

## IS REFORM FORTHCOMING IN NORTH KOREA?

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Confronted with a world that is now on the march toward openness and reform, the Democratic People's Republic of Korea (DPRK) or North Korea, in recent years, has changed its trade, economic and foreign policies and aims at increasing economic relations with capitalist countries. While maintaining the policy of deterrence, the United States and Japan can utilize political engagement and offer the DPRK inducements and economic assistance to create an external environment that increases the chances of a gradual evolution of reform in the DPRK.

The evolution of North Korea under the current leadership of Kim Jong Il will be decided primarily by internal events; but this paper argues that the external setting is not irrelevant, particularly given the economic difficulties and political isolation imposed on Pyongyang. The assumption is that the North reforms its polity and transfers its economy, including that towards market economies.

The Kim Jong Il regime, like the regime of its predecessor ruler, Kim Il Sung, has been a ruthless government that has, in many respects, done its people terrible disservice. From the standpoint of international security, however, North Korea is not Nazi Germany or even Iraq. It is an alienated, defensive state facing possible extinction.<sup>1</sup> Although North Korea is heavily armed, a war would only hasten its demise, contributing nothing to the solution of the serious problems the Kim Jong Il regime faces. Even though isolated and with a stagnant economy, the recent nuclear crisis would demonstrate that Pyongyang has been capable of exerting significant pressure on the international community.<sup>2</sup>

Even now that it is confronted with a world that is on the march toward openness and reform, North Korea seems willing to stay as a rigid Stalinist country. Whether a totalitarian system such as that of the DPRK, however effective it might have been, can continue to operate in the post-Cold War era with the same

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degree of effectiveness and without any major change, is the question facing not only students of politics but also the decision-makers involved in the Korean question, and above all, the DPRK leadership.<sup>3</sup> And following the collapse of the Soviet Union, Pyongyang finds itself increasingly isolated diplomatically. Economic advisers, human rights groups, academics, etc., are all awaiting the opportunity to travel throughout North Korea, and they expect Kim Jong Il will open up the entire North Korean state. But any such opening is fraught with risk for the regime. It is, however, easier to change strategies than it is to change institutions. Since the middle of the 1990s, North Korea has shifted strategic direction, seeking to escape the dilemmas in which it is caught. Its attitude to South Korea has become more receptive and resilient. This was evident in the signing of the Agreement on Reconciliation, Nonaggression and Exchanges and Cooperation with South Korea on 13 December 1991 and the subsequent continuation of high level political talks. The North joined the UN, along with the South. Moreover, despite the anti-American rhetoric which still pervades the North Korean mass media and official statements, Pyongyang has increased its diplomatic overtures towards Washington, D.C. It has accepted the October 1994 U.S.-DPRK deal and finally joined the Council for Security Cooperation in the Asia Pacific (CSCAP). All of that represents a substantial redirection in North Korea's foreign policy lines.

### **Reforms and Changes in North Korea**

The big problem for North Korea is lack of transparency. This lack of transparency is in policy-making, in how influence flows, who makes what inputs, where decisions are really made, who is in and who is out. Lack of transparency means that foreign governments have less opportunity to influence the policy-making process in the way they do elsewhere. On many issues, foreign governments do not even know the real decision-makers on the issue at hand. The North Korean leaders may feel comforted by this, but it actually feeds the perception that the DPRK stands apart and the suspicion that its goals may be concealed. It also denies North Korea the important benefits of international interaction — the opportunity for the “inside” policy-makers to understand what other countries think, to influence as well as to be influenced, to persuade, to build confidence, to prevent misunderstanding and miscalculation.

Lack of transparency also means that on many issues, it is not known if the North Koreans are sincere or not. This gives rise to the more speculative interpretations of the DPRK's foreign and military policies. It may not be appreciated in

Pyongyang, but it is a major problem for North Korea that when it does speak candidly, it has to cross this wall of skepticism.<sup>4</sup>

However, a change is visible in North Korea's economic policy outlooks, and the evidence suggests that the DPRK has, in the last few years, undertaken limited reform in the economic and trade areas.

