

Reform or Military Buildup? North Korea's Economic Policy, 1994-2004

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INTRODUCTION

In December 1993, acknowledging the failure of its third Seven-Year Economic Plan (1987-1993), Pyongyang declared a three-year “buffer period” and introduced a “revolutionary economic strategy” designating agriculture, light industry and foreign trade as the three priority sectors. Such an economic strategy which was maintained even after the death of former leader Kim Il-sung as part of his legacy was revolutionary because, even for a short period, it departed from the “heavy industry-first” policy of the North’s self-reliant national economy, which had been in place since the mid-1950s. Despite the new strategy, however, North Korea, under the new leadership of Kim Jong-il, is facing a serious economic crisis.

In the latter half of 1998, just after the worst economic crisis and the official inauguration of the Kim Jong-il regime, North Korea renewed its commitment to the self-reliant national economic policy¹⁾

1) Joint-editorial of *Rodong Shinmun* and *Geunroja*, “Guard the Policy of Building Self-Reliant National Economy to the End,” September 17, 1998.

while seeking change in its economic development strategies. Since then, the Kim Jong-il regime has placed priority on a heavy industry development strategy and a socialist economy in the name of a self-reliant national economic system on the one hand, and has stressed the importance of scientific technology and profitability on the other. Thus in the late 1990s, North Korea's economic policy appeared to be a balancing act between the reconstruction of a socialist economic system and undertaking economic reforms.

Since 2001, North Korea has pushed for change in its economic policy, with special emphasis on "technological reconstruction of the people's economy" (stated in the 2001 New Year Joint Editorial). The economic reform of July 2002, which resulted in notable price increases, and the designation of Shinuiju, Mt. Kumgang and Kaesong as special economic zones (after September 2002), clearly show that North Korea intended to adopt a progressive economic policy that would undertake both reform and an open-door policy.

However, when efforts at economic reform and open-door policy did not result in improved relations with Japan and the U.S., North Korea began to prioritize its national defense industry and scientific technology and profitability at the same time. As part of its economic reform initiatives, North Korea issued public loans and took measures to expand the agriculture market as a comprehensive consumer market in 2003; however, in the 2004 New Year Address, Pyongyang left open the possibility of reverting to the traditional developmental strategy of heavy and national defense industry first.

NORTH KOREAN ECONOMY AND POLICY TASKS IN 1990S

The signs of North Korea's economic stagnation since the early 1990s are clearly illustrated in the index for gross economic volume and North Korean industrial structure. As shown in Table 1, North Korea's economy from 1990 to 1998 posted negative growth. Strained

foreign economic relations in the wake of the collapse of the Soviet Union drastically reduced energy production (and energy imports), the basis for economic activities, since the early 1990s. In addition, economic stagnation reduced the North Korean industrial structure to that of an underdeveloped country. Even though there was no actual increase in productivity in agriculture, forestry and fisheries, a decline in the mineral and manufacturing productivity caused agriculture, forestry, and fisheries to account for a significant portion of the North Korean economy. A similar pattern was also found in the service sectors. Despite government budget cuts, the state-run service industries accounted for an even greater portion of the service sector.

The collapse of the planned economy that propelled the North Korean economy presents an even greater problem than the decline in production volume and the changes in industrial structure. The faltering economy bankrupted the national finance, while the drain on the national treasury led to the insolvency of economic planning organs. The collapse triggered a suspension in allocation of goods by state-run businesses and cooperative farms, and since the crash of the ration system for daily necessities, the private economic sector (black market) has been growing. With the growing black market, people's livelihoods are now more dependent on commerce, and more official goods are traded via illegal business routes.²⁾

The economic crisis in the 1990s demanded fundamental and systematic change in North Korea's economic policy. The policy tasks for the North Korean economy—realignment of foreign economic relations, complete restoration and operation of manufacturing facilities, reconstruction of national finance and acquisition of investments, better coordination in distributing resources, improvement of economic management and mobilization systems, reconstruction and reshuffling of planning organs,

2) Chung Sae-jin, *From "Planned" to the "Market" Economy: the Political Economy of Institutional Changes in North Korea* (in Korean), (Seoul: Hanwool, 2000).

