



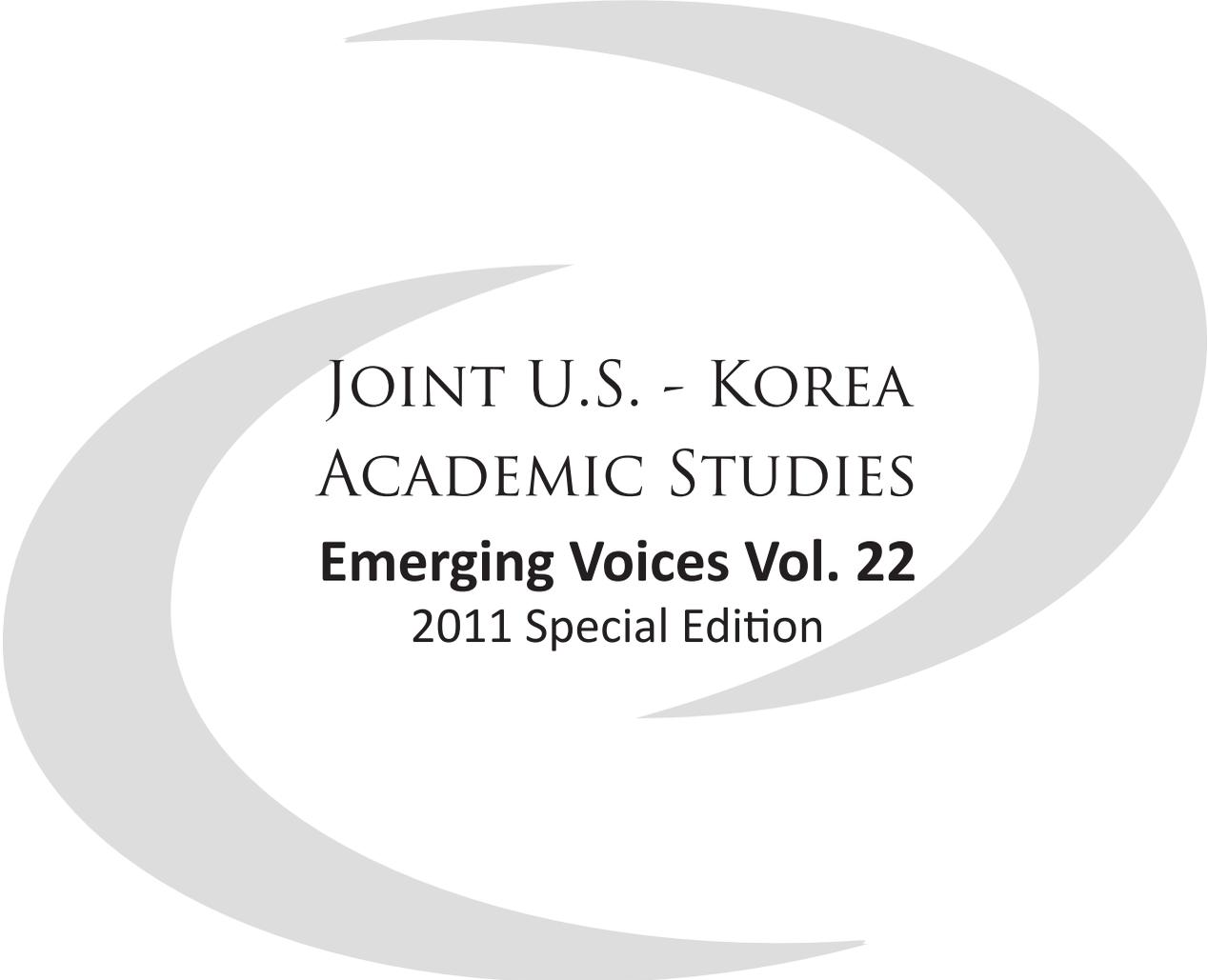
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NEW TRENDS IN
NORTH KOREA

Nothing to be Afraid Of?