It is suggested here that, faced with economic stagnation at home and the loss of its former patrons, Pyongyang, since the early 1990s, has been trying to make some adjustments. It is noted that trade with, and economic assistance from, the Soviet Union and China helped prevent economic decline for many years. These two states accounted for more than half of North Korea's foreign trade. But Boris Yeltsin's new Russia and Chinese insistence that North Korea pay for its imports in hard currency have had a devastating impact on the North's economy. It is in the process of partially opening its economy and it has indicated the need for economic assistance from abroad, including the Republic of Korea (South Korea) or the ROK. The challenge is how to turn to the 'West,' the ROK, Japan, and other countries without compromising the nation's political integrity or ideological base. Increased economic exchange with potentially hostile nations is not seen by Pyongyang as a particular problem, provided the focus remains on the acquisition of foreign exchange and technology of use to the DPRK. In itself, this is an indication that the current DPRK leadership is well aware of its economic situation and of the need to adopt new measures to rejuvenate its economy.

### **The North's Economic Woes**

The North Korean economy is in shambles, and the country is very much isolated. Estimates vary about the severity of the economic crisis, and statistics are almost certainly unreliable, but the trends are less so. According to the *Third World Quarterly*, the DPRK's GNP fell by 3.7 percent in 1990 and 5.2 percent in 1991.<sup>5</sup> From 1989 to 1995, according to Bank of Korea estimates, North Korea suffered a 25 percent decline in real GDP. It is estimated that in 1996, the North's economy contracted a further 3.7 percent, which was on top of a decline of 4.6 percent in 1995.<sup>6</sup> Moreover, massive floods in 1995 and 1996 greatly exacerbated the North's endemic and growing distress. The bad news continued into 1997 with a severe drought. The South's economy, in contrast, grew by 8.4 percent in 1991. The South's GNP appears to be more than ten times greater than the North's, while its per capita income, estimated at \$6,498 in 1991, was more than five times greater

than the DPRK's estimated \$1,064. At the time of writing this paper, there have been some dramatic developments in the Korean peninsula, such as the Asian currency crises, the economic meltdown in South Korea, new peace talks, famine in North Korea, etc. But these events can all be accommodated within the author's basic themes.

Industrial production and exports have been badly hit by Pyongyang's inability to afford the hard currency now needed to buy spare parts for the Russian equipment used in many factories. But the most critical problem is the supply of oil.<sup>7</sup> Until 1990, Russia was the North's major supplier. Oil shortages have slowed factory output and led to a decline in agricultural activity. The decline in exports means a further decline in hard currency reserves necessary to purchase oil. This will cause the economic crisis to intensify still further. The oil crisis also has serious military implications, since the North can spare little fuel for exercises. Without exercises, the fighting ability of military forces deteriorates quite rapidly.

To resolve its economic crisis and to achieve economic self-sufficiency and modernization, the North needs assistance from abroad. The most obvious sources of aid and investment are South Korea, the US and Japan. The North also hopes to get billions of dollars in reparations from the Japanese for the suffering imposed by Japan during the colonial period. To attract foreign capital and investments, the DPRK has revised its constitution, adding clauses encouraging joint ventures, guaranteeing the rights of foreigners, and establishing a basis for expanded ties with capitalist countries. Pyongyang has also promulgated laws on foreign investment, joint ventures and foreign enterprises, allowing 100 percent foreign ownership. On December 28, 1991, the DPRK Administration Council created a Free Economic and Trade Zone (FETZ) around the cities of Rajin and Sonbong. This action can be interpreted as a sign of new thinking on economic issues in Pyongyang.

This economic motivation underpinning the new regional policy (security and diplomatic interests), in turn, seems to be connected with the regime's concern about its own survival. There is a widespread consensus among North Koreans that the current economic crisis is caused, at least in part, by Kim Jong Il's economic mismanagement — including the waste of resources on nonessential projects. North Korea's self-reliant development strategy has proved self-defeating. While chronic shortages of raw materials, energy, capital and technology have crippled industrial productivity, the failure to supply consumer goods has demoralized the population, breeding the seeds of potential social instability. Faltering economic performance and the limits of people's tolerance for hardship could have a devastating political outcome. Economic hardship and popular demoralization may create social and