Table 1. Major Economic Indices of North Korea*

| Year | Development Rate (GDP, %) | Nominal GNI (billion) | GNI per capita (dollar) | Trade (billion) | Budget (billion) | Power generation (billion KWh) | Grain Production (1,000 ton) | Coal (1,000 ton) | Oil import (1,000 ton) | Mine production (1,000 ton) |
|------|---------------------------|-----------------------|-------------------------|-----------------|------------------|--------------------------------|------------------------------|------------------|------------------------|-----------------------------|
| 1990 | -3.7 | 23.1 | 1,142 | 4.17 | 16.60 | 27.74 | 4,020 | 33,150 | 2,520 | 8,430 |
| 1991 | -3.5 | 22.9 | 1,115 | 2.72 | 17.17 | 26.30 | 4,427 | 31,000 | 1,890 | 8,168 |
| 1992 | -6.0 | 21.1 | 1,013 | 2.66 | 18.45 | 24.70 | 4,268 | 29,200 | 1,520 | 5,746 |
| 1993 | -4.2 | 20.5 | 969 | 2.64 | 18.72 | 22.13 | 3,884 | 27,100 | 1,360 | 4,763 |
| 1994 | -2.1 | 21.2 | 992 | 2.11 | 19.19 | 23.13 | 4,125 | 25,400 | 910 | 4,586 |
| 1995 | -4.1 | 22.3 | 1,034 | 2.05 | - | 23.00 | 3,451 | 23,700 | 1,100 | 4,221 |
| 1996 | -3.6 | 21.4 | 989 | 1.98 | - | 21.27 | 3,690 | 21,000 | 936 | 3,440 |
| 1997 | -6.3 | 17.7 | 811 | 2.18 | 9.13 | 19.27 | 3,489 | 20,600 | 506 | 2,910 |
| 1998 | -1.1 | 12.6 | 573 | 1.44 | 9.10 | 16.95 | 3,886 | 18,600 | 504 | 2,890 |
| 1999 | 6.2 | 15.8 | 714 | 1.48 | 9.22 | 18.57 | 4,222 | 21,200 | 317 | 3,786 |
| 2000 | 1.3 | 16.8 | 757 | 1.97 | 9.57 | 19.36 | 3,588 | 22,500 | 389 | 3,793 |
| 2001 | 3.7 | 15.7 | 706 | 2.27 | 9.81 | 20.15 | 3,948 | 23,100 | 579 | 4,208 |
| 2002 | 1.2 | 17.0 | 762 | 2.26 | - | 19.04 | 4,130 | 21,900 | 597 | 4,078 |

* The economic growth rate is based on 1995 prices, and budget figures are based on North Korean official won-dollar exchange rate.

Source: Economic Statistics System, Bank of Korea [http://ecos.bok.or.kr]

implementation of science and technology—meant a total reconstruction. Such policy tasks, which could easily be described as a drastic change in the economic system, or system of capital accumulation, required a “revolutionary change” at the leadership level. However, such changes were absolutely unacceptable to the North Korean leadership that had followed the national self-reliant economic policy for more than forty years. While the term “revolutionary” may have appeared often in speeches and documents, fundamental changes in North Korean economic policy were slow to materialize.

CHANGES IN NORTH KOREAN ECONOMIC POLICY IN 1990S

The Period of “Revolutionary Economic Strategy” (1994-1996): Three Economic Priorities—Agriculture, Light Industry, and Trade

In the first half of the 1990s, the North Korean government attempted to address economic stagnation through policy changes. Towards the end of 1993, North Korea announced the three economic policy priorities (agriculture, light industry, and trade) as part of a “revolutionary economic strategy” for the three-year buffer period (1994-1997). The outline of the revolutionary economic strategy was as follows: the new priority economic sectors were agriculture, light industry, and trade. And the three traditional priorities of the national economy—coal, electricity, and railroads—would continue to be emphasized while pursuing the continued development of the metalworking industry.³⁾

This new economic strategy showed the North Korean

3) See Rhee Gi-song, “The Buffer Period of Socialist Economic Building and Our Party’s Revolutionary Economic Strategy Proposed by Great Leader Kim Il-sung at the New Year Address” (in North Korean), *Economic Studies*, Vol. 82 (January

leadership's willingness to reform the economic and investment structures that had been distorted by the heavy industry-first development strategy of the past forty years. By increasing investment and the growth rate in agriculture and light industry sectors, the North Korean leadership tried to achieve a balance between productions of consumer goods and the means of production at the structural level. Moreover, the key economic sectors (coal, electricity, railways, and metalworking industry), which had been top priority sectors for development in the effort to accelerate economic growth, were now emphasized as a means to normalize economic productivity, especially for agriculture and light industry.⁴⁾

