North Korea’s Economic, Political and Social Situation

Report commissioned by the
Royal Danish Ministry of Foreign Affairs

Nordic Institute of Asian Studies

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Preface

This report covers current political, economic and social affairs in a mismanaged, poverty-stricken North Korea. Reliable information about the still-isolated country is scarce, as the picture conveyed by official channels mostly consists only of propagandistic statements and wishful thinking.

The best-informed North Korea specialists can be found in South Korea and in some US based research institutions and think tanks. We have based this report on interviews with highly qualified South Korean experts from academia, business and the political sphere, as well as on the latest available written material from international North Korea observers. We are much indebted to our highly qualified informants, listed in the following page. A special thank is due to Mr. Leif Donde, the Danish Ambassador to the Republic of Korea, for setting up several of the important meetings and interviews. All conclusions and suggestions in the report are obviously our responsibility.

Although North Korea is deeply affected by economic collapse and highly dependent on foreign aid, it remains unpredictable and thus a cause of concern for neighbouring countries. Likewise, although the system has collapsed, the leadership responsible for this situation seems unaffected. This paradox underscores that North Korea is a special case, not easy to grasp or to deal with.

We have therefore both in the introductory and final sections emphasized the necessity of perceiving North Korea through culturally sensitive lenses. This is certainly not meant to establish some kind of "cultural excuse" for a bad system, but to provide a realistic and constructive point of departure for any kind of contact with the particular system.

Despite the fact that the present and unacceptable political system in Pyongyang seems intact, we find that advocates of an engagement policy have convincing arguments and have already established a solid record of positive achievements with regard to promoting change in North Korea. This is reflected in this report, which also points out at some areas in which Danish and EU assistance could supply an important input to the economic and political reform process.

Copenhagen, December 15, 2004

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Ra Jong-yil, Senior Advisor to the President for National Security

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Summary of Findings and Suggestions

The political situation

- North Korea's political system has developed as an internal affair without the impact of any other foreign ideas than those accepted by the leadership. The political authority of the regime is based on pre-existing traditional values and beliefs. Continued isolation will contribute to preserve the system unchanged.

- Despite the reasons for the North Korean leadership to avoid change, as well as the internal difficulties of realizing change, change is underway. The process will most likely gain speed, even with the current regime intact.

Economy

- The huge state-owned production is still marred by a partly planned distribution of industrial goods, a lack of raw materials, a poor infrastructure and a devastating shortage of energy. All sectors are in a terrible state. Only between 20 and 30 percent of the industrial capacity is utilized.

- North Korea’s trade balance exhibits a chronic trade deficit. The lack of foreign currency is devastating, as North Korea cannot cover domestic consumption by itself. China continues to sustain North Korea and is still its most important trading partner. However, South Korea has developed into a significant export market for North Korea and indeed, in 2002, was the biggest export market.

- A private economy has emerged, evolving around the officially accepted new markets, which have taken over the distribution of commodities, a task traditionally taken care of by the state. The markets are a result of a push from below.

Market reforms

- On 1 July 2002 a price and wage reform was introduced. This measure is widely perceived to be a clear sign that North Korea has begun serious market-oriented reforms. The reform has created a money-economy and is a necessary and important step in making the price-mechanism work.

- Economic incentives have been introduced throughout the state sector and more power and responsibility have been transferred to managers in order to increase profits. The market-oriented turn is evident, but results are yet to be seen. Macro-economic management continues to be radical, ad hoc and non-transparent.

- Experiments with special economic zones have had varying results. The newly agreed-upon Kaesong Industrial Zone, conveniently placed in the vicinity of Seoul, looks promising due to the heavy investments projected by Hyundai Asan.

- The current momentum and benefits of the market reforms are at risk due to a general lack of trust in the official banking system, which has left the central bank unable to control the cash flow and thereby the monetary policy.

