ARTICLES

Economic Reform in the DPRK

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Introduction

Currently the DPRK is moving toward the conclusion of its self-declared three-year period of mourning following the death of Kim Il-Sung on 8 July 1994. In politics the major issue continues to be that of authority–who holds what power in Pyongyang--and in the economic sphere the major topic continues to be the perennial question of the DPRK's attitude toward economic reform. In this paper I shall argue that Kim Jong-Il is thoroughly in command and is ruling with the support of a significant segment of the military, composed foremost of his father's ex-guerrilla comrades and their supporters. I shall also examine the consequences of the current political situation in the DPRK for the course of economic reform.

The Political Setting

Any serious attempt to assess the current state of play in Pyongyang must begin with an overwhelming weight of evidence that Kim Jong-Il is the effective ruler in the DPRK and that, like his father, he presides over a political system characterised by an extravagant personality cult, an all-powerful mass ruling party, a thoroughly cowed and subservient bureaucracy and technocracy, and a marginalised civil society. Almost every issue of every major publication in the DPRK continues to sing the praises of the younger Kim in characteristically extravagant terms. Consider, for example, the following quote from the DPRK media in October 1995:

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The respected Comrade Kim Jong-Il is a great leader who has steered the revolution and national construction to victory together with the great leader Comrade Kim Il-Sung. For many years he has acted as a guiding intellect of the Korean revolution, tireless in his efforts to assist Comrade Kim Il-Sung. On the course of this he rendered immense service to the people and the revolution, clearly demonstrating his natural leadership qualities and unquestioned prestige as an intellectual and a man of unquestioned eminence ... In his early days, Comrade Kim Jong-Il had an unusually strong philosophical bent as well as an exceptional spirit of inquiry and thought, characteristics which aroused great admiration among his people. These natural endowments of his have enabled him to do full justice to his clarity of vision, foresight, creative ability, iron logic and astonishing writing ability and have helped him onto new paths of ideological and theoretical wisdom.[1]

If we wade into this excess of hyperbole we find that the particular themes that have been prominent in Kim Jong-Il's personality cult over the past twelve months are:

- his designation as Supreme Leader of the Party, State and Army;
- his co-responsibility with Kim Il-Sung for the Korean revolution–a great leader who has steered the revolution and national construction to victory together with the great leader Comrade Kim Il-Sung;[2]
- his role as the formulator of Juche into an integral system, enriched with new principles and contents;
- the theory of the Leader: For the first time in the history of the international communist movement, Comrade Kim Jong-Il has advanced the unique idea of building a working class into a party of the leader, thus creating a model ruling party of socialism;
- his development of the Korean Workers Party (KWP) into what is now termed the Party of Comrade Kim Il-Sung;
- his omniscience and outstanding qualities as a leader and motivator: He gets in motion operations on a world-wide scale and rallies billions of masses as one, galvanising them

[1] *Democratic People's Republic of Korea*, No. 474 October 1995, 6-9.

[2] This quote and the following quotes are taken from issues of the official DPRK publication. *Democratic People's Republic of Korea*, October 1995-February 1996.

into action with his dynamic leadership and bringing about miracles and innovations in all fields; and
- his continuing commitment to Korean reunification: All [his] revolutionary activities are coupled with his sacred struggle for the achievement of national reunification.

Of course, it remains true that he has not taken up the posts of State President and KWP General Secretary left vacant by his father's death, and this has been the chief focus of speculation about limits placed on Kim Jong-Il's authority by other forces within the Pyongyang hierarchy. However, for this line to be compelling we would need convincing evidence that:
- these posts are essential to the exercise of effective political control;
- Kim wants to occupy them right now and is being prevented from doing so by other elements in the leadership; and
- the incessant public parade of Kim Jong-Il's virtue and authority, including an unambiguous designation as Supreme Leader of the Party, State and Army is misleading.

Such evidence is, of course, lacking, but this line of speculation is also implausible for a number of other reasons.
- A consideration of the history of these two posts (which time and space does not permit here) suggests that they are of mainly symbolic significance, especially under conditions of personal autocracy. [3]
- The notion that Kim can project his cult of personality through the media but not have effective control of the reins of power is nonsense in the setting of a totalitarian state.
- There is no credible evidence of a power struggle in Pyongyang since Kim Il-Sung's death, either in the form of a significant pattern or purge, dismissal or demotion or in the form of policy outcomes.

