DREAMING AN IMPOSSIBLE DREAM? OPENING, REFORM AND THE FUTURE OF THE NORTH KOREAN ECONOMY

By Ruediger Frank

North Korea’s leadership seems intent on clawing back from the economic reforms of 2002, despite evidence that reform is the only alternative to economic collapse.

University of Vienna economist Ruediger Frank argues that the international community should hold its nose, accept North Korea’s status as a nuclear power, and encourage it to return to a policy of reform and opening.

AFTER THE MISSILE LAUNCH IN APRIL and the second nuclear test in May 2009 it seems less realistic than ever to think about opening and reform in North Korea. Inter-Korean relations are deteriorating almost daily. Hard-line orthodoxy has been returning to North Korea since late 2005 at an alarming pace as the country enters an era of socialist neoconservativism that emphasizes self-reliance and mass campaigns, cracks down on previously promoted market activities and stresses anti-imperialist struggle more fiercely than throughout most of the last decade. Foreign policy is in sync, retracting the progress of the recent past, canceling agreements and adding military provocation to the increasingly strident rhetoric in the official media. But is there no hope for improvement? To understand the options for the future, it is useful to consider and evaluate the developments that have led us to where we are now.

As was to be expected, the reforms after the 2000 inter-Korean summit and the measures adopted by North Korea in July 2002 created a domestic situation that became increasingly risky and burdensome for the leaders in Pyongyang. Despite the many failures and shortcomings of the reforms, in a relatively short time North Koreans discovered, many for the first time, that there is life outside the grace of the state. They suddenly and quickly saw the power of money. Their value system changed accordingly and moved closer to what most of the world considers as a given. The socialist system of economic management and political guidance started looking outdated. The once largely egalitarian society experienced a
swift diversification — suddenly there were winners and losers, many unanswered questions and growing individual ambitions.

To make matters worse, tens of thousands of young North Korean women had a chance to experience, on a daily basis, the benefits of a hypermodern South Korean working environment at Kaesong, the inter-Korean joint industrial park in North Korea. We can only imagine how profoundly that changed their minds, and what kind of stories they told back home.

And nearby Mt. Kumgang, previously a famous recreation area for North Koreans, was turned into a moneymaking business catering to the class enemy from the South. Later, tour buses from the South entered not only the scenic but isolated mountain, but also the densely populated city of Kaesong. As cultural exchange, it was surreal. North Koreans on the street were stared at like animals in a zoo. All they could do was stare back.

It is hard to believe, however, that all of the workers exposed to the South’s influence have remained silent. As in other formerly socialist countries, one imagines that the true believers must have written angry petitions to the higher levels demanding an end to this humiliation. Reports from the provinces must have flooded into Pyongyang, telling about new kinds of crimes, growing dissatisfaction of losers and reckless behavior by winners. Local functionaries were frustrated by all the anger directed at them, and some will have passed it on to the higher levels. We will know more after the archives are opened.

North Korea is increasingly becoming like the former socialist countries of Eastern Europe. Who would have thought 20 years ago that these seemingly stable socialist states would all be gone in a few weeks? North Korea looks strong and sturdy from the outside, but internally, it is slowly decaying.

Socialism is built on the premise of moral superiority. This can make it enormously resilient despite severe hardships as long as the state does not violate its own ideological principles. Kim Jong-il correctly analyzed the situation in 1995 when he wrote: “The most serious lesson of the collapse of socialism in several countries is that the corruption of socialism begins with ideological corruption, and that a breakdown on the ideological front… ends in the total ruin of socialism.” But ideological corruption has taken place. As we have seen in Eastern Europe, false claims of moral superiority can become a heavy liability. Strength suddenly turns into weakness. And indeed, there are growing signs that the leaders in Pyongyang are about to lose the hearts of their people.

Kim Jong-il now seems to be trying to turn back the wheel of time. Today, we see a complete reversal of the policies of 2000-2004. In January 2001, in the official Rodong Sinmun newspaper Kim Jong-il wrote: “Things are not what they used to be in the 60s. So no one should follow the way people used to do things in the past.” However, in March 2009 he declared that officials should “energetically lead the masses by displaying the same work style as the officials did in the 50s and 60s.” We can chart this march backwards: The utilization of the terms “socialism,” “Juche” (the official state ideology of North Korea) and “Songun” (the government’s “military first” policy) by North Korean state media has doubled from 2004 to 2009. (See Figure 1).

Among the new old buzzwords are single-minded unity (ilsimtan’gyul), collectivism (chiptanjuui), self-reliance (charyokkaengsaeng) and mental power (chongsinryok). Today, it is hard to believe that back in January 2002, People’s Korea quoted Kim Jong-il as pointing “to the fact that foreign trade should be conducted in

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accordance with the mechanism and principles of capitalism.”

