



# The Asia-Pacific Journal: Japan Focus

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## Ideological Risk versus Economic Necessity: The Future of Reform in North Korea

By Ruediger Frank

After the launch of a three-stage rocket in April and the second nuclear test in May 2009 it seems less realistic than ever to think about opening and reform in North Korea. Inter-Korean relations are deteriorating almost daily. Hard-line orthodoxy has been returning to North Korea since late 2005 at an alarming pace as the country enters an [era of socialist neoconservatism](#) that emphasizes self-reliance and mass campaigns, cracks down on previously promoted market activities and stresses anti-imperialist struggle more fiercely than throughout most of the last decade.



Taepodong-rocket launched in April 2009 by North Korea

Foreign policy is in sync, retracting the progress of the recent past, canceling agreements and adding military provocation to the increasingly strident rhetoric of the official media. But is there no hope for improvement? To understand the options for the future, it is useful to consider and evaluate the developments that have led us to where we are now.

As was to be expected from a basic understanding of the inner workings of a socialist society, the reforms after the 2000 inter-Korean summit and the measures adopted by North Korea in July 2002 created a domestic situation that became increasingly risky and burdensome for the leaders in Pyongyang. The reforms exhibited many failures and shortcomings, including a dramatic hyperinflation and a focus on liberalization for the minority of producers (agriculture), while the majority (industry) was largely left under the ineffective guidance of the traditional command economy. But this alone is not sufficient to understand why the reforms are now being scaled back instead of broadening their scope.

The major point is that within a relatively short time North Koreans discovered, many for the first time, that there is life outside the grace of the state. They suddenly realized the power of money. Their values changed accordingly and moved closer to what most of the world considers as a given. They understood that money can secure livelihood, buy power and even health, and that, unlike the state with its politically motivated favors, money is largely impartial. The socialist system of economic management and political guidance started to look outdated. The once largely egalitarian society experienced a swift diversification – suddenly there were winners and losers, many unanswered questions and growing individual ambitions.



Roadside market in North Korea

To make matters worse, tens of thousands of young North Korean women had a chance to experience, on a daily basis, the benefits of a hypermodern South Korean working environment at Kaesŏng, the inter-Korean joint industrial park in North Korea. We can only imagine how profoundly that changed their minds, and what kinds of stories they told back home, not to mention the effects of regular workplace interaction with (mostly male) South Koreans.

Mt. Kūmgang, previously a famous recreation area for North Koreans, was turned into a moneymaking site catering to the class enemy from the South.



**Mt. Kungang. Tourists cross bridge**

The South Koreans were the ones who paid, the North Koreans provided the services. What a far cry from the proud ultranationalist ideologies of *chuch'e* and *sŏn'gun*. Later, to make matters worse, tour buses from the South entered not only the scenic but largely isolated mountain, but also the densely populated city of Kaesŏng. As cultural exchange, it was surreal. North Koreans on their way to work were stared at like animals in a zoo. All they could do was stare back and wonder.

It is hard to believe, that all of the North Koreans exposed to such contacts with the South have remained silent. It is one of the many forgotten stories of other formerly socialist countries that in particular the true believers, not only the opponents of the regime, wrote angry petitions to higher levels demanding an end to such humiliations. Accordingly, reports from the provinces must have flooded into Pyongyang, telling of new kinds of crimes, growing dissatisfaction of losers and reckless behavior by winners, and asking why this proud socialist society has to almost prostitute itself in such ways to the rich Southern cousins. Local functionaries were frustrated by all the anger directed at them, and some will have passed it on to higher levels. We will know more about this once the North Korean archives are opened one day.

In many respects, North Korea still is a unique society. But in some aspects, including monetization of the economy and access to outside information, it is slowly but steadily becoming like the former socialist countries of Eastern Europe. Who would have thought in 1989 that these seemingly stable socialist states would all be gone in a few weeks? North Korea looks strong and sturdy from the outside, but internally, it is slowly decaying. To be sure, this can take time. But the process has begun, and it can only be slowed down, not stopped.