[3] Also see *Democratic People's Republic of Korea*, No. 474 October 1995: "In the past year since Comrade Kim Il-Sung passed away there has been no function for elections in the DPRK, yet there has not been the slightest political vacuum either, nor is there any lack of stability in Korean society. Instead, everything has proceeded smoothly in all domains--politics, the economy, military affairs and culture."

- There may well be cogent reasons why Kim Jong-Il may not choose to hold these positions at the present time, ranging from a conscious decision not to step directly into positions that fell vacant because of his father's death within a mourning period of three years to an intention to overhaul the party-state structure.

The more interesting question that arises from Kim's assumption of power is his relationship with the nation's military leaders. What, for example, are his military credentials? Historically, Kim Jong-Il has been presented to the North Korean people as the means by which the anti-Japanese guerrilla revolutionary tradition embodied by his father and experienced by his father's comrades could pass down through the generations as intact as human agency could devise. From the time of Kim Jong-Il's public emergence in 1980 the DPRK has constantly emphasised the younger Kim's close identity with the guerrilla generation in various ways, not the least of which was through accounts of his early life. Although he was born in 1942, by which time his mother and father are presumed to have crossed into the Soviet Union, his official birthplace has been designated as a guerrilla camp on the slopes of Paektu-san, in the far northeast of the country. His hagiographers describe his earliest experiences as follows:

> *When Kim Jong-Il was born in the camp of anti-Japanese guerrilla fighters in the thick forests, he had no home. For him, who was born and brought up on a battlefield, gun reports and the March of the Guerrillas were a lullaby, and the summit of Mt Paekdu towering above the sea of clouds gave a deep impression to the young Kim Jong-Il as a symbol of his fatherland. Bugle notes for an advance spreading over the thick and dark forests and over the snow-covered fields, the log cabin and the red flag in the cabin white with snow, the figure of his father, General Kim Il-Sung, drawing arrows on an operation map while elaborating strategy and tactics for fatherland liberation, the cap and the bullet band of his unforgettable mother, Madame Kim Jong-Suk--all these made a deep impression on his mind, and through these he felt his fatherland.* (Tak, Kim & Pak 1985:10).

The corollary of this was that the regime was careful and consistent in not identifying Kim Jong-Il as a member of a specific, younger generation possessing specific characteristics apart from those of the guerrilla generation. For example, at no stage in his grooming did the regime publicly associate him with the Party's youth organisation, the League of Socialist Working Youth (LSWY). Thus when the Seventh LSWY Congress opened on 20 October 1981, it was Kim Il-Sung, not Kim Jong-Il, who gave the keynote address, during which there was virtually no public mention of the Party Centre despite its obvious resonances for youth. The following year Kim Jong-Il himself specifically refuted the idea of generational politics when he stated that "Our party gave special attention to building up the backbone of the revolutionary forces. It strengthened the ranks of cadres *on the principle of combining old, middle-aged and young people,* regarding loyalty to the Party and the leader as the basic criterion." (*The Pyongyang Times,* 19 October 1982, italics added).

The younger Kim was essentially co-opted into the ranks of the guerrilla generation by virtue of his unique background and training, and this was the co-opting of an individual, not a generation. It was not surprising, then, that the Sixth Congress did not elect as Politburo members any other cadres raised wholly in the post-1945 period, and so at age thirty-eight Kim Jong-Il was nine years younger than the second youngest member of the new Politburo, the then KPA Chief of Staff O Guk Ryol. Kim Il-Sung clearly believed that the longer the guerrilla generation ruled the more its traditions would be instilled in the minds of younger generations. This alliance between Kim Jong-Il and the ex-guerrilla generation of military leadership is therefore a profound and long-standing one, and since his father's death the record shows that Kim Jong-Il has accorded the military old guard greater status, and they in return have continued to make conspicuous displays of loyalty to him. After all, the underlying logic of the political situation is that they both need each other.