Competitive sectors

- There are, as such, no competitive sectors in the North Korean economy, but the cheap and comparatively well-educated labour and low land rent are assets conducive to attracting foreign investments in the future. There is room for the development of light industry, as there is both a local and a regional market for cheap consumer products. Processing by commission seems to be the model for economic cooperation in the near future, as it has yielded the highest returns so far. The North Korean leadership has given the highest
priority to the development of IT. This has proven to be of interest for South Korean companies, due to the skilled but cheap labour.

**Rebuilding North Korea**

- The North Korean economic crises can be attributed to the energy shortage. Rehabilitating the energy sector is an urgent project. Support from international stakeholders in cooperation with South Korean counterparts is needed. The lack of energy is estimated to have led to an 80 percent reduction in the use of agricultural equipment.

- The agricultural sector has experienced a slow recovery after the famines throughout the late 90s. However, a gap still exists between North Korea’s demand for food and the actual production of cereals. Even with continued support from the international community, North Korea is still far from meeting minimum requirements. Malnutrition therefore remains widespread.

- There is a need for outside assistance in order to develop a sustainable land utilization plan with a focus on reforestation and securing terrace cultivation. Processing of organic fertilizer and waste treatment as well as water supply could be included in such projects.

- Due to the prolonged isolation of the country there is an urgent need for training programs for North Korean experts, especially within in agricultural sector and for experts dealing with monetary policy. The success of international assistance depends on both relevant skills as well as on a better mutual understanding between the parties concerned. Denmark and the EU should strengthen existing training programs and develop new ones, in order to support the reform process.

- International relations are formally improving, not least because of the opening of diplomatic relations with EU countries. However, relations between the USA and North Korea are characterized by mutual distrust, and in the absence of more accommodating relations between the two countries, the rebuilding of North Korea will confront massive obstacles.

**Engaging North Korea – problems and prospects**

- Despite difficult conditions, international aid organizations report that the situation is improving. Engagement over time creates trust and makes cooperation easier.

- The human rights situation is still highly problematic, and this issue remains outside of the frame of dialogue, as it is perceived by North Korea to be threatening to the regime. Based on post-war experiences with containment, embargo and self-imposed isolation, it seems clear that an engagement policy, which aims at improving living conditions for ordinary people will contribute to creating a basis for a more open and free society in the long run.

- The most complicated political and moral issue in dealing with North Korea is how to avoid strengthening the regime that has been the cause of economic collapse and the ensuing human suffering. The most convincing argument, however, is that entry into an active dialogue with the regime, while assisting the nation in its recovery from virtual collapse will make it difficult for the regime to maintain hostile relations with the outside world. Fear and xenophobia have been the fuel heating an aggressive nationalism; sophisticated engagement which takes cultural differences into account, will make the same things obsolete. The world is changing North Korea, and thus the regime is slowly beginning to change as well.
The Political and Social Situation in North Korea

An abnormal state

North Korea is usually depicted as a bizarre and mysterious country. A virtually closed country with an emperor-like ruler in a family dynasty is indeed an anachronism in the 21st Century. North Korea is today an abnormal state, in which a Stalinist-like political system still holds power, although the economy has collapsed and more than 20 million people are suffering a tragic fate as hostages of this outdated system. The hereditary succession of the supreme leader and a fanatical cult surrounding the leadership keep North Korea outside of the realm inhabited by normal societies and states, and thus also outside of normal international relations. Only the suspicion surrounding the country’s nuclear ambitions draws the attention of the outside world, and this suspicion is cultivated by North Korea, since a possible nuclear program is the only card they can play in negotiations with traditional enemies first and foremost the USA.

Misperceptions leads to undesirable policy outcomes

This country’s relations with the surrounding world can be seen as a “case in the long history of international relations, in which a lack of knowledge of the other side creates misperceptions and results in undesirable policy outcomes”. The worst scenario among such undesirable outcomes is another war, but even status quo cannot be recommended, as that may only prolonged suffering of an already stricken population.

The brief sketch above gives a widely shared – and basically correct – view of North Korea, but does not paint the whole picture. It is snapshot view, therefore it lacks depth and nuances and it fails to capture incipient signs of change. In dealing with North Korea, one needs a better understanding of how and why the current situation developed, particularly by placing it in a relevant historical and cultural context.

