

## The Dilemma of North Korean Reform: Where is it Going?

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### INTRODUCTION

North Korea is the last Stalinist state in the international system, and the only one which has thus far eluded political, economic, and social reform. In fact, only in the last few months have cautious signs of opening to the outside world materialized—albeit the ongoing militarization of its domestic political process. The North constitutes a *sui generis* state that springs from a staunchly traditional Confucian political culture. The state is characterized by a curious blend of nepotism and a planned, centralized, non-market economy. This system is, moreover, run by an individualized conglomerate of military, and civilian leadership that constitutes the Korean Workers' Party (KWP).

Recently, this unique system has experienced crisis in the energy, manufacturing, and agricultural sectors, while maintaining the unchallenged dictatorship over the peasantry and workers in the name of late Kim Il-sung, and his heir to power, Kim Jong-il. Personal freedom has been drastically curtailed. Moreover, reported development of nuclear weapons and its

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delivery system has threatened her neighbor, South Korea, and the major powers surrounding the Korean peninsula, namely, Japan, the United States, and to a lesser degree, China and the Russia.

Notwithstanding those negative images of the North, new questions are raised along with recent developments: the unprecedented trip to the United States by North Korean General Cho Myung-rok, the special envoy of Chairman Kim Jong-il who stands as number three man in the North; U.S. Secretary of State Madeline Albright's visit to North Korea last October; and increasing diplomatic contacts with European and Asian states. Since the historic inter-Korean summit, the inter-Korean atmosphere softened as well: the recent meeting between the Defense Ministers of South, and North Korea; planned inroads for South Korean capital and technology to Pyongyang; and the ongoing bilateral ministerial conference for economic cooperation. Then, how should recent developments be viewed? Could these events be taken as a modest sign that the North Korean leadership, even its military clique, now recognizes the necessity of diplomatic opening,<sup>1)</sup> and internal reform?

This paper will attempt to answer the dilemma facing the North Korean leadership in terms of future choices for internal, and external reform on several levels: (a) analyzing the evolution of the North Korean political economy; (b) measuring the impact of President Kim Dae-jung's engagement policy on the North Korean political economy, and, finally, by (c) recommending policies for minimum risk, and maximum stabilization of internal conditions prevailing in North Korea, with the hope of escaping from the current economic crisis, and long-term political sclerosis.

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1) For a comprehensive background analysis, see, Kim Doug-joong (ed.), *Foreign Relations of North Korea during Kim Il-sung's Last Days* (Seoul: Oreum Publishing House, 1994).

**THE STATE OF THE NORTH KOREAN POLITICAL ECONOMY IN THE 1970S:  
FROM DEVELOPMENT TO INSTITUTIONALIZED STRANGULATION?**

Until the early 1970s, economic development in North Korea proceeded at a fast pace, seriously competing with, and even surpassing trends in South Korea at the time. As far as a favorable international environment was concerned, the Socialist camp was alive and well, with the Soviet Union was enjoying the last years of its “golden age” before it entered the Brezhnevian period of stagnation. In parallel, the economies of Eastern Europe constituting the members of Council on Mutual Economic Assistance (COMECON) were recording modest levels of economic growth.

Furthermore, the military strength of the Soviet Union, Warsaw Pact Organization (WPO), China, and Vietnam in a highly militarized international environment all added to the perceived strength, if not the vitality of the Socialist camp, including that of North Korea at the time. This was especially true, since the four dragons-to-be, namely, Taiwan, South Korea, Singapore, and Hong Kong would not make their mark until much later in the mid-1980s.