Military leadership in the DPRK still means leadership by the ex-guerrilla generation, either by the surviving individuals of that generation or else by people with long records of deep loyalty and

unstinting service to the guerrilla ethos. The ex-guerrilla generation consists of men old enough to have played a part in the anti-Japanese guerrilla campaign in Manchuria during the 1930s. Typically they were men of limited education and from the villages of far northeast Korea and, like their pre-1945 commander Kim Il-Sung, they were products of an exceedingly rugged, isolated environment and were survivors of a long, bitter, and fruitless war of attrition. Their dwindling number today believes in toughness, austerity and belief in the efficacy of force.

Events after 1945 have further shaped their outlook. As a group, the ex-Manchurian guerrillas were bound by ties of loyalty to Kim Il-Sung, and provided him with an organisational base in his struggle against other elements in the Korean communist movement. However, by itself this loyalty was not sufficient to ensure political survival, and many of them did not survive the massive Party purges of 1967-68, which saw the culmination of Kim Il-Sung's drive to establish a personal autocracy. As was the case with those without a guerrilla background, those who survived 1967-68 did so on the basis of their capacity to accept Kim Il-Sung's personal autocracy and to offer the unquestioning obedience that this autocracy demanded. This is the basis for their identity as both a group with a specific generational experience and later a cross-generational political identity based on an unquestioning personal loyalty to Kim Il-Sung.

Accordingly, there is a clear and quantifiable imbalance in the political power exercised within the KWP by the aging ex-guerrilla generation, and by post-1945 generations. The post-war military generation lacks the aura of the guerrilla generation, and while a few of its members have found their way toward the upper reaches of the Party over the years, Kim Il-Sung evidently decided that they would be excluded from top Party positions for as long as possible. Therefore, if we examine the ranks of the current Politburo, for example, we find that at the time of its election at the Sixth KWP Congress in 1980, eleven of its nineteen members were ex-guerrillas and only one, O Guk Ryol, was a military man with post-1945 training.[4] Since O was dropped from the Politburo in 1987, the post-1945 generations, that is, all members of the armed

forces under the age of seventy, have had no Politburo-level representation. This remains the case two years after the death of Kim Il-Sung.

In some other ways the political role of the Korean People's Armed Forces has expanded since the death of Kim Il-Sung. Its leaders have received promotions, and they have a far higher public profile. There are immediate and longer term reasons for this. The immediate reason is that Kim Il-Sung died in the midst of an on-going international crisis precipitated by the DPRK's nuclear weapons program, and this has tended to highlight the role of the military. The longer term reason is that Kim Il-Sung was a youthful guerrilla who lived to the age of eighty-two. This meant that very few of his former colleagues outlived him and those who did were far beyond the stage where they might contemplate a new phase in their political career. Only three of the ex-guerrillas in the Politburo outlived Kim: O Jin U, who died in February 1995; Pak Sung Chul, who is now in his mid-eighties and who since 1980 has only held ceremonial power as a Vice President; and Choe Gwang, who was appointed to the top military job of Korean People's Armed Forces Minister in October 1995. Since Kim did not appoint any other military leaders to the Politburo after 1980, he produced a *de facto* civilianisation of the Politburo, and his death has now opened up opportunities for senior military officers to assume political power commensurate with their military rank. In other words, whether we are seeing a true expansion of military influence within the Party or just an adjustment to the previous situation in which military representation in the Politburo had fallen from eleven to three in the period 1980 to 1995 is unclear. The key words here are, of course, within the Party, for despite the massive interpenetration of Party and the military under the Kimist garrison state, the military does not constitute a separate hierarchy. The new military figures have a military power base of sorts, but the military-civilian polarity so visible elsewhere in the region does not apply in the DPRK political system. The effective political power of senior military officers has always derived from

[1] Even O is a partial exception since his father was a guerilla comrade of Kim Il- Sung.

the Party and, as happened to O Guk Ryol in 1987 and others over the years, military leaders suffer dismissal if they do not adhere to the Party line.

The most persuasive scenario is therefore that the old guard is still in charge and Kim Jong-Il is one of their number, sharing the same ideological outlook. We can only guess at the full range of their preoccupations at present. They may not yet have worked out a full distribution of spoils after Kim Il-Sung's death, and they almost certainly have not worked out the full ramifications of post-Kim Il-Sung protocol. The constitutional order of the state derives from the 1972 Constitution and the Party by-laws, and this may need some rewriting before the pieces fall fully into place. Nevertheless, two years after the death of Kim Il-Sung, the Kim Il-Sung system is still in place and it is business-as-usual in the DPRK leadership.

