

**POST KIM IL SUNG ERA: NORTH KOREA'S
PATTERN OF ECONOMIC DEVELOPMENT**

Dissertation submitted to Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of

MASTER OF PHILOSOPHY

SRESHTHA BHATTACHARYA



Centre for the East Asian Studies
Korean Division
School of International Studies
Jawaharlal Nehru University
New Delhi-110067
India
2005



CENTRE FOR EAST ASIAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI - 110 067 INDIA

Telegram : JAYENU
Phones Off. : 2670 4346

Fax : 91-11-2616 5886
91-11-2616 2292

DATE: 28 JULY, 2005

CERTIFICATE

Certified that dissertation entitled, "**POST KIM IL SUNG ERA: NORTH KOREA'S PATTERN OF ECONOMIC DEVELOPMENT**" submitted by me in partial fulfillment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY**, has not been previously submitted for any other degree of this or any other university and is my own work.

Sreshtha Bhattacharya

We recommend that this dissertation be placed before the examiners for evaluation.

Prof. H.S. Prabhakar
(Chairperson)

Prof. H.S. Prabhakar
(Supervisor)

CONTENTS

	<i>Page Nos.</i>
Acknowledgements	<i>i</i>
Preface	<i>ii-iii</i>
List of Tables	<i>iv</i>
Chapter 1: Introduction	1-17
Chapter 2: Theoretical Framework: Gradualist vs. Shock Therapy Approach	18-39
Chapter 3: Structural Distinctions of North Korea's Socialist Economic Model	40-61
Chapter 4: Move Towards Transition: A Gradualist Approach in Practice	62-90
Chapter 5: Conclusion	91-95
Bibliography	96-104

ACKNOWLEDGEMENTS

I am deeply indebted to my supervisor and the Chairperson, Prof. H.S. Prabhakar, who has been a constant source of encouragement, support and guidance. This dissertation would have been impossible without him. I am grateful to Dr. Jitender Uttam for having offered me incessant direction, supervision and insight; his suggestions and critical comments have been extremely useful in the shaping of this dissertation.

I am also thankful to Prof. R.R. Krishnan, who encouraged me to explore this area of research. I shall fail in my duty if I do not express my gratefulness to Prof. Madhu Bhalla for her help and encouragement.

I am thankful to the staff of the libraries of JNU, IDSA for their prompt assistance.

I thank maa, baba and Ruby for their support and love. I also thank Nilanjana and Dhivya for their help and support, especially in the most crucial period. I thank Papori for her concern and companionship and Geetika for sending me relevant material that I could not access here. Lastly, I thank Vaibhav for nudging me constantly, even in the most difficult of times, and simply for being there.



Sreshtha Bhattacharya

Place: New Delhi

PREFACE

While the shaping of the public opinion through the media might be slightly more discernable under a critical lens, what is often ignored is that much of Area Studies is also dictated by more or less the same interests. The framing of Area Studies in itself is a highly explosive or at least a debatable issue, as the linkages between its emergence and the cold war, the conflict between capitalism and socialism, and its continued streamlining by US foreign policy are now well established.

Thus, in the shaping of the discourse around North Korea, whether it is in the media or within the academia, the high stakes and the interests that operate and lie underneath the purported objectivity have to be always called to question.

North Korea has been in dire economic straits for almost more than a decade, and is still facing very difficult challenges. After the death of Kim Il Sung on 8 July 1994, many analysts thought that DPRK (Democratic People's Republic of Korea) would soon collapse. However, the peaceful passing over of the regime to Kim Jong Il, shocked many. Then suddenly many theories of implosion and explosion covered up the academic works on North Korea. Kim Jong Il was thought to be incapable of leading his country towards reforms. Also, the state had to grapple with the question of regime legitimacy: it needed to improve the welfare of its people, and interact with other nations according to international norms and good business practice.

To everyone's disbelief, North Korea in the last few years has moved to open its doors and made efforts to establish economic reform but with great caution and gradually. Reform is a difficult process, especially for a country like North Korea, whose

basic ideology asks for self-reliance (Juche ideology). The reforms towards a capitalist system can be disruptive and create major social problems. Infact the survival of the very political system that initiated the reforms can come into jeopardy.

The economic restructuring North Korea has adopted is not of the big bang variety, but kind of creeping reforms, so gradual that some people might not notice it. The Economic Improvement Measures of 2002 has been a groundbreaking step towards transition. Within past few years, North Korea's has undertaken many reforms that would help its flagging economy. These efforts and changing attitudes towards economic opening and reform have become much more noticeable in the recent years by the outside world. The establishment of diplomatic relations between North Korea and many western countries, as well as with South Korea has been extremely beneficial to the North's economy.

LIST OF TABLES

	<i>Page Nos.</i>
Table 3.1: North Korea's Economic Development Plans (1947-1995)	43
Table 3.2: North Korea's Major Economic Indicators (1946-1960)	47
Table 3.3: Foreign Loans Received by North Korea by Origin (1961-1980)	53
Table 3.4: Trends in North Korea's Foreign Trade by Region (1971-1980)	54
Table 4.1: Commodity Exchange between the two Koreas (1989-2000)	73
Table 4.2 : Measures for Revitalisation of Inter-Korean Economic Cooperation	75
Table 4.3: Aid Balance Sheet for North Korea (in US \$ 1 million) (1999-2000)	77
Table 4.4: EU Imports and Exports with the DPRK (1990-1999)	85
Table 4.5: EU Imports and Exports with DPRK by Commodities (1990-1998)	86

CHAPTER- 1

INTRODUCTION

The geo-political location of the Korean Peninsula has probably been one of the important factors that have resulted in its incessant stormy past and present. According to Samuel S. Kim (2002), for over a century, history and geography have consigned Korea to the position of a highly contested crossroads, the site of wider great power struggles and wars that have involved, to varying degrees, czarist Russia, the Soviet Union, Qing China, the Republic of China, the People's Republic of China, Japan, and the United States.¹ Over the past decades, it has been drawn into the vortex of international relations. The partition of the peninsula in 1946 was followed by a massive and gruesome war in 1950 which tore apart one of the most homogenous nation.² This war left the two estranged states, South Korea and North Korea completely devastated and rendered the whole region extremely volatile. Till date, technically, the war is not over as the Armistice Agreement that was signed on 27 July 1953, has not yet been replaced by any peace treaty yet. The epicentre of the instability of the northeast Asia region lies in this peninsula since then.

In the recent decade, North Korea has come in the eye of the storm of the great powers due to various issues. North Korea has come to be considered a security threat to the region as well to the rest of the world. The western media does not lose a wink to prove the eccentricities of the North Korean state, no matter how exaggerated these may be. A mimetic American commentary unites diverse opinions on one point: this place is a

¹ Samuel S. Kim, "North Korea and the Northeast Asia in World Politics" in Samuel S. Kim and Tai Hwan Lee, eds, *North Korea and Northeast Asia*, Lanham: Rowman and Littlefield Publishers, 2002, p. 5.

² The Korean war (1950-1953) is usually known as the battle of the cold war where the great powers of the world were involved. But the truth somewhere has been evaded in many of its literatures; for a detailed analysis of its origin, see Robert R. Simmons, *The Strained Alliance: Peking, Pyongyang, Moscow and the Politics of the Korean Civil War*, New York: The Free Press, 1975.

rogue- terrorist- communist- Stalinist- totalitarian- Oriental nightmare, America's most loathed and feared "Other".³ The United States government relies either on second-hand information from the nations that have direct diplomatic relations with North Korea or on US intelligence reports. Although these sources can provide important information, unfortunately they have a narrow focus and they deliberately provide an incomplete and distorted picture of what is actually happening in North Korea. Due to the secretive nature of the DPRK regime and paucity of information, most of the people think that North Korean leader Kim Jong Il is a crazy and eccentric man whose policies are bringing doom for own people, and that he might lead the Korean peninsula to a devastating war. In the midst of all these propaganda, somewhere, it becomes extremely difficult to discern the real facts, as there is also a great paucity of the North Korean sources. However, most Korean specialists who are ready to see things with an open-mind, believe that the North Korean regime is neither irrational nor crazy.

The "closed" nature of the Democratic People's Republic of Korea (DPRK) cannot be simply identified in terms of it being a communist state because this is the result of a long-term historical process, which is now acting as a security valve. North Korea does not exist alone in a vacuum, even if the regime's inveterate solipsism would make you think otherwise. It cannot be understood apart from a terrible fratricidal war that has never ended, the guerrilla struggle against Japanese imperialism in the 1930s, its initial emergence as a state in 1945, its fraught relationship with the South, its brittle and defensive reaction to the end of the Cold War and the collapse of Soviet Union, and its interminable struggle with the United States of America.⁴

³ Bruce Cumings, *North Korea: Another Country*, New York and London: The New York Press, 2004, p.1.

⁴ *ibid.*

Since the starting of the tenure of George Bush in the United States, things have become worse for DPRK. In the State of the Union address in January 2002, Bush branded North Korea as part of an 'axis of evil' along with Iran and Iraq. However, a month later during his visit to South Korea, he articulated that he does not intend to attack North Korea and that he supports South's policy of reconciliation. This ambiguous stand of United States regarding the North reflects the depth of challenge in the foreign policy towards it.

General Background

North Korea presents a classic case of a socialist economic development with all the characteristics of a small country economy seeking national survival. The socialist state, under its first leader Kim Il Sung, had made inseparable linkages between his personality cult, national identity, politics, military, and economy for about fifty years. This distinctiveness plays an important role in its survival despite the failure of its economic system in the early 1990s and the continuous famines, floods and the resulting chronic food shortages. It established a centrally planned socialist economy in 1946 under Kim Il Sung. The economy recovered well after the initial chaos of the division of the peninsula with the help of USSR. It is estimated that the former Soviet Union provided the North a total of 546 million US dollars in grants and loans during the period beginning January 1946 and continuing through the end of 1949.⁵ The Korean War brought enormous losses to North Korea but it also helped the state to carry out a

⁵ Hong Tack Chun and Jin Park, "North Korean Economy: A Historical Assessment", in Dong Se Cha, Kwang Suk Kim and Dwight H. Perkins, eds, *The Korean Economy 1945- 1995*, Korea Development Institute, April 1997, p.672.

program of post-war national reconstruction successfully with the help of economic assistance from other socialist countries. The post war rehabilitation with foreign aid helped North Korea to achieve outstanding growth rates in the 1950s. In the 1960s due to rift between China and USSR, North Korea brought Juche (self-reliance) ideology at the forefront, securing room to move along its own line. Their policy of becoming self-reliant was more out of necessity than choice. The 1970s saw a change in policies of North Korea where it tried to link itself with many capitalist countries through trade. But soon it found itself in major debt in the late 1970s due to oil shocks. In a step towards partial economic reform in September 1984, Joint Venture Law of DPRK was enacted with the objectives of inviting foreign capital.⁶ Most of the changes could not revive the staggering economy of the North and the situation became grave in the 1990s.

The collapse of the Soviet Union in 1991 hit North Korea's international trade as well as its oil supply. The magnitude of this shock was too great for the North Korean economy to adjust within a short period of time. Unable to attract foreign capital and technology and to find new export markets, the country suffered from an unprecedented shortage of foreign exchange and was plunged into a prolonged economic recession. Amidst this economic crisis, Kim Il Sung died on 8 July 1994. There was widespread speculation and even hope that the death of Kim Il Sung would hasten the collapse of North Korean state and its distinct institutions. But the smooth and orderly transition of the Kim Jong Il era hushed up all these doubts. He consolidated the regime with the help of the army and put forth the policies based on the Juche ideology. On the other hand, the

⁶ Hy- Sang Lee, " The Economic Reforms of North Korea: The Strategy of Hidden and Assimilable Reforms" *Korea Observer*, vol.25, no.2, p.46.

severe economic crises compelled North Korea to restructure its external relations, especially with United States and South Korea.

The Agreed Framework of 1994 and the creation of the Korea Energy Development Organization (KEDO) had helped North Korea in getting a steady supply of oil financed by the USA and other KEDO members.⁷ North Korea has also used its food crisis to obtain large commitments of international food and humanitarian assistance since 1995, significantly broadening the stake of the international community. After the Sunshine Policy of Kim Dae Jung, new avenues opened up in the Inter-Korean economic relations. North Korea has made overtures to the International Financial Institutions (IFIs), including signalling its interest in joining the Asian Development Bank, and hosting a fact-finding mission from International Monetary Fund in September 1997 and an introductory mission from the World Bank in February 1998.⁸ This shows North Korea's willingness to engage with the International Community for the revival of its economy.

In September 1998, when the Supreme People's Assembly modified the Constitution, there were changes in the legal basis for economic management. Significant changes include relaxation of limits on private property, and introduction of cost accounting and concepts of cost, price and profit in economic management.⁹ On July 1st 2002, Economic Improvement Measures were announced in which commodity prices and wages were surged sharply while the State-set prices for farm products were scrapped in

⁷ Bradley O. Babson, "North Korean Economy Today", in Laurence J. Lau and Chan-Ho Yoon eds., *North Korea in Transition*, Cheltenham: Edward Elgar, 2001, p.19.

⁸ Ibid., p. 22.

⁹ Christopher Hale, "North Korea in Evolution: The Correlation Between the Legal Framework and the Changing Dynamics of Politics and the Economy", *Korea Observer*, vol. 33, no. 3, Autumn 2002, p. 390.

favour of the levels determined by the farmers markets.¹⁰ These changes imply a direction of policy that may be more market friendly and more outward-oriented than previously permitted under the former Constitution.

SIGNIFICANCE OF THE STUDY

For more than a decade, North Korea is facing a chronic crisis in its economy. Throughout the past decade, its gross domestic product (GDP) had a negative growth rate, contracting by as much as 50 percent in the mid-1990s by some estimates; factories are operating at only 20 to 30 percent of capacity, food and energy shortages are continuing.¹¹

On the other hand, North Korea is treading the path of economic reforms contrary to many beliefs, but extremely gradually and carefully. Transition of the economy is a complicated process, especially if it concerns a country like North Korea, which brings the images of the remnants of cold war, isolation, nuclear crisis, totalitarian regime, etc. A nation, whose essence is defined by its ideology that speaks of self-reliance and least dependence on the outside countries, can seriously undermine its edifice once the process of reforms starts. However, with the onslaught of the negative economic growth and the chronic food shortages, it became imperative for the North to restructure its economy and move towards transition. The economic restructuring that North Korea is following, is 'gradual' and not the 'big bang' one. Its preference is towards a soft landing that will have less social costs. The Chinese and Vietnamese experiences have allured the North

¹⁰ Lim Hyun Chin and Chung Young Chul, "Is North Korea Moving toward a Market Economy?", *Korea Focus*, vol.7, no.1, July/ August 2004, p.66.

¹¹ Kenneth Lieberthal, "Progress on the Korean Peninsula", in E. Kwan Choi, E. Han Kim, Y. Merrill, *North Korea in the World Economy*, London and New York: RoutledgeCurzon, 2003, pp. 3-5.

Koreans to try out this gradualist path of reforms. Pyongyang has freely admitted that it must deal with the market economy in order to replace its lost socialist trade relations, at least until its economy reaches the point of self sufficiency that remains the ultimate goal in line with the country's guiding Juche ideology¹². The Annual Report of the Asian Development Bank of 1995 describes the gradualist approach of the People's Republic Of China, which has also been adopted by Laos People's Democratic Republic of Vietnam as the distinctive 'model' in the Asian transitional economies.

Thus the need to study and analyse the opening up efforts of North Korea, becomes extremely significant as the prospects for the North Korean economic reforms revolve around it's perception of the basis for the survival of the regime. This dissertation is an effort to analyse the determinants and trajectory of the patterns of economic development in the post- Kim Il Sung era. His successor Kim Jong Il (who is also his son) wavered his way as the General Secretary of the Worker's Party and the Chairman of National Defence Commission with the help of the army and consolidated the regime. His initiatives to reform and the politics behind it, needs special notice.

Review of Literature

There is ample literature that deals with the transition from command to market economies in the former USSR and Eastern Europe. However, the literature that concentrates on the North Korean transition is a distinct one that sees the entire process of transition from the gradualist perspective though there are studies considering the whole exercise in a pessimist way.

¹²Kongdan Oh and Ralph Hassig, "North Korean between Collapse and Reform", *Asian Survey*, vol. XXXIX, no.3, March/April, 1999, p.294.

The scholars who think that North Korea can make considerable progress and have a great deal of potential, also have not unseen the fact of the magnitude of economic crises and distortions caused in the party by the political ideology (Lau and Yoon, 2001). The economic reforms have been described as piecemeal and the theoretical underpinnings look at them as a gradualist approach. The main theme of this volume deals with the development potential of North Korea under reform. Through rigorous economic analysis, insights have been provided into both the present and future of North Korean economy. In the first part of the book it emerges that, based on the historical experience of other East Asian economies, the growth potential for the North Korean economy under reform can be significant and realisable in the forthcoming decades. The current economic and political situations are also assessed. The second part of the book analyses the development and growth potential of the North in a macroeconomic perspective. The third part gives some possible lessons for North Korea from the Chinese experiences of economic reform initiated since 1979 and from the German unification. Part five examines rigorously the possibilities for North Korea to provide modern infrastructure in telecommunications, transportation and energy, the lack of which may constitute major loopholes to the economic development. In part six, the industrial location policy of North Korea is evaluated and a basic policy framework for efficient industrial location is presented. However, the book fails to look at the pace of the reforms vis-à-vis the international diplomacy surrounding the Korean peninsula.

Chun and Park (1997) have made an assessment of the past economic policies from 1946 onwards. The book has analysed the reasons of the failure of its economy and the economic measures taken until 1995. However, it has been accepted that the North's

economy today is inward looking and autarkical, based on the principle of national self-reliance, or the highly proclaimed Juche ideology. The book did not deal with the theoretical approach of Juche ideology and its linkages with the North Korean economy.

An important book edited by Choi, Kim and Merrill (2003) brings together a selection of many of the world experts on the North Korean economy. The first part of the volume looks into the recent developments on the Korean peninsula. This includes perspectives from the EU, and the diplomatic relations between Germany and North Korea. The progress and prospects of the economic cooperation between South and North Korea is also discussed. The market socialism model applied in China has been analysed in the North Korean case. The second part of the volume looks into the potential future for the multilateral development banks on the Korean peninsula. The complications of the Korean economic integration have also been discussed. In part three, the prospects of the economic development in North Korea have been explored. Here, the North-South joint venture complex and an analysis of the urban dimension of the North Korean economy have been provided. The contributions of the NGOs in respect to the transition from humanitarian to development assistance in DPRK also have been looked upon. Similarly, Dae Sook and Lee (1998) cover the period after Kim Il Sung's death, giving a wide range of essays which will prove very significant for this research.