political instabilities, which are the more formidable perceived threats to the regime than war with South Korea. Economic backwardness deprived the North of the economic leverage that the South has so extensively exploited in its *Nordpolitik*.<sup>8</sup> Recognizing this, Pyongyang is seeking rapprochement with its enemies and has embarked on its southward diplomacy. North Korea's political leaders seemed to have reached the conclusion that incremental opening and economic revitalization achieved through the southward policy is less risk-prone than continued economic closure and stagnation. The pursuit of the southward policy is not simply designed to overcome diplomatic isolation, but is a calculated move designed to ease economic hardship via an incremental opening of new channels of economic cooperation with rich capitalist nations. Rulers in the North seek to balance the perceived needs of national security and regime survival.

Important economic changes took place in the DPRK at the end of 1993. In what may have been the first admission ever of failure by Pyongyang, the Korean Workers' Party (KWP) Central Committee announced in early December 1993 that the Seven-Year Plan (1987-93) had not been fulfilled, owing to the difficulties arising from the demise of the Soviet Union and the former socialist bloc. The enormity of North Korea's economic problems arising from the failure of the plan was reflected in the government's inability to formulate a new long-term economic program. Instead, the following three years (1994-1996) were designed as a "period of adjustment in socialist economic construction," in which priority was to be given to agriculture, light industry and foreign trade.<sup>9</sup>

One could note here that the development of the mining, power and metal industries, as well as rail transport, was given the highest economic priority by the DPRK government in the late 1980s and early 1990s. However, in the period 1994-96, emphasis was to be switched to agriculture, light industry and foreign trade — a somewhat surprising development and an indirect admission that the economic policy of the past had failed.

Judging from the amount of economic data it publishes, North Korea is one of the most secretive countries in the world. The questionable reliability and the ambiguities of the limited official data provided additional problems in any assessment of the country's economic performance. In spite of these and other difficulties associated with estimating the national output of a communist country and converting the data into U.S. dollars, several estimates have been made. One such estimate assessed North Korea's gross domestic product (GDP) in 1995 at about US\$28 billion and per capita GDP at US\$1,240, while South Korea's GDP is US\$200 billion and its per capita GDP is US\$4,600.<sup>10</sup> With its goal of achieving self-suffi-

ciency and its pursuance of an inward-looking development policy (with little integration into the international economic order), North Korea's strategy most closely resembles that of China under the leadership of Mao Zedong. North Korea is one of the world's most highly defense-constrained economies. According to one Western estimate, North Korea spent 21.7% of its GNP on defense in 1991. According to official government figures, however, only 12% of budgetary expenditure was allotted to defense in that year.<sup>11</sup>

The DPRK's rigid adherence to central planning has been, among other reasons, a major factor in constraining economic growth in recent years. Despite the implementation of market-oriented economic policies elsewhere, there were few signs, by early 1998, that Pyongyang was ready to introduce any degree of economic liberalization or decentralization. However, the government did proceed with the legal and other institutional structures necessary to introduce Chinese-style special economic zones (SEZs, mostly in the northeastern region) in the near future.

In addition to the need to modernize the economy in all fields, serious problems of inefficiency (concerning arable land, labor, energy, transport and mining, in particular) have impeded development. North Korea occupies about 55% of the total area of the Korean Peninsula, having a total area of 120,538 sq. km. (46,540 sq. miles). However, only 20% of North Korea's land is arable, and a generally harsh climate restricts the output of arable farming to one crop per year.

### **Impact and Implications**

A severe economic crisis in the DPRK has also raised fears of an exodus of refugees to the South. If this were to happen, the Republic of Korea or ROK could find itself overwhelmed with an enormous economic and political burden. Thus, on the Korean Peninsula, the old threat of military expansion has been joined by the new threat of social explosion. This poses unfamiliar challenges for United States and Japanese strategy, which has traditionally concentrated on preventing and repelling a conventional military attack. The new circumstances require a reconsideration of the established policy toward North Korea based on deterrence, economic isolation and political contact. The challenge now is how to maintain deterrence, while also coping with the possibility of chaotic change in the DPRK. While maintaining the policy of deterrence, the United States and Japan can utilize political engagement, and offer inducements and an economic carrot to the DPRK, in order to create an external environment that increases the chances of a gradual

evolution of reform in the DPRK rather than instability. The United States, with its defense commitments to South Korea and Japan, as the preeminent economic power in Northeast Asia, is in a particularly good position to launch this initiative.