Despite efforts to improve people's welfare, the North Korean economy sank even further into the abyss of economic crisis during this period. In 1996, the North Korean leadership designated this period of difficulty as the "arduous march," while stressing the "three great positions" (political ideology, economy, and military) to maintain the regime, and it urged the people to endure the period of hardship. On the other hand, the leadership had been appealing to the international community since 1995 for food aid. Moreover, it was tolerating those trying to eke out a living through illegal economic activities outside the planned economic sectors. During the period of so-called "revolutionary economic strategy," the North Korean economic system underwent revolutionary change in the form of "bottom-up marketization," with increased dependency on foreign aid and expansion of the black market.

1994), p. 3.; and Park Sun-song, "Economic Policy Outlook of Kim Jong-il Regime" (in Korean), *Korean Journal of Unification Studies*, Vol. 3, No. 2 (1994).

4) Meanwhile, the North Korean leadership began several other projects related to improving economic management. But no concrete policy changes have been presented thus far.

*The Period of Transformation (1997-1998):
The Return of a Self-Reliant National Economy*

In the 1997 New Year Address, North Korea declared a period of transformation and the end of the “arduous march.” Such phrases as “transformative phase of revolutionary work,” “transformation from adversary to a propitious state,” “transformative phase of the Korean revolution,” “decisive transformation,” and “transformative phase of national unification”—showed how desperate the North Korean leadership must have been to end the buffer period by 1996. The address emphasized economic construction as well as building the “foundation for prosperous and great country.” With Kim Jong-il named as the general secretary of Korean Workers Party in 1997, the word “transformation” must have been more meaningful for the North Korea leadership. Accordingly, in the 1998 New Year Address, North Korea called the New Year a “historical new turning point,” referring to Kim Jong-il’s status in the leadership. As before, economic development was designated as the “key front to which all efforts are to be mobilized in the New Year.”

The years 1997 and 1998 are seen as a period of transformation not only because North Korea decided to take steps to end the “arduous march,” but because of subtle changes in North Korea’s economic policy. Just a year before, in the 1997 New Year Address, North Korea’s economic policy had still placed emphasis on the three “firsts” (agriculture, light industry, and trade); however, in the 1998 New Year Address, there was no mention of the “revolutionary economic strategy” and the three “firsts.” Moreover, in June 1997, Kim Jong-il, in the official document “On Standing Firm on Self-Reliance and Nationalism in Revolution and Construction,” emphasized the policy line of a self-reliant national economy. In the document, Kim emphasized the (North) Korean people as the top priority instead of the three great “firsts,” stressing that North Korea must build a self-reliant national economy and a strong self-defense capability. In other words, the policy line of self-reliant national

economy that had been replaced by the “revolutionary economic strategy” in early 1994 was reinstated in mid-1997.

With the re-emergence of “self-reliance” as the backbone of North Korea’s economic policy, the “revolutionary economic strategy” that had placed agriculture, light industry and trade as the top economic priority, disappeared; however, emphasis was still placed on agriculture and light industry. In the 1998 New Year Address, North Korea pointed out the importance of agriculture, coal, electricity, railway transportation, metal industries as well as light industry. The trade-first policy line was replaced by a self-reliant national economic system. The change was clearly stated in the joint editorial, titled “Adhere to the End the Self-reliant National Economic System,” in the September 17, 1998 publication of *Rodong Shinmun* and *Geunroja*. In the joint editorial, North Korea criticized the integration scheme of the world economy and emphasized development of autonomous heavy industry that could support “our [North Korean] style” of economic structure. Naturally, North Korea’s economic development strategy returned to the traditional heavy industry-first development strategy.

With the return to the policy of self-reliance, the North Korean leadership indicated that its economic policy would take a different direction from the past in two aspects. One was an emphasis on science and technology. Both Kim Jong-il’s June 1997 official document stressing a self-reliant economy and the September 1998 joint editorial of *Rodong Shinmun* and *Geunroja* promoted science and technology as a means to achieve self-reliant progress, and pointed out their importance in developing the economy and national defense. The other priority was practical gain, or profit. In the September 1998 joint editorial, North Korea expressly emphasized profit-making in economic enterprise, linking this attitude to the self-reliant national economy based on efficiency.