The Economy

External observers have put forward a wide range of views on the subject of economic reform in the DPRK in recent years. Some have seen no sign of, and little predisposition toward it;[5] other have seen predisposition, albeit without action;[6] while others have seen faint signals.[7] Active prediction of impending dramatic developments is usually the province of the electronic and print media, and these usually combine to lay down a background of expectation and anticipation.[8]

[5] Byung Joon Ahn (1988:146): "In coping with these economic difficulties, the KWP is opting for increasing discipline and efficiency in Soviet-style central planning, rather than encouraging the market mechanism as the CCP is doing." Kwan-Chi Oh (1991:106): "In summary, North Korea has introduced no policy or institutional changes that indicate any economic reforms. The changes discussed here appear to be nothing more than a complement to centralized economic management." Eberstadt (1995:24): "Through at least the end of the 1980s, North Korea also rejected the notion of experimenting with domestic economic liberalization, precluding thereby potentially major improvements in total factor productivity. Despite a half-hearted Joint Venture law announced in 1984 and another in 1992, North Korea took no serious steps to improve its international creditworthiness or to attract international commercial contacts during the 1980s or early 1990s."

[6] Merrill (1991:150): "From 1984 on the North [has] generated a debate, frequently appearing in the pages of . . . *Kulloja* [the Party's theoretical journal], over the pace and scope of reforms. Kim Il-Sung seems to have set certain parameters for the discussions. Anything that smacks of jettisoning revolutionary principle is over the line, and commentators still must feel their way carefully when they begin to push against this limit. Their

Is expectation of economic reform under Kim Jong-Il warranted? Not on the basis of his past record, although external observers have consistently been identified him as being the centre of a new technocratic elite despite his clear and public self identification with the guerrilla generation and its ethos.[9] Quite the contrary, as has been documented fairly thoroughly by now (Buzo 1995), his characteristic Party activities over the past thirty years have been arguably very harmful to the economy and certainly irrelevant to reform. They have featured the construction of expensive prestige monuments, the direction of Stakhanovite "speed battle" production campaigns, and consolidation of Party control over economic activity by means of the Three Revolution Teams movement. These activities have meant that at a time when one might have expected DPRK industry to be manifesting increasing technological sophistication and specialisation, and perhaps as a result moving in the direction of political pragmatism, the younger Kim has emerged not as an embodiment of a new generation reflecting this trend, but as an agent of the old revolutionary generation of his father.

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debates are worded very carefully, stepping around political and ideological land mines." Hong Yung Lee (1988:130): "The Great Leader has never developed a systematic leftist ideology one-sidedly emphasizing revolution over production. Unlike Mao, Kim Il-Sung has maintained a balance between economic development and revolution, experts and reds in his ideology."

[7] Scalapino (1991:ix): "While DPRK leaders have given faint signals for some time that they are aware of their present economic deficiencies, modest efforts to encourage joint ventures and other forms of foreign economic intercourse have had very little result."

[8] The following *Foreign Broadcast Information Service* report from Seoul on 19 July 1994 quoting the South Korean news agency Yonhap is typical of the genus: "On 19 July a high-ranking Chinese intelligence source revealed that after resolving the succession of power, North Korea's Kim Jong-Il will adopt a PRC-style policy for opening up as soon as possible. The source also said it is expected Kim Jong-Il will announce this decision both at home and abroad before and after late August once the succession of power is completed." In a similar vein *The Financial Times* of 23 July 1994 also quotes a business consultant specialising in North Korean consultancy work as saying "By 1996, North Korea could be on the cover of Newsweek as the new Vietnam."

[9] Note, for example, the following quote from Kwon-sang Park (1982:63-75): "As a result of the Sixth Congress, it became clear that the power structure is composed largely of Kim Jong-il and his followers. In other words, the Sixth Party Congress reshaped the power structure of the Party for the benefit of Kim Jong-il and the younger generation ... In essence, the era of the guerilla generation is coming to an end . . . It should be noted that the North Korean economy is handled today by a number of technocrats; that Kim Jong-Il's coterie is comprised mostly of people in their forties who are economically oriented; and, that Premier Lee Chong Ok and nearly all thirteen Vice-Premiers are technocrats of the post-revolutionary generation."