North Korean Political Economy and Economic Reform

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INTRODUCTION

Democratic People's Republic of Korea (DPRK) President Kim il-Sung explained to his counterpart Erich Honecker, President of the German Democratic Republic, in 1977 that building socialism in the DPRK is the foundation for establishing a new social order in the entire nation.¹ Socialist principles have guided the North Korean political economy since the country was established after World War II. The 1972 constitution repeatedly stressed the achievement of "true socialism" as a goal and declared that the DPRK "exercises the dictatorship of the proletariat."² In the North Korean system, urban residents received monthly rations for household goods distributed at nominal prices, while workers on agricultural cooperatives and state farms received consumer goods in return for agricultural output sold to the state at an artificially low price. The government's top-down central planning set production-based targets for factories and farms.

The other guiding principle of North Korea is *juche*, usually translated as "self-reliance," which was adopted as the ideology of North Korea at the 5th Korean Workers Party Congress in 1970. Not quite autarkic, in the context of the economy *juche* prescribes an emphasis on heavy industry and self-sufficiency in raw materials. *Juche*-inspired policies severely limited North Korea's economic growth by allocating scarce resources to unproductive industries for the sake of self-reliance.

As other countries in East Asia experienced rapid economic growth from export-oriented development, North Korea fell further behind. During the 1980s, China and Vietnam, two Asian countries in the communist bloc, enacted wide-ranging economic reforms to pursue development by expanding trade with capitalist countries. In the post-Mao Zedong era, Chinese leaders have repeatedly encouraged North Korea to follow the "China model" and reform its state-controlled economy. Their experience of rapid economic growth beginning in the 1980s has convinced Chinese leaders that foreign trade and investment are the keys to success. In 2010, Prime Minister Wen Jiabao summarized the Chinese position towards North Korea, saying, "China will, as always, support North Korean efforts to develop its economy and improve its people's livelihood [sic] and is willing to introduce to North Korea the experience of China's reform and opening up and construction."³

Kim il-Sung and Kim Jongil toured China numerous times and made statements praising China's achievements, but these visits did not lead to changes in the North Korean political economy. If anything, it is Chinese support that sustains the current system. Beginning in 1984 with the Joint Venture Law, the North Korean government took steps to encourage foreign direct investment, but they were half-hearted and ultimately unsuccessful. The Rason Free Economic Trade Zone, established in 1991, is emblematic of the regime's "desire to capture external resources with as little reform and risk as possible."⁴



In the late 1980s, the North Korean economy slid into a decline that was compounded by the collapse of the Soviet Union. The cessation of “friendship” pricing with both the USSR and China sent North Korea’s ostensibly self-sufficient economy into a tailspin. During the mid-1990s, the country experienced one of the most destructive famines of the 20th century, in which 200,000-2 million people died of starvation. “With the state unable to provide food through the socialist public distribution system (PDS), small scale social units – households, work units, local party organizations, government offices, and even military units – initiated entrepreneurial coping behavior, much of it technically illegal, to secure food.”⁵

Cognizant of the partial breakdown of the centrally-controlled structure, in 1998 the government revised the constitution to expand the definition of private property and allow socialist cooperatives to conduct foreign trade. However, the changes barely affected reality on the ground.⁶ On July 1, 2002, the DPRK government launched a reform program (hereafter “the July 1st reforms”), which decriminalized some of the coping behaviors that had arisen in the previous decade. The most significant measures were an overhaul of official prices and wages, and the limited introduction of incentives in both the industrial and agricultural sectors. Again, the reforms were half-hearted and poorly designed, and they failed to provide for citizens’ basic needs.

After a good harvest in 2005, North Korean leadership began to roll back earlier reforms and attempted to reinstitute the PDS. The public supply of food returned only briefly, but there was a resurgence of socialist policies, seen in the ill-fated 2009 currency revaluation and periodic crackdowns on private trade. Ultimately, this retrenchment did not reverse the process of marketization that had been set in motion during the famine period.