The book edited by Smith, Rhodes, Pritchard and Magill (1996), offers perspectives on the position of North Korea in the new world order. It examines the USA, European Union and British foreign policy towards North and its responses. It investigates the tensions that could develop in the North Korean state as the country faces an increasingly market oriented capitalist world; and ideological foundations of

contemporary society and culture. A very interesting section discusses the recent transitional experiences and their relevance for North Korea. It argues that despite acute economic crisis, the North Korean leadership has a number of options, and that some Latin American experiences of transition, particularly that of Mexico, may have some relevance for the North Korean case. It establishes the fact that the case of North Korea is distinct from those of Eastern Europe and the former USSR in at least three ways: the dynastic nature of rulership, the military and strategic importance of Korea, and the salience of the national unification issue. In the following chapter the Juche Idea and its role in the political economy has been highlighted. It interpretes the thinking of North Korean key state personnel on the possibility of wholesale political, economic, and social changes in the country. It has then been compared to the Soviet experience, the East German experience and the Chinese experience. The writer accepts that North Korea faces a very a difficult situation. The identity of the North Korean state contains core themes; self-reliance and communism express substantive rationality. The imminent problem within North Korean political economy that comes from this conflict has so far not resulted in the fragmentation of North Korea identity, with a loss of ensemble among the leadership that could lead to far reaching changes. This book also highlights the economic reforms in North Korea. According to it, changes in the global economy, and in particular the collapse of the USSR and the CMEA, have added urgency to the need to change trading practices and methods in the DPRK. The achievement of national economic objectives will depend to a greater extent on closer integration with the world economy and the development of a philosophy of exporting. However, the volume fails to highlight the inter-Korean relations. The Juche idea and its essence in structuring the

national identity of North Korea especially during its undertaking the reforms also have not been dealt with.

Bruce Cumings (2004) has written a groundbreaking work on the complexities surrounding North Korea. He has criticised the biased nature of the western media and the intellectuals to analyse the North Korean case. The volume starts with the Korean War, stating that it has had a major role in structuring North Korea the way it is today. The second part takes up the Nuclear Crisis. It starts with the instigating point of the crisis to the Agreed Framework with United States, then moves to the Sunshine policy by South Korea leading to the historic Inter-Korean relations in Pyongyang in 2000, after which it looks at the second crisis that came in the post 9/11 scenario. In the later volume, the book describes the North by its leaders Kim Il Sung and Kim Jong Il and tries to establish their distinctiveness. The last chapter talks about the reforms that it is following and its haphazard mannerisms.

Noland (1997), in his article analysed the prospects of North's survival. In the light of its domestic policies and geopolitical position, the analysis concludes that North Korea is likely to muddle through, along the lines of Romania in 1980s, with the support of China, and possibly Japan and South Korea. The reforms were first introduced by Kim Il Sung on 28 December 1955 while reminding the Koreans about the uniqueness of their revolution. This was spoken in the context of late developments in the post Stalinist Russia. Juche became the guiding principle of the DPRK in the 1960s during the Sino-Soviet split. This policy of self-sufficiency created an impediment for North Korea to tread on the path of change (read reforms) wholeheartedly. Thus the initiatives taken to open the economy partially to invite foreign investment in Korea, which would avoid its

collapse. A similar article by Oh and Hassig (1999), investigates three scenarios of reform, collapse and stability. The third scenario of stability shows North Korea 'muddling through' i.e. neither collapsing nor taking up full-fledged reform.

Nicholas Eberstadt (1998), in his article has examined North Korea's trade trends in three sectors of strategic significance to the entire North Korean economy: food, energy, and transport. The method used to analyse the data is through mirror statistics. This work is mostly empirical. In another of his articles, the disparities in socio-economic development in divided Korea has been compared. In the starting point, the comparing point is population, morality and health, urbanisation, labour force and foreign trade and domestic economic infrastructure and national output. This kind of writing on North Korea is highly pervasive as it is biased and refused to acknowledge any policies of it. Eberstadt loves to prove that the North Korean policies have been wrong since its formation. His perception of North is based on the East European and former USSR. The articles fail to recognise the pragmatic shrewdness of the regime's post-Cold War foreign policy and the desperate survival strategies it is willing to take.

Shuja (1999), in her paper argues that North Korea has only changed its trade, economic, and foreign policies, but the "fundamentals" have not changed since it is still a command economy. The importance of external setting, particularly the economic difficulties and political isolation imposed on Pyongyang, has been discussed. However, the approaches to these reforms look biased and extremely pessimistic.

Christopher Hale (2002), whose research area is North Korean law, wrote an article on the correlation between the legal framework and the changing dynamic of politics and the economy. The paper tracked the evolution of North Korea's constitution

and major legislation, focussing on key political developments and laws concerning the economy and trade. The article has considered the value that can be derived from studying the constitution and principal laws in tandem with the major political and economic developments. It analyses major legal and political events in order to demonstrate how North Korea's legislation has been changed in order to conform to the political and economic situation. It concludes by stating that North Korea has experienced a dynamic and vigorous evolution while adhering to Kim Il Sung's original focus on the party, state, and the army. This evolution has been termed as unique, according to the fact that while economic/trade legislation has undergone a broad transformation, other elements of North's legal code have been scarcely revised. Also, it is thought that the main difference between the political and economic laws is that while political laws have historically been adjusted to conform to political reality, economic laws have reflected the regime's intentions and goals for the future.

A paper that truly serves the purpose of this dissertation is written by Chin and Chul (2004) on North Korea's transition to a market economy. It covers the period from the starting of the reforms in the 1980s, to the economic slowdown in the early 1990s. The period under the Kim Jong Il i.e. his economic policies has been extensively discussed. The reverting back to few strategies of the 1960s, to consolidate the regime, has also been looked upon. The amendments in the constitution in 1998, where the reform in the economic arena have been conducted to attract the foreign capital are discussed. The Economic Measures of July 2002, where Pyongyang implemented a series of surprisingly tangible measures aiming at promoting economic reform, which has included recent authorisation for individuals to engage in activities related to the

marketing and distribution of intellectual property rights, has been looked upon. According to the writers, these political and economic changes underline the fact that North Korea had rooted its drive for 'reform from within' in realignment of its state system. Also, it is expressed that these reforms and opening up initiatives are based on two sets of dualistic characteristics—one set adhering to a traditional insistence on 'rejuvenation through our own strength' and the other based on an utmost optimism. This duality reveals one of the North's major dilemmas: the efforts for the reform and the opening-up efforts are influenced by the demands which arise from the system's inherent contradictions that advocate a maintenance of traditionalism, on the one hand, and the pursuit of change, on the other.

Research Questions

This study aims to look at two important research questions. Firstly, it will analyse the North Korean opening-up efforts and see whether it is at all changing according to the 'gradualist' approach. The fundamental basis of this approach to transition is the need to establish economic, institutional, political, and ideological structures before any attempt to liberalise. Without this minimum foundation, radical reforms would have inhibited the transition to a competitive market capitalist system. For the 'gradualist' approach, the adjustment to the new price levels needed to be gradual and to be accompanied with coordinated budgetary and credit reforms.

The second issue underlying this work is to scrutinise the role of Juche (self-reliance) idea of North Korea in the reformulation of its national identity vis-à-vis the changing economic scenario. The Juche principle exchange in the early 1980s did not

help much and until and unless Juche is renegotiated within the realm of its role in the political economy, the future of the reforms looks very bleak.

Hypotheses

The first hypothesis of the study is that North Korea is making an effort for a new form of linkages without changing its basic structure. This has two reasons, first, it is willing to receive extended support financially and technologically from other advanced countries including its adversaries that indicates change in the form i.e. for some reprieve in the economy, it is at least ready to muddle through by making no significant change in the system that might pressurise it to alter the existing realms. Secondly, the reforms that are being pursued until now are only piecemeal and gradual and reflect its extreme caution in taking up the reforms, thereby following the gradualist approach. Somewhere, it is making attempts to have its own “North Korean Style” reforms that is distinct from the other transition economies.

The second hypothesis is that that the brunt to transform North to move towards transition depends on the external powers more than on its domestic affairs. The United States and South Korea, especially, can help North Korea’s economy by engaging with it more in the diplomatic level and thus helping in the economic relations that would boost the flagging economy. Also, the role of the multilateral regional groups in the Northeast Asia has tremendous potential for the transition economy of North Korea.

Methodology

The nature of this research demands analytical research methods aiming to prove the basic assumptions of hypothesis by analysing North Korean case of transition. Primary and secondary sources have been utilised to deepen the analysis about the complex process of transition in the last remaining communist country. Analytical research methodology has adopted the political economy approach to demystify complexities of systematic transition in North Korea.

Structure of the Dissertation

This study's layout is in five chapters. Since the first chapter is the Introduction, the second chapter would delve in the theories of transitional experiences of socialist economies from a centrally planned economy to a market economy. The two approaches, which would be assessed, are the 'shock therapy' approach and the 'gradualist' approach. The chapter shall begin with a theoretical evolution and then move on to the comparison of these approaches. The reform process of the North Korea would be placed in the gradualist approach and explained further in the rest of the chapters. A part of this chapter also tries to look at the political reform under these approaches.

In the third chapter, a brief account of the economic history, from the incipience of the DPRK in 1946 until Kim Il Sung death in 1994, is given. This would cover their post-war growth, which included major stress on heavy industrialisation. Also, the reasons why the economy slowed down, and from the 1980s how it faltered due to North's incapability to pay back its debt, to the onslaught of negative growth in the

1990s, would be discussed. The strengthening of the Juche idea in this period would be discussed in the later half of the chapter.

The fourth chapter begins with the crisis situation in North Korea giving way for the negative growth in the economy. This chapter has been divided into two parts. The first part will discuss the period from 1994 to 1999 wherein North Korea tried to stay afloat only based on the humanitarian assistance it was receiving. This period also marked Kim Jong Il's coming up and consolidation of the regime while simultaneously re-emphasising the Juche principle. The second part will look into the period after the Korean summit after which a lot of efforts has been made for some kind of initiative for reform. How much of these reforms have been successful and correctly implanted, has also been reviewed in this chapter.

Chapter five is the concluding chapter. In this, the aim is to analyse the initiatives taken by North Korea to restructure the economy and see whether it is serious or just a temporary path to muddle through instead of seriously reforming the structures of the economy. The later half of the chapter would revolve around the dilemma of North Korea towards maintaining the national identity, while trying to survive. Juche contains the core themes of the North's identity. Any major effort to reform the economic as well as political scenario of the nation will seriously undermine this principle.

CHAPTER-2

THEORETICAL FRAMEWORK: GRADUALIST VS. SHOCK THERAPY APPROACH

North Korea has been allured by the Chinese and Vietnamese experiences to try out the gradualist path of reforms. Pyongyang has freely admitted that it must deal with the market economy in order to replace its lost socialist trade relations at least until its economy reaches the point of self-sufficiency that remains the ultimate goal, in line with the country's Juche ideology. The Annual Report of the Asian Development Bank of 1995 describes the gradualist approach of the People's Republic of China, which has also been adopted by Laos People's Democratic Republic of Vietnam as the distinctive "model" in the Asian transitional economies.

This chapter looks back at the theoretical evolution of the Big Bang approach, which is thought of by many scholars as the right technique to reform any socialist economy. Then, a comparison between 'big bang' and 'gradualist' approach is given, this also tells us the loopholes of the former approach.

Rise of the Socialist system

A historic experiment to provide a different economic, political and social basis to organize society began in 1917 with the establishment of a communist regime in Russia. Gradually many other countries including Democratic People's Republic of Korea tread the communist path. Despite differences, all the socialist economies demonstrated a common core of policies:

- Public ownership as the dominant mode of exercising property rights
- Central planning as the primary mechanism for resource allocation
- The industrial sector, particularly the heavy industry component, as the most favoured economic sector and the service sector as the most suppressed sector
- Collectivization of agriculture

However after years of economic stagnation and continuous economic decline, most of the socialist economies that were centrally planned with socialist development objectives attempted to nurture their nascent private- enterprise- based market economies from late 1970s. These structural transformations involved a reduced role of state and a greater emphasis on the market as the prime allocator of resources. The reasons for the need to change, in most of the socialist countries, where they transcended from the classical socialism, were largely similar. Janos Kornai listed four groups of symptoms triggering the transformation¹:

- The first was the accumulation of economic difficulties, a serious lag in technical development, shortage, backwardness in consumption, etc.
- The second inducement to change was public dissatisfaction caused by the shortage.
- The third was the loss of confidence by those in power.
- The last one, which acted as a catalyst in the transition of socialist countries, was the effect of an event outside the country- that could be termed as the “domino effect”.

¹ Janos Kornai, *The Socialist System: The Political Economy of Communism*, Princeton, NJ: Princeton University Press, 1992, pp. 383-384.

The half-decade of communism, witnessed a plethora of literature that either eulogised it or criticised it but hardly looked into the problems of its transition from the command economic system. Neoliberal literature inspired by the neoclassical school of thought, provided the maximum critiques of the shortcomings of the command economic system. However, they were probably too biased as they refused to acknowledge the fallibility of the free market economic system and did not research any other alternatives.

With the inception of restricted reforms in the communist countries from the 1970s, much of the attention was diverted to its short durability and about how inconsequential it is as the political reforms were completely absent. When social scientists were finally compelled to think about the problem of 'transition' in the mid late 1980s, a large part of the analysis was over simplistic and bore the marks of ideological conflict.² This was expected, given the lack of prior engagement in debates and discussions on the issue.

Before embarking on the discussion on methods of transition, it is important to understand what was exactly meant by reforms. Most reforms were based around the recommendations of the Washington Consensus. Following is a brief discussion on the Washington Consensus and its ideological foundation. These theoretical perspectives stemming from neoliberal school of thought have largely influenced the concepts and patterns of reform packages advocated for the developing nations as well as the transition economies.

² Peter Nolan, *China's Rise, Russia's Fall: Politics, Economics, and Planning in the Transition from Stalinism*, Hampshire: Macmillan Press, 1995, p.56.

Ideological underpinnings of *Reforms*

First of all, it is important to understand that Neoliberalism as referred to here, is not a version of the neoliberalism of John Dewey, Woodrow Wilson, John Maynard Keynes, Franklin Roosevelt, or the British Liberal Democrats, which envisaged a positive role for government through interventions in the economy. Rather, it focuses on the establishment of a stable medium of exchange, and the reduction of localized rules, regulations and barriers to commerce, and the privatization of state-run enterprises. Critics of neoliberalism associate it with globalisation and with the rise of multinational corporations, as well as monetary and fiscal austerity at the expense of social programs.

Classical Liberal philosophy had come to an end with the shocks of the First World War, the collapse of the Gold Standard, and the Great Depression. In fact the failure of neoliberal theory in tackling the Great Depression gave rise to the Keynesian school with its focus on state intervention especially in the context of a demand constrained economy. Neoliberalism marked a resurgence of the neoclassical school and its seeds were planted after the Second World War. Neoliberalism's economic roots begin with the re-establishment of international monetary stability with the Bretton Woods Agreement, which fixed currencies to the U.S. Dollar and the U.S. Dollar to gold. In fact it rapidly became a widespread movement, based on the work of Robert Mundell and Arthur Flemming. The Mont Pelerin Society, founded at about the same time by thinkers such as Friedrich Hayek, Milton Friedman, and Michael Polanyi created free-market think tanks and advocacy groups in the United Kingdom and the United States during the 1960s and 1970s. They drew upon the theories of the Austrian School of economics and monetarism. Neoliberalism argued that protectionism and government programs

TH-12344



produced economic inefficiencies, and that developing nations should open their markets to the outside, and focus on exporting. It further emphasized the liquidation of state-owned corporations and the reduction in rules that provided obstacles to business growth. Neoliberal ideas found expression in a series of trade talks to form the General Agreement on Tariffs and Trade as well as regional free trade agreements such as the European Union and the North American Free Trade Agreement.

The slow and quantitative development of neoliberalism after World War II became more rapid in the 1970s. One of the often-touted neoliberal success stories is General Augusto Pinochet's Chile, subsequent to the ousting of the democratically-elected government of Salvador Allende which had pursued radical social democratic policies. "Free market" policies, including privatization of state assets, were imposed by Chicago school economists inspired by Milton Friedman. These policies were later imitated by the Bretton Woods institutions operating in many other poor countries, particularly in Latin America.

The rise of this wave of neoliberalism culminated with the Reagan government in the United States and that of Margaret Thatcher in Britain. The Reagan and Thatcher governments not only shifted their own countries' policies toward *laissez-faire* but used their control of the major Bretton Woods institutions to impose their policies on the rest of the world. For this reason, some regard neoliberalism as synonymous with the "Washington Consensus," the dominant policy view at the International Monetary Fund (IMF), the World Bank, and the U.S. Treasury at the end of the 20th century and the start of the 21st.

- The Washington Consensus was a set of policies believed to be the formula for promoting economic growth in Latin America. The main reforms suggested by the Consensus included: Fiscal policy discipline: Reduction in fiscal expenditure (mainly achieved through cuts in the social overhead capital) Tax reform—Flattening the tax curve: Lowering the tax rates on proportionally high tax brackets (typically above median income), and raising the tax rates on the proportionally low tax brackets (typically below median income); lowering the marginal tax rate.
- Interest rates that are market determined and positive (but moderate) in real terms
- Competitive exchange rates
- Trade liberalization—replacement of quantitative restrictions with low and uniform tariffs
- Openness to foreign direct investment
- Privatization of state enterprises
- Deregulation—abolition of regulations that impede entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions
- Legal security for property rights

There have been several critiques of the neoliberal school of thought. First of all, since it developed in strong repudiation of Keynesian and post Keynesian economics, it is important to present the core conclusions of Keynesian theory.

Keynesian economics is an economic theory based on the ideas of John Maynard Keynes. His main ideas were put forward in his book *The General Theory of*

Employment, Interest and Money, published in 1936 in response to the Great Depression of the 1930s. In Keynes's theory, general (*macro-level*) trends can overwhelm the micro-level behavior of individuals. This meant that macro patterns were not mere linear aggregations of micro behaviour. Instead micro behaviour could also be largely affected by macro patterns.

Keynes argued that rather than the economic process being based on continuous improvements in potential output, as most classical economics had focused on from the late 1700s, aggregate demand for goods is an essential driving factor, especially during depression. From this he argued that government policies could be used to promote demand at a "macro" level, to fight high unemployment and deflation of the sort seen during the 1930s. A central conclusion of Keynesian economics is that there is no strong automatic tendency for output and employment to move toward full employment levels. This, Keynes thought, contradicts the tenets of classical economics and schools promoting supply side economics which assume a general tendency towards equilibrium in a restrained money creation economy.

Critics of neoliberalism abound in both theory and practice. This is particularly true in developing nations a large part of whose assets have been sold to foreigners and whose domestic political and economic institutions had been undermined by the effects of being exposed to trade and rapid flows of capital. Even within the neoliberal movement there is strong criticism of how several developed nations have continued to protect their own domestic agricultural markets while demanding that others liberalise their markets for manufactured goods.