The objectives of Washington and Tokyo should be twofold. First, they should create an external context that encourages the trend of reform in the DPRK. While the evolution of North Korea under the current leadership of Kim Jong Il will be decided primarily by internal events, the external setting is not irrelevant, given the economic difficulties and political isolation presently imposed on Pyongyang. Second, the United States and Japan should offer the DPRK inducements to cooperate in implementing measures that strengthen the security of the Korean Peninsula at a particularly delicate time. The pursuit of a nuclear program will increase the risks of confrontation on the peninsula, but taking steps to fulfil the October 1994 U.S.-DPRK deal could help.<sup>12</sup>

The overall purpose of the American, Japanese and South Korean policy of engagement *vis-a-vis* North Korea should be to encourage North Korean policies that strengthen peninsular stability. This overall approach is designed to transform the security environment of the Korean Peninsula and to sharply diminish the risk of war. Moreover, removing obstacles to the North's international isolation would lay the foundation for a peaceful reconciliation of the two Koreas. To that end, the author proposes that we rethink the wisdom of avoiding Pyongyang. Instead, new multilateral initiatives should be taken to bring North Korea into the international community and make Pyongyang an integral part of the Western-oriented economic system. This is consistent with a common Asian perspective, that to change a society, one must engage it and influence it through a wide spectrum of multilateral initiatives. The United States, Japan and South Korea should be considering ways and means to involve North Korea in regional cooperation. Regional economic cooperation could help relax political tension in the region and the world as a whole, and accelerate the Asia-Pacific region's integration with the world economy.

However, for North Korea to be productively involved in any regional economic and environmental initiative would require a change in its attitude and openness, as well as a massive training and development effort to bring its capacity up to requirements. And to build confidence and experience in the norms of behavior in international society, efforts to engage North Korea should begin now, in such fields as environmental protection and economic development.

Cooperation in environmental awareness and protection may include such

issues as acid rain; the transportation and dumping of toxic waste; the prevention of marine pollution by harmonizing national policies, laws and regulations; and ecosystem and fisheries conservation. North Korea certainly has shipping and fisheries interests in the region and is a member of the International Maritime Organization and the United Nations Food and Agriculture Organization. By calling attention to relatively politically benign but mutually threatening environment issues, such as those mentioned above, states sometimes can achieve broader objectives.

In the economic sector, the United States could support the Northeast Asia Economic Forum and the Tumen River Area Development Project where North Korea shows great interest. These regional initiatives, mainly economic and environmental, could promote confidence-enhancing measures and thus reduce tensions, including the tension on the Korean Peninsula. It is thus vital for regional stability that every effort be made to bring North Korea into the international community. This could lead to the establishment of diplomatic relations between Pyongyang and the United States, and Pyongyang and the West, the lifting of economic sanctions, and foreign cooperation in the economic development of the DPRK.

### **Suggestions**

North Korea, in recent years, has changed its trade, economic and foreign policies, and is likely to continue its two-track policy of continuing ideological indoctrination while increasing economic relations with capitalist countries. This paper suggests that while maintaining the policy of deterrence, the United States and Japan can utilize political engagement, and offer the DPRK inducements and economic assistance to create an external environment that increases the chances of a gradual evolution of reform in the DPRK. The assumption is that the North will reform its polity and transfer its economy, including that towards market economies.

The North's movement towards market economics could start soon, particularly if it becomes clear that Vietnam is making a successful transition from a planned economy to a market one. In recent years, Vietnam has recorded remarkably high growth rates, while ensuring equity and national predominance by adopting policies that, in some ways, balanced the role of the Communist Party, state and private sectors. Reforms, in general, were undertaken, while keeping socialist principles and institutions intact. An overview of the most important political developments in Vietnam since 1986 leads to the conclusion that the current changes in Vietnam will help Hanoi defend its sovereignty, not only economically, but also culturally and politically. It seems likely that Vietnam will develop in tandem with



China, but with a lesser role for the party in state affairs. Moreover, Pyongyang's closest ally and friend, China, is now committed to market reforms.