MISSILES AND NUCLEAR TESTS: TRYING TO SAVE STABILITY

The slow but steady disintegration of society caused by the economic reforms prompted the North Korean leadership to take countermeasures. They have been trying to restore domestic stability since at least 2005. But movies such as “Schoolgirl’s Diary” criticizing the moral degradation and growing individualism of society, campaigns against long hair and Western dress and a fight against corruption and excessive market trading have not helped.

It actually took Eastern Europe decades to change. However, until the late 1980s there was the cohesive power of the Soviet Union to stifle reform. This factor is missing in the case of North Korea, unless we regard the external pressure by the US and its allies as an equivalent. And the former strength of the government — the existence of a fatherly leader who was respected and revered like a deity — is now turning against the system as succession is not officially resolved (although Kim’s youngest son has reportedly been named his successor), Kim Jong-il appears on TV as a self-sacrificing sick man, and even Pyongyang is full of rumors and uncertainty about what is going to happen next. Will the leader live until the year 2012, when the 7th Party Congress could be the forum for an orderly power transfer?

Even if it turns out to be true that the third son, still in his 20s, has been elected under a slightly changed name in a constituency with a highly symbolic number, this would only add to the picture of weakness, insecurity and hysteria. Few long-term experts on North Korea believe that such a dynastic succession would work, certainly not without a thorough and long ideological preparation and the building of solid real power. The strengthened National Defense Commission could, with some luck, take over as the long-awaited forum for collective leadership. But as a facilitator of a power transfer to a grandson of Kim Il-sung, it will fail. After he has governed for years as his father’s son, the recent attempts at increasing the independent ideological posture of Kim Jong-il come too late. He will be remembered as a moon, not as a sun. Unlike his father, he will not be able to let one of his sons shine brightly enough. He might try, but in vain.

Two and a half years have passed between the first nuclear test before the Party anniversary in

![Figure 1: Number of KCNA Articles with the Terms “Socialist/Socialism”, “Juche” and “Songun” in the 4th Quarters 1997-2008, and the 1st Quarter 2009](image-url)
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October 2006 and the missile test after the reelection of Kim Jong-il to the National Defense Commission and before Kim Il-sung’s birthday in April 2009. But then, only a few weeks later, Pyongyang played one of its very few remaining cards, this time with no noticeable auspicious occasion. In terms of foreign policy, that was a waste. Even more importantly, the nuclear and missile tests of May 2009 make it now almost impossible for China, without losing face, to ask the international community to exercise restraint. North Korea threw away a valuable card, and offended its only remaining ally. The only explanation is that the test was primarily for domestic reasons, indicating that the domestic situation in North Korea must be enormously tense.

THE GREAT FAILURE OF THE WEST
The failure of what were once surprisingly hopeful developments is also a failure of the international community. In the second half of 2002, the US was gearing up for the invasion of Iraq. Hence, a successfully self-reforming rogue state was the last thing President George W. Bush wanted. The EU failed to act as a balancer and issued restrictions on development assistance to North Korea in November 2002. In Japan, conservatives used Kim Jong-il’s extraordinary confession on a few abductions and the release of five Japanese citizens for domestic political purposes. We can only imagine what this has done to Kim’s reputation among the North Korean elite.

We could have been satisfied with the fact that international aid organizations were allowed unprecedented free movement inside North Korea, that markets were given more influence, that North Koreans were interested in learning from the West. However, even the Greeks showed more sophistication at Troy than the West did in North Korea. Demands for more access, more transparency, more information and more concessions were understood as blunt attempts at data mining and bringing about regime change. Consequently, international organizations were curtailed in their activities and most of them finally driven out of the country.

A crucial point is that we failed to support the reformers. Indigenous reforms need domestic promoters. They take a great risk and must be able to show a few successes every once in a while to convince the leadership to stay the course. But we did not give pro-reform forces in North Korea a chance. Washington refused to talk to “pygmies” and to reward bad behavior. It provided hardliners in North Korea with one argument after the other to make reformers look like state enemies. The case of Macao-based Banco Delta Asia, one of the banks where North Korea had its overseas accounts, is just one of many examples. Just a few weeks after a breakthrough agreement at the Six Party talks in September 2005, pressure by the US Treasury Department after allegations of money laundering led not only to severe problems for this bank, but also sent shockwaves through the international financial system to the effect that North Korea for a couple of months had to conduct its international business in cash. The promised light water reactors were not delivered; rather, KEDO, the Korean Peninsula Energy Development Organization that had been
created after an attempt in the 1990s to divert Pyongyang’s attention from nuclear weapons to energy, was dissolved. Removal from the list of terror sponsoring states proceeded painstakingly slowly and under massive new demands. Both sides interpreted the February 2007 agreement on this differently, and the new administration of President Barack Obama in Washington indicated that it was not really interested in North Korea. As a result, today nobody in Pyongyang would be stupid enough to propose trusting the US. What the Americans take seriously, it seems to North Koreans, are only tough measures.