The Current State of Economic Reform in the DPRK

The case for economic reform in the DPRK thus encounters hostility at the leadership level. However, this does not mean that the system is entirely devoid of reform characteristics, for even if Kim Jong-Il still rejects economic reform as a viable strategy on ideological grounds, this does not rule out the tactical use of elements of reform as a means of supporting and defending the socialist economic system. This tactic of system-defending reform is essentially what is occurring in the DPRK at present. Its major hallmarks are:

- the maintenance of the present hallmark features of the command economy;
- the maintenance of other basic DPRK state policies, including its nuclear weapons program;
- continuing experimentation with Free Economic and Trade Zone (FETZ) strategies in the northeast region;
- substantial relaxation of controls on border trade in the northeast;
- the continuation of trade with the ROK, but the exclusion of major ROK investment;
- concerted attempts to limit public awareness of experimentation and a continuing prohibition on public or semi-public debate on economic reform; and
- continued reliance on ideological incentives for the work force.

Under these policies, the DPRK continues to present a more or less unchanged profile to the regional and global economic system. Self-reliance, long abandoned in practice, continues to be subject to a highly elastic interpretation of maintaining control over foreign transactions, rather than excluding them.[10] The DPRK's foreign debts remain barely acknowledged, much less addressed to the

[10] On this point party and state need look no further than Kim Jong-Il's 1983 thesis *On the Juche Idea:* "The self-reliant principle does not mean that our country will tightly close its doors . . . in modernized economic circumstances it will be impractical to meet all domestic demands with only domestic capability because every country comes to face new demands as society and production capability develop."

satisfaction of its major creditors, and the DPRK continues to have an extremely low international credit rating which, combined with the factor of its nuclear weapons program, means that most potential foreign investors remain extremely wary of the DPRK.

This in turn means that efforts to seek out funds for capital investment through foreign trade continue to be dominated by raw materials, semi-processed materials or low value-added items such as non-ferrous metals, and agricultural and marine culture products. It follows from this that rates of capital investment remain low, and that the economy remains technologically backward with low rates of productivity, chronic energy problems and severe transport and communications bottlenecks. Meanwhile, the policy of screening the effects of economic experimentation from the general public has resulted in an unchanging workforce, unfamiliar with other than the traditional highly centralised DPRK management methods, increasingly out of touch with advanced technology in industries such as electronics and vehicle building, and drilled to participate in the Stakhanovite speed campaigns and other forms of extensive, rather than intensive production.

These policy settings have not ruled out efforts to develop the Rajin-Sunbong Free Economic and Trade Zone. Since the designation of this zone in December 1991 the DPRK seems to have had a more sustained interest in seeking foreign investment in it than they showed in the case of the Joint Venture Law of September 1984, which rapidly receded to the background under the influence of a massive Soviet re-entry into the DPRK economy. Nevertheless, the prospects of the zone still remain exceedingly long-term–in the words of one analyst, far more a dream than an accomplishment.[11] It will therefore take years for the economy as a whole to feel even marginal benefits from FETZ-generated economic activity, and in the absence of other significant economic inputs, at best, the effect of system-defending reform would be to slow or even perhaps halt the current rate of economic decline.

[11] *The Economist Intelligence Unit* 1995-96 p.63-64. See also *The Financial Times* 23/6/94 which quotes a UNDP official as saying that progress has been slow and the Chinese and Russians have proved less than enthusiastic partners.

This, of course, would not be enough, because unless the DPRK meets with continued success in screening off its people from outside comparisons, its people will not be comforted by marginally favourable comparisons with their own recent past. It is inconceivable that the DPRK could achieve rates of economic growth even vaguely comparable with its neighbours and so under system-defending measures it is bound to the continuing promotion of the Juche ideology and the operation of a rigorous and pervasive coercion-persuasion apparatus.

Substantial Reform?