Anti-globalization advocates are the most vociferous opponents of neoliberalism, particularly its implementation as "free capital flows" but not free labor flows. They argue that neoliberal policies encourage a "race to the bottom" as capital flows to the lowest environmental and labor standards, and is merely an updated "beggar thy neighbor" imperialism, dating back 200 years. In this they are in fundamental agreement with many of neoliberalism's supporters who argue that neoliberalism represents an updated version of classical liberalism.

Certain economists argue that neoliberal policies can create "moral hazard": governments and international financial institutions must bail out developing nations and their creditors because they are "too big to fail." This simply encourages further risk-taking and crises. They refer to the series of currency melt-downs in the – Mexico, Russia, Eastern Europe, East Asia and Argentina – as proof that there is a danger to allowing risk-taking without sufficient penalty or regulation.

The Path and Pattern of Transition in Socialist Economies

It can be inferred from the above discussion that the reform package emerging from the Washington Consensus or the set of Neoliberal policies being advocated by the Bretten woods sisters were not conceived keeping transitional socialist economies in mind. Moreover detractors of the reform process focused on impact of reforms in third world nations in general and not on socialist economies in particular. Thus, there was a great vacuum in the sphere of theoretical discourse on this topic. This dearth of literature was further aggravated by the constraints of information regarding socialist economies.

Despite the fact that the economic policies underlying the Washington Consensus were developed with no concern for post-socialist transformation, they nevertheless

exerted great influence on these economies. In addition, because those policies were not designed for the overhaul of post-socialist economies, they have not always been successful especially since they have not yet brought sustainable growth. All these facts- the lack of policies designed specifically for transitional socialist economies, the dearth of available literature- implies that it is difficult to specifically outline the best path of transition.

The question of the method of transition of centrally planned economies to market economies obviously goes beyond that of liberalization of prices or restructuring of institutions and even beyond economic optimality to include political feasibility. Economists have responded with wide ranging answers to the problems of transition. However, one overwhelming consensus among them is that marketisation and corporatisation are absolutely necessary for economic efficiency. Other than this single area of agreement, contentions abound over answers to questions such as:

- Whether privatization is necessary in the first stage of reforms and whether state owned enterprises can be made to match their private counterparts in terms of efficiency
- Whether the dual track style of gradual reforms is superior to rapid reforms (shock therapy approach). The dual track strategy tries to avoid any decline in output by continuing to subsidize the state sector while encouraging the non-state sector to grow.
- Should there be an optimal sector sequencing of liberalization
- Do sustainable reforms require that political liberalization be postponed
- Are gradual reforms politically more acceptable than rapid reforms

This transition from the classic socialism, no doubt is a complex set of process where it not only just effects one sphere but several aspects of the system i.e. the political structure, the ideology, the distribution of property rights, the economic growth etc. The radicalism of the transition (whether rapid or gradual) is one of the important aspects that is being continuously debated in the political economy sphere till date. In this connection, one must also mention the concept of market socialism. Here, the fundamental idea is to make the market the basic coordinator of the socialist economy, or at least equal in rank with the bureaucratic mechanism, augmenting central planning, while public ownership remains the dominant property form.³ The reformers at work in the socialist economies, especially during the start of transition, tended to emphasize their desire to ling planning and market. Hence evolved the idea of a planned cum market economy.

These dominant approaches in transition theories are discussed in the following sections.

The 'Shock Therapy' approach vs. the 'Gradualist' Therapy

The Shock therapy approach, also known as the 'big bang' therapy, replaces the traditional central planning economy with a market economy in a single burst of reforms. The essential feature is comprehensiveness, immediacy and irreversibility with the objective of establishing a democratic, capitalist society. Poland, Czechoslovakia and Russia have undergone this kind of transformation.

The irreversibility characteristic comes out as this approach's most negative side since it becomes impossible to reverse unanticipated and undesirable results.

³ Janos Kornai, op. cit., 1992, p.474.

Paradoxically, this was exactly the kind of problem faced in the command system that was sought to be transformed. This was the brainchild of the proponents of IMF and World Bank who advocated the capitalist market way as the only way. The main elements of stabilisation and structural adjustment package recommended by them were price liberalization and reduction of government subsidies, a balanced budget accompanied by restrictive monetary policy; free market determination of the national currency; currency convertibility; liberalisation of international trade, an undertaking to implement further institutional reform in the direction of a private market economy, including privatisation of banks and industrial enterprises.⁴

The fundamental basis of the gradualist approach of transition is the establishment of economic, political and ideological structures before attempting any attempt to liberalise. The logic behind it is that the reform program needs certain edifice, otherwise the whole society would be at risk. Hungary was one of the first countries to adopt the gradual transformation of its economy. It introduced the New Economic Mechanism (NEM) in 1968; this market socialist foundation allowed it to move gradually towards change instead of taking a leap. China is another example that shows that gradual reform can be successful. Even the 1995 Annual Report of Asian Development Bank (ADB), in which the theme was "Economies in Transition: The Asian Experience", described the gradualist approach of China as the distinctive model in Asian transitional experiences.

A gradualist approach emphasizes the need to go slow in the process of transformation. It often takes the form of a kind of market socialism in the initial stage of reform. Under this principle, state firms should remain in state ownership, but by creating

⁴ D. Kennett and M. Lieberman (eds.), *The Road to Capitalism*, Florida: Dryden Press, 1992, p.72.

appropriate conditions, these firms should be made to act as if they were a part of market. Moreover, private enterprises could be encouraged in certain sectors like the suppressed services sector and gradually allowed to spread and grow competitive.

Often the conflict between the two approaches in literature have come out in the form of strong repudiation of the market socialist way by the proponents of the shock therapy approach like Kornai, Gomulka and Prybla. For example, Kornai (1990) argued that in Hungary, and also in a number of the other socialist countries, the principle of 'market socialism' has become a guiding idea of the reform process. He asserted that the basic idea of market socialism has simply fizzled out and Yugoslavia, Hungary, China, the Soviet Union and Poland bear witness to its fiasco. In fact, he emphasised that the time has come to look this fact in the face and abandon the principle of market socialism.⁵ According to Prybla (1997), the third way- market socialism, socialist market, and associated labor management constructs- represents the greatest single threat to the efforts of the newly liberated people in Eastern Europe to break with the errors and oppressions of socialism. He stressed upon the fact that the third way dystopias are insidious in the peaceful gentleness with which they insinuate themselves into the discussion of systematic alternatives. If adopted, they will, via a long detour, lead to a dead end.⁶

The differences between the two approaches centre around fundamental questions such as the role of the state, democracy, privatisation, growth, economic and political feasibility etc. These issues are debated in the following sections.

⁵ Janos Kornai, *The Road to Free Economy*, New York: Norton, 1990, p.58.

⁶ Jan S. Prybla, "On Systemic Transition: Will China Go Capitalist?" in Carl Linden and Jan S. Prybla (eds.), *Russia and China: On the Eve Of A New Millennium*, New Jersey: Transaction Publishers, 1997, p.211.

The shock theory approach advocates a minimal state and emphasizes the immediate establishment of individual rights. A liberal capitalist system with a small state was argued as providing the people with real liberty and choices. A further aspect was the poor quality of the existing state apparatus. However, this theory fails to take into account the fact that it is precisely during a complex process of transformation of the kind being envisaged, that there are maximum possibilities of market failure. This is likely to be a period of great economic, social and political uncertainty.

With the opening up of foreign and private investment, it is likely that investors' time preferences will be strongly oriented towards the short term. Hence, it may be extremely important for the state to step in the capital markets and ensure that investments yielding returns over the long term take place at a socially desirable level. Furthermore the emergence of new class structures and the consequent inequities, the sudden adverse effects of rise in prices of essential commodities, the problems associated with lifting of trade protection over industries, the fall in output levels etc could create an extremely difficult situation (the 'pain' before the 'gain' as the pro reform theorists would argue) that requires active state monitoring and relief measures.

On the issue of democratization, transitional orthodoxy or the shock therapy approach maintains that a revolutionary overthrow of the communist regime is an indispensable precondition for the democratization of the society.

One thing is becoming clear for markets to emerge from the shadow of semilegality and socialist tolerance, for them to fuse and function effectively in concert, not as a system, the Communist Party has to go.⁷

⁷ Ibid, p.212.

Political leaders who had to give away with the communist system in their country were hailed as heroes:

One alternative by which the process of reform can be relieved is for the possessors of power to combat the discontent of the people with violence and lead the society back to the second road. The other alternative is that the reform process transforms into a process of revolutionary political changes. That offers the opportunity of free political choice, in which case the majority of the public choose the first road. In my view, historians will view Gorbachev and all others who initiated and supported the process of reforming the socialist system as people who earn undying merit.⁸

Moreover, the whole issue of a minimalist state needs to be debated. State owned enterprises, as will be discussed in later sections need not be immediately dismantled. They could be restructured while allowing for private initiatives in other sectors. This would enable the accumulated skills to be retained while moving towards corporatisation. Moreover, the state will have an important role to play in the immediate aftermath of reforms when prices rise, trade barriers are lifted and new class disparities emerge in the society. A society, which has been long used to the overwhelming presence of the state, should be given some time in adjusting to the new atmosphere. A onetime slashing of the role of the state to a minimalist one might impede rather than encourage growth.

The whole concept of 'democracy' has become synonymous with capitalism and the democratic institutions are said to be inseparable from private property. It was also widely believed that democracy might accelerate the rate of growth of income in poor countries.⁹

⁸ Janos Kornai, *op. cit.*, 1992, p.574.

⁹ Peter Nolan, *op.cit.* 1995, p.63.

On the contrary, the gradualist approach argues that it is not at all necessary that the pre requisite for the transition of a socialist economy is the abolishment of the Communist Party. In fact, historical evidence shows that mass democracy typically follows rather than precedes or accompanies industrialisation. None of the advanced economies had mass democracy in the early stage of modern economic growth. Furthermore, the cases of China and Vietnam demonstrate that reforms can be initiated by the party and then successfully pursued till this date. In addition, the foreign investors have helped in the explosion of Foreign Direct Investments (FDIs) in the early 1990s in both the above countries mentioned. On contrary, the flow of direct investments in former USSR, where the shock therapy approach was applied, demonstrated an extremely bleak scene.

Political stability is closely related with economic life. Thus, the rapid political transition would tend to disrupt the stability in the social fabric leading to chaos in economic life. Further, it is incorrect that communist parties cannot allow the development of a market economy. As mentioned before, the examples of China and Vietnam prove this case. It is also important to understand what exactly is meant by democracy. Surely, the right to franchise is not a sufficient condition for democracy.

The ability of people to take advantage of political rights depends on the culture and the level of energy people have to devote to political activity. Like other 'bourgeois rights', the capacity to take advantage of the rights would depend upon the class structure. In a post communist society characterized by uncertain redistribution of wealth and new concentrations of administrative powers, it is unlikely that there will be a

genuine acquisition of democratic power by all sections of the society. What is of prime significance is the fact that the most important task before the transitional society is to accord its citizens with the most fundamental right of all—a decent standard of living. If a radical overthrow of power leading to economic and social chaos jeopardizes that very fundamental right, then political democracy may become bereft of any real significance.

Let us once again look at the basic economic tenets of the shock therapy approach and contrast them with the gradualist approach. The shock therapy calls for an immediate and complete integration of the domestic economy with the world economy. In this connection, it is regarded as essential to remove barriers between distorted communist prices and world market prices. It is furthermore believed that only a tiny number of sectors should be protected and even these for a brief transitional period.

On the other hand, the gradualist approach contends that price liberalisation, at one stroke, has an adverse effect on the lower strata of the society. A slower liberalisation would enable the government to monitor enterprise performance more closely, and to tax windfall profits and assist those sectors, which experienced low profits or losses through no fault of the management and workers.¹⁰ In reaction to it, a step- by- step price reform would put less pressure on the government to stabilise the wage- price spiral. Moreover, due to a sudden liberalization of prices, the poorer sections of the society could suddenly be faced with a huge rise in prices of essential commodities. Thus, one needs to bear caution in these matters and ensure the building of safety nets before fully liberating prices.

¹⁰ Peter Nolan, *op. cit.*, 1995, p.96.

Proponents of the shock therapy argue that reform should be comprehensive and rapid, since in its absence, the plan to completely wipe out the remnants of the past would fail. Prybla contended that in times of systematic transition, currency stabilisation, fiscal discipline (curbing budgetary subsidies and deficits), tax reform, and the break up of state industrial and commercial monopolies, all taken together with privatization are prerequisites for a safe passage to the market system. They must be carried out synchronously and cannot be left simply to what comes naturally.¹¹

However, the advocates of the gradualist approach have been able to identify that one of the critical problems in the transitional economies is that the legal and judicial infrastructure is limited and incapable of handling the sudden leap towards the market mechanism. Thus, the absence of social and organizational capital in the shock therapy makes it highly susceptible to corruption. What is required is that, people or the social organizations take an active part for this kind of creation to remobilize the social resources. Moreover, a high-speed transformation is in principle undemocratic. It does not allow for the population providing a feedback on the reforms.

On the issue of growth and efficiency, the shock therapy school holds that a reduced role of the state and complete adherence to market signals is the best way to achieve growth and efficiency. On the other hand, the gradualist school contends that, the presence of Government is central to the issue of growth.

On the issue of privatisation, the Bretton Woods institutions were explicit in stating that only private property ownership could provide the right set of incentives to minimize costs of production and determine their output mix in response to market

¹¹ Jan S. Prybla, "On Economic Systems and the Market" in Linden and Prybla (eds.), op. cit., 1997, p. 193.

signals. The most important tenet for this kind of transformation is of course speed of transformation. Lipton and Sachs acknowledged that it is necessary to introduce a comprehensive package lest opposition build up in response to piecemeal changes and cause a reversal of the reform process. Privatisation became one of the major problems of the transitional economies, because of which it failed to provide the basis of market economy fairly. Russia failed massively in the privatisation process. Probably the lack of discipline in this spontaneous privatization was a main cause.

...(T)he whole process was widely viewed as illegitimate, this “robber baron” privatisation put market capitalism to even greater disrepute than perhaps the indoctrination of the Communist era....the hope that these new “robber barons” would at least conduct a good auction. But this process failed for several reasons: first, there remained the underlying problem- where were the internal managerial teams with the requisite capital? Worse still, the declining confidence in the economy and the government made the country even less attractive to foreign investors. The oligarchs found that they could extract more wealth from asset stripping than from redeploying assets in way that would provide the foundations of wealth creation.¹²

The most common thing that a transitional economy witnesses, is bankruptcy of the state enterprises. Stiglitz, argued that bankruptcy, or the credible threat of it, is a crucial part of market economy. The institution of bankruptcy, like its inverse of entrepreneurship, had little, or no precedent in the socialist countries. The institution of Bankruptcy needs to be created. There were a variety of available models for bankruptcy codes that evolved over centuries in the market economies, and each was integrated into the specifics of the economy. A transplant to an alien environment could hardly be expected to quickly take root- particularly in the absence of an independent and

¹² Joseph Stiglitz, “Whither Reforms? Ten Years of Transition”, paper prepared for the Annual Bank on Development Economics, April 1999, p. 6.

competent judiciary, trained to the basic tenets of bankruptcy. Those who hoped that newly drafted and “installed” bankruptcy codes would drive industrial restructuring have been much disappointed.¹³

Privatization of these bankrupt government enterprises, absolves the government from the responsibility. However, it is indeed possible to improve the performance of state enterprises. A good example of this is the British experience.

The naïve belief in the emerging market economies, encouraged on occasion by enthusiasts from the west, is that, with the large scale state owned enterprises, all that is needed is to change the ownership from the state to private persons...But this conclusion is a misleading and dangerous simplification...There was thought to be no point in trying to reform the existing state owned enterprises while they remained in state ownership...¹⁴

However, instead of writing off the large scale manufacturing sector, as would happen in the shock therapy approach, a planning strategy is needed to take advantage of the rich legacy of skills that these industries possess. These sectors need to be protected and assisted in a targeted programme of restructuring, involving operational independence, building of a professional management team and constructing a corporate structure. Such a process would certainly need government intervention and can be possible only under a gradualist approach.

Advocates of shock therapy recognize that there will be much ‘pain’ before ‘gain’. It is widely expected that there would be an initial fall in output and living standards if the radical reform package is put through. Thereafter, subsequent to an initial fall, it is believed that the reform package would lead to rapid growth.

¹³ Ibid., p. 7.

¹⁴ A. Walters, “Misapprehensions on Privatisation”, *International Economic Insights*, vol.2. no.1,1992, pp.102-104.

It is interesting to note that those who were the staunchest critics of the suffering of the people under a political and economic dictatorship, should themselves be so casual about the potential immediate suffering of the mass under the reform package. Moreover, the experiences of many Latin American countries, East Asian nations and in fact the Russia after the transition, does not give credence to the certainty of long-term benefits. All these point to a situation of certain high short-term costs and not so certain long term benefits.

One of the strong focuses of the shock therapy approach is on the speed of the reform. This was mainly due to their fear of the reversion of the Communism, thus every step is taken rapidly to erase away all the remnants. However, by doing so, the essence of the reform i.e. success tends to be undermined. Achieving a private, competitive market economy, requires an institutional framework, a set of credible and enforced laws and regulations.¹⁵ These take time to evolve and cannot be attained in a one-stroke liberalization package.

Conclusion

As against the problems encountered in the shock therapy approach, if one goes by the gradualist method, it is possible to retain the state sector (implying no immediate fall in output) and initiate simple institutional reforms in the non state sector with powerful cumulative results. For example, China in the 1980s, allowed people to set up small businesses that did not come into conflict with the heavy industry sector owned by the state. The businesses tended to be highly labour absorbing and required very less

¹⁵ Joseph Stiglitz, op. cit., 1999, p. 19.

capital. They substantially improved popular welfare by meeting real needs especially in the long suppressed service sector.

Gradually their scope was allowed to widen into bigger industrial sectors like transport and house building. Their success helped gradually to change the attitudes not just of ordinary people but also the conservative leaders. Moreover, instead of immediately dismantling the state run heavy industries sector, it is possible to consider initial reforms in agriculture, as these are easier to accomplish.

Most importantly, it is important to understand the enormous difficulties in the way of rapid privatisation. The pool of domestic savings in most communist countries is too small to enable them to buy state's assets and the implications of a large-scale sale off to foreigners are mostly unacceptable to these countries. Moreover, the valuation of the assets becomes a major problem. If all state assets are sold rapidly or simultaneously, they are likely to fetch a much lower price than if they were disposed off gradually. Furthermore, it is important to ask whether all state enterprises really need to be sold off.

The performance of state enterprises can be improved if management is selected on the basis of business expertise, given operational freedom and managers' remuneration are linked to their performance and the company's profits. In fact, the British experience under Ms Thatcher points to the enormous possibilities of this arrangement given the political will. Thus, a restructuring and not a sell out could be a sound basis of increasing efficiency in the initial phase of reforms. This is feasible under gradualist approach.