AN INVOLUNTARY CONSERVATIVE ALLIANCE

By 2005, the reforms had failed to deliver, and North Korea’s society had started to disintegrate. Something had to be done, but there was one dilemma. The reforms were the responsibility of Kim Jong-il, most likely taken at his initiative. One weakness of a personalized autocracy is that the leader is by definition infallible. In a leader-based system mistakes cannot be admitted lest one undermine the legitimacy of the leadership and the whole system. Furthermore, it is relatively easy to withhold economic freedom, but it is very risky to grant it first and then take it away.

In this complicated situation, North Korea has gratefuly taken the opportunity offered by the new conservative South Korean policy of pragmatism. The sunshine policy of Presidents Kim Dae-jung and Roh Moo-hyun left North Korea defenseless, a fact not well understood in South Korea. The North Korean system is built to withstand pressure, but it has no defense against friendly behavior. When North Korea eventually collapses, this will be the long-term result of the engagement policy between 2000 and 2007. It is a recurring irony of history that those who sow are not those who reap.

When conservative President Lee Myung-bak took office in early 2008, ending the rule of the liberals, he also quickly ended what he regarded as the ineffective, naive and unconditional support his predecessors gave to the North. After sighing with relief, all the leadership in Pyongyang had to do was to offend Lee every once in a while to make sure that he sticks to his guns. Lee was depicted as being anti-unification, a fascist, a maniac and a sycophant. He was accused of breaking the two inter-Korean summit agreements of June 15, 2000 and October 4, 2007, cooperating with the former colonial master Japan and taking sides with the “US warmongers.”

At the same time, the North’s siege mentality was reinforced with reference to the enemy’s military exercises, aerial espionage and diplomatic attacks over human rights and the peaceful exploration of space. Grudgingly, ordinary North Koreans had to accept that under such conditions, anything that could weaken socialism had to be eliminated. Decades of nationalist propaganda ensured that regime stability, officially circumscribed with “independence,” is valued higher than individual economic well-being. Hence, unwittingly, the South Korean government has provided the pretext for the North Korean leadership to kill one reform after the other, including, as it seems, a few human scapegoats.

NO FUTURE FOR REFORM AND OPENING?

No matter whose fault, the current state of economic reform and opening in North Korea is sobering. Starting in December 2008, the North

**Figure 2**

ECONOMIC GROWTH IN NORTH KOREA ACCORDING TO THE DPRK BUDGET (GROWTH RATES IN %)

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<tr>
<th>Year</th>
<th>Planned Expenditure</th>
<th>Planned Revenue</th>
<th>Achieved Revenue</th>
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Korean version of the Great Leap Forward, called “great revolutionary upsurge” (hyongmyongjok taegeojo), has been resuscitated and is replacing the creative application of market principles. North Koreans are asked to join mass campaigns like the current 150-day-battle in agriculture.

In many ways, this seems like déjà-vu. We know how this will end. The effort at massive motivation of the workforce will loose its steam as people become exhausted; the absence of private ownership will reduce incentives to work hard and efficiently; and the bureaucratization of economic decision-making will lead to wrong allocations of resources, a lack of initiative and innovation, and declining output. As an industrial economy, North Korea needs international economic cooperation to generate revenue, and it needs the input of foreign capital and technology for its development. International isolation will block access to all these sources and is not sustainable. Figure 2, based on official North Korean data, shows how the economy has been contracting since the end of the reform period.

This provides a ray of hope. Unless North Korea simply collapses, the leadership has no choice but to find ways to return to international economic cooperation and a new round of market reforms, this time focused on industry. The related decision making process is largely domestic. The outside world can help by signaling that despite deep concern over recent military provocations, we are ready to cooperate under certain conditions.

External pressure is not only raising fears in North Korea, it also supports anti-reform forces. A visionary US president could give North Korea what it wants and get ready to live with a stabilized, independent, economically successful and politically confident pseudo-socialist system for a couple of years. This includes accepting North Korea’s status as a nuclear power, the establishment of diplomatic relations with the US and Japan, the conclusion of a peace treaty formally ending the Korean War, membership in all relevant international organizations, loans and foreign direct investment.

Admittedly, it is hard to imagine that the West will ever be ready to swallow such a bitter pill. On the other hand, there are few realistic alternatives. Creative ways for diplomatic recognition, economic support and security guarantees such as regional integration of North Korea into the framework of the ASEAN+3 mechanism should be explored. In the end, this could provide a second chance for North Korea, and for us. Let’s hope both sides will use it more wisely.

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