North Korea now exhibits the parallel economic structure typical of late-communist countries. The military and party elite have access to goods at low, state-controlled prices through the official system, while most citizens have to obtain food and other necessities through black and “gray” markets.⁷ Stratification and inequality are now serious problems for North Korean society. The government has renewed efforts to improve living standards, but without fundamental change to the economic system.⁸

Despite the shining examples of its prosperous southern brother, South Korea, and its post-communist northern neighbor, China, North Korea has repeatedly resisted fundamental economic reform. Why has North Korea opted not to (or failed to) reconfigure its political economy to take advantage of the benefits of a capitalist, market-oriented system? Are they truly wedded to socialist dogma? Or are North Korean leaders more concerned about the political consequences of economic reform?

POSSIBLE EXPLANATIONS

One obvious explanation for North Korea's resistance to economic reform, which in this case is nearly synonymous with increased foreign trade, is the *juche* ideology of radical autonomy. Since the late 1960s, the North Korean propaganda apparatus and political leadership have held up *juche* as the guiding principle of the country. In response to assertions that *juche* was a fig leaf used to justify a domestic political agenda, Mitchell Lerner argues that, although Kim il-Sung gained political benefits from *juche*, he was genuinely committed to its precepts.⁹ Any economic reform that embraced the capitalist principle of comparative advantage and reoriented the DPRK economy toward export industries would necessarily fly in the face of the long-cherished *juche* ideology. Park Yong-soo wrote in 2009, "[T]he present study sees the country's unique political system – i.e. its monolithic system (*yooilcheje*), as constructed upon the *Juche* idea – as the most significant [barrier to economic reform]."¹⁰

Beyond economics, the adoption of external economic ideas, advice, and aid wounds the North Koreans' overdeveloped sense of national pride. "Even the Chinese complain privately about North Korean resistance to outside advice."¹¹ Christopher Hale calls it their "uncanny stubbornness and fear of outside encroachment."¹² The top leaders cannot be seen to be learning too much from the outside, because Kim dynasty mythology is partly based on their unique ability to offer brilliant "on-the-spot guidance." North Korean chauvinistic nationalism – as expressed to some extent by *juche*, but more fully developed elsewhere – discourages North Korean leaders from acknowledging their failure to construct a viable economy. A major thrust of foreign policy under Kim il-Sung was convincing the South Koreans that socialism is the superior system. To give up on that goal is, ultimately, to admit defeat.¹³

The DPRK regime's fear of losing political control is another prominent explanation for economic stagnation in North Korea. Stephan Haggard and Marcus Noland see this concern as the main reason for the decision to roll back the July 1st economic reforms in 2005. "Central government officials would be motivated by the many political liabilities associated with the reforms to date, including growing inequality, the emergence of alternative centers of economic power, and the leakage of ideas and information as a result of increasing trade and investment..."¹⁴ Andre Lankov makes a similar argument, that the Kim regime has good reason to fear economic reform, because exposure to information about the outside world will undermine the legitimacy of the DPRK government.¹⁵ An economy that is more capitalist (or at least more receptive to supply and demand forces) would feature more decentralized decision-making. Devolution would reduce the capacity of central government planners to use economic policy as a means of political control.

North Korean leaders also fear that economic reform could open the door to absorption by South Korea – or China. In 1984, Kim Jong-il admitted in private that North Korea could not open up the country, as even the Chinese were urging, because it "would be naturally tantamount to disarmament."¹⁶ Especially now that per capita



GDP in South Korea is roughly twenty times higher than in the North, deep economic integration would likely lead to the dominance of the South Korean political-economic system over the whole peninsula. Looking North from Pyongyang, it is also possible to imagine that dependence on trade with China will lead to the DPRK becoming a de facto province of China, subject to diktats from Beijing.

Although the specific dynamics are nearly impossible to discern from the outside, the interest groups within the North Korean government and military inhibit change to the status quo. As far back as the late 1960s, Kim il-Sung relied on “a group of conservative, largely military, leaders who supported greater emphasis on military and defense spending, a focus on heavy industrial growth at the expense of consumer products, and a reduction of Chinese influence.”¹⁷ After the growth of black markets in the 1990s, another interest group emerged: the crony capitalists and bureaucrats who profited handsomely from asset stripping, spontaneous privatization, and illicit trade in drugs, arms, and counterfeit US dollars. Haggard and Noland note that the stakes for economic reform are “particularly high to the extent that the military is involved in these irregular economic activities, as is surely the case.”¹⁸ Black market traders will discourage economic reform that creates competition, but at the same time will seek to avoid a return to complete state control of the economy and prohibition of markets.