The privatisation of asset ownership that is to ensue in a socialist economy in transition would lead to the emergence of a new class structure, as has been discussed

earlier. This will have a profound influence upon the most fundamental parameters of economic life-the givens of the economic textbook. Thus, it would be extremely odd if high speed is advocated for something that is to impact upon the society for generations to come. Throughout the twentieth century, the communist governments were attacked ferociously for their revolutionary confiscation of assets. It is paradoxical that the orthodox analysis or the shock therapy approach should recommend unambiguously an equally revolutionary disposal of state assets.

CHAPTER-3

STRUCTURAL DISTINCTIVENESS OF NORTH KOREA'S SOCIALIST ECONOMIC MODEL

The decision by the outsiders to split the Korean peninsula into two halves has resulted in the development of two disparate political and economic entities based on two fundamentally different ideologies. North Korea, after its formation in 1946, established a socialist economic system based on the former USSR model.

Over the years though, it has evolved its own unique system with the formulation of Juche ideology that has helped to mark its own niche, different from other socialist countries. North Korea implemented a series of programs such as land reform and nationalisation of industries in the initial years of its establishment. The state's control over the economy and efforts at planning were largely concentrated in industry; the main goals of the first two One-Year Plans of 1947 and 1948 and the Two-Year Plan of 1949-50 were the restoration of the destroyed Japanese industrial facilities and the expansion of the state's control over the commercial and transport sectors. In agriculture, the new Communist leaders launched a land reform campaign, as in China, to redistribute ownership from Japanese and Korean landlords to their tenants. After the end of Korean War in 1953, major restoration and rehabilitation work was started. Collectivisation of agriculture did not occur until the Korean War. By 1958, all the farm households and farmlands were in cooperatives of the advanced type. In this period, the economy grew rapidly with the help of economic assistance from other socialist countries.

The 1960s saw the North emphasising on heavy industrialisation. However, the objectives of the First Seven Year Plan (1961-1970) could not be achieved. In this period, North had strengthened its Juche ideology due to changing international scenario. In the early stages of the Six Year Plan (1971-1976), North Korea reached out to the western world to avert crisis. It became an observer at the UN in 1973, joined the Non-aligned Nations Movement in 1975 and steeply increased its trade and borrowing from the capitalist countries in this period. This led to active borrowing that helped it to produce some meaningful results. But due to oil shocks, it lost its credit worthiness, and could not manoeuvre in its economic relationships in the international scene. Ultimately, the structural flaws of the economic policies fired back and it could not recover. The late 1980s saw some changes in the DPRK's external political and economic relationships. Despite its absence from the 1988 Olympic Games held in Seoul, which reflected its political isolation, eight rounds of talks took place between the North and South Korean governments between 1990 and 1992. In August 1991, both Koreas joined the United Nations and attempts have since been made by the DPRK to improve relations with the United States and normalise relations with Japan. Its previously strong relationships with China and Russia were weakened with the Nordpolitik policy of the South Korea. The fall of the socialist bloc in 1991, made matters worse and it faced a severe crisis.

This chapter will discuss the rapid growth of the economy in the post Korean War reconstruction and the development of the Juche in the 1960s and then the opening up efforts in the wake of the gradual stagnation of the economy in the 1980s. At the end, it would look into the basic causes for the economic slowdown by analysing the policies pursued by it.

The Initial Foundation of the Socialist State and the Economic Development in the Post Korean War Period: 1946-1960

After the division of the Korean Peninsula, most of the heavy industries established under the Japanese colonialism, were located in the North, including major mineral deposits and hydroelectric power. More than 90 percent of the iron ore, coal, zinc and lead; and over two-thirds of the reserves of gold, silver and nickel on the peninsula were found in the North.¹ At the time of the division of the peninsula, 92 percent of the electric power, as well as most of the chemical fertilizers were produced in the North.²

The economy was in the state of utter chaos when the peninsula witnessed two simultaneous disjunctions—the national independence and the division at the 38th parallel. There were instances of deliberate destruction by the Japanese and a crisis situation occurred because of dearth of skilled manpower in the crucial areas of the industries. Kim Il Sung after coming into power, established the Democratic People's Republic of Korea (DPRK) state formally and found himself facing a number of stupendous tasks. The simultaneous establishment of Republic of Korea (ROK) in the South with the help of USA had made the urgency to restore the economy for the North Korea. One significant point to notice is that, around this period, both the states i.e. DPRK and ROK had set up two opposite economic systems and all the developments in the peninsula were centered around the national unification issue.

North Korea, soon after placing the foundation of the socialist economic system, initiated a series of economic plans. (See Table 3.1)

¹ National Unification Board (1992), cited in Hong Tack Chun and Jin Park, "North Korean Economy: A Historical Assessment", in Dong Se Cha, Kwang Suk Kim and Dwight H. Perkins, eds. *The Korean Economy 1945- 1995*, Korea Development Institute, April 1997, p.669.

² Bank of Chosun (1948), cited in *ibid*, p.669.

Table 3.1. North Korea's Economic Development Plans

Plan	Goals and Events	Results (DPRK figures)
1-Year Plans (1947, 1948)	Nationalise major industries Increase production of basic necessities	Industrial Production: 1946-47: 54% increase 1947-48: 38% increase
2-Year Plan (1949-1950)	Consolidate economic foundation	Industrial production: 3.4 times greater than 1946 level
3-Year Plan (1954-1956)	Production of basic necessities Juche introduced Nationalise and collectivise farms	Industrial production: Annual growth rate: 41.5%
5-Year Plan (1957-1961)	Complete nationalisation Production of basic necessities Chollima movement Chongsan-ni and Taean systems	Industrial production: Annual growth rate: 36.6% Industries and farms nationalised
First 7-Year Plan (1961-1967) (extended to 1970)	Continued emphasis on heavy industry Military build up More emphasis on Juche	Industrial production: Annual growth rate: 13% Bottlenecks appear Stop publishing statistics
6-Year Plan (1971-1976) (extended to 1978)	Improve technology Improve light industry Purchase foreign plants Three-Revolution Team Movement Speed battles	Industrial production: Annual growth rate: 16.3% Default on loans
Second 7-Year Plan (1978-1984) (extended to 1986)	Frugality/ Conservation plans August 3 Consumer Goods Movement Independent Accounting System Foreign Joint Venture Law Ten major targets for 1980s	Industrial production: Annual growth rate: 12.1%
Third 7-Year Plan (1987-1993) (extended to 1995)	Ten major targets for 1980s Open foreign economic trade zone Pass more joint venture laws Socialist trade relations end	Industrial production: Annual growth rate: 12.2% Admitted failure of plan in 1993 Shortages in many sectors GNP decline beginning in 1990

Source: Oh and Hassig (2000)

The objective of the 1946-1947 plan was to undertake two important steps i.e. land reforms and nationalisation of industries. The land reform was completed in less than twenty days in 1946.³ Lands owned by the Japanese and traitors to the Korean people, lands that were in continuous tenancy, lands owned by Korean landlords in excess of five chongbo (one chongbo equals to 0.992 hectares), and lands owned by shrines, temples, and other religious organizations were confiscated and redistributed without compensation to farm labourers, landless peasants, and those who owned only small plots of land.⁴ The nature of the land reforms was similar to the China's, as restricted ownerships were allowed at the starting. In this way, inequality based on land ownership was eradicated and the edifice for the communist regime was set up. This process continued in the 1948-1949 plan.

The Soviet army, which landed on the Korean soil on the northern part in 1945, took the control of all the industries from the Japanese. After some time, the ownership was transferred to the North Korean Provincial People's Committee on August 10, 1946, with the promulgation and implementation of a law governing the nationalisation of industries including industry, transportation, communications, the postal services, and banks.⁵ The next agenda of the state was to focus on the restoration of the industrial production capability. This was done mainly with the support of USSR. It is estimated that the USSR provided the North a total of 546 million US dollars in grants and loans during the period beginning of January 1946 and continuing through the end of 1949.⁶ Also a considerable

³ Joseph Sang H. Chung, *The North Korean Economy: Structure and Development*, California: Hoover Institution Press, 1974, pp. 5-9.

⁴ Hong Tack Chun and Jin Park, op. cit., 1997, p.671.

⁵ The USSR Academy of Science (1985), cited in Hong Tack Chun and Jin Park, op. cit. 1997, p. 674.

⁶ Bon Hak Koo, *Political Economy of Self Reliance: Juche and Economic Development in North Korea, 1961- 1990*, Research Center for Peace and Unification of Korea, 1992, p. 65.

number of technical advisers were also sent to train the Koreans, which proved to be of enormous help. One of the major factors that helped North to restore the economy fast was the uninterrupted supply of power and fertilizers. Industrial production in 1949 was actually at 95.5 percent of the levels recorded in 1944, indicating that the North indeed manage to restore its pre- liberation industrial production.⁷

Post Korean War Rehabilitation and Economic Policies

The Korean War (1950-53) left North Korea totally devastated. Incessant bombings had killed unimaginable number of people and washed off the landscapes of nearly all the infrastructures. The total cost of the damage incurred amounted to nearly 420 billion won.⁸ The North's national budget revenue stood at only 52.7 billion won in 1953. Assuming that the North's national budget revenue accounted for 50 to 60 percent of Gross National Product (GNP) total damage was roughly four times the north's 1953 GNP.⁹ Thus, the economy was once again in doldrums. To reconstruct the war torn economy, a Three Year Plan for Rehabilitation and Development of the National Economy (1954- 1956) and the First Five Year Plan (1957-1960) were started. The first plan was for the restoration of the industrial production and the latter was to establish the foundation of the socialist industrialisation and to meet people's everyday necessities.

A policy of Heavy Industrialisation was adopted at the Sixth Plenum of the Central Committee of the North Korea Workers Party held in August 1953, along with development of light industry and agriculture. However, in reality, the latter policy was

⁷ Joseph Sang H. Chung, *The North Korean Economy: Structure and Development*, Hoover Institution Press, California, 1974, p. 86.

⁸ Hong Tack Chun and Jin Park, op. cit. 1997, p. 673.

⁹ Ibid. p. 673.

hardly given any priority. As much as 81.1 percent of all industrial investment made from the national budget went to heavy industries in the period 1954- 1956.¹⁰

In the agricultural sector, an effort to consolidate the socialist economic system was made through collectivisation in 1954-1958. Collectivisation could be completed in such a short duration of time because the Korean War had ruined the agrarian economy, and the rural population eagerly accepted it. Moreover, there were few socialist campaigns like Tolgyok Undong (assault movements) and the well-known Chollima Undong (the flying horse movement), which was launched in September 1958. The Chollima Undong had its similarities with China's Great Leap Forward. These movements were meant to increase the productivity and for internalising the socialist ideals in the workers.

There were various factors, which helped North Korea to achieve such rapid growth:

- The flow of foreign assistance in the form of loans and technical help.
- The ability of the economy to mobilise production resources in the war torn economy. The command economy emphasised growth rather than consumption and it is easy to channel production resources under this kind of system.
- The last factor was the high growth potential of the North Korea. The division of the peninsula and soon after the Korean War, made the transition to the socialist economy easier. With the help of the foreign aid the economy could grow and the period after the reconstruction and rehabilitation of the war, showed this.

In this era of Post war rehabilitation, North Korea achieved a remarkable growth in its economy. According to a statistical report released by North Korean authorities,

¹⁰ Ibid. p. 673.

total agricultural production in 1955-1956 increased at an annual average of 11.9 percent, and from 1956 through 1960, total agricultural production rose at an average rate of 10.6 percent; the average growth rate for total industrial production from 1954 through 1956 was an astonishing 41 percent, and during the period of 1957 to 1960, industrial production increased by an annual rate of 36.6 percent.¹¹ Industrial production in 1960 was therefore an astounding 6.2 times its 1949 levels; the net material product had risen to stand at 3.3 times its 1949 levels.¹² The net material product of the North therefore grew at an annual rate of 30 percent from 1953 to 1956, and by an annual rate of 20.4 percent from 1957 through 1960. In 1960, net material product had risen to stand at 3.3 times its 1949 levels.¹³ (See Table 3.2)

Table 3.2. North Korea's Major Economic Indicators (1946-1960)

(1946=100)

	1946	1949	1953	1956	1960
Net Material Product	100	209	145	319	683
average annual rate of growth	27.8	-7.6	30.0	20.4	
Gross Agricultural Output	100	151	115	161	241
average rate of growth	14.7	-6.6	11.9	10.6	
Gross Industrial Output	100	337	216	605	2105
average rate of growth	49.9	-10.5	41.0	36.6	

Source: Chun and Park (1997)

¹¹ Hong Tack Chun and Jin Park, op. cit. 1997, p. 676.

¹² Ibid. p. 676.

¹³ Ibid. p. 683.

The authenticity of the above figures is doubtable and seems exaggerated but it is agreed by various scholars that the manufacturing sector did grow rapidly during the 1957- 1960 period. A major factor for this outstanding growth can be attributed to the economic and technical assistance by different socialist countries.

The Development of the Juche Ideology in the Midst of Changing International Relations: 1961-1980

This period saw the rise of Juche idea as the nation's core ideology, which still is the single idea behind which the state of DPRK runs. The Article 3 of the Socialist Constitution proclaims, "The DPRK is guided in its activities by the Juche idea, a world outlook centred on people, a revolutionary ideology for achieving the independence of the masses of people". Juche is the opaque core of North Korean national solipsism. According to Bruce Cumings, "North Koreans say things like "everyone must have Juche firm in the mind and spirit"; "only when Juche is firmly implanted can we be happy"; "Juche must not only be firmly established in mind but perfectly realised in practice"; and so on. The second character, 'che in the Korean pronunciation, is the *tai* of *Kokutai*, a concept promoted in Japan in the 1930s that meant, in essence, what it means to be Japanese as opposed to everything else. *Kokutai* was deeply identified with the pre-war emperor system and with ultranationalism. Japanese scribblers would write on and on about "getting *Kokutai* firmly in mind", and once you have it firmly in your mind all else follows. In the post-war period, *shutaisei* (pronounced *Juche*'song in Korean) has been a common theme among Japanese intellectuals, the central idea being how Japan can be modern and Japanese at the same time. The Koreans use Juche in similar ways, in their case with the goal of creating a subjective, solipsistic state of mind, the correct thought

that must precede and that will determine correct action, but also as a means of defining what is simultaneously modern and Korean. The term is really untranslatable; the closer one gets to its meaning, the more the meaning slips away.”¹⁴

In a 1955 speech, its title, “On Eliminating Dogmatism and Formalism and Establishing Juche in Ideological Work”, Kim Il Sung put forth the core Juche idea of national self-reliance and pride.

At its inception, Juche was pragmatic in two respects—first, as a political tool for Kim Il Sung to preserve his power, and second, as a declaration of North Korea’s intention to adapt foreign imports to Korean conditions. In a phrase as pithy as the injunction that China’s Deng Xiaoping, another pragmatist, used years later, Kim says, “It does not matter whether you use the right hand or the left, whether you use a spoon or chopsticks at the table. No matter how you eat, it is all the same in so far as food is put into your mouth, isn’t it?”¹⁵ This sentiment has been periodically echoed that ‘The Juche idea categorically rejects narrow-minded chauvinism in the ideological domain.’ But over the years, the use of Juche as a means to legitimate the Kim dynasty has completely crowded out the pragmatic aspect of Juche.

Juche Economics

All the economic policies of the 1960s were based on this self-reliant policy. The reason for this shift of policy did not come about just like that but was the result of the changing relationships between the various socialist countries. The North responded to the conflict of China and USSR by putting its Juche ideology at the forefront, securing

¹⁴ Bruce Cumings, *North Korea: Another Country*, New York: The New Press, 2004, p. 159.

¹⁵ Kongdan Oh and Ralph Hassig, *North Korea Through the Looking Glass*, Washington: Brookings Institution Press, 2000, p. 18.

room to move along its own lines and refusing to be affected by titling either towards the USSR's or towards China's side in the international scenario. Kim Il Sung also consolidated the foundation of the dictatorial governance by wiping out all the oppositions. Thus, with the help of the Juche ideology, and by achieving a solid grip on power in the 1950s, Kim Il Sung's regime obtained legitimacy in the 1960s.

Most of the economic policies in his period were concerned towards

- the efforts to establish the Juche economy as the North had faced a crisis in the international scenario.
- the simultaneous development of defence capability.

The reason behind North Korea's emphasis on the Juche economy in the early 1960s can be partially explained by the drastic curtailment of assistance from the former Soviet Union which occurred as the international relationships between socialist countries began to change. North Korea had no choice but to become economically self-reliant. The flow of foreign aid from socialist countries recorded an annual average of 68.2 million dollars from 1949 through 1953, and an annual average of 416.75 million dollars during the 1954-1956 period. It was recorded at only 81.8 million dollars during the 1957-1960 period and 42.5 million dollars from 1961 through 1970.¹⁶

The North also emphasised on a major military programme during the 1960s. The military spending increased from a low of 3.7 percent of the state budget in 1959 to 19 percent in 1960 and to 30.4 percent in 1967, a level it maintained until 1972.¹⁷ This policy was due to dual threats posed by South Korea's growing military strength under

¹⁶ Hong Tack Chun and Jin Park, *op.cit.* 1997, p. 682.

¹⁷ J. Rosser and M. Rosser, "North and South Korea: The Lingering Shadow of Cold War", in J. Rosser and M. Rosser, *Comparative Economics in a Transforming World Economy*, London: The MIT Press, 2004, p. 553.

the presidency of Park Chung Hee and the influx of American troops sent to Asia to fight the Vietnam War.

In 1961, the First Seven Year Plan was introduced, that was extended until 1970. Kim Il Sung continued to emphasise heavy industry and labour mobilisation. This period witnessed several reforms in the management system as well as in the industrial system. By and large, this economic framework remains the same today. Chongsan-ri Method introduced by Kim Il Sung, addressed the problems of collective farm management. It was based on the mass line policy. Chongsan-ri Method is a system in which superiors should help their subordinates, superiors should be close to their subordinates and the production sites so that they can provide direct guidance and assistance; at the same time, the management should give priority to political tasks and issues, and it should ensure the fulfilment of the goals of the revolution by raising the consciousness and enthusiasm of the masses as well as by encouraging their creativity.¹⁸

Systems like work team accounting system, the work bonus system, and the sub-work team management system were established to enhance the personal and material interests of agricultural production workers.¹⁹ Every member of the work team would receive a bonus, based on the number of days worked, if the work team fulfilled 90 percent of the state assigned production quota. Otherwise, whoever failed was fined. But the system had its own disadvantages, as there was uncertainty about the actual work unit, regarding land and other means of production. To address this problem, a new system of sub-work team management was introduced in 1966; in this, the sub-work team

¹⁸ Hong Tack Chun and Jin Park, *op. cit.* 1997, p. 683.