One reason is that socialism is built on the premise of moral superiority. This can make it enormously resilient despite severe hardships as long as the state does not violate its own ideological principles. Kim Jong-il correctly analyzed the situation in 1995 when he wrote: "The most serious lesson of the collapse of socialism in several countries is that the corruption of socialism begins with ideological corruption, and that a breakdown on the ideological front ... ends in the total ruin of socialism." But ideological corruption has taken place. As Eastern Europe revealed, false claims of moral superiority can become a heavy liability. Strength suddenly turns into weakness. And indeed, there are growing signs that the leaders in Pyongyang are about to lose the hearts of their people.

Kim Jong-il now seems to be trying to turn back the wheel of time. Today, we see a complete reversal of the policies of 2000-2004. In January 2001, in the official Rodong Sinmun newspaper, Kim Jong-il wrote: "Things are not what they used to be in the 60s. So no one should follow the way people used to do things in the past." However, in March 2009 he declared that officials should "energetically lead the masses by displaying the same work style as the officials did in the 50s and 60s." We can chart this march backwards: The utilization of the terms "socialism," "chuch'e" (the official state ideology of North Korea) and "sŏn'gun" (the government's "military first" policy) by North Korean state media has doubled from 2004 to 2009.



**Number of KCNA articles with the terms "socialist/socialism", "juche" and "songun" in the 4th quarters 1997-2008, and the 1st quarter 2009**

Among the new old buzzwords are single-minded unity (*ilsimtan'gyŏl*), collectivism (*chiptanjuŭi*), self-reliance (*charyŏkkaengsaeng*) and mental power (*chŏngsinryŏk*). Today, it is hard to believe that back in January 2002, People's Korea quoted Kim Jong-il as pointing "to the fact that foreign trade should be conducted in accordance with the mechanism and principles of capitalism."

#### **Missiles and nuclear tests: trying to save stability**

The slow but steady disintegration of society caused by the economic reforms prompted the North Korean leadership to take countermeasures. They have been trying to restore domestic stability since at least 2005. But movies such as "Schoolgirl's Diary" criticizing the moral degradation and growing individualism of society, campaigns against long hair and Western dress, and a fight against corruption and excessive market trading have not helped.

As indicated above, it is unlikely that the societal transformation of past years can be reversed. But it is also not clear how long it will take before internal pressure will be high enough to cause the system to change. It took Eastern Europe decades to reach this point. It is important to note the reasons for the delay. One is that until the late 1980s there was the cohesive power of the Soviet Union to stifle reform. This factor is missing in the case of North Korea, unless we regard the external pressure by the US and its allies as the equivalent. As soon as Gorbachev made it sufficiently clear that he would not intervene, the Prague Spring of 1968 repeated itself all over Eastern Europe, this time successfully. While outside pressure on the regime creates a siege mentality and hence is very different from directly preventing change by military presence in the country, the effects are similar. It would be interesting to see

how North Korea would develop in the absence of all the international attention.

The former strength of the DPRK government – the existence of a fatherly leader who was respected and revered like a deity – is now turning against the system as succession is not officially resolved, Kim Jong-il appears on TV as a self-sacrificing sick man, and even Pyongyang is full of rumors and uncertainty about what is going to happen next. Will the leader live until the year 2012, when the 7th Party Congress could be the forum for a long-awaited orderly power transfer?

Even if it turns out to be true that the third son, still in his 20s, has been elected under a slightly changed name in a constituency with a highly symbolic number (216, the date of birth of Kim Jong-il) and is being given posts in the state and party hierarchy, this would only add to the picture of weakness, insecurity and even panic. Few long-term experts on North Korea believe that such a dynastic succession will work, certainly not without thorough and extensive ideological preparation and the building of solid real power. The strengthened National Defense Commission could, with some luck, take over as the long-awaited forum for collective leadership. But as a facilitator of a power transfer to a grandson of Kim Il-sung, it will fail. After governing for years as his father's son, recent attempts at increasing the independent ideological posture of Kim Jong-il come very late. If he passes away now, he will be remembered as a moon, not as a sun. Unlike his father, he will not be able to let one of his sons shine brightly enough. He might try, but in vain. Dynastic succession seems more likely in 2009 than ever before, but the chances for sustainability are low if the goal is to establish a third Great Leader. Most experts agree that even if a grandson of Kim Il-sung were to become the next top leader, his role would differ substantially from that of his two predecessors.