Sanctions are another disincentive for the DPRK to increase foreign trade. The transparent desire of the US (and its negotiating partners) to gain economic leverage understandably makes North Korea wary about shifting towards an externally-oriented economy. Opening up the economy and investing in export industries carries the risk that the importing countries will shut off trade in retaliation for provocative behavior. Kim Jong-un might justifiably ask, in regards to promoting trade, “Why bother?” Some argue that past sanctions, particularly inclusion on the U.S.’s state sponsors of terrorism list and the restrictions on access to international capital, have forced the North Korean leaders to focus on maximizing internal resources (and finding clandestine sources of foreign exchange) instead of embracing globalization as China and Vietnam have done.

There is the less cynical view that North Korean leaders are genuinely convinced that their socialist system is superior to the alternatives. The regime’s initial reaction to the collapse of socialism in the USSR was “unrepentant and open hostility to economic reform, which it interpreted as a crucial – indeed fatal – misstep of Soviet revisionism.”¹⁹ In a conversation with Erich Honecker in 1984, Kim il-Sung said, “If we leave China to the capitalists, there is the risk that China will become a quasi-colony again... – what we are most afraid of is that China will not stick with socialism.”²⁰ Bruce Cumings highlights the virtues of the DPRK economic system, such as egalitarianism and collective spirit, and defends North Korea’s record in keeping the nation free, in the sense of “an independent stance against foreign predations.”²¹ North Korea constantly blames external forces for its economic failures; perhaps the current leadership believes that a more favorable external environment is all that is needed to restore economic growth.

Another factor contributing to the DPRK government's support for socialism and rejection of reform is that the top echelon of leaders is insulated from reality on the ground. Bruce Cumings writes, "The Dear Leader's problem, though, is to be surrounded by sycophants telling him what they think he wants to hear, catering to his every whim, and no one who will tell him the truth."²² The DPRK bureaucracy is plagued by poor information flow and compartmentalization. Noland and Haggard suggest that the North Korean leadership was unaware of the extent of the famine in the mid-1990s.²³

ANALYSIS

None of the authors quoted in the previous section is convinced that there is a single explanation for North Korea's resistance to economic reform, and this paper does not seek to identify a single factor. Rather, the aim of this section is to weigh the explanatory power of the various factors based on available evidence. Each explanation is analyzed in turn, concluding with the strongest one: the desire of the Kim regime to maintain firm political control over North Korea.

Despite its ubiquity in North Korean political and economic discourse, the *juche* ideology is closer to being a "sham doctrine" than the guiding principle of the country.²⁴ B.R. Myers makes a convincing argument that *juche* has no bearing on North Korean policy making. He demonstrates that *juche* is vague enough and flexible enough to describe any policy that suits the North Korean government. If Kim Jong-il decided that he wanted to promote economic reform, he could find an interpretation of *juche* to justify the new policies.

Ignorance of reality on the ground, nationalist pride, and faith in the socialist system preserved North Korea's centrally planned economy through the severe decline of the 1990s. It seems likely that the systemic failures in the economy only became clear to top leaders gradually and long after the fact. Throughout the 1990s, economic policy adjustments were merely technical fixes.²⁵ The July 1st reforms that decriminalized some coping mechanisms came six years after the famine peaked in 1996. Faced with less than damning evidence from their subordinates, it would be natural for DPRK leaders to reject any radical changes to the status quo. (American officials and businessmen can also be guilty of "massaging" data to please their superiors). It was in 1996 that Kim Jong-il said, "If the party lets the people solve the food problem themselves, then only the farmers and merchants will prosper... collapsing the social order of a classless society." Despite its gestures towards trade and investment, the revised 1998 constitution is unmistakably socialist; an editorial published in the *Rodong Sinmun* two weeks after the new constitution was promulgated stressed the need to maintain the North Korean mode of socialism.²⁶