In the prevailing perception, Japan,<sup>2)</sup> and the United States<sup>3)</sup> in terms of their vibrant military, diplomatic, cultural and economic presence on the Korean peninsula were viewed as imparting an

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2) On Korean-Japanese relations, consult Kim Byung-ki, “Japanese Perception of and Response to the Security Situation on the Korean Peninsula,” paper presented at international workshop, “Japan and Regionalism,” organized by the University of Brisbane, Australia, January 5-6, 1998; Haruhiro Fukui, “Japan in the East Asian Regional Order: An Historical Perspective,” *Peace Forum*, no. 25 (Winter 1997/98), pp. 59-70; and Kim Hong-nak, “Japan and North Korea: Normalization Talks Between Pyongyang and Tokyo”; Kihl Young-whan ed., *Korea and the World: Beyond the Cold War* (Boulder, San Francisco, and Oxford: Westview Press, 1994), pp. 111-132; and Shigeki Nishimura, “Japan’s Defense Strategy in Perspective: Old and New Challenges”; Pak Chae-ha, *et al.* eds., *A New World Order and the Security of the Asia-Pacific Region*, Fifth KIDA-CSIS International Defense Conference (Seoul: The Korea Institute for Defense Analysis, 1993), pp. 115-128.

3) On Korean-U.S. relations, consult Thomas L. McNaughter, “Organizing the Pacific: U.S. Military Strategy in Asia”; Edward Olsen, “Prospects for Regional Security Arrangements

overbearing influence on South Korea's relatively low international standing, particularly in relation to that of Pyongyang at the time. Such perception of strong U.S. and Japanese presence on the Korean peninsula generated an image of inflated strength of the very antithesis of Western capitalism, namely, that of Kimilsungism and its supporting structure—which all added to North Korea's purported strength and dynamism at the time.

Also, all-out war instigated by national liberation movements swept the African and Latin American continents, and North Korean military advisers actively operated side by side with Cuban proxy troops, and the Non-Aligned Movement added all the more to the perceived strength of the international Communist camp, including that of North Korea. Moreover, despite its purported self-reliance based on Juche ideology, Pyongyang was receiving significant economic, military, and diplomatic support from China, the Soviet Union, and eastern Europe. Thus, in the minds of the West, North Korea represented an apparently powerful member of the international revolutionary movement.

As Samuel Huntington argued in *Political Order in Changing Societies*,<sup>4</sup> the development of the North Korean political economy, until the first half of the 1970s, constituted one of the first successful attempts in Korean history to institutionalize, centralize and thereby, develop pre-industrial, feudal order in the manner of the “enlightened monarchs” of seventeenth-century Europe. In this process, the once badly-torn social fabric, centered around family and village, gradually began to integrate according to class, occupation, and other modernizing (and universalizing) standards. Individual loyalty was, thus, transferred from the locality to the

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in Post-Cold War Northeast Asia: An American Perspective”; Kim Tae-woo, “Nuclear Issues and the Future of ROK-U.S. Relations,” in *A New World Order and the Security of the Asia Pacific Region*, pp. 81-114, 155-174, 261-280; Lee Chae-jin, “The United States and Korea: Dynamics of Changing Relations,” *Korea and the World*, pp. 69-82.

4) (New Haven: Yale University Press, 1968). See especially the section on Leninist systems.

nation where both economic incentives and institutionalized terror played a central role in mobilizing the masses for planned economic development. Here collective farms and factories replaced the extant feudal order; modern educational structures were instituted, while the process of militarizing political, social, economic and cultural system proceeded forward.<sup>5)</sup>

The (North) Korean Workers' Party (KWP), having established the cell organization from the grass-roots to the top layers of society, enabled the penetration of the once passive and inchoate social order by the towering state, in order to promote economic development, and to political centralization. Priority was placed on heavy and medium-sized industries, while agriculture and light industry followed suit. Blessed with the bulk of the peninsula's heavy and medium industries, such as power-grid, energy, and transportation infrastructures, the KWP devoted itself to the creation of a rudimentary structure for heavy industrial development, which would later serve as the backbone for the formation of its mighty armed forces.

The agricultural sector whose collectivization had significantly increased annual food production to solve problems of food supply, was sacrificed for the industrial sector – although not to the harsh extent of the Soviet in the 1930s.<sup>6)</sup> Thus, the agricultural sector provided for the accumulation of state capital needed for financing the development of heavy and medium industries. This modified version of the Soviet plan, that is, the “anti-Bukharinite, primitive

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5) For further discussion, see, David F. von Hippel and Peter Hayes, “Engaging North Korea on Energy Efficiency,” Kim Whee-gook, “Problems and Remedies of the North Korean Economy: A Strategic Approach,” in *The Korean Journal of Defense Analysis*, vol. VII no.2 (Winter 1996), pp. 177-268; and Michael Green, North Korean Regime Crisis: U.S. Perspectives and Responses, *ibid*, vol. IX no.2 (Winter 1997), pp. 7-25.

