

NORTH KOREA: Two Years after Kim Il-Sung's Death

Editor's Note: This is the second part of two-part article which first appeared in the previous month's issue of the VIP Economic Report.

Limited Economic Reform

In order to resolve its domestic economic problems, North Korea has recently emphasized increasing agricultural production and building up its light industries, and is pushing to implement partial economic reform. Pyongyang has been making a great effort to induce foreign capital and technology investment in North Korea. The Rajin-Sonbong area, which is located at northern tip of the east coast of the Korean peninsula, was made a free trade economic zone in 1993, as a way of both blocking the impact of compartmentalized capitalism and attracting foreign investment. The Pyongyang regime is expecting to earn hard currency and import technology and management know-how in the areas of manufacturing and electric appliances, food processing, and consumer goods such as clothes. In longer terms, this area is supposed to link the flow of goods to and from Northeast Asia. However, due to the poor infrastructure and political unpredictability, the Rajin-Sonbong project has not recorded any significant progress.

This past April, North Korean representatives announced in Washington D.C. that North Korea would pursue ties with capitalist markets abroad and increase trade with foreign countries, but failed to mention overall reform of the economic system in general. The fundamental causes behind the North's worsening economic conditions have to do with the unbalanced economic structure, a lack of enthusiasm in increasing production, the absence of the business mentality to raise efficiency, and inadequate infrastructure,

which all stem from a socialist planned economy. Insisting on "our own style of socialism", the existing ruling group has refused to overhaul the whole economic system. Thus, the North Korean elite is faced with a dilemma. To preserve the existing system, Kim Jong-il has to resort to continued control of the information and coercion apparatus, including the military. At the same time, to improve the performance of the system, he has to reshape the existing planned economy with the obvious implication of a limited political liberalization and the loosening of social control. These two necessary elements for survival are contradictory. The Rajin-Sonbong project is intended to separate the source of economic growth from the source of political unrest. However, with poor potential for profit, it is highly improbable that such a limited reform, accompanied by intensified ideological indoctrination of North Korean residents, would bring about satisfactory results without extensive systemic reform or ample economic support from abroad.

Approaching the U.S.

With grim prospects for getting out of its economic crisis, North Korea's primary concern in foreign policy has been to establish diplomatic relations with the U.S. and Japan. With the U.S. being the sole remaining superpower, North Korea has tried to ensure its political survival by gaining the guarantee of the U.S. In addition, economic cooperation with the U.S. and Japan is crucial to the recovery of the economy and the inducement of foreign investment. Thus,

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North Korea has actively taken a strategic approach to the U.S. With the threat to withdraw from the Nuclear Non-Proliferation Treaty, Pyongyang successfully obtained light-water nuclear reactors, alternative energy supplies, and the promise of improved bilateral political and economic relations with the U.S. through a framework agreement signed in Geneva in October 1994. The Korean Peninsula Energy Development Organization (KEDO) was created for this task. This was made possible by the U.S.'s strategy of inducing the "soft landing" of North Korea. In dealing with North Korea, U.S. tried to convert Pyongyang from a unpredictable trouble maker to a reasonable player that abides by international rules. In an effort to demonstrate that it has a sincere intention to improve the relations with the U.S., Pyongyang has been faithful in abiding by almost all requirements stipulated in the Geneva accord except for dialogue with Seoul.

Pyongyang also tried to impose a new order concerning the future of the Korean Peninsula through the same brinkmanship. It unilaterally took measures to dismantle the Military Armistice Commission and intruded into the Demilitarized Zone (DMZ) several times in order to press for the conclusion of a peace treaty with the United States. This caused anger and anxiety on the part of South Korea. Upon pressure by Seoul, Washington made it clear at the summit meeting on Korea's Cheju Island between President Kim Young Sam and President Clinton this past April that the U.S. would not meet or discuss with Pyongyang on the matter of a peace treaty. However, Pyongyang opened at least a partial channel with the U.S. on the matter of missile exports, the remains of American soldiers killed in the Korean War, and the opening of liaison offices.

Dual Strategy toward South Korea

Pyongyang's fear that opening a dialogue channel with Seoul in the midst of its

economic crisis could trigger serious disturbances in North Korea made Kim Jong-il insist on a policy of cutting off Seoul. The strategy of excluding South Korea in determining the future of the peninsula was matched by a countermove on the part of Seoul to link the pace of Washington-Pyongyang interaction to a prerequisite improvement of the North-South relationship. Pyongyang's strategy to create a gap between Washington and Seoul on how to deal with Pyongyang worked at least partially. While Seoul wanted to put a limit on the U.S. approach to Pyongyang, U.S. wanted to open a channel with Pyongyang on matters directly and exclusively related to North Korean-U.S. relations such as North Korea's sales of missiles to Middle East countries and the return of the remains of American soldiers killed in the Korean War. The gap was indicative of the difference in strategic interests between Seoul and Washington. While Seoul has maintained a hardline policy toward Pyongyang, Washington has emphasized the need to stabilize the North. The immediate collapse of North Korea was not believed to be all that likely in either country, but the military strength of North Korea was sufficient to keep authorities worrying in Seoul. Moreover, the North Korean military threatened that it was willing, if necessary, to turn Seoul "sea of flames". To the people of Seoul, which is just several minutes away by fighter flight from the armistice line, this threat sounds real enough. Moreover, the possibility of a last resort to war in an effort to stave off a final collapse, however it may sound like a theoretical assumption, could not be neglected in terms of the North's military capabilities and the South's vulnerability to surprise attack. In addition, subsequent moves by the North Korean military have warranted extra caution in terms of security. Its fighters and bombers have been positioned to forward staging areas. About 150 long-range guns were assigned to artillery units whose mission is to target Seoul

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and its metropolitan area. Despite the worsening food and energy shortages, about half of the consumable goods and substantial amount of imported oil have been stashed away for military use. While food rations for the people have been suspended for several months in some localities, enough supplies to last three months in case of war have been stored in more than 200 underground tunnels.