A divided country

The division of the Korean peninsula as a consequence of World War II and the ensuing agreements made by the allied powers deprived Koreans of their chance to develop a modern country after 35 years of colonial suppression under Japan. The division and subsequent war (1950-53) froze the relations between the two halves of the peninsula at a level several degrees below zero. During the ensuing cold war, the regimes in Pyongyang and Seoul were each backed by one of the two competing superpowers of that time, and each Korean regime used the other as a part of their raison d’être. While military rule in South Korea was disguised as intended liberal democracy, in the North the traditionally-based leadership cult with its strong sense of broken nationalism was disguised as a “people’s democracy”, i.e. communist dictatorship.

Paternalistic power

Half a century spent as antagonistic powers vying for legitimacy has formed the two halves of Korea. In the South, nationalism and a period of “guided democracy” or rather benevolent authoritarian leadership was gradually replaced by an American oriented two-camp political system with a presidential democracy. This notwithstanding, a traditional deference to great leaders is not alien to South Koreans, who seem somewhat torn between their knowledge of democratic ideas, institutions and procedures, and an understanding – sometimes a craving – for paternalistic power and, hence, strong leadership.

North Korean political culture

The North Korean version of power has not been “contaminated” by Western liberal ideas. In the relative isolation enforced upon the country by way of an effective trade embargo, and self-imposed by way of a proclaimed self-reliant development strategy, North Korea’s political system has developed as an internal affair without the impact of any other foreign ideas than those accepted by the leadership. Hence a leadership
An economy in total disaster

Although the system held the banner of independence high, its economy could not survive the consequences of the collapse of the Soviet Union and communist Eastern Europe as well as the shift to a market economy in China. From about 1990, all sectors declined, and the self-proclaimed, self-reliant economy was thus disclosed to be rather dependent upon economic and technical support and on trade by barter. It can be said that North Korea has failed to adapt to a changing world, and this leads us to the problem at hand: will the necessary change eventually take place, and if so, how can this process best be supported by outside forces?

Economic ruin necessitated change

It is important to maintain that ideas of making any substantial change did not occur to the North Korean leadership before the economy lay in ruins. Whether this was due to a lack of reliable flow of information from the shop floor to the leadership, or whether it was an effect of the political ideology which constantly blames outside forces for internal problems, thus making self-assessment and reflection difficult, is hard to say. Most probably both aspects played a significant role. The results, at any rate, were economic collapse, famine and hunger necessitated a search for ways to remedy the disaster.

A sacred ideology?

A state ideology which emphasized self-reliance in economy, politics and defense made it difficult to find a remedy that would not put the survival of the system at stake. How sacred, then, was the ideology? Briefly put, the Juche or self-reliance ideology was established to escape pressure from China and the Soviet Union during the disputes between these large neighbours in the late 1950s and early 1960s. Each of these Communist powers wanted to recruit North Korea into an alliance against the other, but North Korea needed support from both of them, and remained independent while benefiting from continued support of both powers.

The role of leadership

The ideology thus helped to rescue the nation, and increasingly became a sacred philosophy, holding a quasi-religious status. A central part of Juche in this connection is the role of the leadership. While the nation is described as the family writ large, the political leader takes the role of the father, in the same way as this role ought to be fulfilled in the traditional hierarchal, patriarchal family. Kim Jong-il finds his legitimacy within this system. The great leader chose his son as heir, and the son’s political project is sanctioned, simply because he is the faithful guardian of the heritage received from his father. This is no coincidence, but rather a consequence of an all-embracing ideological construction of reality, imbued upon the population through upbringing and education as well as through clear-cut and extensive political socialization. In the absence of alternative interpretations, the state ideology completely monopolizes the way in which the world is perceived by most people in the North.