6) See Kim Byung-ki, “North Korean Economy: Structure, Process, and Output,” paper prepared for graduate seminar on Socialist economics, Department of Economics, Harvard University, 1986.

Socialist mode of accumulation” worked well until the early 1970s. There was good reason for its success: First, North Korea was undergoing the initial phase of its industrial take-off. In this stage, both industry and agriculture were successfully modernized by utilizing the population, easily controlled by institutionalized terror, ideological organizational control, and perhaps most important, a mass appeal to nationalism, especially against Japanese colonialism and U.S. imperialism.

Although living conditions were still frugal, for the majority of North Koreans, the basics, such as food, clothing, shelter, education, medical care, and jobs, were provided in a reasonably secure manner, a visible improvement over pre-Communist days (1945). Social reforms destroyed the post-feudal, colonial *yangban* (literati) order, mobilizing energy for the developmental state. If there was dissent, it was ruthlessly extirpated through organized terror by the secret police or the Committee on Public Security (*Sahoeahnjeonboo*)—an agency likened to the KGB.

Promised higher living standards, the masses were mobilized for successive Five Year Economic Plans (FYPs), which would catapult the North Korean economy from the ranks of one of the most backward countries in the world to one of the most advanced central planned economies. If a better quality of life was the carrot, then, as noted earlier, organized terror constituted the “stick.” Thus, the KWP was able to create a unified political leadership and gain a complete monopoly over the rule of the state. The leadership also commanded the creation of the first modern day bureaucracy in the fields of defense, economics, technology, medicine/welfare, internal affairs and foreign policy. Most important, the KWP, having monopolized political power, enhanced the states regulative, extractive, penetrative, and mobilizational capacities to an unprecedented degree. The process of this nation-state building was ultimately directed towards the creation of a one-man-rule of Kim Il-sung, and his heir-apparent, Kim Jong-il and their clique, resulting in one of the most personalized state structures in the world. Key organs of state

power, such as the armed forces, state security, internal affairs, and the KWP were filled by the members of the *Kapsan* faction, the first-generation revolutionaries who had built the state along with Kim Il-sung. This cementing of the state and party structures enabled the ruling elite to maintain absolute authority over the statecraft, even after the death of its leader, Kim Il-sung, in 1994.

Following the senior Kim's demise, his powers were transferred to his son, Kim Jong-il, who now heads the all-powerful National Defense Committee. Until the death of the senior Kim, the North Korean polity was able to institutionalize absolute rule by its founder for a number of reasons. Having destroyed the remnants of Confucian political culture and institutions by eliminating traditional loyalties to family, locality, and the monarchy, Kim Il-sung was able to inherit the nation's sworn loyalty, and thereby, the legitimacy of the state at three critical levels: (a) the economic, so-called "functional" dimension, by improving the livelihood of the people, and thereby, the overall national strength, including its military; (b) the institutional dimension by establishing unitary organization through instigation of nationalist agitation and mass terror; (c) personalization of power in the manner of successive (*patrimonial, hereditary*), but much more powerful monarchs of the past (i.e., Yi dynasty, 1492-1910) by essentially capitalizing on the fundamentals of post-Confucian political culture, and institutions.<sup>7)</sup>

Moreover, in the aforementioned context of a strong international communist camp confronting global capitalism in an unending Manichaeian struggle between good and evil, the imperative of North Korean development was viewed by the populace as a historical necessity against South Korea, to say the least, a historical aberration. Given the ongoing struggle between communism and capitalism it was the historical duty of Pyongyang

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7) See the section on North Korean society in the seminal work by Lee Chong-sik, and Robert Scalapino in *Communism in Korea*, Vol. II (Berkeley: University of California Press, 1972).

to liberate the forces of reaction and U.S. imperialism in the South. In order to facilitate this revolutionary process, its economic development had to supercede that of Seoul. Thus, North Korean development until the early 1970s took place in the context of a siege mentality, conducive to internal conditions for state-directed development of the most extreme kind.