One of the reasons why South Korea has maintained a hardline policy toward North Korea is that helping North Korea through economic cooperation could result in helping to strengthen enemy. Lack of trust, suspicion of each other's intentions, and precarious arrangements between Seoul and Pyongyang which have marked a history of inter-Korean relations are still present.

A breakthrough attempt was made with the proposal of four-way talks (to include the South, the North, the United States, and China). It was intended to satisfy both Seoul and Pyongyang by allowing Seoul-Pyongyang direct talks as desired by Seoul as well as U.S. participation in the talks for a peace treaty as desired by the North. The response of Pyongyang is still ambiguous, but there is still some possibility of talks because U.S. is participating. At least Pyongyang has not turned it down outright up until now. It has shown an attitude of finding out the real intentions and examining the costs and benefits of the four-way talks.

Looking for Money

While refusing to talk to Seoul directly and stepping up its military preparedness, Pyongyang has encouraged South Korean businesses to invest in the Rajin-Sonbong free trade zone. However, the political nature of North-South economic cooperation and poor infrastructure have prevented any significant progress on this matter. In order to streamline

competition among South Korean businesses and to implement economic cooperation in an orderly way, Seoul drew up guidelines that require permission from the Government to invest in North Korea. Only the Daewoo corporation has directly invested in Nampo with nine other companies having obtained permission from the Government to invest in the Rajin-Sonbong free trade zone. Up to now, most of the trade between South and North has been limited to processing on a commission basis. This trade has increased every year regardless of inter-Korean relations. The total trade volume has increased from 36 thousand dollars in 1991, to 1 million dollars in 1992, 8 million dollars in 1993, 28.6 million dollars in 1994, and 38.7 million dollars in 1995. The items also have been diversified from bags to clothes and shoes in 1992 and 1993, to include color TV and accessories in 1995. With the high quality of labor and quality control of final products in North Korea, and with increasing need for cheap labor in South Korea, inter-Korea trade of this kind will continue to expand. However, due to high risks involved in advancing into North Korea, South Korean businesses have been discouraged by venturing into the North. The political climate between the two Koreas will determine the degree and volume of direct investment in North Korea.

Future of North Korea

The two questions most often asked about the future of North Korea under the guide of Kim Jong-il are: when will he take over his father's official positions and how strong is his power in North Korea? These two questions are not only related to the junior Kim himself but also to the future of North Korea. To what extent is Pyongyang regime stable? Why is the formal transfer of power being delayed if Kim Jong-il is in complete control as is often mentioned in the press? On the surface, at least for some time, it

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could have been seen as a sign of humbleness in honor of his late father considering his father's charisma over the people of North Korea. Now that two years have passed after his father's death, it sounds persuasive that the delay in taking over his father's position is because it would increase his burden in the midst of crisis in North Korea. Taking advantage of the prestige of his father and following the teachings of his father would obviously smooth out things during rough transition period.

There has been much conjecture about the possibility of the collapse of North Korea. The South Korean government has also issued statements on several occasions that it should be prepared for the sudden collapse of North Korea. Observation of this kind seems to be based on the ineffectiveness and inability of the Pyongyang regime to function as a normal state and to maintain a minimal level of social integration. However, North Korea is capable of maintaining repression and a monopoly of interpreting what is happening. In such a totalitarian state, the regime is threatened by the disintegration of the cohesive elite, not by complaints or disorganized resistance. The ruling strata of North Korea has a vested interest in maintaining its existing system, however ineffective it may be. The highest echelon of the regime is filled with those whose loyalty have been checked and confirmed. The fact that Kim Jong-il spent more than half of his official schedule in visiting barracks indicates that Kim, who is known to be smart and skillful in consolidating his power base, is keenly aware that military support is the key to the stabilization of his power. The special treatment of the military is shown in the form of luxurious gifts such as Mercedes-Benz cars by Kim to the generals and the provision of sufficient food to the soldiers while the people are starving. Seen this way, the possibility of any threatening political disturbance does not seem to be great.

Moreover, with the internal crisis deepening, Pyongyang has put more emphasis on ideological

indoctrination, organizing events and meetings in memory of the late Kim Il-sung, and to mobilize loyalty to Kim Jong-il. The simple desire for "rice and meat" has been used to divert the resentment of the starving people toward an aggressive attitude toward South Korea. The domination of one single ideology makes it difficult for people to come up with alternative vision of society.

With no sign of collective resistance, North Korea is expected to subsist in the midst of crisis. The lack of a civil society that can organize its own interests, the deep-rooted *juche* (self-reliance) ideology, and the omnipresent coercion apparatus of the state will not allow any organized resistance. A shift of position on the part of existing ruling group against Kim Jong-il's leadership is also hard to expect, considering that their career development was based on loyalty to and patronage of two Kims.

Favourable to the Pyongyang regime are the recent moves to develop or recover the old relationship with North Korea on the part of China and Russia. Having learned that the Seoul-first-policy did not lead to economic support from or increased influence on South Korea, Russia has decided to give more attention to and develop cooperative relations with North Korea. China also is resuming active aid to North Korea in fear of the negative impact of possible collapse of North Korea. The "soft landing" policy of the United States, and the probable reopening of economic support in the form of investment and food aid from South Korea in the event that the proposal of four-way talks is accepted would also work toward the survival of North Korea. The fact that none of the surrounding countries actually wishes the sudden collapse of North Korea, including even South Korea, which is worried about the cost of reunification at this stage, might be the best assurance for the North Korean regime. ^{VIP}

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