Political authority

From a logical, rational perspective, a system which is unable to feed its population and unable to introduce necessary reforms in order to revitalize the economy should be a system under retreat. A collapse has actually been expected since 1994, when the founding father of North Korea, Kim Il Sung, died. Today, however, due to a growing insight among observers of North Korea’s political culture, this expectation is less prevalent. Alexandre Mansourov, a keen observer of North Korean affairs, explains: “The Dear Leader inherited an unprecedented cult of personality from the Great Leader. The cult of the “Father of all Koreans”, “the Sun of the Nation”, and the “Human God” combines the images of Neo-Confucian familism, especially the virtue of filial piety and ancestor worship, psychological chords of quasi-supernatural matriarchal shamanism, buttressed by the elements of Japanese emperor worship and overtones of...
This description mentions, in condensed form, the most important Korean religious traditions and historical legacies, and the implicit message is that the cult is not simply an imposition of an unwilling populace. Just as the political authority has been based on pre-existing traditional values and beliefs, it goes without saying that the effect of continued isolation has been conducive to North Korea’s ideological project. Hence a continued isolation will contribute to preservation of the system in its present state.

The above emphasizes that cultural sensitivity is needed in order to rationally and constructively deal with North Korea. To further stress this point, it is recommended that one make the comparison with other, non-communist, countries in the region. South Korea has already been mentioned: here a leader (both in politics and business) is expected to command power, but also to be a caring person. Here, too, a leader is respected, feared and seldom openly challenged, and the description of a model leader most often evokes references to a father or a teacher. Further south, in Japan, the emperor is still seen as an important symbol of national power and unity, and despite the highly propagated consensus democracy in modern Japan, hierarchical power relations permeate all institutions.

From the above one can see that the present leadership is greatly constrained by the ideas and institutional structures that long have served them well. It may also explain why a rational response to the growing problems of the North Korean economy has been so long overdue, and why it still seems highly problematic for the leadership to fully acknowledge the problems, take responsibility, and move forward in a new and viable direction. According to well informed sources, the North Korean leader was impressed when he visited Shanghai and other booming parts of China. He also expressed this to his entourage, but added: this can not be realized in my country due to political reasons.

The political reasons which make it difficult for the North Korean regime to follow the path of China or Vietnam have been outlined above: the rigidity of a bankrupt system that manages to remain in charge despite its failures, because no alternative exists, and, just as important, because the entire population is trained to perform it’s role, just as cogs on the wheels of a huge social machine. Another reason that this particular system has survived and resisted change longer than any other system under some form of communist rule has to do with the division of the country and the traditionally hostile relationship to the USA, Japan and South Korea. Although relations have taken on a more accommodating tone lately, the loss of its former communist allies still provides the regime with reasons for maintaining a siege mentality.

North Korea’s concern over its own security is well known and also reasonably justifiable. The ceasefire agreement of 1953 has never been replaced by a peace accord. US troops in South Korea are there to deter a North Korean attack, but from Pyongyang’s point of view, these troops and the annual joint military maneuver with South Korean forces may have a more proactive agenda. This fear has become more acute with the last change of administration in Washington, and especially after the war in Iraq. Within this context, North Korean nuclear ambitions, though worrisome, are not irrational. Granted the important role of the USA in the region, and its close relations with South Korea, nothing much will happen in North Korea without a mutually satisfactory agreement on the nuclear issue.

Even though this international dispute may be solved, how can the North Korean regime be dealt with? How can open, democratic countries defend their engagement in North Korea while the system clings to outdated and inhumane forms of governance?
The question that calls for a convincing and acceptable answer is: How can one enter into involvement with North Korea without fortifying the country’s leadership? There is no scientifically correct approach to the North Korea problem, engagement stands as the opposite of containment, and the choice between the two is both a moral and a political one.

Kim Dae-jung, the former president of South Korea, initiated an engagement policy towards North Korea termed the *Sunshine Policy*, because he believed that the containment policy of the former South Korean regimes (backed by the U.S.) had proved ineffective. Despite rumours of coup attempts and regime collapse, particularly articulated around 1994 when Kim Il Sung died, the North Korean regime has survived and it seems even more “secure” today, despite a collapsed economy. Does this imply that six years of Sunshine Policy was ineffective as well?