In September 1998, North Korea enacted the Socialist Constitution, signaling the official inauguration of Kim Jong-il leadership. In this regard, the North Korean constitution still

emphasized socialist means of production and a self-reliant national economy but it was different in two aspects. First, the subject and object of ownership had been expanded. Second, the duties and authority of the governmental administration had also expanded. The reshuffling and reduction in the economic related government offices along with the consolidation of ministerial authority, in particular, were controversial; however, these changes may have been part of North Korea's plans since 1994, to implement a system in which government officials had greater input in, as well as more accountability for economic policymaking.⁵⁾

Building an Economic Powerhouse and/or Improving Technology and Management (1999-2001)

Reading between the lines of the joint editorial of September 17, 1998, which called for a self-reliant national economic system, one sees another message: two new discourses that would dominate North Korea from the late 1990s and into the new century. One was a discourse on building a prosperous and great country of *juche*, entitled the "Prosperous and Great Country of Self-Reliant Economy." The other was on science and technology, and their utility, which later became a discourse on improving technology and management.

Of the two themes, that of building a "strong and prosperous country" was expressly stated in the 1999 New Year Address. Defining the "strong and prosperous state" as a powerful country of socialist ideology, socialist military power, and socialist economy, the New Year Address emphasized building a prosperous nation based on a military-first policy. To stress that building the economy was the "most important task" in becoming a strong and prosperous

5) Park Sun-song, "North Korea's Economic Theory and Changes in Economic System," in *North Korean Economy and Unification of the Korean Peninsula* (Seoul: Pulbit, 2003).

state, the 1999 New Year Address called for normalization of production in all sectors of the national economy and improved living conditions for the people. Moreover, it named agricultural production as the essential and glorious foundation of a strong and prosperous state in tacit recognition of the economic crisis still confronting the country. Agriculture was mentioned first in the New Year Address, followed by electricity, coal, metals, railway transportation, and finally, light industry for consumer goods. By 2000, however, the order of industrial sectors mentioned in the New Year Address had reverted back to the era of the traditional developmental strategy of heavy industry-first, in which the industrial sectors were mentioned in the following order: electricity, coal, metals, railway transportation, light industry, and agriculture.

Discourse on building technology and reforming management had not emerged explicitly, but it appeared in the form of emphasizing utility and scientific technology. In terms of utility, North Korea asserted that, in accordance to the new national organizational scheme, it needed to further consolidate centralized and unified leadership on economy, guarantee profits in economic enterprises, and strictly enforce law and order. In terms of science and technology, it simply mentioned it as “the powerful driving force” in building a strong and prosperous state. North Korea explicitly mentioned restructuring technology and improving management using expressions such as “introduction of technology for the national economy” and “improving ‘our-style’ economic management system” in the 2001 New Year Address and “modernization and technological restructuring of industries” and “revolutionary improvement and perfection of economic management.”

While building an economically powerful country, and restructuring technology and improving management are two very different ideas, they also embody one idea. If building an economically strong state is the policy goal, then building technology and reforming management of economy are policy tools. If

acquisition of technology is understood as placing emphasis on science and technology and if improvement of management as the reformation of a planned socialist economy, acquisition of technology and improvement of management can be understood as policy tools for building an economically powerful country following the self-reliant national economic policy line. It could be that the North Korean leadership willed such an interpretation. The intention expressed by North Korea when it amended the “national economic planning law” supports such an interpretation.⁶⁾

However, if, on the one hand, an economically powerful state is linked to a prosperous and great state and the military-first policy, and, on the other hand, the restructuring of technology and improvement of management are translated into a reform of socialist economic system that signifies modernization of industry and guarantee of profitability, then the two policy lines are two distinct discourses. Even though the policy line of a self-reliant national economy stemmed from North Korea’s traditional economic development strategy, the two show different alternatives for the North Korean economy, which is trying to find its way out of a decade-long crisis that dates from the collapse to the post-transformation of the socialist system. Moreover, the two alternative directions will gradually manifest their differences as time goes on.