Serious economic and social difficulties began to plague the North Korean political economy after the 1970s, and those conditions would exacerbate in the 1980s. On a global level, formerly robust economic trends recorded by the Socialist economies began to show signs of weakening and mounting tension, forcing some governments to choose not only limited, and initially controlled reform, such as in Czechoslovakia, Hungary, and Poland. In others, major ideological, economic, and even political revisions began in the second half of the 1980s, most notably, in Mikhail Gorbachev's Russia. When the Socialist regimes in eastern Europe began to experience fundamental transformation in 1989 i.e., the Velvet Revolution, followed by the disintegration of the Soviet Union two years later (1991), the once lively and cohesive international Communist camp evaporated overnight as well. The death knell was struck with the political vacuum created by the accompanying destruction of the WPO, once the symbol of the bloc's prevailing military strength. The burgeoning of non-centrally planned economies and non-Socialist regimes in eastern Europe and the former territories of the Soviet Union, the majority of which established diplomatic ties and active trade relations with South Korea, aggravated the unfavorable trend for North Korea. To make matters worse, Moscow, along with Beijing its single largest trade partner, halted external economic relations on the basis of trade credit and barter, demanding that all transactions be based on hard currency. Even Beijing and Hanoi, while preserving the dictatorial structure of the Communist Party, began experiments in capitalist economic thought and even practice, perceived as a dangerous experiment by Pyongyang.

These changes have essentially brought about the obvious isolation of Pyongyang, in ideological, economic, cultural and military terms. Moreover, with capitalism winning the Cold War, the Socialist losers were weak and impoverished, and North Korea was the most destitute of all. In the absence of diplomatic, economic, and military support, formerly provided by the international socialist community, Pyongyang was forced to stand on its own, necessitating greater internal tightening on the one hand, and on the other, forcing it to consider the drastic economic and political strategies to compensate for the lost support.

At the same time that the international environment was taking a turn for the worse, Pyongyang's political economy also experienced serious trouble. In the realm of heavy and medium-sized industries, agriculture, energy, and transportation, North Korea encountered a critical bottleneck: unable to balance supply and demand on one hand, the over-simplified, planned economy was unable to meet consumption demands on the other. This increasing mismatch between production and consumption entered the crisis stage in the early 1980s, especially in the socially and politically critical areas of manufacturing, energy, and food-supply, thus, calling into question the long-term survival of the KWP leadership.

The North Korean faced many obstacles: First, its rigid highly-centralized structure seriously impeded its ability to adapt to the high-technology information revolution sweeping the globe in the 1980s. Second, it was unable to disseminate industrial technology, institute modern managerial know-how, improve its products, and accelerate the necessary horizontal and vertical integration of the economy, including a comprehensive link with international finance capital, and other trade and production organizations, i.e., multinational corporations (MNCs). Without political confidence, and more fundamentally, lacking a firm belief in the leadership since Kim Il-sung's death in 1994, it was doubtful whether the regime could be protected. Signs of social and economic ossification that heralded political dangers began to appear in the late 1980s, and

early 1990s. With an economic crisis sweeping the nation in the form of energy, transportation, and food shortages, the social order began to crack. This process was symbolized by the flight of North Korean refugees. Consonant with this social degeneration, the North Korean black market sprung up, estimated to constitute around 10% of the national economy. This phenomenon meant that a “cash nexus” was operating beyond the bounds of KWP oversight.

Confronted with economic and social crisis, Kim Jong-il's imperative was to institutionalize the loyalty of his father's political generation (clique), including the command over the all-important military, representing by far the most powerful organizational force. By co-opting the old guard, and empowering his personal clique, Kim Jong-il was able to stabilize a unique civilian-military hybrid regime. With all power resting with the National Defense Committee, the job of tackling the economy lay with the executive ministries. Such an arrangement enabled the Supreme Leader to escape periodic blame for any mismanagement of the economy, while still maintaining tight political control over the state machinery.