¹⁹ Ko (1993) cited in *ibid.* p. 683.

was assigned a fixed area of land, a specific set of production tools and machinery and a fixed labour force.²⁰

Along with the nationalisation of industries, independent accounting system and the manager responsibility system were introduced. In 1961, by abolishing the managerial system, a new system called the Taen system was implemented in the industrial management system. All the industries were brought under the collective leadership.²¹ In the mid 1960s, two other measures were taken to improve the industrial management. The first was decentralisation in the administration of local industry and the transfer to (provincial) authority over local industry management to the shi (city) and kun (county) level.²² The second was the establishment of internal accounting system, where the material incentives were linked to the traced input-output of work teams in factories and state enterprises.²³ Due to these various measures, there was a remarkable growth in the production of local industries. By 1969, production had risen to more than three times the 1958 level. The local industry then accounted for an impressive 50 percent of total industrial production.²⁴

The 1970s brought a series of changes in the international scene. In this period, many important agreements were made including the US-Soviet Strategic Arms Limitation Talks (1969), the Ostpolitik of West Germany and the Non-Aggression Pact between the USSR and West Germany (1970). Also the then Secretary of State, USA, Henry Kissinger and the then President of USA, Nixon visited Beijing in 1971. Thus,

²⁰ Ibid. p. 683.

²¹ Ibid. p. 683.

²² Bon H. Koo, *Political Economy of Self Reliance, 1961- 1990*, Research Center for Peace and Unification of Korea, 1992, p. 197.

²³ Ibid.

²⁴ Hong Tack Chun and Jin Park, "North Korean Economy: A Historical Assessment", in Dong Se Cha, Kwang Suk Kim and Dwight H. Perkins, eds., *The Korean Economy 1945-1995*, Korea Development Institute, April 1997, p. 685.

there was rapprochement between East and West, and the East Bloc countries borrowed Western capital, to maintain their economy.

The rapid economic growth in South Korea under Park Chung Hee, resulted in a competition-oriented mindset of North Korea and consequently, it actively responded to the changes in international politics.

The volume of loans given by western nations including Japan, France, West Germany and Great Britain, to DPRK totalled 1,292 million dollars, outweighing capital flow from China and the USSR which totalled 982 million dollars (see table 3.3).²⁵

Table 3.3. Foreign Loans Received by North Korea by Origin (1961-80)

(Unit: million US \$)

	1961-70	1971-80
Total	883.6 (100.0)	2274.4 (100.0)
USSR	558.3 (63.2)	682.1 (30.0)
China	157.4 (17.8)	300.0 (13.2)
Eastern Europe	158.9 (18.0)	—
OECD	9.0 (1.0)	1292.3 (56.8)

Source: Chun and Park (1997)

The trade volume also increased to 718 million dollars (341 million dollars in exports and 377 million dollars in imports) in 1970 from 320 million dollars in 1960 (154 million dollars in exports and 166 million dollars in imports), registering an annual average growth rate of 8.4 percent in 1960s; it continued to grow in the 1970s to record an annual average growth rate of 16.6 percent, largely due to the increased flow of imports purchased with money acquired in the form of foreign loans from western countries.²⁶

²⁵ Ibid, p. 686.

²⁶ Ibid. p. 686.

The trade patterns of North Korea also changed in this period. Earlier the communist countries had previously accounted for over 80 percent of the North's total trade volume in the 1960s, but now they accounted for only 62.6 percent from 1971 through 1975. Conversely, trade with western industrialised countries and developing countries rose during the same period, growing to account for 37.4 percent, up from 20 percent. The importance of western industrialised countries as import sources in particular was as high as 35.3 percent during the 1971-1975 period (see Table 3.4).²⁷

Table 3.4. Trends in North Korea's Foreign Trade by Region (1971-1980)

(Unit: million US \$)

	1971-75	1976-80	1971-80
Total Trade	7322.3 (100.0)	11476.3 (100.0)	18798.6 (100.0)
Developed Countries	2218.3 (30.3)	2946.9 (25.7)	5165.7 (27.5)
Communist Bloc	4585.9 (62.6)	6470.6 (56.4)	11056.5 (58.8)
Developing Countries	517.6 (7.1)	2058.8 (17.9)	2576.4 (13.7)
Total Import	4628.1 (100.0)	5835.4 (100.0)	10463.5 (100.0)
Developed Countries	1632.8 (35.3)	1835.8 (31.4)	3468.6 (33.1)
Communist Bloc	2776.4 (60.0)	3372.6 (57.8)	6149.0 (58.8)
Developing Countries	218.9 (4.7)	627.0 (10.7)	845.9 (8.1)

Source: Chun and Park (1997)

The Oil Shock in the late 1973 posed a threat to North Korea's economy. The first oil shock of 1973 sent international oil prices shoot up, although since most of the DPRK's oil was imported on 'friendship' terms from the Soviet Union and China, the effect on the Korean economy were buffered. However, the exported global oil shock did

²⁷ Ibid., p. 686.

lower the price of the minerals that DPRK exported. As a result, the prices for the exports declined whereas the prices of the imported goods increased. Pyongyang started to default on its debts in late 1974, which stopped the supply of foreign technology. By the end of the decade the North Koreans were forced to stretch out debt payments; almost all foreign debt payments were halted in 1985 when its foreign debt stood in at 5.2 dollars billion.²⁸ All through the 1970s, the North Korean resources continued to be devoted to heavy industry and apart from the Soviet aid and the technology purposes from the capitalist economies, autarky continued to be pursued in all the sectors of the economy. Military expenditure also remained at a high level.

The Onslaught of the Economic Crisis and Partial Reforms: 1981-1994

North Korea announced a series of measures in the beginning of the 1980s, to promote trade through expansion of trade, finding new partners and employing new trade methods, and the credibility-first policy. At the Third Congress of the Seventh Supreme People's Committee held in 1984, a resolution was passed on 'Strengthening South-South Cooperation and External Activities and External Economic Activities and Further Developing Foreign Trade.'²⁹ The North took an important shift in the economic policy, to attract foreign investment from the capitalist countries. In September 1984, the North enacted and promulgated the Joint Venture Law of the Democratic People's Republic of Korea (DPRK).³⁰ This was without doubt, an historic and important step toward an 'open door policy' for North Korea, if only symbolic in nature. Although it clearly signalled a new current of thought emerging in the regime, the law essentially ignored the realistic

²⁸ Kongdan Oh and Ralph Hassig, *North Korea Through the Looking Glass*, Brookings Institution Press, Washington, 2000, p. 51.

²⁹ Hong Tack Chun and Jin Park, op.cit 1997, p. 690.

³⁰ Hy Sang Lee, "Economic Reforms of North Korea", *Korea Observer*, vol.27, no.2, Winter 1992, p. 47.

needs of the foreign investor and thereby did little to increase the amount of foreign direct investment (FDI) in North Korea. The Joint Venture Law was a relatively sophisticated piece of legislation, consisting of twenty-six articles covering everything from labour management to foreign exchange control, and it was supplemented by the passage of the 71- Article Detailed Regulations of the Joint Venture Law, which was released on March 20, 1985 and expanded upon on the September 1984 JVL.³¹

The reasons behind these changes in policies can be:

- the sluggishness in exports to western countries worsened the already shortage of foreign exchange. Joint ventures were the only means to obtain foreign exchange, in this case.
- the North was impressed by the China's method of opening up its economy, including the establishment of special economic zones.

However, the Joint venture could not induce foreign capital as North's environment was unfavourable for investment. Its legal system governing foreign investment was still incomplete, and thus the Joint ventures failed. According to many experts, North's adherence to its policy line; 'to carry out joint ventures while respecting the North's own style of management' guided by the principle of establishing a self-reliant national economy within the framework of the command economy.

In the mid 1980s, partial economic reforms were also implemented. In 1985, the associated enterprises (yeonhap- gieop), was introduced.³² These were similar to the business groups. There were three types of associated enterprises: (a) vertical integration of a key enterprise with others, (b) horizontal integration of several enterprises belonging

³¹ Christopher Hale, "North Korea in Evolution: The Correlation Between the Legal Dynamic of Politics and the Economy", *Korea Observer*, vol.33, no.3, Autumn 2002, pp. 386-386.

³² *Ibid.* p. 46.

to the same group, (c) nationwide group of professional enterprises in special industries in special industries.³³ With the industrial reorganization, the economic planning systems were changed. In this, the double independent accounting system was implemented at two levels: at the associated enterprise level and at the individual member enterprise level.³⁴ Each enterprise was made to borrow money from the state bank and to use for small-scale construction and technology development.

Another partial reform effort was made by launching the August Third Consumer Goods Program in August 1984.³⁵ The main features of the August Third Movement, on the basis of press reports, are as follows.³⁶

- The movement is initiated as a means of increasing the production of simpler consumer goods utilising unused or unuseful resources.
- The movement is placed outside central planning as a means of providing incentives for increased production, but incentives are placed at a local government levels.
- Local government incentives for increased production are institutionalised through the establishment of direct sales stores where locally produced goods are sold directly to local consumers, by passing centralised production quotas, centralised procurement and centralised pricing.
- The initiators and decision makers in the movement are country party and administrative leaders. They have become innovators by virtue of their political

³³ Ibid. p. 46

³⁴ Hong Tack Chun and Jin Park, op. cit. 1997, p. 690.

³⁵ Hy Sang Lee, "The August Third Program of North Korea", *Korea Observer*, vol.21, no.4, Winter, 1990, p. 457

³⁶ Hy Sang Lee, "The Economic Reforms of North Korea", *Korea Observer*, vol.27, no.2, Winter, 1992, pp. 50-51.

positions. But local control and consumption empowers the August Third Movement with a self propelling force by which the off plan consumer goods sector tends to expand at the expense of the planned sectors. It is as if an independent, diversified consumer goods company is established in each of the roughly two hundred counties and city districts in North Korea.

Finally, whereas only waste and idle resources are supposed to be used as inputs, increasing amounts of skilled manpower and materials appropriate for use in the planned production sectors are diverted to the August Third Program sector. In short, the movement has evolved into an officially condoned means of increasing consumer goods production not only outside central planning, but also at the expense of resources intended for investment and consumer goods in the planned sector.

According to an announcement the North made in 1989 in commemoration of the fifth anniversary of the launching of the above program, sales at the direct sales outlet had increased at an annual rate of 20.8 percent, accounting for 9.5 percent of all the retail sales made through the centralised distribution system.³⁷

The fall of the socialist regimes in the USSR and other European countries, brought lot of misery to North Korea .In response to this crisis, it tried the Chinese way of opening up. It adopted policies to emphasis on three things, i.e., agriculture, light industry, and foreign trade. The North announced officially its plan to open a special economic zone in conjunction with the Tumen River Area Development Project of the UNDP in July 1991.³⁸ The strategy to start the free economic zone was to attract the

³⁷ Hong Tack Chun and Jin Park, *op. cit.* 1997, p. 694.

³⁸ *Ibid.*, p. 694.

foreign investment. The North streamlined its overall legal system governing foreign investment through the enactment of over 20 laws and regulations concerning foreign capital inducement including the 'Foreign Investment Law', the 'Free Economic and Trade Zone Act' and the 'Land Lease Law'.³⁹

Measures were taken to address the problem of the failure of the Third Seven Year Plan (1987-1993), by increasing the period to two years. This was decided at the 21st Plenary Meeting of the Sixth Central Committee held on December 8, 1993. There was a shift in the policy where investments in agriculture was sought and thus increased to 6 percent compared to only 2.1 percent just a year before. Trade was also promoted with specific focus on expansion of the production of export products and maintaining good credit status. Another important change in policy was the emphasis on the decentralisation of the trade.

The North Korean economic policies by the DPRK in the 1980s, seeks partial reforms of the centralised planned economy. The partial reforms carried out so far included the transformation of collective farms into agricultural associated enterprises, the transformation of the industrial management system into a system based on associated enterprises, the staging of a mass campaign to increase production of light industry such as the August Third Consumer Goods Campaign, and the partial decentralisation of trade management. But all these reforms do not ask for any fundamental change in the socialist economic system. Whereas they strive to bring the existing system into perfection. It was meant to increase the efficiency, by staying in the realms of the existing edifice.

Unlike most other formerly centrally planned economies, the DPRK is not planning for any rapid economic and political reform. It is a cautious reformer and has

³⁹ Ibid., p. 696.

limited objectives in clearly defined sectors and activities. Its reforms in fact are very similar to China opening up. The North decentralised its trade system in a very similar way as did China at the early stage of opening up its economy.

Conclusion

North Korea is facing a negative growth since the early 1990s. The external factors have made matters worse in the already stagnated economy. The fall of the socialist bloc in USSR and Europe have had disastrous consequences as the trading has been affected severely, especially the supply of the fuel. The end of close relationship with the former Soviet Union after the latter's collapse caused a lot of problems for the North Korea. The most serious was that the flow of crude oil had substantially dwindled. The North purchased 440000 tons of crude oil from the Soviet Union in 1990, whereas in 1991, it was only able to receive 40000 tons.⁴⁰ The supply of crude oil to the North Korea had substantially fallen by an annual average of 65 percent during the past five years. The natural calamities that have taken a massive toll also had a destructive effect in the economy. Thus, North Korea has been adversely affected by external factors.

The partial reforms taken during the 1980s have not shown any constructive result yet. The problems erupting in the economy since the 1960s, have only increased, as the years have passed. The priority to the heavy industry at first cannot be called ridiculous as it has a large positive externality to greatly expedite capital accumulation, and it precludes the need to import capital goods.⁴¹ But in the case of economic self sufficiency (accordance with the Juche ideology) that North adheres to, has denied it the possibility

⁴⁰ Ibid., p. 701.

⁴¹ Hong Tack Chun and Jin Park, op. cit. 1997, p.703.

of ever achieving an appreciable economic scale as it pursued development of its heavy industry.

The Juche economy had several limitations as it implies an outright ban on the import of foreign goods and capital, and restricted opportunities in securing footholds in foreign markets. This policy of self-sufficiency has been the product of Japanese colonialism and the growing animosity between the western world and the socialist bloc. Thus, all the imports were shut out. This resulted in the rise of deficits in the international balance of payments and dependence on overseas economy because imports of raw material and energy were inevitable.

A closed economy cannot support growth at all the stages of development of the economy. Capital is required to rejuvenate a stagnant economy. It has to be mobilised from both foreign and domestic resources. The Juche ideology of North Korea has created an impediment in the economy and as a result, it is not able to revive. The North's economy was able to mobilise itself to a certain level at the starting but due to lack of effort in expanding consumption, it has become stagnant.

CHAPTER-4

MOVE TOWARDS TRANSITION: A GRADUALIST APPROACH IN PRACTICE

The decline of the North Korean economy in the 1990s has been much speculated, as the collapse of the state would bring widespread misery and make the whole region volatile. The fall of the socialist bloc in Europe and the USSR has deeply affected its trading and exposed the structural flaws of the economy to the maximum limit. The opening up efforts of the DPRK since the 1980s and its emulating the Chinese method has not resulted into any constructive results yet. This is because of many reasons but the main one is its fall back on the Juche ideology over and over again. However, the deep crisis of the 1990s has asked for some deeper reforms.

The death of Kim Il Sung on 8 July, 1994, had raged all the academicians in a guessing game where everyone conjectured the time when North Korea would collapse. But to everyone's dismay, the state of DPRK still exists, and is treading on the path of reforms, although with utmost caution, as the contradictions of the reforms would threaten the very realms of the notion of their state. The early nuclear crisis of 1994, has given it a bargaining power to sit and negotiate with the big powers and use this to help it out of their economic crisis. The Agreed Framework of 1994 had enabled it to reach out to USA and other countries, in economic terms, compensating for the Soviet Union collapse. The food crisis also has helped North Korea to obtain large commitments of international food and humanitarian assistance since 1995. Around the period between 1995 and 1997, North Korea avoided reforms that would have responded to the structural

deficiencies of the economic policy and management. Until 1997, the power was consolidated under Kim Jong Il and series of changes were made to indicate this. In October 1997, Kim Jong Il was named Chairman of the Workers Party, and began to exercise expanded influence over the political and administrative organs of the North Korean Government.¹ Changes were made in the legal basis of the economic management in the Constitutional amendments of 1998.² The Sunshine Policy of Kim Dae Jung has already stimulated the inter- Korean relations into the new vistas of the economic relationship. The Economic policy changes introduced in July 2002, involving among other things an attempt to increase the importance of material incentives, could be interpreted as a constructive step towards reforms.³

This chapter explores the opening up effort of North Korea in the 1994-2004 period. It would look at the period when it avoided any kind of reforms but was only surviving with the help of humanitarian assistance, and the period after the Korean Summit of 2000, since which North Korea has taken constructive steps towards transition of the economy. In addition, the role of external powers other than South Korea would be discussed. At the end, an effort would be made to find out whether the approach taken by North, to transform its economy is successful or not.

The Economic Crisis and The Consolidation of the Kim Jong Il Regime

The condition of the North Korean economy started deteriorating from the early 1990s. It was hit badly with the collapse of the Soviet Union in 1991, since the

¹ Bradley O. Babson, "North Korean Economy Today", in Lawrence J. Lau and Chang H. Yoon (eds.), *North Korea in Transition*, Cheltenham: Edward Elgar, 2001, p. 24.

² *Ibid.*, p. 25.

³ Marcus Noland, *Korea after Kim Jong Il*, Institute for International Economics, Washington, DC, 2004, p. 46.

former socialist bloc accounted for almost 60 percent of North Korea's total international trade and provided two-thirds of its imported oil at subsidised prices. North Korea's trade volume decreased by almost 50 percent and has never recovered to its previous level.⁴ The enormity of these shocks was too huge for North Korea to adjust immediately. The structural flaws of the economy had already started to surface up in the late 1980s, as a result of which North had taken some steps towards transformation, to attract foreign capital and technology but all of them had failed.

The industrial sector of North Korea has been suffering from the working capital shortage since the early 1990s. Since the trading has been chronically affected, the country could not import sufficient amounts of oil, raw materials and intermediate inputs. As a result of which the capacity utilisation rate of the manufacturing sector plummeted to approximately 20 percent and capital stocks continued to deplete.⁵ According to the statistics recently submitted to the International Monetary Fund (IMF), during the four year period 1992-1996, GDP declined by 50 percent to US \$ 10 billion, which turned out to be less than 3 percent of South Korea's GDP in 1996.⁶

The floods and draughts in the mid 1990s exacerbated the whole situation, especially the agriculture sector, giving a heavy blow to the economy. The floods affected 75 percent of North Korean territory, leaving 5.2 millions victims and damages of \$15 billion, equivalent to about 70 percent of North Korea's GNP, according to Pyongyang's initial account.⁷ There have been chronic shortages of food, energy and medicine. The public distribution system, at numerous instances has failed to respond

⁴ Lawrence J. Lau and Chang H. Yoon, "Overview" in Lawrence J. Lau and Chang H. Yoon (eds.), op. cit. 2001, p. 4.