The following is an excerpt from a one-hour interview with Kim Dae-jung, conducted on January 15, 2004 in which the former president explains the fundamentals of his ideas:

“Simply put, the Sunshine Policy is a policy that changes communism. After WWII, for 50 years Europe was divided into Eastern Europe, the Soviet Union, and Western Europe. But through various treaties and exchanges within the fields of economy and culture, much could be changed. West Germany provided a lot of support to East Germany. So the people of the Soviet Union and Eastern Europe began to know about Western Europe and began to envy their prosperity. Who could have imagined that the Soviet Union, which had divided the world, could open up and change its regime? It was not the US missiles or the nuclear weapons that changed the Soviet Union and it was not the Cold War. It was the peace and exchange and cooperation toward the Soviet Union that brought about this change. Since the Korean War, China was seen as a war criminal and the US and other countries pursued their containment policy towards China. But there was no change in China. Then President Nixon visited China and Deng Xiaoping pursued reform and the Western community provided investment to China. As a result, China has experienced a lot of change, and now we can go into China as merchants and do our business. In the case of Vietnam, the US even went to war and they could not succeed. But through establishing diplomatic ties and encouraging trade Vietnam became an open country where we can freely go. Castro, on the other hand, has been ruling Cuba for 50 years. It is just a small Island, but [through containment] we have been unable to change Cuba.

The Western countries, including the European countries, pursued exchange and cooperation and thus they were able to open up these communist states. There is a lesson that can be learned towards communist states that we have learned for 50 years, if we open up then they can change, but with containment nothing changes. Communism is like bacteria, if it is in the shadow it will grow but with sunshine it will die. If we continue containment, oppression and communism will grow, but with openness, and if we embrace it in the international community, it will not be able to maintain its regime. That is why we have been trying to expand our exchange with North Korea. The more exchange there is, North Korea will open up, it can be embraced in the international community and thus it can be the second Russia or the second China.

Do you think that the North Korean leaders don’t know about this? They know, but without opening up they cannot survive. With the collapse in communism in the Soviet Union and in Eastern Europe they are not receiving support from these countries any more. Also the support from China is insufficient. They cannot but open up and receive support from the
international community. North Korea does not say it out in the open, but they want to become the second China or the second Vietnam. Investing in North Korea and providing economic assistance will eventually make North Korea become the second China; the second Vietnam, so this is very beneficial for the peaceful unification of the two Koreas. Our objective is not the collapse of the regime or punishment of the North Korean people. It is to carry out peaceful unification and set up a political system according to the opinions of the people”.

Kim Dae-jung points out that political isolation is good for maintenance of the North Korean system. Due to the economic collapse, however, it is impossible for the regime to maintain its isolationistic policy. To survive, the system must open, but opening up is the same as signing its own demise. Engagement thus ensures a political change in North Korea in the long run.

To sum up this brief introduction, it seems indisputable that dealing with North Korea implies dealing with Kim Jong-il. This is inevitable. A former Minister of Unification, who was active in getting the engagement policy of Kim Dae-jung on track, and held numerous meetings with his northern counterparts, including the supreme leader, due to this, said: “every success in negotiations with the North can be seen as a nod by Kim Jong-il, and every collapse as a failure to get this nod from him.”

This implies that every action – from relief aid to development projects – will appear to support the present leader and his system. But, as Kim Dae-jung explains: in isolation the regime is unchallenged. With each positive nod from the leader regarding international involvement in North Korea, isolation is undermined. The subtle dialectic characterizing the present situation in North Korea means that the international community has a chance to establish relations that unavoidably will promote change. This is the realization of the dictum “change without change”, a Buddhist-like approach to reality that we need to understand in order to cope with apparently bizarre and mysterious parts of the world that are seldom approachable with our own ways.

Despite the many different reasons for the North Korean leadership to avoid change, we will argue in this report that change is underway and that the process most likely will gain speed, even with the current regime intact. Sophisticated engagement is thus preferable, and both the necessary cultural sensitivity and an engagement policy that takes the interests and policies of the different players into account is called for.
North Korea’s Economic Situation
– A Background

Severe lack of information
North Korea’s economy is difficult to grasp. Information is scarce, official statistics non-existent or flawed, and the gap between the official doctrines of the socialist planned economy and its realities are immense. When we asked our informants about the level of knowledge in surrounding countries regarding North Korea’s economy, the answers all showed that nobody seems to have an adequate picture of what is really going on.