The option of substantial reform may be termed the Chinese Option, for it would involve applying many of the economic practices that have become prevalent in China over the past fifteen years and in Vietnam more recently. The major hallmarks of substantial reform in a DPRK setting would be:

- wide-ranging, transparent economic reform backed up by public awareness and even debate on key economic issues, provided it does not threaten KWP hegemony;
- the establishment of market economy activity alongside the state sector, and in particular the decollectivisation of agriculture;
- decentralisation of industrial management;
- foreign debt settlement and other sustained, focused attempts to secure foreign investment (but not necessarily from the ROK) and otherwise open the mainstream economy to foreign transactions;
- the large-scale substitution of ideological incentives by material incentives; and
- even more concerted efforts to establish FETZs with capitalistic legal systems and managerial practices.[12]

[12] Or, as the Chinese define FETZs, "a theory of socialist construction utilizing the capital, technology and management experiences of the Capitalist countries, and an institution that has a complementary nature to the Chinese way of socialist economy that promotes the four modernization projects and combines the concrete reality of the Chinese economy with the experiences of the free-trade regions and export processing zones of the work." See Namkoong (1995:466).

Would reform on this scale be viable? The effect of such parameters on the economy is difficult to predict. However, the experiences of China, Vietnam and Eastern Europe under such parameters are obviously relevant. The Vietnamese case suggests that there is no avalanche of foreign investment capital waiting to descend on the DPRK. Several years after the economic liberalisation policies were promulgated in 1986, foreign investment projects were still typically based on the low-risk, low-technology, quick-return model, and were usually operated by a small number of foreign firms pursuing high-risk strategies while the bulk of potential investors remained in a holding pattern (Freeman 1992: 287-302). This pattern would almost certainly be repeated in the DPRK, especially while the political leadership that has given the DPRK international pariah status in diplomatic and financial circles remains in place.

In fact, the DPRK is not without a history of dabbling with elements of substantial reform. It made its first efforts to attract foreign investment capital in 1984 via its Joint Venture Law and number of other reforms designed to streamline the export marketing procedure within the mining and industrial sector. However, this effort coincided with the growing prospect of a substantial Soviet re-investment in the DPRK economy, and the leadership reportedly lost interest in pursuing the joint venture option in favour of the Soviet option (Zhebin 1995). Accordingly, the DPRK reoriented its joint venture efforts toward extracting investment from the pro-DPRK segment of the Korean population of Japan (Chongryon).[13]

Seven years later, the Soviet option had disappeared and the DPRK again turned to the business of seeking foreign investment through the Rajin-Sunbong FETZ. This time, of course, it is doing so under far more adverse conditions. The collapse of global communism and the high growth rates of its neighbours have

[13] In a survey of the 116 foreign investment projects initiated in the period 1984-93 and about which some detail is known Namkoong (1995:468) found that they involved US$150m and in 90% of cases the foreign partner was from the pro-North section of the Korean community in Japan. By sector they comprised light industry (35%); retail stores including shops & restaurants (30%); agriculture (11%); metal and machinery (8%) and mining (7%). Namkoong contrasts this with $7.46 billion in foreign investment attracted by Vietnam 1986-1994.

drastically undermined the country's security. Moreover, Pyongyang continues to aim high levels of bellicose rhetoric at the ROK, Japan and the US, it does not feel bound by the rules of normal commercial behaviour, and it must now compete with other FETZs in the region, most notably China and Vietnam, who now have far greater experience and expertise in harnessing the FETZ concept to the needs of their centrally-planned economies.

While there is no evidence as yet that the DPRK now views foreign trade in a substantially changed light, it has modified its approach in the light of experience and changed circumstances. Unlike the Joint Venture legislation of 1984, the DPRK has passed a total of sixteen new or revised laws to cover economic activity in the Rajin-Sunbong FETZ, and has actively promoted it by means of seminars in Beijing, the United States and other countries, including Australia. It seems to have renewed its efforts to incorporate aspects of Chinese experience into its plans, and is seeking to attract Western and not just Chongryon capital for joint ventures. However, to date the DPRK has had little to show for its efforts to promote the Rajin-Sunbong FETZ. By 1995, at least 126 companies had surveyed the zone but actual results were limited to the signing of contracts for two projects in upgrading infrastructure. As of late 1995, the zone had no fixed wing airport, no suitable hotel accommodation, and the completion date for construction of basic infrastructure had been put back from 2001 to 2010.