Two and a half years have passed between the first nuclear test before the Party anniversary in October 2006 and the missile test after the reelection of Kim Jong-il to the National Defense Commission and before Kim Il-sung's birthday in April 2009. But then, only a few weeks later, Pyongyang played one of its very few remaining cards, this time on no noticeably auspicious occasion. In terms of foreign policy, it was a waste. Even more importantly, the nuclear and missile tests of May 2009 make it now almost impossible for China, without losing face, to ask the international community to exercise restraint. North Korea threw away a valuable card for the game of external relations, and offended its only remaining ally. The best explanation is that the nuclear test was primarily for domestic reasons. If so, the domestic situation in North Korea must be enormously tense. The idea that the primary goal was to gain attention of the US is popular, but not convincing. This goal was already achieved by the rocket launch in April. To be sure, North Korea is aware that it needs Washington's attention. Not, however as an unruly child, as [Secretary Clinton scolded](#) in July 2009, but in order to keep the lucrative game of confrontational cooperation with its neighbors and the USA running.

### **The great failure of the West**

The failure of what were once surprisingly hopeful developments is also a failure of the international community. In the second half of 2002, the US was gearing up for the invasion of Iraq. Hence, a successfully self-reforming rogue state was the last thing President George W. Bush wanted. The EU failed to act as a balancer and issued restrictions on development assistance to North Korea in November 2002, little more than one year after diplomatic relations between Brussels and Pyongyang were established. In Japan, conservatives used Kim Jong-il's extraordinary confession during his summit with Prime Minister Koizumi in September 2002 on a number of previously denied abductions and the release of five Japanese citizens for domestic political purposes. Rather than sending the expected massive economic aid to North Korea to finance the July 2002 reforms, Japan scaled back economic cooperation until a complete resolution of the issue could be arranged. We can only imagine what this has done to Kim's reputation among the North Korean elite.

The West could have been satisfied with the fact that international aid organizations were allowed unprecedented free movement inside North Korea, that markets were given more influence, that North Koreans were interested in learning from the West during economic seminars inside and outside of the country. However, even the Greeks showed more sophistication at Troy than we did in North Korea. Demands for more access, more transparency, more information and more concessions were understood by Pyongyang as blunt attempts at data mining and bringing about regime change. Consequently, international organizations were curtailed in their activities and most of them finally driven out of the country.

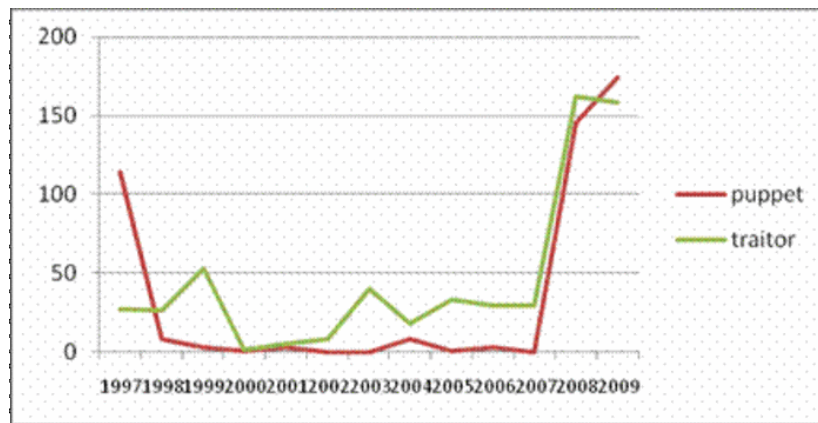
A crucial point is that we failed to support the reformers. Indigenous reforms need domestic promoters. These take a great risk and must be able to show a few successes every once in a while to convince the leadership to stay the course. But we never gave pro-reform forces in North Korea a chance. Washington refused to talk to "pygmies" or to reward bad behavior. It provided hardliners in North Korea with one argument after another to make reformers look like state enemies. The case of Macao-based Banco Delta Asia, one of the banks where North Korea had its overseas accounts, is just one of many examples. Just a few weeks after a breakthrough agreement at the Six Party Talks in September 2005, pressure by the US Treasury Department after allegations of money laundering led not only to severe problems for this bank, but also sent shockwaves through the international financial system to the effect that North Korea for a couple of months had to conduct its international business in cash. The promised Light Water Reactors were not delivered; rather, KEDO, the Korean Peninsula Energy Development Organization that had been created after an attempt in the 1990s to divert Pyongyang's attention from nuclear weapons to energy, was dissolved. Removal from the list of terror sponsoring states proceeded painstakingly slowly and under massive new demands on North Korea. Both sides interpreted the February 2007 agreement on this differently, and the new administration of President Barack Obama in Washington indicated that it was not really interested in North Korea. We know that this is not entirely true; however, the US strategy seems to be one of benign neglect, meanwhile hoping for a collapse, as was the case in 1994 after the conclusion of the Framework Agreement. There are indicators that the Light Water Reactors were not meant to be delivered. True or not: today few people in Pyongyang would be stupid enough to risk their career or more by proposing to trust the US. The Americans take seriously, it seems to many North Koreans, only tough measures.