However, North Korean leaders could not have been completely blind to reality. Agricultural output in 2005 was roughly half of 1990 levels, and even the military was facing chronic shortages of food and fuel.²⁷ By the 2000s, it would have been impossible to overlook the massive decline in economic production. In a 2001 speech, Kim Jong-il admitted that "the socialist rationing policies of the past malfunctioned," but he also laid some blame at the feet of the Korean people for failing to work



hard enough, a claim consistent with the chollima initiative and faith in the socialist system.²⁸ The DPRK continues to trumpet socialism, though now it is tempered. The State Budget for 2010 says that North Korea will “strictly adhere to the socialist principles in economic guidance and management,” but later qualifies that with the phrase “on the principles of self reliance and profitability [emphasis added].”²⁹

The DPRK’s adherence to socialist policies is, on some level, an existential issue. Over the decades of the Cold War, North Korea formed its national identity as a staunch member of the socialist/communist bloc, eternally in opposition to the capitalist (or as they would have it, imperialist) camp. Kim il-Sung said to Erich Honecker in 1984, “It is therefore very important for us to make sure that capitalism does not penetrate our ideology... it was very important to train the population in the spirit of patriotism and class ideology so that the entire population could successfully build socialism.”³⁰ B.R. Myers’ analysis of DPRK racist/moralist propaganda notwithstanding, the competition between North and South Korea was largely an economic battle to build the more prosperous society. To abandon socialism is to admit defeat in that contest. Thus, national dignity demands that the DPRK continue to pursue socialist policies.

The cumulative effect of economic sanctions on the DPRK political economy has been rather small, compared to the other factors analyzed in this section. North Korea’s international trade has grown every year since 1998, despite three UN Security Council Resolutions and other multilateral sanctions imposed as penalties for its nuclear program. Noland and Haggard find that the pattern of trade has simply shifted to countries that are uninterested in enforcing sanctions: China, South Korea (under the Sunshine Policy), and a number of small or medium Middle Eastern states.³¹ Countries that are inclined to participate in sanctions have curtailed their economic ties, particularly Japan. The Kaesong Industrial Complex may have even produced “reverse leverage,” because South Korea has more invested (both politically and financially) in continuing operations than the North.³² Although sanctions may foreclose some options, the DPRK has been able to build partnerships with other countries to circumvent the restrictions.

The influence of interest groups on economic reform is mixed, because there are factions pulling strongly in opposite directions. Writing about democracies, Etel Solingen describes how “liberalizing coalitions” of export firms, skilled labor, internationally oriented elites, and reform-minded agencies seek to distribute resources more efficiently and gain access to capital and markets.³³ On the other side is the “backlash coalition” – the elites entrenched in the central distribution system. They will support the status quo and measures to route more goods and resources through the existing distribution systems, in order to accumulate bureaucratic power and enrich themselves. Outside these two main groups are those elites and emerging entrepreneurs who have benefited from the growth of markets in North Korea. “Partial reforms in communist systems can be highly distorting, favoring small groups of government-connected actors – party cadres, government officials, military officials, and their families – that subsequently become opponents of further reform.”³⁴ They will promote policies

that give them more latitude to operate, e.g. decriminalization of certain trading activities, and create opportunities for foreign trade, both licit and illicit.

The wild card in this issue is the military – are high-ranking generals aiming to spur national economic growth, or are they more interested in consolidating their position in the North Korean economy? Solingen treats the military as a separate group because they are not subsidiary to political economic goals.³⁵ The top leadership benefits from the foreign exchange generated in arms sales, and the songun policy largely insulates the military from the deprivations brought on by economic inefficiency. In early 2011, government agencies that direct foreign investment in North Korea were consolidated into a single agency under the guidance of Chang Sung Taek, a top general and Kim Jong-il's brother-in-law, suggesting that military leadership is not in favor of reforms that reduce the role of the state in the economy.³⁶

The overall effect of the breakdown of the North Korean economy on the relative strength of pro- and anti-reform interest groups appears to be mixed. Haggard and Noland contend that the decline of the economy is so serious, the future so bleak, that managers and workers at non-productive, state-owned enterprises will not resist restructuring, if only for the possibility of alternative employment.³⁷ Consumer-goods traders without connections to government resources will promote reforms that expand the market for their products. At the same time, those “crony socialists” that have benefited from the partial relaxation of restrictions may fight to prevent others from gaining access to those same opportunities. In the end, without privy to Pyongyang gossip, it is difficult to determine the overall impact of interest groups within the North Korean government.