This result has been due to a number of factors, which themselves are a combination of past experience and present perception on the part of potential foreign investors:

1) The political risks are too great: Trucculence toward practically all Western governments and acquisition of nuclear weapons are integral features of current DPRK state policy. Obviously foreign investment funds will not flow at all, and the capital needs upon which all other elements in the reform package are predicated will not be met, while the nuclear problem persists. In addition, investors are unlikely to be interested in the absence of signs of ROK-DPRK rapprochement and a lessening of tensions on the

Korean Peninsula, yet continued hostility toward the ROK is deeply ingrained in DPRK ideology. Moreover, we may expect the ROK to bring pressure to bear against companies and countries conducting economic activity in the North that do not accord with its own economic and security interests.

2) Lack of an appropriate institutional framework: The lack of a legal basis, perhaps even a conceptual basis, for doing business in the DPRK in accordance with normal international commercial procedure constitutes a further impediment. While the DPRK Supreme People's Assembly has passed a rash of legislation relating to FETZ activities, the degree of protection for foreign companies in the form of company law or other forms of dispute resolution procedure remains slight. Moreover, it is not simply a matter of passing legislation, for the existence of a secure legal basis for economic activities cannot be willed or legislated into existence. It rests upon a stable social base of tradition and reciprocity that is absent in the DPRK today. Although the number of business deals concluded with the DPRK authorities is still relatively small, persistent questions have already been raised on the reliability of DPRK partners. Recent examples have included the multiple signing of exclusive contracts for the supply of North Korean mineral water to South Korean companies and the diversion of OEM clothing from the contracted Japanese consignee to other international markets.

3) The degree and nature of government control: As is the case with other Leninist party states there are parallel party and government hierarchies with the latter firmly subordinate to the former. This state of affairs is further exacerbated in the case of the DPRK by the limited size and scope of the economy, which makes close supervision of all facets of economic activity feasible with attendant problems of corruption and interference.[14]

4) Lack of infrastructure: While the concentration of economic

[14] Shirk (1993:57-58) uses the term "police patrol oversight" of the economy to describe the practice in communist political systems. In contrast to the "fire alarm oversight" of the bureaucracy practised by politicians in democracies, whereby they rely on interest groups to monitor bureaucrats and publicise practices that would displease their constituents, a communist system applies "police patrol" oversight: it needs to know everything that is happening and oversees from within and without the bureaucracy in a parallel series of hierarchies.

activity in a FETZ relieves the host country of some of the burden of providing infrastructure of acceptable standards, the DPRK economy has been unable to satisfy the demands of even semi-sophisticated plant and machinery for stable power supply, maintenance services, transport and telecommunications.

Yet another infrastructural problem centres on the DPRK's capacity to absorb new inputs. It should be remembered that when the DPRK spent large amounts acquiring more advanced technology from Western European and Japanese companies in the early 1970s, it did not succeed in turning these purchases to productive purposes largely because the primitive infrastructure was incapable of absorbing and servicing advanced plants and technology. There is little reason to believe that efforts to graft significant new technological inputs onto what is essentially an unchanged economic system would produce substantially different results today.

5) *An insufficient consumer market:* The bulk of the Chongryon-financed joint ventures in the DPRK since 1984 have been aimed at the consumer market as adjuncts to the command economy system. In the absence of macro-economic policies aimed at encouraging the development of a consumer market as valid and desirable in its own right, the isolation of the country, the aggressive anti-capitalist propaganda (which continues to this day), the lack of disposable income, the lack of distribution channels and a now almost total absence of business experience and expertise mean that the mainstream economy would be severely limited in the development of the Chinese model of developing a market economy sector alongside the state-owned sector. Even should the FETZ become a force to be reckoned with, its penetration to the potential market of 22 million North Koreans would be extremely limited.

6) *Foreign debt:* Estimates of the DPRK debt vary, and in one sense they are futile because in many cases they have long been written off by creditors.[15] However, in another sense, they are anything but futile because the banks are still capable of bringing

[15] Estimates puts the DPRK debt to four Western banking consortia in December 1993 at $1.6 billions. See *The Economist Intelligence Unit*, Second Quarter 1996 p.48

significant pressure to bear on their governments to make representations on their behalf to recover this debt. The result is that the only international banks that will deal with the DPRK in current circumstances are high-risk lenders who are by and large incapable of opening wider doors to the international financial community for the DPRK.

7) Socialist labor practices, inexperience with technology: Widespread anecdotal evidence portrays the DPRK workforce as alarmingly deficient in tradesman skills. Isolation, the iron rice-bowl effect, Stakhanovite work practices, and a consistent priority on ideological as opposed to practical skills are all relevant factors here.