Gradual economic collapse
With the collapse of the communist bloc in 1990–91, North Korea not only lost its market but also essential economic support from the Soviet Union. A self-reliant political ideology could not rescue the North Korean economy as a partly imposed isolation fell upon the country. Structural weaknesses in the planned economy developed into clear-cut disasters. What followed was gradual economic collapse and human tragedy. North Korea’s economic history shows that this situation was not always in the cards. Generally, one can depict the development of the North Korean economy as successful until 1970. It was based on the traditional communist model, relying on heavy industry, basically coal, steel, chemical products and machine tools. This priority was due not least to efforts to establish a national military industry. Over the span of about 20 years, an urban, industrial society was created. The post-1970 period, however, can be characterized as two decades of stagnation and one of disastrous decline.8

Economic indicators
From 1990 to 1998 the North Korean economy was in recession for nine consecutive years. The result was that the economy shrank by up to 55 percent and reversed the North Korean living standard to the level of two decades before. From 1999 and onward the GDP has stabilized with a positive growth rate (1.8 percent in 2003), marking a slow recovery from the hardship of the 90s.

North Korea’s GDP Growth Rate (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>-6.3</td>
<td>-1.1</td>
<td>6.2</td>
<td>1.3</td>
<td>3.7</td>
<td>1.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Bank of Korea

However, this positive development cannot overshadow the fact that the nominal GNI during 2003 (USD 18.4 bn) was only one twenty-eighth of that of South Korea. The per capita GNI was only USD 818, which is less than one thirteenth of that of South Korea.9 The human consequences behind these figures are, needless to say, alarming.

North Korea’s Economic Indicators, 2003

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (m)</td>
<td>22.5</td>
</tr>
<tr>
<td>Nominal GNI (US Dollar bn)</td>
<td>18.4</td>
</tr>
<tr>
<td>Per capita GNI (USD)</td>
<td>818</td>
</tr>
<tr>
<td>GDP Growth Rates (%)</td>
<td>1.8</td>
</tr>
<tr>
<td>Export (USD m)</td>
<td>1.066</td>
</tr>
<tr>
<td>Import (USD m)</td>
<td>2.049</td>
</tr>
<tr>
<td>Trade balance (USD m)</td>
<td>-983</td>
</tr>
</tbody>
</table>

Source: Bank of Korea, Korean Trade-Investment Promotion Agency (KOTRA). Includes inter-Korean trade.
North Korea's debt was estimated in 1997 by the South Korean National Intelligence Service to be USD 11.9 bn. Of this USD 7.4 bn is owed to Russia and China and USD 4.6 bn is owed to Japan and to western governments and banks. Since the 1980s not much has been paid back – this has seriously hampered North Korea's international reputation.

**The civilian economy**

North Korea can be described as having two economies: a civilian economy and a military economy. We will return to the latter below. The civilian economy consists of the huge state-owned production as well as an emerging private sector. The private economy is equivalent to the farmers markets or black markets that emerged back in 1995, as the planned economy of consumer goods collapsed.

Key sectors of the state industry include coal mining, construction, electricity, machinery, steel and transport with the single most important contributor being the agricultural sector. The huge state-owned production is marred by a still partly planned distribution of industrial goods, lack of raw materials, a poor infrastructure and a devastating shortage of energy. All sectors are in a terrible state. As a result, only between 20 and 30 percent of the industrial capacity is utilized.

As a consequence, the employees are only receiving 50–80 percent of their salaries.

