninsula* (Washington, D.C.: KEI, 2003), 60–70.

14. Two other special economic zones—one zone already more than a decade old in Rajin-Sonbong, and another stalled zone project with a completely independent political and economic structure in Sinuiju—can be judged as failures, and they currently play no important role in the strategy of the North Korean government.

15. From the point of view of South Korea, the prospect of inter-Korean cooperation through the zones adds a noneconomic benefit, making costly investments more understandable.

16. See von Hayek, Friedrich August, *The Counter-Revolution of Science: Studies on the Abuse of Reason*, 2nd ed. (1952; repr., Indianapolis: Liberty Press, 1979), 41.

farther than the North Korean government intended them to go.

This hypothesis needs a justification. In the history of socialism there have been many instances of reforms in the systems of almost all socialist economies, for example, in East Germany throughout the 1960s. These reforms resembled the North Korean reform in that they attempted to introduce concepts related to economic efficiency, for example, new ways to calculate profits; and they often also attempted to reduce the degree of central planning. All these reforms were intended to improve rather than replace the economic system of central planning. All these reforms share the fate of being economically unsuccessful, and they were later reversed. Even the one successful reform, the New Economic Policy under Lenin in the early 1920s, was later reversed. It is therefore not clear from the outset why a similar reform in North Korea, successful or not, should lead to real transformation. Three aspects of North Korea's reform policy do, however, enhance the prospective of long-term change.

First, the North Korean reform has been implemented under extreme pressure, both political pressure from the outside and economic pressure from the inside. Through its *songun* policy, North Korea has tried to use political pressure from the outside to its own advantage, by militarizing the whole society and uniting it against foreign pressure. But the domestic pressure stemming from chronic food shortages is much more difficult to deal with. If the economic reforms fail, food shortages might lead to the collapse of the regime. If the economic reforms are successful, it will be difficult or even impossible to reverse a policy that ended widespread famine. Many socialist governments from the 1960s through 1980s tried to correct their malfunctioning economies by introducing reforms inside the system, but in no case was the situation as desperate as North Korea's.

Second, the North Korean reform more than other reforms under socialism will enhance the freer flow

of information and thereby will destabilize the Kim Jong-il regime in the long term. The information monopoly until now has been a cornerstone of the government, but the mass migration to the Chinese border provinces already has damaged it. The adoption of modern information technology, even at a snail's pace—the Internet has been introduced to an increasing number of users, and an estimated 20,000 cell phones are in use in Pyongyang—will chip away at the government's information monopoly. Reportedly, refugees living in Seoul already can phone their relatives in North Korea if they are located close to the Chinese border. The personnel in the special economic zones, the officials involved in international and inter-Korean negotiations, and the people in the areas bordering on China all are becoming exposed to more information from abroad. Although the information monopoly in North Korea had been possibly the most complete compared with other socialist states, modern technology makes the maintenance of such a monopoly almost impossible once even a small crack opens.

Last, but related to the second point, more than in any other socialist state with the possible exception of East Germany, the Kim regime presents a contested monopoly. South Korea represents the "other" Korea, making comparisons possible; other socialist states have lacked this comparability. This *anti-monde* cannot be ignored by the North Korean state simply by proclaiming the ideology of a unitary Korea.<sup>17</sup> The more that contacts with the South increase, the more the North has to justify its poor economic results. This, in turn, forces the North to maintain or even increase the speed of reform.

If the argument above is correct, then South Korea as well as the United States and the international community should encourage North Korea in its economic reform process. This encouragement has two tracks: continuing the political pressure regarding North Korea's nuclear program as well as the violations of international law (drug smuggling, etc.) and, at the same time, supporting change in North Korea through,

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17. This is a major difference between the Korean situation and the German situation. Beginning in the late 1960s, East Germany developed the idea of two German states, thus rejecting unification.

for example, increasing the country's knowledge of the outside world. Integration in regional arrangements like institutionalized six-party talks could increase the speed of reform.<sup>18</sup>

Currently, North Korea seems to be eager to participate in programs to increase its knowledge of foreign countries, alternative economic systems, and international trade. Given the costs of sustained tensions on the Korean peninsula, the current stage of reform should be seen as a window of opportunity to support change in the last hermit kingdom.

*Dr. Seliger is Resident Representative of the Hanns Seidel Foundation in Seoul. This article presents the private opinions of the author, not necessarily the official view of Hanns Seidel Foundation.*

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18. See Seliger, Bernhard, "Regional Integration in East Asia and Perspectives for Economic Transformation in North Korea—Lessons from Europe," *International Journal of Korean Unification Studies* 12, no. 1 (2003): 129–64.



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