6) In April 1999, North Korea enacted the “Law on the People’s Economic Plan.” The Supreme People’s Assembly announced that the enactment of the law was to consolidate the achievements of the enterprises of people’s economic plan; to improve future planned enterprises and to accommodate new demands of building a strong and prosperous socialist country. *Rodong Shinmun*, April 10, 1999.

**NORTH KOREA'S ECONOMIC POLICIES AFTER 2002:
ASSESSMENT AND PROSPECTS**

Reform/Open-Policy, or Defense Industry First Development Strategy?

In July 2002, North Korea launched several economic reform measures, including price and wage increases, the devaluation of the North Korean won, customs adjustments, extended liberalization of business management, a gradual dissolution of the ration system for food and basic household goods, and expansion of land for private farming. Despite the controversy about the nature of economic reform measures, they reflected government efforts to protect the profitability of economic activities. These measures indicated a gradual shift in the North Korean economy, one that not only made official, but expanded the unofficial market economy in the form of a black market that had been thriving since the mid-1990s.⁷⁾ At last, in March 2003, North Korea took measures to develop a farmers' market as a comprehensive consumer market, and, in June, it used the term "reform" in reference to the economic reform measures.

After implementing measures for economic reform, North Korea launched the open-door policy designating Special Economic Zones. After naming Shinuiju as a special administrative zone in September 2002, Mt. Kumkang as a special tourism site in October, and Kaesong as a special industrial complex in November, North Korea began promoting its open-door policy. Unlike the so-called open-door policies of the past 30 years, the new version promoted both reform and openness, clearly showing North Korea's intention to be integrated to the capitalist world market. Its intention was confirmed

7) In the 2003 New Year Address, North Korea gave the following explanation for the economic management improvement measures: "To improve economic management to meet the demands of today's economic development and to raise the living standard of the people, we have adopted the new measures."

by Pyongyang's effort to improve relations with the EU nations as well as the proactive diplomatic efforts to improve relations with Japan, as shown in North Korea-Japan summit in September 2002.

However, North Korea's reform and open-door policies ran into an unexpected deadlock. In October 2002, the U.S. began its hardline North Korea policy after Pyongyang admitted to its uranium enrichment program, which immediately affected the normalization talks between the North and Japan. At the time, when plans for the Shinuiju Special Administrative Zone were already stalled by Chief Executive Yang Bin's tax evasion and the illegal land-purchase scandal, the U.S. hardline North Korea policy negatively impacted the Mt. Kumkang Special Tourism Site as well as the Kaesong Special Industrial Complex projects. Amidst these adverse circumstances, North Korea emphasized its defense industry in the 2003 New Year Address.

The 2003 New Year Address promoted concurrently the defense industry and development of technology and reformation of economic management. The following are the relevant sections of the New Year's joint editorial:⁸⁾

If the DPRK's might is to be fully demonstrated under the banner of the army-based policy, it is necessary to bring about a fresh change in the economic and cultural construction.

It is the fixed will of our party to radically change the appearance of the country and enable the people to live as happily as others in a few years to come. We should put into practice in all aspects leader Kim Jong-il's grand plan for the building of a prosperous and powerful nation, confident of the future of the DPRK.

Proceeding from the fundamental interests of the revolution, we should attach importance to the defense industry and direct

8) English version in North Korea's *People's Korea* webpage [http://210.145.168.243/pk/188th_issue/2003013004.htm].

primary efforts to it. Efforts should be made to effect fresh innovation in power, coal and metal industries and railway transport, considering these fields as a main link in the efforts to revitalize the national economy. The modernization of light industry should be accelerated to increase the production of quality consumer goods.

In agriculture, the party's policies of bringing about a radical change in seed selection and potato farming and ensuring double cropping should be strictly implemented to significantly increase the agricultural production. It is also important to steadily push ahead with large-scale land realignment projects and build Pyongyang, the capital city of revolution, more magnificently and beautifully to meet the need of the new century.

In order to effect a great surge in socialist economic construction, it is urgent to improve the economic management and rapidly develop science and technology.

We should manage and operate the economy in such a way as to ensure the largest profitability while firmly adhering to the socialist principles. It is essential to acquire advanced technology in earnest and actively introduce ultra-modern science and technology as required by the IT era.