### **An involuntary conservative alliance**

By 2005, it was clear that the reforms in their original form had failed to deliver, and that North Korea's society had started to disintegrate. Something had to be done. Obviously, a decision was made against widening the scope of reforms, not least because of the new external situation after 9/11 and its effects, especially the war against Saddam Hussein's Iraq. So retracting the reforms was the remaining option. But there was one dilemma. The reforms were the responsibility of Kim Jong-il, most likely even taken at his initiative. One weakness of a personalized autocracy is that the leader is by definition infallible. In a leader-based system mistakes cannot be admitted lest one undermines the legitimacy of the leadership and the whole system. Furthermore, it is relatively easy to withhold economic freedom, but it is very risky to grant it first and then take it away.

Hence, reforms were taken back slowly and gradually, allowing undesired side effects to continue to spread. In this complicated situation, North Korea has gratefully taken the opportunity offered by the new conservative South Korean policy of pragmatism in early 2008. It ended a situation that was very threatening to socialist neoconservatives in Pyongyang. The sunshine policy of Presidents Kim Dae-jung and Roh Moo-hyun, continuing for a decade, had left North Korea defenseless. This fact was not appropriately understood in South Korea. The North Korean system is built to withstand pressure, but it has few defenses against consistently friendly behavior. When North Korea eventually collapses, this will be the long-term result of the engagement policy between 2000 and 2007. However, it is a recurring irony of history that those who sow are often not those who reap.

When conservative President Lee Myung-bak took office in early 2008, ending the rule of the liberals, he quickly canceled what he regarded as the ineffective, naive and unconditional support his predecessors gave to the North. After sighing with relief, all the neoconservative wing of the leadership in Pyongyang had to do was to offend Lee every once in a while to make sure that he sticks to his guns. Those who had benefited from the South's generosity and who were potential supporters of continued rapprochement were smart enough to keep silent. Lee was depicted as being anti-unification, a fascist, a maniac and a sycophant. He was accused of breaking the two inter-Korean summit agreements of June 15, 2000 and October 4, 2007, cooperating with the former colonial master Japan and taking sides with the "US warmongers." The graph below illustrates the prompt reaction by the North Korean propaganda machine.