The legitimacy of the North Korean state, and the “correctness” of its history until the passing of Kim Il-sung (1994) have been guaranteed by the Kim Il-sung Constitution of 1998. It extols the eternal omnipotence of Kim Il-sung, his rule, teachings, and place in history through the Kim Il-sung mausoleum, and other propagandist symbols. This “interpretational” contract, within the ruling hybrid regime and between the regime and the masses, institutionalizes North Korean political stability, but it also restricts opportunities for reform on the internal, and to a much lesser extent, external levels.<sup>8)</sup> The key question for the North Korean leadership would then be how, and to what extent can it reform its economic system, while still being able to protect its political integrity. Prior to launching any reform, the founding legitimacy of the state, and

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8) For a recent analysis, consult Park Jae-kyu, ed., *North Korea in Transition and Policy Choices: Domestic Structure and External Relations* (Seoul: Kyungnam University Press, 1999).

its continued supporting structures must be viewed as ideologically “correct.” The ideological basis of any new economic strategy *per se* must be emphasized in a selective manner so as not to disrupt the interpretational? contract. This can be achieved, for example, by citing excerpts from the writings of the late Kim, and citing economic programs which are most in line with economic reform. Without political stability, and coherence, economic adjustment would be quite difficult, if not impossible, with many unforeseen dangers, such as those seen in the collapse of the Soviet Union.

So far, Pyongyang has not instituted economic reforms, but, rather, stop-gap measures designed to ensure the continuing rule of the KWP. Instead of risking nation-wide reform in limited areas, it has two strategies: Special Economic Zones (SEZs) which have, thus far, been unsuccessful, but are still “politically containable,” and a policy of extortion based on the development of weapons of mass destruction (WMD) towards the U.S.

By extension, its continued receipt of hard currency through Hyundai’s Kumkang Mt. Project, demands for food aid, the need for modernized transportation infrastructure, and the Kaesong industrial zone must be viewed as similar rationale, namely, an attempt to avoid the undesirable impact of experiments in capitalist production and consumption on a nation-wide scale. So far, the strategy, has not been very successful (6 out of 7 SEZs have failed to generate expected results). As a result, pressure is building for greater institutional reform, and that in turn increases the political stakes involved, producing a Catch-22 situation for the regime.

#### **ENGAGEMENT POLICY AND ITS IMPACT ON THE NORTH’S POLITICAL ECONOMY: A SCHEMATIC ANALYSIS**

The question of whether or not the North Korean leadership is willing to experiment with internal socio-economic, long-term political, and foreign policy reform, and to what extent, is dependent

on several contingencies: (a) elite cohesion; (b) leadership's view of the outside world; (c) other countries' experience, (d) macro-political stability of which external influence is important, including Seoul's engagement policy.

Elite cohesion is dependent on Kim Jong-il's ability to wield effective control over the current civil-military hybrid regime. The stability of this internal pact will depend on Kim Jong-il's continued offering of gratuities to the military, including power, capital, prestige, position and influence. In this respect, Kim Dae-jung's policy of economic cooperation with Pyongyang must not be viewed as impinging upon the vested rights of the KWP leadership. In fact, the engagement policy must be viewed as guaranteeing the political and financial well-being of the military-political elite.

Likewise, any talk of tension reduction, arms control, political and security building measures (PSBMs), and military dialogue must take place in light of this internal condition. There must be overriding conditions under which the North Korean military would give up its policy of extortion towards the outside world. The trade-off would thus involve several variables: (a) continued financial benefit; (b) political guarantee by South Korea and surrounding powers as of the security of the North Korean regime; (c) continued social prestige of the elite, and; (d) the development of a new concept of national security that would replace the old doctrine.

In this connection, the engagement policy, with respect to investment, trade, infrastructural development, and political confidence-building measures in exchange for the West recognizing Pyongyang, has succeeded in meeting variables (a) and (b). Variable (c) will depend on the long-term political outcome of the North's transition from a non-market to a transitional economy. Variable (d) would depend on the world views of the current (military) elite and what they learn from other countries' experiences.