8) The scale and appropriateness of the FETZ concept: The DPRK seems to have in mind low-key, small-scale operations in the Rajin-Sunbong FETZ but this does not seem to accord with the "think big" projects associated with ROK chaebol such as a natural gas pipeline to connect the South to Siberian gas fields and the creation of an East Asian regional transportation hub on the Korean peninsula. A Hyundai spokesman has already been quoted as describing the Rajin-Sunbong FETZ program as not in agreement with the group's business strategy.[16]

These factors are interlocking and mutually reinforcing. Efforts to make progress on any of them confront severe political and ideological problems but, even if we were to leave aside political problems for the sake of argument, severe difficulties of a purely economic nature would await the DPRK. The experience of the Soviet Union and Eastern Europe after 1989 indicates that economic problems of this nature and magnitude are not susceptible to a piecemeal approach. The underlying logic of the DPRK economic system is incompatible with that of a market economy, and so reform entails nothing less than the destruction of an existing economic system–the only one the DPRK has ever known–in coordination with the construction of a new one. This is not a job for reformers but for revolutionaries.

[16] *The Economist Intelligence Unit.* First Quarter 1995 p.53.

Conclusion

System-defending economic reform is likely to continue in the DPRK, and substantial economic reform in the terms described above is, of course, unlikely to proceed until basic political and ideological impediments are removed. The most obvious impediment is the nuclear weapons program, but equally important is an ideological system which imposes stringent controls on economic activity and is hostile to the concept of a market economy.[17] Moreover, efforts at piecemeal reform are unlikely to be effective because of the legacy of intensive centralisation: the subsystems of the economy are now closely interconnected and mutually debilitating.

However, this does not necessarily mean that the system will veer towards collapse. Neither China, Japan nor the ROK have anything to gain by applying economic pressure on the DPRK, and it is no coincidence that these three are now the DPRK's three leading trade partners. Moreover, both Japan and the ROK have carefully engineered trade so that the DPRK runs a trade surplus with them, which amounted to about $100 million in 1995. The two Koreas continue to carry on direct trade via third-country vessels, with the ROK receiving DPRK commodities and selling some manufactured items in return. ROK chaebol continue to survey the DPRK economic scene, but despite periodic announcements of significant ventures so far most current projects are processing-on-commission arrangements in the area of textiles, garments and footwear. In a revealing 1991 survey, KOTRA asked ROK enterprises the question, "Why are South Korean enterprises interested in North Korea?" The most common reasons given were a bridgehead for future investment (41.5%); cheap labour (31.5%); and natural resources (24.4%). All three related to potential, rather than actual, strengths that the ROK might exploit, and indirectly

[17] Cf. Murrell (1991:5): "The superior performance of market economies over centrally planned economies cannot be understood by simply invoking the invisible hand of neoclassical economics. To provide a theoretical underpinning for economic reform in Eastern Europe it is necessary to go beyond a characterization of capitalism that emphasizes decentralization within a price system. Simply loosening constraints to create markets is not sufficient for successful reform. Positive efforts at creation of institutions are essential in economic reform, but there is no unified economic theory on how to construct the institutions that are central to the success of capitalist economies."

indicated that ROK companies saw little of value in the existing economic infrastructure in the North.[18]

The DPRK is therefore likely to maintain its current system in spite of continuing decline, not the least because many of the factors usually cited as making for change–the sheer depth of the crisis, the morale factor, gradual awareness of unfavorable international comparisons, the many social contradictions that arise out of failure to adjust politically to an industrialising state–are deliberately and conscientiously kept to the margins of politics. Change, should it occur, will occur in areas that can be screened off from the public, such as in FETZs. The effect would be a pale imitation of the Chinese reforms. It would not have much of an impact on the systemic difficulties of the DPRK economy in the short or even medium term. It would not generate the capital investment needed to resolve the serious problems in the energy, transportation and communication sectors. However, even a mildly palliative effect could increase output of the DPRK's main export commodities and perhaps ensure the continuing viability of the DPRK economy. This is the most that can be expected at the present time, and in pursuit of this goal the DPRK will be assisted by friends and foes alike.

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[18] Kwang Yong Kim (1994:20)

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