The "build-up of the defense industry" and "introduction of technology and improvement in economic management" are all mentioned as part of the economic build-up. The minute difference is that the defense industry is linked to plans for building a strong and prosperous state in line with the military-first policy, while development of technology and improvement in economic management are linked to the construction of socialist economy.

As shown in Table 2, North Korea first began emphasizing the promotion of its defense industry in the 2003 New Year Address.⁹⁾

9) When the defense industry was mentioned in the 1999 New Year Address, it was

Table 2. Analysis of Words and Phrases Used in New Year Addresses

| Year | Self-support | Science & technology | Technology Rebuilding | Profit | Improvement (Economic Management) | Defense Industry |
|------|--------------|----------------------|-----------------------|--------|-----------------------------------|------------------|
| 1995 | 1 | - | - | - | - | - |
| 1996 | 2 | 1 | - | - | - | - |
| 1997 | 2 | 3 | - | - | - | - |
| 1998 | 1 | 1 | - | - | - | - |
| 1999 | 2 | 2 | - | 1 | - | 1 |
| 2000 | 1 | 11 | - | 1 | - | - |
| 2001 | - | 2 | 2 | 1 | 1 | - |
| 2002 | 1 | 4 | 1 | 1 | 1 | - |
| 2003 | 1 | 2 | 1 | 1 | 2 | 1 |
| 2004 | 1 | 12 | 3 | 1 | 1 | 1 |

However, its promotion of the defense industry as part of its economic policy began in late 2002. In the February 2002 issue of *Economic Studies*, North Korea stated that “Today’s reality requires development of all areas of economic construction while putting utmost efforts into building the defense industry in line with the military-first policy,” also noting that such efforts require much funding.¹⁰ In the April 2002 issue of *Economic Studies*, North Korea asserted that “By establishing a powerful autonomous defense industry and consolidating the home front through a self-reliant national economy,” it can build a powerful national defense.¹¹

In 2003, the foremost theoretician of the socialist political economy of *juche* ideology Rhee Gi-sung, acting as a mouthpiece of

to emphasize the existing “might of the defense industry.”

10) Oh Sun-hee, “Several Problems Rising from Improving the Local Budget Planning” (in North Korean), *Economic Studies*, Issue 117 (February 2002), p. 41.

11) Kim Won-guk, “Building of Self-Reliant National Economy as a Legitimate Outcome of Building Economy in the Age of Self-Reliance” (in North Korean), *Economic Studies*, Issue 117 (April 2002), p. 6.

the North Korean government, declared that the economic construction policy, giving priority to the defense industry while concurrently developing light industry and agriculture, was “the most scientific and revolutionary economic strategy,” in line with the tasks of a socialist economy in the military-first era. If the traditional core economic development strategy of the self-reliant national economy system had been the policy of “heavy industry first,” the core strategy of the self-reliant national economy system under the military-first era was the “defense industry first” developmental strategy. And to rationalize the strategies, Rhee Gi-sung stressed interaction between defense and heavy industries, stating that “heavy industry is defense industry, and vice versa.”¹²⁾

North Korea’s position is very contradictory: on the one hand, priority is given to development of technology and improvement of economic management; while, on the other, the strategy of “defense industry first” is also emphasized. Looking back on North Korea’s past economic development strategies, the “defense industry first” development strategy is the 2000 version of the “parallel development of economy and defense capabilities” strategy that was used during the 1960s. The development policy of the 1960s, which was a militarized self-reliant national economy policy, was not an intensive developmental method based on technological progress; rather, it was based on a revolutionary mass mobilization line. Ultimately, the parallel development policy, by distorting the distribution of resources and leading to a closed foreign policy, hampered technological progress and led to economic stagnation. The “defense industry first” development strategy introduced in early 2000 is also likely to produce similar consequences for North Korea.

As in 2003, Pyongyang once again emphasized development of

12) Rhee Ki-song, “The New Socialist Economic Policy for the Military-First Age Established by the Great Leader Kim Jong-il” (in North Korean), *Economic Studies*, Issue 119 (February 2003), pp. 5 and 7.

the defense industry in the 2004 New Year Address. North Korea's current economic policies show the characteristics of the economic development strategy under the military-first policy. Designating development of the defense industry as a strategic task, the New Year Address called for a great leap in the economic and science sectors, stating that the two areas should be integrated; however, the basic tone of the policy was once again heavily slanted towards the defense industry. As if in reaction to worsening North Korea-U.S. relations, the New Year Address stressed that economy and science-and-technology were key areas that guarantee the national strength and determine the destiny of a people. It also added that in the age of a military-first policy, economy and science-and-technology had to be the material and technological means to guarantee the overall national strength, primarily determined by military power. In short, the defense industry as a policy would take precedence over economy and science-and-technology in terms of policy means.