⁵ Ibid, p. 5.

⁶ Ibid. p. 5.

⁷ Vantage Point, *North Korea: Uneasy, Shaky Kim Jong Il Regime*, Seoul: NaeWoe Press, 1997.

appropriately. A large segment of the population has been living on stalks, roots, and leaves.⁸ Due to shortage of medicine and equipment, the medical system is paralysed and only 5 percent of patients can expect to receive medical benefits. According to the Secretary General of World Health Organisation who made a trip to Pyongyang, there was an increase of 30-40 percent in the number of people who died of infectious diseases such as tuberculosis and malaria.⁹ Moreover, lot of families are breaking up, the previous enviable achievements in higher education are stumbling, and decline of human resources is threatening the growth potential of the economy.

Kim Jong Il as the successor

After the sudden demise of Kim Il Sung on 8 July 1994, his son Kim Jong Il took over amidst this highly unstable situation. Under him, North Korea called for an “arduous march” to overcome the crisis, and to mobilise the nation’s resources for survival “army first politics” and “revolutionary soldier spirit”.¹⁰ Following the end of the deadlock to the nuclear crisis by signing the Agreed Framework with US in 1994 temporarily averted the military confrontation. In the “arduous march” of 1994-1997, there were emergence of slogans and concepts promoting the idea of a powerful state. On August 31, prior to the opening of a full session of the legislative Supreme People’s Assembly in September 1998, North Korea launched a Taepodong ballistic missile, which it claimed was an effort to put a satellite into orbit and also a symbol of its efforts to build a powerful state.¹¹ The

⁸ Lawrence J. Lau and Chang H. Yoon, “Overview” op. cit. 2001, p. 5.

⁹ White Paper on Human Rights in North Korea, Korea Institute for National Unification, 2002, p. 33.

¹⁰ Lim Hyun Chin and Chung Y. Chul, “Is North Korea Moving toward a Market Economy”, *Korea Focus*, vol. 7, no.1, July/August 2004, p. 53.

¹¹ *Ibid.*, p. 54.

assertion of the DPRK as a strong political and military power came with the cognizance that the only remaining objective left was to become an economic power now.

The reason why Kim Jong Il took the support of military during this period probably was to strengthen his control over the People's Army after the death of his father Kim Il Sung, before taking over the reins of the state and party formally. Also the armed forces assisted a great deal in the non military affairs, i.e. mobilisation of troops for the social and economic spheres. In one of the instance, Kim Jong Il ordered his troops to station in rural villages in April 1997. There they went to collect farms and perform other tasks like to increase agricultural output.¹² On October 8, 1997, the Central Committee and the Military Commission of the WPK announced that Kim Jong Il had been elected as General Secretary of the Party.¹³ In accordance with the amendment to the Constitution that was approved by the Supreme People's Assembly in 1998, the North Korea's power structure was revamped by instituting the post of Chairman of the Presidium (Standing Committee), to serve as the head of state in foreign relations, while vesting the state's ultimate power in the Chairman of the National Defense Commission.¹⁴

With the reorganisation of the state system, important changes were made for the improvement of the economy. In 1996, the number of farmers on a sub-work team was decreased from 10-25 to 7-8 farmers, while family members were allowed to form a basic unit.¹⁵ The production quota was adjusted to a realistic terms. In recent times, the number

¹² For detail discussion on the issue, see *East Asian Strategic Review 1997-1998*, Tokyo: The National Institute for Defense Studies, 1998, p. 70.

¹³ *Ibid.* p. 66.

¹⁴ Lim Hyun Chin and Chung Y. Chul, "Is North Korea Moving toward a Market Economy", *Korea Focus*, vol. 7, no.1, July/August 2004, p. 55.

¹⁵ *Ibid.*, p. 56.

of farmers working in the sub-work team has been further reduced to 3 to 5 members. These changes in the agrarian sector are meant to boost up productivity by providing the farmers with various incentives.

In the industrial sector, the system in which firms producing similar products were made to form a complex that worked as a production unit, while adopting an independent accounting system, was abolished in 2000. This was to ensure the success of the North's industrial restructuring, by closing down inefficient and money losing firms. However, the earlier system has been revived which introduces the consolidation of the specialised industries into a complex.¹⁶

Resurgence of the Chollima Movement

Kim Jong Il launched the second Chollima Movement in January 1998 for the realisation of the national reconstruction. He visited the Sungjin Steelworks in Hamgyeongbuk-do province, where he called people to 'line up and be part of the vanguard of the Chollima Movement once again.'¹⁷ This movement was designed to stimulate a concerted driving force that could bring about the construction of a strong and prosperous power. It was supposed to create a favourable atmosphere for renovation and advancement in the economic sector as well as in the political, military and social realms by self-rejuvenation. This movement can be analysed as a North Korea still adhering to the traditional goal and falling back to the 'our own brand of socialism'.

Constitutional Revision of 1998

The latest constitutional revision on September 5, 1998 tells us the extent to which the capitalist ideals have been institutionalised in North Korea. Article 36 of the

¹⁶ Ibid. p. 57.

¹⁷ Ibid. p. 58.

new constitution stipulates that for the first time, social cooperative organisations are allowed to conduct foreign trade. Before this revision, every version of the constitution since the 1948 original had stated that foreign trade could only be conducted by the state. Furthermore, the FETZ (Free Economic Trade Zone) has become part and parcel of the constitution itself with the new and expanded Article 37: “The State shall encourage institutions, enterprises, or associations of the DPRK to establish and operate equity and contractual joint venture enterprises with corporations or individuals of foreign countries within a special economic zone.” Finally, a provision of Article 24 was changed to expand the definition of private property: “The products of individual sideline activities, including those from the kitchen gardens of cooperative farmers and income from other legal economic activities, shall also belong to private property.” No previous version of the constitution had included the “income from other legal economic activities” phrase. Nevertheless, these new capitalist articles have done little to change the actual state of affairs in the DPRK, but they signify the leadership’s acceptance and approval of reality.

In essence, the 1998 constitutional revision has brought the constitution closer into line with Kim Jong Il’s bureaucratic management style, and its changes in the fields foreign trade and investment have provided stronger constitutional basis for the barrage of trade legislation that has promulgated throughout the 1990s and beyond. Without a doubt, the 1998 constitution contains elements that are very different from the earlier constitution amendments, especially in the economic sphere.

Move Towards Science and Technology

North Korea began to emphasise the importance of science in the late 1990s. In January 2000, it established “valuing science and technology” as one of its “three pillars

for the construction of a powerful state”, the two other being socialist ideology and the military.¹⁸ Even before the formal launch, North Korea had established a Ministry for the Electronics Industry at the cabinet level and the organisation of a congress of scientists and technicians to encourage their contributions to enhance development in 1999.¹⁹

This emphasis on the science and technology has much to do with the upgradation of the technical efficiency than to improve the distributive efficiency. This is because the former asks for minimum political and economic changes in the promotion of economic development. In this direction, new initiatives were taken in the inter-Korean cooperation also in early 2001.²⁰

North Korea's Economic Improvement Measures

On July 1, 2002, Economic Improvement Measures were announced, which is according to some the turning point of the North Korea's economy.²¹ These reforms could be interpreted as having four components: microeconomic policy changes, special economic zones, and aid seeking.²² These include increased levels of both prices and wages, expansion of economic autonomy at the grass roots level, reduction of rationing areas, and higher exchange rates.

In the microeconomic reforms, the government was planning to introduce the dual price system in the industrial sector similar to the Chinese method. The industries have been asked to be responsible for their own costs as there will not be any more state

¹⁸ Bae Seong-in, “North Korea's IT Industry and North-South Cooperation”, *Korea Focus*, vol.5, no.2, March-April 2002, p. 90.

¹⁹ Lim Hyun Chin and Chung Y. Chul, “Is North Korea Moving toward a Market Economy”, *Korea Focus*, vol. 7, no.1, July/August 2004, p. 59.

²⁰ Bae Seong-in, op. cit. 2002, p. 93.

²¹ Shin Jiho, “North Korea's Economic Improvement Measures”, *Korea Focus*, Vol.4, no.4, November-December 2003, p. 55.

²² Marcus Noland, *Korea after Kim Jong Il*, Washington, DC: Institute for International Economics, 2004, p. 46.

subsidies. The managers have become more autonomous and are authorised to make their limited purchases and also invest. International trade is also permitted. But it is not clear that how much power is given in the hands of the managers to hire, fire and promote workers.²³

The state has increased wage levels, with certain favoured groups such as military personnel, party officials, scientists, and coal miners manifolds whereas those of agricultural workers have been less. For example, it has been reported that the wage increases for military personnel and miners have been o the order of 1500 percent, those for agricultural workers may be on the order of 900 percent, but the increases for office workers and less essential employees are less.²⁴ These differences of wages could be inferred as an effort to improve the role of material incentives.

In the agricultural sector, the government has implemented a policy of increasing the procurement prices of grains to increase the volume of food entering the public distributive system (PDS) along with dramatically increasing the PDS prices to consumers, with the retail prices of grains rising from 40,000 to 60,000 percent in the space of six months.²⁵ This is to keep a check on those farmers who were diverting away to produce tobacco and liquor from grain. The PDS helps to maintain the social equilibrium by guaranteeing a minimum survival ration to everyone.

Another economic policy change is the formation of the special economic zones. The first one was Rajin-Sonbong region in the extreme northeast of the country. It proved to be a failure because of geographical isolation, poor infrastructures and rigid rules and regulations by the government. In September 2002, the government announced the

²³ Ibid. p. 47.

²⁴ Ibid. p. 47.

²⁵ Ibid. p. 48.

establishment of a special administrative region (SAR) at Sinuiju. It is said that this area would be free from any legal structures and that SAR would be run and control by a foreigner, most probably by a Chinese national. If this works out, it would be a major boost for the promotion of economic integration between China and North Korea. Thus the special economic zones can give North a diversified portfolio, concentrating on her neighbouring countries.

The Inter-Korean Economic Relations

The Korean War (1950-1953) fought between the North and South Korea has left indelible marks in the history of Korea. Although an Armistice Agreement was signed in July 1953, this could never culminate into a peace treaty. Infact, until a few years ago the relationship between North and South could be described as one of violent confrontation. For instance, the North was accused of killing 17 South Koreans in 1983, including several cabinet ministers, in Yangon, the capital of Myanmar, and of blowing up a South Korean airliner in 1987.

The first stage of the foundation of the economic relations between the North and South was on 13 December 1991, with the conclusion of the Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation (Basic Agreement). Based on this agreement, both of the countries got engaged in trade. The first outcome of this development was the Daewoo Corporation-North Korea equity joint venture in the North.²⁶ The volume of trade increased steadily in this period. Moreover, South Korea adjusted its legal and institutional framework for inter-Korean economic relations. Beginning with the 'Guidelines for the Authorisation of Imports-Exports between South

²⁶ Bae Chong- Ryel, "Development of Inter-Korean Economic Relations", *Korea Focus*, January-February, 2003, p.112.

and North Korea' on 18 October, 1988 and the 'Guidelines for Exchange of Businessmen between South and North Korea' and a legal and institutional framework for inter-Korean trade was put in place with enactment of the 'Law on Exchanges and Cooperation between South and North Korea' on 9 August 1990, and enactment of the 'Inter-Korean Economic Cooperation Fund Law' on 31 December 1990.²⁷

With the declaration of North Korea's withdrawal from the Non-Proliferation Treaty (NPT) IN 1993, the tension between North and US reached its peak. In this kind of ambience of high conflict, the economic matters suffered a great due.

In 1994, President Kim Young-sam of South Korea announced a policy of economic cooperation with North Korea that would be separated from its nuclear issue. South Korea was a major benefactor at the time of North's acute economic crisis. It provided 150,000 tons of rice aid in this period. The trade volume increased from \$170 million in 1993 to \$287 million in 1995, \$252 million in 1996, and \$383 million in 1997.²⁸

Inter- Korean trade in the form of processing on commission (POC) began in 1992 to the tune of \$839000 and expanded rapidly thereafter, much faster than the growth of overall inter-Korean trade and reaching \$129.2 million in 2000, (see Table: 4.1). POC trade in textiles, machinery and transportation equipment is very suitable for both the Koreas as it takes advantage of the complementarities between them, combining North Korea's relatively well educated but inexpensive labour force and South Korea's capital and technology.

²⁷ Ibid, p. 113.

²⁸ Ibid., p. 116.

Table 4.1 Commodity exchanges between the two Koreas, 1989-2000,
(US\$ thousand)

Year	From N. to S.	From S. to N.	Total trade	Net trade	POC trade	POC/Total (%)
1989	18655	69	18724	-18586	0	0
1990	12278	1188	13466	-11090	0	0
1991	105722	5547	111269	-100175	0	0
1992	162863	10563	173426	-152300	839	0.5
1993	178298	8425	186723	-169873	7008	3.8
1994	176298	18248	194546	-158050	25663	13.2
1995	222855	64436	287291	-158419	45829	16
1996	182400	69639	252039	-112761	74402	29.5
1997	193069	115270	308339	-77799	79069	25.6
1998	92264	129679	221943	37415	70988	32
1999	121604	211832	333436	90228	99260	29.9
2000	152370	272770	425140	120400	129190	30.4
Cumulative Sum	1618676	907666	2526342	-711010	532671	

Note: POC trade stands for Processing on Commission Trade

Source: Korean Trade Association (KOTRA) Website (www.kotra.or.kr)

In the tenure of the South Korean President Kim Dae Jung, the inter-Korean relationship reached new heights. His Sunshine Policy took a non-alarmist view of North Korea. He called for the peaceful coexistence of the two nations, and held out the prospect of aid and bilateral economic cooperation to North Korea, and offered a long-term unification proposal.²⁹ The Hyundai Group's unique project of tourist development of Mt. Kumkang in the North has become one of the major cooperation projects. Under the terms of the contract between Hyundai and the North Korean authorities, Hyundai

²⁹ Joachim Ahrens, "Prospects and Problems for Korean Economic Integration", in E. K Choi, E. Kim, and Yesook Merrill (eds.), *North Korea in the World Economy*, London: RoutledgeCurzon, 2003, p.53.

would have the exclusive right to conduct the tours in the area of Mt. Kumkang. In return, Hyundai was to pay North Korea a total of \$942 million between November 1998 and February 2005.³⁰

Several other measures were taken to facilitate the inter-Korean relationship such as, expansion of the list of comprehensive approval items, deregulation of import items, deregulation of import permits and the other ceiling on investment, and adoption of a negative list system on joint ventures, economic exchanges and cooperation. This period witnessed a sharp rise in the trade volume, jumping from \$221 million in 1998 to \$331 million in 1999, \$425 million in 2000, and \$429 million in 2001.³¹ In 2000, agricultural products accounted for the largest proportion (26 percent), steel and metal products (4 percent) and home appliances and other electronic products (3 percent); also goods exported to the North included fertilisers, medicines and chemical products (35 percent of the total), textiles (16 percent), machinery (12 percent) and electronic goods (10 percent).³² It is worth noticing that in 2000, with a total trade of \$425 million, South Korea was North's third largest trading partner, following China (\$488 million) and Japan (\$464 million).³³

Cross-Border visits

In 2000, 7280 South Koreans visited North Korea (excluding visitors to Mt. Kumgang), up from 146 in 1996, 1015 in 1997, 3317 in 1998 and 5599 in 1999; in addition to this, 371637 South Korean tourists travelled to Mt. Kumgang between

³⁰ Charles Harvie and Hyun H. Lee, *Korea's Economic Miracle*, New York: Palgrave Macmillan, 2003, p. 193-195.

³¹ Bae Chong- Ryel, "Development of Inter-Korean Economic Relations", *Korea Focus*, January- February 2003, p. 119.

³² Charles Harvie and Hyun H. Lee, op. cit. 2003, p. 193-195.

³³ *Ibid.*, p.196.

November 1998, when the tour program was launched, and the end of 2000.³⁴ A further 800 South Koreans work at the KEDO nuclear reactor site in North Korea, along with 100 North Koreans.

The number of North Korean visitors to the South has also increased. There were no North Korean visitors to the South between 1994 and 1998, but after the appointment of the Kim Dae Jung government 62 travelled South in 1999 rising to 706 in 2000. North Koreans also visited the South for various inter-Korean meetings, including inter-Korean ministerial talks, defence minister's meetings and working level economic decisions. In 2000, during the family reunions, 200 hundred separated families from each side visited Seoul or Pyongyang to meet their relatives for the first time in half a century.

Table 4.2 Measures for Revitalisation of Inter-Korean Economic Cooperation

Items	Previous (November 1994-March 1998)	Revised (since April 1998)
Level of economic Cooperation	Government-led economic cooperation	Self-regulatory economic cooperation under the responsibility of business enterprises
Visit to North Korea by businessmen	Selective permit	Permit upon preparation of invitation papers from North Korea
Effective period of visit to North Korea by businessmen	1 year following approval and single visit only	3 years following approval and multiple visit
Period of handling permission for visit to North Korea	Contact: 20 days Visit: 30 days	Contact: 15 days Visit: 20 days
Allowed amount in carrying out of production equipment	Less than US\$ 1 million	No limit
Size of investment in North Korea	US\$ 1-5million	No limit
Investment Items	Light industry, service sectors	All sectors excluding national defence and strategic industries
Limited items of North-South trade	205 limited items of overall approval	Gradual expansion of overall approval

Source: Harvie and Lee (2003)

³⁴ Ibid., p. 197.

Inter-Korean cooperation is regarded by many as little more than South Korean assistance to the North Korea. Looking back at the historical war and the enmity following it, a kind of goodwill is necessary on the part of South Koreans to build up trust and confidence. But the whole process is not one-sided thing as the South also stands to gain major benefits.

- First, the inter-Korean economic relationship and cooperation will help to alleviate both the continuing tension between the two Koreas and the consequent country risk perceived by foreign investors. Thus, exchanges and cooperation between North and South may convey positive externalities to South Korea. Economic cooperation can increase mutual trust and may eventually lead to peaceful coexistence.
- Second, by connecting to North Korea, the South can link up to the rest of the mainland Asia easily. The planned reconnection of the Seoul-Shineuiju railway will allow South Korean firms to transport goods at lower cost by land to Northern Asia, and the proposed establishment of a connection between a North-South trans-Korean railway and the Trans-Siberian Railway would enable goods to be transferred to Europe and the Middle Eastern countries.
- Third, investment opportunities for South Korean firms in the North will not only help to revive the North Korean economy but also the South's. South Korean businesses will be able to enjoy cost reductions by reallocating-over-invested facilities in the North. Labour intensive light manufactures such as textiles and clothing offer mutual benefits as the labour and natural resources of North Korea and the capital and techniques of South Korea are highly complementary.

- The gradual phasing in economic cooperation between the two countries would reduce the eventual cost of reunification of the peninsula. If North Korea's transition to a more open economy occurs gradually and with minimal political fallout the cost of unification may well be less than currently estimated.