The fear of absorption by its more prosperous neighbors is a powerful disincentive for North Korea to embrace a market-based economy. As this paper noted previously, North Korea's legitimacy in the contest with South Korea is derived partially from its identity as a socialist state. To abandon socialism would be to reduce the DPRK to a poorer, backward version of the Republic of Korea. South Korea would surely assimilate the North at a point soon after. North Korean propaganda's Marxist/moralistic condemnation of the South would last only as long as the information cordon around the DPRK— and that is not likely to be long in a more open economy.

The process of absorption by China is considerably different, but no less frightening to North Korean leaders. An estimated 80% of China-DPRK trade takes place outside of state-to-state transfers.³⁸ Kim Jong-un's concern is that the North Korean political-economic system will come to be dominated by the “dense business networks that include major Chinese and North Korean enterprises, smaller Chinese and North Korean businesses, and North Koreans with relatives in China.”³⁹ For example, the illicit transfer of remittances from expatriates in China to relatives in North Korea is a thriving underground business. Absorption is not a matter of top-down control from Beijing – Scott Snyder has demonstrated that China's increasing share of North Korean external trade has not given China more leverage to constrain North Korea's actions.⁴⁰ Rather, DPRK leaders fear that their economic policy could be captured by the capitalist forces working outside of the state-controlled socialist structure, making North Korea



excessively dependent on its northern neighbor. The dramatic crackdown on border movements since 2007 provides evidence that this concern is real. State control of migration and economic flows is tied together with the desire of North Korean leadership to maintain the government's authority.

The strongest factor in resisting economic reform in North Korea has been the desire of the Kim regime to maintain strong, centralized political control. Park Yong-Soo explains how the monolithic structure of the North Korean state subordinates economics to politics. The prioritization of showpiece projects and political spectacles over fundamental needs demonstrates that "prestige of the Suryong has been given the highest priority over everything else in North Korea."⁴¹ The system is designed so that no major program or project can move forward without approval from the top leadership. Under the comparatively decentralized, free-flowing, entrepreneurial environment of the 1990s and early 2000s, the regime saw power ebbing away from the center.

The DPRK is highly conscious of the fate of European socialist countries after reform and opening. A 2007 Korea Institute for National Unification report states, "North Korea is afraid of the ideological confusion that may accompany reforms... Even though the North Korean government is fully aware of the need for opening, it does not pursue more than economic recovery in order to avoid any internal confusion and insecurity."⁴² The fact that Western analysts suggest that reforms could set North Korea on the path of East Germany does not endear these policies to the regime.

The growing proportion of economic activity taking place outside the socialist structure reduced not only the government's control, but its capacity as well. Noland and Haggard contend that even the July 1, 2002 reforms could be considered efforts to reassert central authority:

The granting of some managerial autonomy to [state-owned enterprises and price incentives to farmers were efforts to coax economic activity from the market back into state-controlled entities and channels. And the tax and financial reforms clearly reflected the declining ability of the state to access resources through the planning process. In sum, 'reforms' were in fact motivated in part by efforts to re-establish control. As marketization continued apace, it is not surprising that the state lost confidence in the reform effort and reverted to more direct forms of economic control.⁴³

Economic activity that takes place outside of the government's purview is, to a greater or lesser extent, at the expense of the state. Private economic gain breaks the socialist contract with the government: the citizen receives welfare benefits (in theory at least), but contributes nothing to the national economy. North Korean leaders avoided reforms that would enable this kind of transfer from state to citizen to become more prevalent.