Despite these limits, the 2004 New Year Address still echoes the same emphasis on introducing technology and improving the economy as was seen since 2001. Although normalization and revitalization of production are mentioned first, other areas such as the technological development of light industry and agriculture are also given priority. Moreover, there is separate mention of the importance of science and technology,¹³⁾ the integration of economy and science-and-technology, and, in terms of economic management system, priority is placed on consolidating the Cabinet's role and improving economic management.

Even though North Korea is promoting a "defense industry first" policy, it still maintains an economic development strategy linked to

13) To stress the importance of science and technology, Pyongyang published an article titled "Economic Progress and Science-and-Technology" in the February 2, 2004 issue of *Rodong Shinmun*. The editorial listed increasing labor productivity, reducing consumption, and enhancing quality as the three key elements of science and technology-based economic progress.

the reform and open-door policies, and is calling for technology development and improved economic management.

Economic Development Strategy Under Kim Jong-il's Leadership: Assessment and Outlook

In terms of economic development strategy, the ten years of the Kim Jong-il regime can be divided into four periods:

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- **1994-1996** The period of “revolutionary economic strategy,” characterized by the three “firsts”—agriculture, light industry, and trade
 - **1997-1998** The period of transformation, characterized by the reinstatement of the self-reliant national economy policy
 - **1999-2001** The motto of “building an economic powerhouse” and/or development of technology and improvement of economic management
 - **2002-Present** Reform and open-door policy or “defense industry first” policy?
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The policy of building a self-reliant national economy, North Korea's traditional economic development strategy, is composed of inward-oriented industrialization, the “heavy industry first” policy, and intensive developmental methods. At the core of these three policies is the question of liberalization of economy, distribution of resources, and technical innovation. However, given the internal institutional limits of a socialist economic system, the economic policy of a socialist state is evaluated on whether the goal is for improvement or reformation of the economic management system. We can assess the economic development strategy of the Kim Jong-il regime based on these four criteria.

North Korea's economic development strategy under Kim Jong-

Table 3. Economic Development Strategy of Kim Jong-il Era*

| | Characters | Reform | Opening | Resource allocation | Technology revolution |
|--|--|------------|------------|---------------------|-----------------------|
| 1994-96: Revolutionary Economic Strategy | Agriculture, Light industry, Trade | Weak | Stressed | Normal | Weak |
| 1997-98: Transition Period | Return to Self-sufficiency | Emphasis | Weak | Normal | Emphasis |
| 1999-2001: Strong and Prosperous State | Economically strong state and/or Technology- Rebuilding-cum- Management- Improvement | Emphasis | Weak | Distorted | Emphasis |
| Since July 2002 | Reform and Opening and/or Defense Industry | Practicing | Practicing | Distorted | Emphasis |

* Two additional issues need to be discussed in relation to the problem of resource allocation and supply: One has to do with the impact of the economic management improvement measures on North Korea's accumulation system, and the other, with the significance and effectiveness of the issuance of public loans to people in 2003. Since it is beyond the scope of the present topic, any further discussion on the issue is omitted.

il's leadership can be said to have undergone relatively positive changes. However, after the U.S. imposed a hardline policy towards North Korea, the country has emphasized the defense industry. Such a "defense industry first" policy, when coupled with the military-first policy, can have a negative impact on North Korea's economic development. On the other hand, the economic management improvement measures implemented in July 2002 are bringing about a gradual change in North Korea's economic system through decentralization and marketization. The future of North Korea's economic development will be determined by the interaction between the "defense industry first" policy under the military-first

drive and the reform and open-door policy that prioritize developing technology and improving economic management. The attendant internal irrationality of the precarious union of these two very different policies creates a dismal outlook for North Korea's economic system. Today, the North Korean economy stands at yet another crossroads. The future of the North Korean economy depends on achieving internal consistency in its economic policies and improving foreign relations, including a resolution of the conflict with the U.S.