Role of NGOs in The Development of the North Korean Economy

North Korea receives official aid in the form of bilateral assistance, humanitarian assistance through United Nations agencies (principally the World Food Program), and other channels from more than twenty countries, as given in table 4.3. These figures indicate that North Korea has been receiving aid flows in the hundreds of millions of dollars annually, roughly two-thirds as large as aggregate exports, with the largest contributors typically being the United States, South Korea, China, Japan, and the European Union (EU). However, significant as the aid inflows listed in table 4.3 might be for the North Korean economy, in principle they cannot be used to finance the trade deficit.³⁵

Table 4.3. Aid Balance Sheet for North Korea (in US\$ 1 million)

Donor Country	1999	2000
Australia	3.411	4.505
UN Agencies	2.279	3.905
Other Humanitarian Aid	-	-
KEDO	1.295	0.600
Austria	0.010	-
UN Agencies	-	-
Other Humanitarian Aid	0.010	-
KEDO	-	-
Canada	0.161	0.665
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	0.161	0.665

Table contd...

³⁵ Marcus Noland, "North Korea's External Economic Relations", in Samuel Kim and T. Lee, eds., *North Korea and Northeast Asia*, New York: Rowman and Littlefield Publishers, 2002, p. 174.

Chile	-	0.020
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	-	0.020
Denmark	0.557	1.511
UN Agencies	0.557	1.511
Other Humanitarian Aid	-	-
KEDO	-	-
European Union	0.338	-
UN Agencies	-	-
Other Humanitarian Aid	0.338	-
KEDO	-	-
Finland	0.814	0.883
UN Agencies	0.722	0.807
Other Humanitarian Aid	-	-
KEDO	0.092	0.075
Germany	0.638	-
UN Agencies	0.200	-
Other Humanitarian Aid	0.438	-
KEDO	-	-
Ireland	0.266	-
UN Agencies	0.266	-
Other Humanitarian Aid	-	-
KEDO	-	-
Italy	1.821	0.924
UN Agencies	-	0.924
Other Humanitarian Aid	-	-
KEDO	1.821	-
Japan	1000.433	219.414
UN Agencies	-	35.226
Other Humanitarian Aid	-	90.000
KEDO	-	94.188
Mexico	0.100	-
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	0.100	-
Netherlands	0.237	0.100
UN Agencies	-	0.100
Other Humanitarian Aid	0.237	-
KEDO	-	-
New Zealand	0.261	-
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	0.261	-

Table contd...

Norway	0.816	2.139
UN Agencies	0.816	1.889
Other Humanitarian Aid	-	-
KEDO	-	0.250
Oman	-	0.050
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	-	0.050
Others, not classified	19.056	22.543
UN Agencies	3.486	8.288
Other Humanitarian Aid	-	-
KEDO	15.570	14.255
Peru	-	0.100
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	-	0.100
Philippines	0.001	-
UN Agencies	0.001	-
Other Humanitarian Aid	-	-
KEDO	-	-
Singapore	0.400	0.300
UN Agencies	-	-
Other Humanitarian Aid	-	-
KEDO	0.400	0.300
South Korea	50.500	339.209
UN Agencies	-	-
Other Humanitarian Aid	47.000	114.000
KEDO	3.500	225.209
Sweden	4.404	2.935
UN Agencies	3.831	2.935
Other Humanitarian Aid	0.573	-
KEDO	-	-
Switzerland	-	0.951
UN Agencies	-	0.951
Other Humanitarian Aid	-	-
KEDO	-	-
United States	204.488	33.055
UN Agencies	39.388	18.055
Other Humanitarian Aid	100.000	-
KEDO	65.100	15.000
Total	4785.111	404.095

Source: Noland (2002)

In the mid 1990s, when the natural calamities like flood and draught hit North Korea, it formally asked for help from the United Nations in 1995. Soon after that assistance from various NGOs started to pour in. These NGOs have been a part of recovery and rehabilitation from the incipience of the humanitarian intervention. With a limited budget, the organisations have worked wonder in the North, through trial-and-error experimentation.

Both resident and non-resident agencies have procured locally produced commodities for humanitarian distribution.

The benefits of domestic production have been identified as follows:

- (a) Reduced commodity costs;
- (b) Maintenance of local employment and expertise;
- (c) Rehabilitation and upkeep of local production and facilities;
- (d) Opportunity for modernisation of knowledge and skills;
- (e) Education in international practices, standards and protocols;
- (f) Support for pride and confidence in local efforts as opposed to a 'west is best' mentality;
- (g) Support for appropriate technologies and cultural values (recipes for foods, traditional medicines, Korean designs).³⁶

In aiding for the domestic production facilities, both resident and non-resident agencies have acquired locally produced commodities for distribution. German Agro-Action (GAA) provided flour and sugar to local bakeries for the production of biscuits and soybeans for the production of soymilk to augment school children's nutrition;

³⁶ Erich Weingartner, "NGO Contributions to the Transition from Humanitarian to Development Assistance in DPRK", in E. K Choi, E. Kim, and Yesook Merrill (eds.), *North Korea in the World Economy*, London: RoutledgeCurzon, 2003, p.212.

Action by Churches Together (ACT) was the first to support local production of selected medicines by contributing pharmaceutical raw materials to the Pyongyang Pharmaceutical Factory, at one-third the cost of imported medicines.³⁷

There have been constructions of new facilities by the various international organisations to supply food for local communities, and to provide spare parts and farm implements. The World Vision International (WVI) has not only constructed noodle factories but also introduced hydroponic greenhouse technology for the growth of vegetables and fruits.³⁸ Also a Swedish NGO, PMU Interlife, has constructed a repair workshop for spare parts and farm implements and offers technical advice on the maintenance of farm equipment.³⁹

A big responsibility taken by the NGOs in North Korea is to improve the standard of living by giving them health education. The book 'Facts of Life'⁴⁰ has been translated into Korean language by the United Nation Children's Fund (UNICEF) and distributed to the NGOs and UN agencies working in the country. The NGO sponsored Food Aid Liaison Unit (FALU) and International Federation of Red Cross and Red Crescent Societies (IFRC) have held workshops on nutritional requirements of pregnant and nursing women in several provinces, and have distributed an educational booklet for local professionals.⁴¹

In addition, one of the important parts of the humanitarian assistance in all IFRC programs is the training and capacity building. The staff of both national and

³⁷ Ibid. p. 212.

³⁸ Ibid., p. 213.

³⁹ Ibid. p. 213.

⁴⁰ *Facts of Life* (1993) is the most authoritative expression, in plain language, of what medical science now knows about practical, low cost ways of protecting children's lives and health. It has been translated and used in more than 100 countries.

⁴¹ Erich Weingartner, op. cit. 2003, p. 213.

international level prepare training materials for disaster preparedness, first aid, safe use of essential medicines, modern medical, surgical and obstetric case, management practices, principles of safe water and sanitation management etc. Long-standing relationships built up at the local level have created an environment within which the IFRC may collect data for impact assessment and for the analysis of conditions in country.⁴²

The research institutes of various countries have helped to design devices with modern technology in the hospitals and institutes. The Korean Technical Research Institute, which has ten years of experiences in the field of solar energy, has collaborated with Adventist Development and Relief Agency (ADRA) of Switzerland, and designed, construct, and install 100 solar kitchens in children's hospitals and institutions, as well a pilot solar hot water system.⁴³

There have been efforts to promote soil fertility, quality of seeds, soil preservation and animal husbandry etc in the agricultural sector. One of the projects, looking at the soil fertility management is initiated by Concern Worldwide (CW). An Italian NGO, CESVI has modernised local knowledge about goat breeding, for example, by introducing a rotational grazing system and alternative grazing materials, measures for improved environmental protection and soil preservation, prevention of animal diseases, and hygienic milk processing, and meat production.⁴⁴

Initiatives have been taken for the protection of the environment and rehabilitation. A two-year GAA project has focussed attention on overall energy balance in farming cooperatives, and the introduction of renewable energy sources; also, sustainable resource

⁴² Ibid. pp. 213-214.

⁴³ Ibid. p. 214.

⁴⁴ Ibid. p. 214.

management and conservation practices in watershed and catchment areas and forests will be implemented.⁴⁵

However, there are lot of limitations of these NGOs working in the DPRK. The government carefully monitors all the interactions with the locals. Thus, there is lack of appropriate counterparts, who can help in the relief work. Usually the relationship with the officials, professionals, educational institutions are of short term. There is also the big problem of accessibility of the NGOs in he counties. The poorest locations are hardly visited. Moreover, the lack of information is a major impediment. The crucial data is usually held back by the government sources, which could act important for the assistance.

Problem of Implementation of Development Projects

The following obstructions have been identified by resident NGOs and UN agencies:

- DPRK security considerations which limit the movement of foreigners (and North Koreans) in the country;
- Continued donor concerns over DPRK's military establishment;
- Limited access to relevant ministries within the government at the central and local levels;
- Limited understanding by the DPRK of the difference between foreign investment and development;
- Lack of counterpart NGOs or civil society organisations in the DPRK;
- Lack of transparency in the implementation of humanitarian programmes;

⁴⁵ Ibid., p. 215.

- Absence of reliable statistical data on macro- and micro-economics;
- Overextended capacities within government, which is dealing simultaneously with economic restructuring, political reform and North-South reconciliation.⁴⁶
- Nevertheless, one has to recognise the shortcomings of the NGOs, which creates impediments. First, there is difference in opinion on what constitutes development funding. Also, there is lack of coordination among institutional donors.

In 1999, the World Food Programme (WFP)'s DPRK appeal of US\$ 141.6 million was 125 percent subscribed; the Food and Agriculture Organisation (FAO)/ United Nations Development Programme (UNDP) appeal for of US\$ 113.4m was only 2.1 percent subscribed. In 2000, a reduced WFP appeal of US\$ 106.25 million was 92.5 percent subscribed, whereas a radically reduced FAO/ UNDP appeal of only US \$ 56.4 million still received donations covering less than 5.4 percent of the budget.⁴⁷

The massive amounts of humanitarian aid that have poured into North Korea over the past five years can be turned into an asset if material aid is used as a tool for building relationships and confidence, and is accompanied by the transfer of knowledge. This argues for a gradual transition, where food and agricultural assistance (valued by North's authorities) continues hand in hand with an increasing emphasis on rehabilitation and development, especially in those areas with the higher potential for generating information and ideas.⁴⁸

⁴⁶ Ibid, p. 215

⁴⁷ Ibid, p. 211.

⁴⁸ Ibid, p. 217.

EU-DPRK Relations

The EU-DPRK relation began to change after 1945 and 1996, when the DPRK was facing severe economic crisis and chronic food shortages, the former provided aid to the North and gradually expanded its relations by helping in the Korea Energy Development Project (KEDO) as a member of the Executive Board along side the three founding members, US, Japan, South Korea.

The trade relations prior to 1990s were meagre. However, after that the trade between two regions has continuously increased. EU exports to North Korea increased to about US\$ 229 million in 1997, almost double the US\$ 139 million exported in 1990. In 1999, 20.3 percent of North's total trade was with EU countries, with Germany and Britain being the main trading partners.⁴⁹ (See Table 4.4)

Table: 4.4 EU Imports and Exports with the DPRK (1990-1999)

(US\$ Million)

	Export	Import	Trade
1990	139	100	239
1991	147	119	266
1992	159	173	332
1993	176	117	293
1994	202	115	317
1995	216	92	308
1996	223	110	333
1997	229	99	1328
1998	224	130	354
1999	168	127	295
Total	1883	1182	3065

Source: Yoon (2001)

⁴⁹ Deok R. Yoon, "Economic Implications of Improved DPRK-EU Relations", *The Journal of East Asian Affairs*, vol. XV, no. 2, 2001, pp. 328-329.

North Korea exported mainly textile goods while its imports from the EU consisted mainly of machinery and chemical industrial goods. North Korea has traditionally recorded a trade deficit with EU countries; in 1999, its trade amounted to \$41 million as imports reached \$168 million against exports of \$127 million.

(See Table:4.5)

Table: 4.5 EU Imports and Exports with DPRK by Commodities (1990-1998)
(US\$ 1000)

		90	91	92	93	94	95	96	97	98	Total
Food and live animals	IN	667	1740	1328	1190	801	664	211	75	56	67333
	EX	9182	6936	4902	3472	4985	18016	7581	27664	26166	108907
Beverages and tobacco	IN	46	851	0	0	5	0	7	3	11.5	923
	EX	679	816	907	556	268	261	1446	5041	554	10529
Crude materials, inedibles, except fuels	IN	20174	18682	20745	18830	14169	17727	15299	8645	2773	137048
	EX	2105	1384	2648	6308	5539	14210	9663	5714	2190	49764
Mineral fuels, lubricants and related materials	IN	0	0	0	0	0	12	0	0	0	12
	EX	556	301	421	362	435	251	6280.6	852	3569	13028
Animal and vegetable oils, fats and waxes	IN	0	0	0	0	0	0	0.3	0	0	0.3
	EX	16	4.9	36.1	2906.5	4.3	22.4	2.5	2708.7	8377.5	14078
Chemical and related products, n.e.s.	IN	3835	1247	2902	2189	5674	5849	3542	3459	4684	33381
	EX	10267	11267	19557	29925	18287	32772	37391	37525	25831	222824
Manufactured goods	IN	3640	3645	5629	15764	12024	8962	13002	13224	10810	86723
	EX	20824	34603	26374	36256	48579	37094	33338	30935	13260	281267
Machinery and transport equipment	IN	12290	11689	13642	19030	12059	17450	15356	6150	60905	168575
	EX	85974	66878	74615	80190	11139	90476	100691	102774	137635	350663
Miscellaneous, manufactured articles	IN	38958	69650	86783	68611	67384	38031	62610	51333	43687	527047
	EX	9774	11755	18846	15391	14255	22751	22095	13085	9001	136951
Commodities & transactions, n.e.s.	IN	21119	4876	35413	257	205	754	623	101	21	63370
	EX	1111	1038	2485	1509	1649	472	4282	747	455	13752

Source: Yoon (2001)

The main items imported to North Korea from the EU can be divided into the following three categories:

- Foodstuff is one of the most important items imported from the EU as North is fighting to alleviate its food shortage. In particular, the import of cereals has increased steadily with the worsening food shortage. Fruits and produce, sugar, meat, and other foods are among the imported items.
- North Korea imports materials used for its light industries, which are then reprocessed for export. These are intermediate goods for export.
- North Korea imports investment goods to maintain industry or to improve its production system. It prefers to acquire such goods from EU countries, since they are free of political burdens.

The EU's imports from North Korea consist of labour and resource-intensive goods. A diverse range of light industry products account for the bulk of its exports to the EU, but machinery holds the top place in terms of export as a single item followed by raw materials and manufactured goods.

Clothes recorded the greatest export volume for a single industry followed by footwear. Footwear exports began to increase rapidly in late 1990s, which seems to be an indication that the economic cooperation with South Korea has had a positive influence.

Generally, North Korea's exports to the EU consist of textiles, clothing, and minerals reflecting the fact that North's comparative advantage is determined by its labour force and natural resources. The EU had participated in the KEDO executive

committee since 1997 and provided 75 million Euros as of the end of 2000.⁵⁰ Also, the total economic assistance provided by the 1995 and 2000 is worth approximately \$280 million Euros.⁵¹

It is obvious that the economic relations between EU and DPRK have grown in the recent years. The EU can help North Korea to become a partner of the international community by providing better market access and economic development assistance. More reforms in the North Korean economic system would help to promote the relationship.

Conclusion

The economic crisis and the death of Kim Il Sung in 1994, caused a crisis time for North Korea. Around this period from 1995-1997, Kim Jong Il reverted back to lot of policies based on the Juche ideology. The priorities seems to be first securing the nation, completing the succession from father to son, and reviving the economy, beginning with agriculture. All of this can be accommodated within Juche, without resorting to some major reform.

However there have been some distinctive changes, which might suggest that DPRK is trying to reform in a serious way. The 1998 Constitutional Amendments, made some serious changes in the legal structures to boost the economy. The July 2002 Measures are considered to be the turning point of the North Korean economy. In the future, it is likely to intensify the measures. These changes suggest that North is now in a position from where it cannot turn the clock. The success of the reforms will be determined more by external factors than its domestic activities. In particular, much will

⁵⁰ Ibid, p. 333

⁵¹ Ibid. p. 33.

depend on prospects for the amelioration of relations with the United States. Also the inter-Korean relation holds a major key for the gradual transformation of the North's economy.

These reforms suggests North Korea's extreme caution towards taking any step to major change that will lead to the many complexities of the fundamental nature of the whole communist system, once the forces of the market becomes stronger. North Korea is watching China very closely and trying to develop its own 'North Korean Style of Opening.' North's reforms can be placed in the 'gradualist approach' as it is not pursuing any reform that would lead it faster to the Capitalist system. However, the key Korean question does not relate to the shock therapy versus gradualism debate, but rather to what kind of reforms are a politically feasible stand for the North Korea regime to stay for long and facilitate the ongoing reforms in there.

Infact, the kind of reforms that North Korea is following has been termed as 'muddling through'. This strategy has been largely criticised. The muddling through strategy of North Korea where it is avoiding the core reforms towards a market economy may not be highly unrealistic.

It appears to be feasible because of these reasons:

- Strengthening economic cooperation between two Koreas may be one of the least politically sensitive areas of reform (at least in the early stages of cooperation)
- A more gradual opening could help the North Korean leadership to maintain control over economic development
- Gradual reforms might allow the North Korean leadership to slowly adjust its ideological label that may be attached to the reform process. In this context, it

would be conceivable to expect a gradual shift in political articulation and action toward a “socialist market based economy, North Korean style”.

The South Korean Government and citizenry also may favour gradualism. Even if the cumulative economic costs would be greater than under a “big bang cum rapid unification” scenario.

All the different kind of engagements that the North is seeking is the basic element of its survival. North Korea must continue to embrace change, and intimately engage the outside world.

CHAPTER 5

CONCLUSION

The findings of this research confirms the basic assumptions set forth in the study. Unlike many other transitional economies of Eastern Europe and the former Soviet Union, North Korea adopted a 'gradualist approach' to transition. Analysis of North Korea's distinct socialist economic model reveals that there are significant changes. But the nature and scope of these changes is limited by its overall approach towards reform.

We have seen the first assumption of this study, that North Korea is making an effort towards new forms of linkages without changing its basic structure, and confirmed as outlined in chapters three and four. In the form of partial reform, Pyongyang enacted the Joint Venture Law in 1984. This was a means to attract Foreign Direct Investment (FDI) to rejuvenate its staggering economy. However, the Joint Venture Law could not induce foreign capital as North Korea's environment was not conducive for investment. The legal structures were not streamlined according to this reform. The early 19990s brought about another bout of reform, as a result of desperate attempt of the DPRK to survive the post-Soviet collapse. It adopted measures in 1991 to develop the Najin-Seonbong area as a Free Economic and Trade Zone in conjunction with the Tumen River Development Project (TRDP).