The 2009 currency revaluation and the 2005 attempt to fully re-establish the PDS were aimed at eliminating the class of black market traders. The spread of

village markets, legal and illegal, creates opportunities for merchants with no allegiance to the Kim regime to become wealthy. Daniel Byman and Jennifer Lind note that historically the middle class and businesspeople have been prominent in fomenting revolution against authoritarian governments.⁴⁴ Byman and Lind assert that a major political-economic strategy of the North Korean government is to stunt the development of political challengers. "All organizations are created, operated, and monitored by the Korean Workers' Party (KWP)."⁴⁵ The DPRK leadership naturally wants to quash the most prevalent organization – the village market – that exists independent of KWP oversight.

The episodic crackdowns on consumer goods provide another indication that the North Korean government is concerned about the potential for economic opening to undermine its authority. The strict oversight of workers in the Kaesong complex, increased punishments for border crossing, banning private use of mobile phones in 2004, and seizures of contraband South Korean media are implicit evidence of these concerns.⁴⁶ Although North Korea is currently expanding its mobile phone network with investment from the Egyptian telecommunications company Orascom, the government has shown extreme sensitivity to the spread of information about the outside world.⁴⁷

Economic liberalization creates more space for competing power centers to emerge, not only in general society but also within the elite, which represents a more proximate threat to Kim Jong-un. The perpetuation of the Kim dynasty relies on placating the inner circle of elites, (what Byman and Lind call the "selectorate"), who can create trouble for the ruling regime. Pro-market economic reforms would have the dual consequences of: 1) reducing the resources that can be funneled to elites and 2) providing opportunities for entrepreneurial factory managers or military officials to develop independent sources of wealth and political power.

One caveat to consider on this point is that the authoritarian system of North Korea does not make much distinction between political and economic acts. The very nature of socialism is to blur that distinction. In his article on the political economy of North Korea, Park argues that "the system change of the socialist planned economy is not a matter of economy, but of politics." Therefore, it may be simplistic to find causation for one variable in another, when in fact the actors themselves do not see a separation. However, there are two strong arguments in favor of recognizing this distinction between politics and economics in a planned economy: China and Vietnam. Both countries have successfully implemented market-based reforms while maintaining political control in an ostensibly communist system.

Many of these factors tie together in inextricable ways. Is the government trying to eliminate black market traders because they threaten certain interest groups, or because they represent a class-based society? Or is it because the regime sees merchants as a potential political base for opposition groups? Ultimately, it is difficult to make such fine distinctions between the motives of the rulers in Pyongyang. The important point is that the existence of multiple factors compounds the incentives



to resist the marketization of the economy. Though the concern for political unrest appears to be the strongest explanation for North Korea's aversion to economic reform, it is important to remember that all the factors discussed above mutually reinforce each other. The cumulative effect of these incentives has been sufficient for the Kim dynasty and the ruling clique to reject the potential for economic growth. And ordinary North Koreans continue to suffer.

POLICY RECOMMENDATIONS

U.S. policy towards North Korea is often dominated by hard power considerations: nuclear weapons, long-range missiles, torpedo attacks, etc. The U.S., the DPRK, and the other countries in East Asia have been engaged in negotiations, off and on, to resolve these hard power conflicts for over two decades. Yet little progress has been made toward a more stable and secure Korean peninsula. This paper sets aside the hard power dynamics and instead asks, "How can we use the conclusions from the previous section to shape soft power policies towards North Korea?"

The North Korean leadership's fear of outside influences and subversion from below indicates that soft power has the potential to produce change favorable to the U.S. The soft power approach can contribute to U.S. goals in two ways. The first is through the promotion of human rights. Second, the soft power approach can contribute to the stability of the Korean peninsula by fostering a political-economic system in North Korea that is less inclined to belligerent provocations. Policies that promote political and economic liberalization will reduce the likelihood of conflict in the long run.

The U.S. should follow the recommendation stated in Section 101 of the North Korean Human Rights Act and make human rights a subject of negotiations with North Korea, whether bilaterally or in the Six-Party Talks. One promising tactic is to pressure China on its refoulement of North Korean refugees. As a signatory to the Convention Relating to the Status of Refugees, China is obligated to provide asylum to refugees (it claims that it only repatriates economic migrants). China's acquiescence to border crossings would not only improve the prospects of persecuted North Koreans, it would likely increase the penetration of outside goods and ideas into North Korea through cross-border business, communication networks and return migration. The U.S. could offer to take in these refugees itself, although distance would mitigate the liberalizing effect of the diaspora network.