The world views of the military-civilian leadership, and their learning process is very important in terms of the policy choices that they will make in the future. Based on the recent summit between

President Kim Dae-jung and North Korean leader Kim Jong-il, we now know that Kim Jong-il is extremely well-informed with continually updated information, and he even shared some progressive ideas of his own. From the fragmentary information available, it can be argued that Kim is fully aware of North Korea's position, and of the choices that he must make as a system reformer. Of course, whether or not his factional cliques in the military and economic fields will support him is another question, not to mention whether the deeply-embedded societal rigidity will allow it.

Although much research must be done in this field, the majority of the economic technocrats, and military leadership have been educated in the Soviet Union, eastern Europe, and China in the 1950s, 1960s and 1970s. Their world outlook must be evaluated as most traditional, even outdated by today's standards, and lacking creativity.

In the economic bureaucracy, the type of policies that will develop in the future will also be affected by the Russian, Central Asian, Chinese, Vietnamese, and most importantly, the South Korean experience. In this respect, mutual visits by economic managers, academics, journalists, and policymakers are extremely crucial in providing constructive paradigms for change in North Korea, not to mention in ensuring that they learn about the process of non-Socialist modes of transaction with South Korean counterparts for more practical purposes. The sunshine policy has much to offer in this respect.

The military leadership presents a more difficult issue, for there must be individuals in the inner circle who believe that the development of WMDs, and mass-based army are not the best way to preserve and enhance national security. In fact, force structure, military doctrine, and defense economics must be transformed into a much smaller, higher technology, volunteer-based force such as one advocated by former Chief of the Soviet General Staff General Nikolai Orgakov, in order for North Korea to move toward tension reduction and PSBMs. The ongoing meetings between defense

ministers of Seoul and Pyongyang must expand to include both commissioned and non-commissioned officers so as to instill new and constructive ways of thinking, and more importantly, to institute means of cooperative security between the two Koreas.

Lastly, macro-political stability will depend on the mixture of the variables discussed thus far, namely: (a) elite cohesion, (b) elite outlook and, (c) learning in juxtaposition with the international influence, including the South Korean response. The key sustaining factor here will be the system's functional efficiency, that is, whether the elite will be able to maintain hegemony over the masses while providing economic satisfaction in North Korea. This condition essentially depends on internal matters, hence, is outside the purview of South Korean policymakers. The most Seoul can do is to provide a stable international environment, such as the Seoul Declaration, adopted during the 3rd Seoul ASEM this October 20-21, which signified Europe's concern for Pyongyang's development of WMDs, and concurrent support for South Korea's policy of engagement.

#### POLICY RECOMMENDATIONS, AND CONCLUSION

Given the foregoing analysis, South Korean policy-makers must heed the fact that long-term political stability will be essentially determined by North Korean elite's policy choices. These policy choices in turn can be moderated by international factors, such as the South Korean response. Factors such as the following must be taken into consideration.

Incentives as well as disincentives are needed to moderate North Korean elite's behaviour. Thus, principles of reciprocity and *quid pro quo* must be promoted in line with South Korean national interests, such as the priority of bilateral negotiation between Seoul, and Pyongyang, humanitarian, and other political concerns, such as the prisoner of war issue.

Second is the sustainability of South Korean domestic support. There is still no consensus on the political, economic, ideological, cultural, and social level for preserving our policy of engagement. We must recognize that sustainability of the engagement policy cannot hinge on continued tension and friction within the various South Korean communities, whether they be among the armed forces, the left, right, center, non-governmental organizations (NGOs), film industry, mass media, educational institution or private corporations. The basis of this consensus, moreover, cannot be separated from the stability of the South Korean political economy, such as critical labor-state-capital relations, which will calibrate our economic capacity to finance the engagement policy towards Pyongyang.

Finally, the engagement policy is receiving wide support from the international community, including the surrounding four powers. This global support will lead to further improvement in North Korea's attitude as well as to South-North relations, and will finally achieve peace and stability in Northeast Asia. In particular, the U.S., China, and Japan, whose interests converge on the Korean peninsula, must be encouraged to support this policy towards North Korea.