**Number of KCNA articles with the terms "puppet" and "traitor" in the 4th quarter 1997-2008, and the 1st quarter 2009**

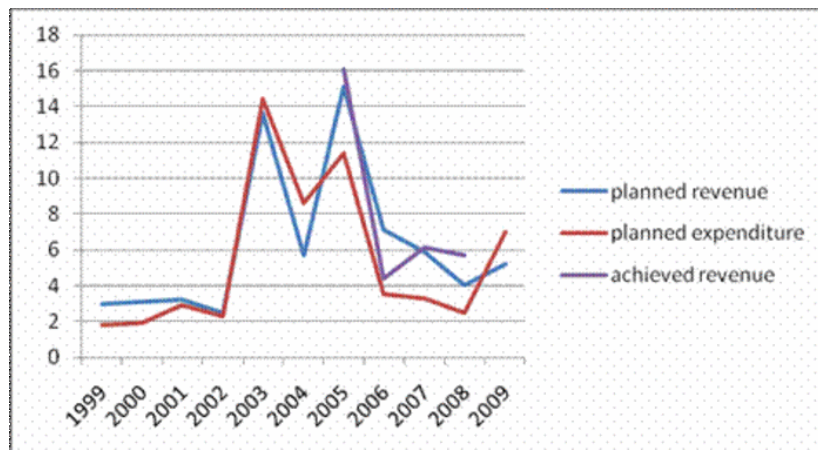
At the same time, the North's siege mentality was reinforced with reference to the enemy's military exercises, aerial espionage and diplomatic attacks over human rights and the peaceful exploration of space. Grudgingly, ordinary North Koreans had to accept that under such conditions, anything that could weaken socialism had to be eliminated. They might have been ready to give up a career in the state apparatus in exchange for engaging in business; but they were not ready to become traitors to the nation. Decades of nationalist propaganda ensured that regime stability is equated with independence and hence valued above individual economic well-being. Unwittingly, the current South Korean government has helped provide the pretext for the North Korean leadership to kill one reform after the other, including, as it seems, a few human scapegoats.

### No future for reform and opening?

No matter whose fault, the current state of economic reform and opening in North Korea is sobering. Starting in December 2008, the North Korean version of the Great Leap Forward, called "the great revolutionary upsurge" (hyöngmyöngjök taegojo), has been resuscitated and is replacing the creative application of market principles. North Koreans are called on to join mass campaigns like the current 150-day-battle.

In many ways, this seems like déjà-vu. We have seen this before and know how it will end. The effort at massive motivation of the workforce will lose steam as people become exhausted; the absence of private ownership will reduce incentives to work hard and efficiently; and the bureaucratization of economic decision-making will lead to misallocation of resources, a lack of initiative and innovation, and ultimately to declining output. As an industrial economy, North Korea needs international economic cooperation to generate revenue, and it needs the input of foreign capital and technology for its development. International isolation will block access to all these sources and is not sustainable.

Graph 3 below, based on official North Korean data, shows how the economy has been contracting since the end of the reform period. In lieu of official macroeconomic data, we propose to understand state revenue (which is publicized during the annual parliamentary session) as indicative of GDP. The logic is that in a state-owned economy, the state's budget is the national budget (minus the "second" [military] economy which is allegedly bypassing parliamentary control).



**Graph 3: Economic Growth in North Korea According to the DPRK Budget (growth rates in %)**

The data show that growth in North Korea is possible in principle. One of the preconditions is external cooperation, which is a message both to Pyongyang and to nearby capitals. Unless North Korea simply collapses, in the long run the leadership has no choice but to find ways to return to international economic cooperation and a new round of market reforms, this time focused on industry. The related decision-making process is largely domestic. The outside world can help by signaling that despite deep concern over recent military provocations, it is ready to cooperate under certain conditions.

External pressure is not only raising fears in North Korea, it is also bolstering anti-reform forces. A visionary US president could give North Korea what it wants and get ready to live with a stabilized, independent, economically successful and politically confident pseudo-socialist system for a couple of years. This includes accepting North Korea's status as a sovereign non-proliferating nuclear power, the establishment of diplomatic relations, the conclusion of a peace treaty formally ending the Korean War, membership in all relevant international organizations, access to loans and to foreign direct investment. As we have seen in Europe and even in China, positive results will follow eventually. Looking at the sunshine policy, one could argue that rapprochement has been tried already, and unsuccessfully. However, such an attempt has been limited to inter-Korean affairs and suffered from a very different policy emanating from Tokyo and Washington. So we still wait to see what effects a prolonged, concerted effort at offering cooperation to Pyongyang will have.

Admittedly, it is hard to imagine that the West will ever be ready to swallow such a bitter pill. We are trapped by our own propaganda and righteous concerns that make it unimaginable to "reward bad behavior" or to "negotiate with evil". No rational politician wants to be responsible for channeling funds to a country that has a poor human rights record and is openly developing WMDs. On the other hand, there are few realistic alternatives except waiting for North Korea's collapse. Creative ways for diplomatic recognition, economic support and security guarantees such as regional integration of North Korea into the framework of the ASEAN+3 mechanism should be [explored](#). In the end, this could provide a second chance for North Korea, and for us. Let's hope both sides will use it more wisely.

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