The second policy recommendation is the promotion of pro-democratic and pro-capitalist elements within North Korea. Visible civil society organizations are basically doomed to failure, but looser, more informal coalitions could spring up in the right situation. Haggard and Noland hopefully suggest that party cadres, firm managers, and low-ranking military officers may provide the political foundation for the competitive liberalization and reform from below that took place in China and Vietnam. The role of U.S. policy is to foster any "green shoots" of reform – tailor sanctions to shield pro-reform elements, work with DPRK agencies that have a reputation for openness, and engage on multiple levels to promote pluralism and collectivism within North Korean policy making. Something as innocuous as technical training can produce profound changes, if North Korean managers and engineers studying in other countries learn

to appreciate the benefits of private enterprise.⁴⁸ Although travel opportunities are restricted to the most trusted core of the regime, those persons may be the most dangerous to the regime if they are swayed by capitalist arguments.

The U.S. should open official diplomatic relations with the DPRK to improve American soft power projection and create channels for engagement with North Korean society. Although the U.S. has resisted this step for justifiable reasons, the lack of an embassy in Pyongyang comes at a cost to U.S. diplomacy. If the U.S. can find a face-saving and low-cost way to recognize the DPRK without upsetting the ROK, this concrete step would enhance the ability of the U.S. to promote economic reform and human rights.

China, too, can play a constructive role in this process by convincing North Korean leaders that it will preserve the ruling regime against challenges from below. China should promise to carefully monitor all cross-border trade and clamp down on illegal or subversive activity. This policy prescription seems backwards, but in fact reflects a simple paradox: the best way to create the foundations for long-term social change is to minimize the short-term risks for the Kim regime. The DPRK will be more willing to experiment with economic reform if it thinks that its political control is not threatened by expanding foreign trade and market-based commerce.

This paper concludes by identifying two contradictions arising from the above policy recommendations that will shape U.S.-DPRK relations in the years to come. The first is a dilemma that the U.S. also faces in Iran: how can the U.S. support pro-democracy groups without tarnishing them in the eyes of their compatriots? Xenophobia and anti-Americanism are prominent in North Korean public life. As much as the U.S. would like to contribute to civil society within North Korea and the refugee diaspora, association with the U.S. can wholly discredit an organization with the population that it is trying to reach.

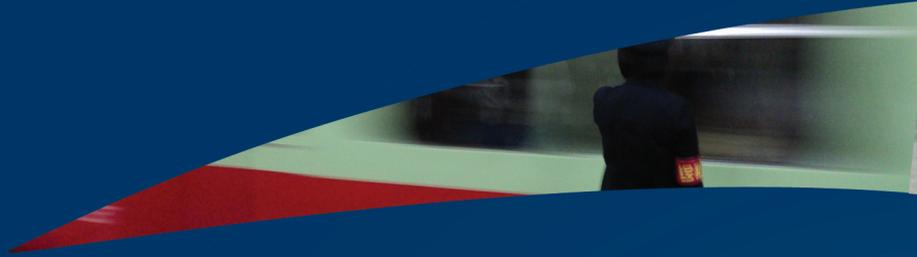
The second contradiction has been hinted at in this paper, but not discussed at length: despite the best efforts of the DPRK government to thwart the growth of markets and economic decentralization, the North Korean economy is changing, slowly but surely. Haggard and Noland's November 2008 survey of defectors showed that there was "substantial continuity of market-oriented behavior from the famine to the present, regardless of changes in government policy."⁴⁹ More than two-thirds of respondents reported that half or more of their income came from private business activities, and more than half of urban residents reported purchasing at least 75% of their food in the market.⁵⁰ Choi Soo-Young reports that markets have grown remarkably since the 2007 retrenchment, with diversified and specialized commerce and distribution networks.⁵¹ Government attempts to shut down markets have created instability and grievances. As long as the North Korean state is unable to provide for its citizens' basic welfare needs, hungry people will find a way to eke out an existence. As current trends continue, the Kim regime will eventually have to reconcile itself with an economy that has become market-based and decentralized.



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