These reforms undertaken by the DPRK, were not of Soviet variety i.e. the 'shock therapy'. The reforms reflect some changes within the system, and not replacing the whole system which is preached by the 'shock therapy'. The dire impact of neo-liberal accumulation strategies on the political, social and economic life of most of the old

Eastern Bloc countries has made the North Koreans content to rest their case. However, there have been a number of similarities between the Chinese and North Korean cases historically. Firstly, North Korea, like China, after the formation of the socialist state, carried out land reform. This was followed, in both these cases, by the adoption of the soviet model of heavy industrialisation in the 1950s.

Like the Chinese counterpart, North Korea shifted to revolutionary socialism in the late 1950s—it was in this period that North Korea formulated its own ‘Juche’ brand of socialism. In order to stimulate the lagging industrial growth, North Korea adopted a mercantilist programme in the early 1970s. Impressed by the initial economic success of this programme in the early 1980s, North Korea tried to establish economic links with the world economy by enacting out a new Joint Venture Law in 1984. This law laid a special emphasis on the inducement of Western technology and capital investment.

In the crisis situation in 1994, after the death of Kim Il Sung, North Korea waged the ‘arduous march’. Kim Jong Il, Kim Il Sung’s successor and son called for ‘Army first politics’ and ‘revolutionary soldier spirit’ in order to mobilise all the nation’s resources and ensuring its survival. In the 1998 constitutional amendments, there was an inclusion of the economic concepts associated with the value systems, such as costs, earnings and profitability. Changes in the agricultural sector as well as industrial sector were also undertaken, to suit the changing times and for improved efficiency.

These economic changes prove our assumption that North Korea is making an effort for ‘reform from within’ while simultaneously adhering to a traditional insistence on ‘rejuvenation through our own strength’. This shows that these reforms have been initiated within the ‘gradualist approach’ and does not seek any change of the existing

system in the near future. Thus, the kind of reforms that North Korea is following can be termed as piecemeal.

Moreover, the reemphasis on 'Chollima' in the late 1990s implies that North Korea has implemented various policy measures to achieve its goal of becoming an economic power with minimum changes in the state system and by promoting the country's reinvigoration based on its strengths. This indicates that the reforms and opening up efforts are in 'North Korean style'. These changes, which affect a wide range of sectors including agriculture as well as industry, and the state system and government policies can be characterised as 'reform from within the system' rather than 'reform of the system'.

The Economic Improvement Measures of July 2002 might be termed as a big step towards the transition from a command economy to a market economy. But the outcome of these measures is still unknown. Nevertheless, it has made the process of transition very pragmatic.

The external developments of the early 1990s have brought North Korea closer to its adversaries. The nuclear crisis has demonstrated that North Korea, even though isolated and with a stagnant economy, has exerted significant pressure on the international community. In a way, the perceived nuclear threat appears to have allowed Pyongyang the assurance of survival of the DPRK regime and bargain for vital economic and technical aid from Seoul, Washington and Tokyo.

There seems to be a realisation and a willingness on the part of North Korea to adjust itself to the wings of change—more accommodation in its relation with South Korea (a big breakthrough achieved after the inter-Korean summit held in June 2000);

new approaches to the West, particularly towards United States of America, Japan and the European Union.

North Korea also receives official aid in the form of humanitarian assistance through United Nations agencies, especially the World Food Programme (WFP), and other channels from more than twenty countries. The massive amounts of humanitarian aid that have been poured into the DPRK over the past few years can be turned into an asset if material aid is used as a tool for building relationships and confidence. This argues for a gradual transition, where food and agricultural assistance continues hand-in-hand with an increasing emphasis on rehabilitation and development, especially in those areas with the highest potential for generating information and ideas.

This proves our second assumption of the study that the brunt of transforming North Korea and facilitating its move towards a transition depends more on the external powers than on the domestic affairs.

By way of a further conclusion to this study, it would be necessary to situate it in the context of larger questions and juxtapose it with similar studies. This study has attempted to be sensitive to the various issues at stake whenever North Korea is dealt with, which become compounded by the lack of information regarding it. North Korea has confounded most of the scholars specialising in the area, by walking out of the economic crisis and surviving through all the hardships. This study has tried to keep in mind that North Korea has its own complex social and economic system that has evolved as a result of its history, culture and geo-politics. By taking a rigid stand towards it and detesting it, we shall only end up impeding our vision and creating a mental siege. The end of the Cold war has thrown away the ideological wall between communism and capitalism. It is an era where no country can exist and survive on its own. The era of

globalisation has left very little scope for any nation to stay and sustain on the policy of self-reliance.

Lastly, the basic point is that North Korea is facing a fundamentally supportive international environment. It is in the interest of the international community to move forward with an open mind and not let the ideological barriers impede the vision. Change and reform by North Korea will be crucial in bringing about peace and prosperity on the Korean Peninsula. Improved US-North Korean dialogues will play a key role in encouraging the North to participate in and acclimatize to the changing world environment. It would be better if the South Korean government continues to promote regional cooperation that would facilitate the success of the economic reforms of North Korea.

For North Korea itself, the realisation of the inevitability of the reforms presupposes the willingness and ability of the leadership to adequately change, adjust or reinterpret the predominant Juche ideology. Kim Jong Il might reverse many policies (as he has done in the past), but ultimately he has to embrace change for the survival of the nation.

BIBLIOGRAPHY

PRIMARY SOURCES

Kim Il Sung, *Selected Writing, Revolution and Socialist Construction in Korea*, New York: International Publishers, 1971.

Kim Il Sung, *On the Juche Idea: Excerpts*, Pyongyang: Foreign Languages Publishing House, 1979.

Kim Il Sung, *Selected Works I-VI*, Pyongyang: Foreign Languages Publishing House, 1979.

Korea Annual, Seoul: Yonhap News Agency, 1998-2003.

White Paper on North Korea's Human Rights, Korea Development Institute, 2003.

SECONDARY SOURCES

Books

Aslund, A, *Gorbachev's Struggle for Economic Reform*, London: Pinter, 1991.

Aslund, Anders, *How Russia Became a Market Economy*, Washington: Brookings, 1995.

Cha, Dong-Se, Kwang, Suk Kim and Dwight H., Perkins (eds.) *The Korean Economy 1945-1995: Performance and Vision for the 21st Century*, Korea Development Institute (KDI), 1997.

Chang, H.J. and Nolan, P. *The Transformation of the Communist Economies: Against the Mainstream*, London: Macmillan, 1995.

Choi, E.Kwan, Kim, E.Han and Merrill, Yesook, (eds.) *North Korea in the World Economy*, London and New York: RoutledgeCurzon, 2003.

- Cook, Paul, Kirkpatrick, Colin and Nixon, Fredrick (eds.) *Privatisation, Enterprise Development and Economic Reform: Experiences of Developing and Transitional Economies*, Cheltenham, Northampton: Edward Elgar 1998.
- Cummings, Bruce, *Korea's Place in the Sun: A Modern History*, New York, London: WW Norton and Company, 1997.
- Cummings, Bruce, *North Korea –Another Country*, New York: New York Press, 2004.
- East Asian Strategic Review 1997-1998*. Tokyo: The National Institute for Defence Studies.
- EBRD, *Transition Report: Financial Sector in Transition*. London: EBRD, 1998.
- Harvie, Charles and Lee, Hyun-Hoon, *Korea's Economic Miracle: Fading or Reviving?*, New York: Palgrave Macmillan, 2003.
- Kim, Samuel S. and Lee, Tai Hwan (eds.) *North Korea and Northeast Asia*: Lanham, Boulder, New York: Rowman and Littlefield Publishers, Inc., 2002.
- Kim, Suk Hi, *North Korea at a Crossroads*, Jefferson, North Carolina and London: McFarland and Company, 2003.
- Koo, B.H, *Political Economy of Self Reliance: Juche and Economic Development in North Korea, 1961-1990*, Seoul: Research Center for Peace and Unification of Korea, 1992.
- Kornai, J. *The Road to Free Economy*, New York: Norton, 1990.
- Kornai, Janos, *The Socialist System: The Political Economy of Communism*, Princeton, NJ: Princeton University Press, 1992.

- Lau, Laurence J. and Yoon, Chang Ho (eds.) *North Korea in Transition: Prospects for Economic and Social Reform*, Cheltenham, Northampton: Edward Elgar, 2001.
- Lee Keun, *New East Asian Economic Development—Interacting Capitalism and Socialism*, New York: ME-Sharpe, 1993.
- Lin, Justin Yifu, Cai, Fang, and Li, Zhou (eds.), *The Chinese Miracle: Development Strategy and Economic Reform*, Hong Kong: Chinese University Press, 1996.
- Linden, Carl and Prybla, Jan. S, *Russia and China on the Eve of a New Millennium*, New Brunswick, and London: Transaction Publishers, 1997.
- Linden, Carl and Prybyla, Jan S, *Russia and China on the Eve of a New Millennium*, New Brunswick and London: Transaction Publishers, 1997.
- Litwak, Robert S., *Rogue States and U.S. Foreign Policy: Containment after the Cold War*, Washington, D.C.: Woodrow Wilson Center Press, 2000.
- Michell, Anthony, “The Current North Korean Economy”, in Marcus Noland (ed.), *Economic integration of the Korean Peninsula*, Washington, DC: Institute for International Economics, Special Report 10, 1998, pp.137-164.
- Nolan, Peter, *China’s Rise, Russia’s Fall: Politics, Economics and Planning in the Transition from Stalinism*, New York: St. Martin’s Press, 1995.
- Noland, Marcus, *Avoiding the Apocalypse: The Future of Two Koreas*, Washington DC: Institute for International Economics, 2000.
- Noland, Marcus, *Korea After Kim Jong-il*, Washington DC: Institute for International Economics, 2004.

- Rosser, J. Barkley, Marina, V. Rosser, (eds.) *Comparative Economics in a Transforming World Economy*, London: MIT Press, 2004.
- Scalapino, Robert A., Sao, Seizabuo and Wanandi, Jusuf (eds.), *Asian Economic Development: Present and Future*, Berkeley, California: Institute of East Asian Studies, University of California, Berkeley, 1985.
- Simmons, Robert R, *The Strained Alliance: Peking, Pyongyang, Moscow and the Politics of the Korean Civil War*, New York: The Free Press, 1975.
- Smith, Hazei, Rhodes, Chris, Diana, Pritchard and Kevin, Magill (eds.) *North Korea in New World Order*, Great Britain: Macmillan Press, 1996.
- So, Alvin Y., Chiu, Stephen W.K. (eds.) *East Asia and the World Economy*, London: Sage, 1995.
- Stiglitz, Joseph E., *Whither Reform? Ten Years of Transition*, Washington, D.C.: World Bank, Annual Bank Conference on Development Economics, 1999.
- Stiglitz, Joseph, *Whither Socialism?* Cambridge MA: MIT Press, 1994.
- Suh, Dae Sook, Lee, Chae, Jin, (eds.) *North Korea After Kim Il Sung*, Lynne Rienner Publishers, 1998.
- Thant, Myo, Tang, Min and Kakazu, Hiroshi (eds.), *Growth Triangles in Asia: A New Approach to Regional Economic Cooperation*, Hong Kong: Oxford University Press, 1998.
- Vantage Point, *North Korea: Uneasy, Shaky Kim Jong Il Regime*, Seoul: NaeWoe Press, 1997.

Williamson, J. "The Washington Consensus Revisited", in L.Emmerij (ed), *Economic and Social Development in the XXIst Century*, Washington, DC: Inter-American Development Bank, 1997.

Williamson, J. "What Washington Means by Policy Reform," in J. Williamson (ed), *Latin American Adjustment: How much has happened?*, Washington, DC: Institute for International Economics, 1998.

Wolfensohn, J. D, *A Proposal for a Comprehensive Development Framework* (A Discussion Draft), Washington: World Bank, 1999.

Yang, Sung Chul, *The North and South Korean Political Systems: A Comparative Analysis*, Seoul: Hollym, 1999.

Articles

Borenzstein, E. and M. Kumar, "Proposals for Privatisation in Eastern Europe", *IMF Staff Papers*, vol.38, June 1991.

Chen, Kang, Jefferson, Gary, and Singh, Inderjit, "Lessons from China's Economic Reform", *Journal of Comparative Economics*, 16, June 1992, pp. 201-225.

Chin, Lim Hyan and Chul, Chung Young, "Is North Korea Moving towards a Market Economy?" *Korea Focus*, July-August 2004, pp. 49-79.

Dewatripont M., and Roland, Gerard, "The Virtues of Gradualism and Legitimacy in the Transition to a Market Economy" *Economics Journal*, vol. 102, pp. 291-300, March 1992.

Dujarric, Robert, "North Korea: Risks and Rewards of Engagement", *Journal of International Affairs*, Spring 2001, vol. 54, no. 2, pp. 465- 487.

- Eberstadt, Nicholas, "Disparities in Socio-economic Development in Divided Korea", *Asian Survey*, vol. I-IX, no. 6, November/December 2000, pp. 867-892.
- Eberstadt, Nicholas, "Hastening Korean Reunification", *Foreign Affairs*, vol. 76, 1997, pp. 77-92.
- Eberstadt, Nicholas, "North and Korea's Interlocked Economic Crisis", *Asian Survey*, vol. XXXVII, no. 2, February 1998, pp. 203-230.
- Gaddy, C. and B. Ickes, "Beyond the Bailout: Time to Face Reality About Russia's Virtual Economy", *Foreign Affairs*, vol. 77, 1998, pp. 53-67.
- Hale, Christopher D., "Mobilization Tactics: The Shifting role of Labor in North Korea", *Korea Observer*, vol. 35, no. 2, Summer 2004, pp. 207-244.
- Hale, Christopher, "Multifunctional Juche: A Study of the Changing Dynamic between Juche and the State Constitution in North Korea", *Korea Journal*, Autumn, 2002, pp. 283-308.
- Hale, Christopher, "North Korea in Evolution: The Correlation between the Legal Framework and the Changing Dynamics of Politics and the Economy", *Korea Observer*, vol. 33, no. 3 Autumn 2002, pp. 363-400.
- Jiho, Shin, "North Korea's Economic Improvement Measures", *Korea Focus*, November-December, 2003, pp. 55-69.
- Khil, Young Whan, "North Korea's Foreign Policy Alternatives", *Korea Journal*, vol. 2, Autumn, 1996, pp. 73-82.
- Kim, Pan Suk, "Choice for Administrative Reform in North Korea: Learning from China?" *Korea Observer*, vol. XXV, no. 1, Spring 1994, pp. 105-137.

- Kim, Samuel S., "North Korea in 1995: The Crucible of Our Style Socialism", *Asian Survey*, January 1996, pp. 61-72.
- Kim, WheeGook, "Problems and Remedies of North Korean Economy: A Strategic Approach", *The Korea Journal of Defense Analysis*, vol. VIII, no. 2, Winter 1996, pp. 223-268.
- Koo, Bon Hak, "North Korea: Back to Isolationism?", *Korea Observer*, vol. XXIV, no. 2, Summer 1993, pp. 221-242.
- Lee, Hy-Sang, "The Economic Reform of North Korea: The Strategy of Hidden and Assimilable Reforms", *Korea Observer*, April 1992, pp. 45-78.
- Lipton, D. and J. Sachs, 'Creating a Market Economy in Eastern Europe: The Case of Poland', *Brookings Paper on Economic Activity*, vol.1, 1990.
- Murphy, Kevin, Shleifer, Andrei and Vishny, Robert, "The Transition to a Market Economy" *Quarterly Journal of Economics*, August 1992, pp.889-906.
- Murrell, P., "What Is Shock Therapy? What did it do in Poland and Russia?", *Post Soviet Affairs*, vol. 9(2), 1993, pp. 111-140.
- Noland, Marcus, "The Future of North Korea's Economic Reform", *The Korean Journal of Defense Analysis*, vol. XIV, no. 2, Fall 2002, pp. 73-90.
- Noland, Marcus, "Why North Korea Will Muddle Through", *Foreign Affairs*, vol. 76, no. 4, July/August, 1997, pp. 105-118.
- Oh John, Grubel M., "The North Korean Nuclear Weapons Crisis: The United States and its Policy Options", *Korea Observer*, vol. XXVI, no. 1, Spring 1995, pp. 97-116.

- Oh, Kongdan and Hassig Ralph, "North Korea between Collapse and Reform", *Asian Survey*, vol. XXXIX, no.2, March/April 1999, pp. 287-309.
- Perkins, Dwight, "China's Gradual Approach to Market Reforms", *Manuscript*, July 1992.
- Pinkston, Daniel A and Saunder, Philip C., "Seeing North Korea. Clearly", *Survival*, vol. 45, no. 3, Autumn 2003, pp. 79-102.
- Pomfret, Richard, "Growth and Transition: Why Has China's Performance Been So Different?", *Journal of Comparative Economics*, vol. 25, 1997, pp. 422-440.
- Rana, Pradumna, and Dowling, Malcolm, "Big Bang's Bust", *International Economics*, September/ October, 1993, pp. 40-43.
- Ryel, Chong Bae, "Development of Inter Korean Economic Relations", *Korea Focus*, January-February 2003, pp. 110-135.
- Sachs, J. and W.T Woo, 'Structural Factors in the Economic Reforms of China, Eastern Europe, and the Former Soviet Union', *Economic Policy*, vol.9, no.18, April 1994.
- Satterwhite David H., "North Korea in 1997: New Opportunities in a Time of Crisis", *Asian Survey*, vol. XXXVII, No. 1, January 1998, pp. 11-23.
- Seong-in, Bae, "North Korea's IT Industry and North-South Cooperation", *Korea Focus*, March-April 2002, pp. 89-100.
- Shuja, Sharif, "The DPRK's Nuclear Program and Policy: Continuities, Changes and Challenges", *Korea Observer*, vol. XXXVII, no. 4, winter 1997, pp. 669-686.

Von Hippel, David F. and Peter Hayes, "Engaging North Korea on Energy Efficiency",
The Korea Journal of Defense Analysis, vol. VIII, no. 2, Winter 1996, pp.
177-221.

Wei, Shang- Jin, "Gradualism versus Big Bang: Speed and Sustainability of Reforms",
Manuscript, March 1993.

Yoon, Deok-Ryong, "Economic Implications of Improved DPRK-EU Relations", *The
Journal of East Asian Affairs*, vol. XV, no. 2, 2001, pp.324-343.

Young, Lee Woo, "North Korea's Social System", *Korea Focus*, July-August 2002, pp.
49-71.

Internet Sources

Hyundai Research Institute (1999) "Investment Environment by Region in North Korea",
<http://www.hri.co.kr/nr>.

Ministry of Unification, Government of Korea (2000), <http://www.unikorea.go.kr>.