There are good reasons to believe that the economic defeat of communism in Eastern Europe and the former Soviet Union has made it self-evident that market economics work better than centrally-planned ones. The success of West Germany compared with East Germany, where the same people prospered under one system but failed to do so under the other, was the nearest thing to a controlled experiment that economic life ever sees. Similarly, the success of the expatriate Chinese communities compared with the economic stagnation of mainland China really leaves no doubt as to which system better meets the needs of ordinary people. In the late 1990s, this argument can be made with greater confidence than would have been possible even in the early 1980s. To choose a centrally-planned system over a market one now would simply look perverse.

In addition, the very fact that so much of the world is adopting the market system itself makes the shift more durable. It is not just China and Russia which have made what is probably an irreversible shift away from centrally-planned economies. India is also trying to abolish some of the controls that have hampered its economic development. If these three giant economies are set on change, the change is in universal practice because, on a global scale, small countries like North Korea and Cuba, which remain centrally-planned, are not relevant to the world economy. Even they will eventually change, if Vietnam and the record of other former Communist countries is any guide. In this context, it is argued, whatever happens in China will have a profound effect, principally on North Korea.

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### Notes

<sup>1</sup> Andrew Mack, "Will North Korea Survive?" *New Asia Pacific Review*, Vol. 3, No. 2, 1997, p. 27. Professor Mack concludes: The question is no longer will the Kim regime collapse, but when.

<sup>2</sup>For details, see Sharif M. Shuja, "North Korea's Nuclear Programme: A New Perspective," *Australia and World Affairs*, No. 32, Autumn, 1997, pp. 34-43. The author argues that the West's perception that North Korea is developing an atomic bomb has, in fact, strengthened Pyongyang's hand in international negotiations in general. Thus, the fears of North Korea's future nuclear weaponry have allowed the North to accomplish multiple objectives, such as the enhancement of its prestige *vis-à-vis* South Korea and the attainment of an advantageous bargaining position in dealings with the South. Pyongyang thus appears to have offset its inferiority in conventional arms and strengthened its diplomatic and political leverage in negotiations with Washington, Tokyo and Seoul.

<sup>3</sup>This view was expressed by Professor Dae Sook Suh, a leading authority on North Korean affairs, in an interview with the author in Sydney on July 1, 1996.

<sup>4</sup>This is based on the author's research and observations. Also, this author benefits from readings of a number of East Asian specialists, including Stephen Fitzgerald, Denny Roy, Owen Harries, Robert A. Scalapino and James Cotton.

<sup>5</sup>Barry Gill, "North Korea and the Crisis of Socialism," *Third World Quarterly*, Vol. 13, No. 1, 1992, p. 125.

<sup>6</sup>"Grim data from Seoul underlies Pyongyang's crisis," *Reuter*, July 9, 1997.

<sup>7</sup>The DPRK requires approximately 2 million tons of crude oil every year. Up until the end of 1992, 1.2 million tons came from China and 800,000 tons in exchange for products of the DPRK's arms and industry from countries in the Middle East. Since February 1992, China has only been delivering 550,000 tons on credit. Due to its shortage of foreign exchange, Pyongyang is forced to resell a certain amount of this oil, which further exacerbates the energy crisis. The latter has caused a decline in industrial productivity.

<sup>8</sup>For details, see Sharif M. Shuja, "Rethinking Korean Diplomacy: The Challenge of Transition from the Cold War," in *Proceedings of the 15<sup>th</sup> International Symposium on Asian Studies*, Hongkong: Asian Research Service, 1994.

<sup>9</sup>*The Far East and Australasia 1995*, London: Europa Publications Limited, 1994, p. 456.

<sup>10</sup>Chris Cook (compiled), *Asian Political Almanac*, New York: Facts on File, 1994, p. 6.

<sup>11</sup>Cited in *The Far East and Australasia 1995*, *op. cit.*, p. 460.

<sup>12</sup>According to this deal, North Korea would be supplied with a new power reactor with modern technology incapable of producing weapons-grade plutonium. It would be a big gift to North Korea but a greater gift to the people of America and the world if it defused the threat of war in Korea.