### North Korean Industrial Sector, 2003 (% of total GDP)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishery</td>
<td>27.2</td>
</tr>
<tr>
<td>Mining</td>
<td>8.3</td>
</tr>
<tr>
<td>Manufacturing (Light industry 7%; Heavy industry 11.5%)</td>
<td>18.5</td>
</tr>
<tr>
<td>Electricity, Gas, Water</td>
<td>4.5</td>
</tr>
<tr>
<td>Construction</td>
<td>8.7</td>
</tr>
<tr>
<td>Services (Government 22.9%; Other 9.8%)</td>
<td>32.8</td>
</tr>
</tbody>
</table>

Source: Bank of Korea

**The planned economy**

Whether the North Korean economy still can be characterized as a planned economy is a theoretical discussion. It has collapsed, but the old structures still remain partly in function, although far from adequate to supply the people with minimum requirements. Constrained and limited markets, official as well as black, have emerged, filling the gap left by the former all-inclusive planned rationing system. KOTRA (Korea Trade - Investment Promotion Agency) assesses that the rationing system for more than 90 percent of consumer goods is gone, whereas industrial goods are rationed to a greater extent.

**Trade and the trade balance**

Foreign trade has, in accordance with Juche principles, played a minor role in North Korea’s economy, amounting to about 10 percent of GNP. The most characteristic feature of North Korea’s foreign trade is the chronic trade deficit, which has been increasing in volume. The current negative trade balance at USD 983 million illustrates these difficulties, as North Korea’s import is twice the size of its export. As a result, North Korea is left with a severe lack of foreign currency. Efforts have continuously been made to increase production for export. Farming and marine facilities are, for example, being expanded. Earning foreign currency is essential if North Korea is to cover its own domestic consumption, mainly the provision of food, and to purchase much-needed energy for further production. In the long run this lack of foreign currency is all the more devastating because it restricts necessary investments in foreign technology and know-how. This vicious circle endangers North Korea’s economic recovery.
North Korea has two main partners in foreign trade: China and South Korea. This dependency on a very few countries is exhibited in the table below. In 2003 three nations, China, South Korea and Japan stood for 64.5 percent of the total trade, an improvement from 70 percent in 1986 (the three nations in this case were Russia, China and Japan). Despite a gradual improvement, this dependency still makes the North Korea’s foreign trade extremely vulnerable.

North Korea’s Export and Import by Country, 2003 (USD m; %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Export</th>
<th>Import</th>
<th>Total</th>
<th>Trade Share%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>395.3</td>
<td>627.6</td>
<td>1,022.9</td>
<td>32.8</td>
</tr>
<tr>
<td>South Korea</td>
<td>289.3</td>
<td>435</td>
<td>724.2</td>
<td>23.2</td>
</tr>
<tr>
<td>Japan</td>
<td>173.8</td>
<td>91.5</td>
<td>265.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>50.7</td>
<td>203.6</td>
<td>254.3</td>
<td>8.2</td>
</tr>
<tr>
<td>India</td>
<td>1.6</td>
<td>157.9</td>
<td>159.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Russia</td>
<td>2.8</td>
<td>115.6</td>
<td>118.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Subtotal</td>
<td>913.6</td>
<td>1,631.1</td>
<td>2,544.6</td>
<td>81.7</td>
</tr>
<tr>
<td>Total</td>
<td>1,066.3</td>
<td>2,049.4</td>
<td>3,115.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: KOTRA Overseas Trade Center Reports.

China has sustained North Korea since 1990 with a cumulative deficit of more than USD 4 bn. As this implies, the distinction between trade and aid is murky. Some trade takes place on real market terms, but there is also a great deal on especially favourable conditions. During 2003, North Korea’s export to China increased with 46.1 percent, which could be attributed to a rise in the export of metal products, clothing and marine products. A sharp rise in the import of energy (mainly crude oil) and food resources as well as nonferrous metals and wheat/rice resulted in a 34.3 percent increase in imports from China. The total trade increased significantly with 38.6 percent from 2002 to 2003. In 2003 China thereby resumed the position as North Korea’s most important trading partner.

In 2002, South Korea, the other main partner, for the first time took the position as North Korea’s most important export market. This development is remarkable in two ways. First, North–South trade was (officially) non-existent as recently as 1988. After a slow start, the trade has increased markedly over a short time span, and the construction of the Kaesong industrial zone will most likely enhance this development. Second, the political consequences are obvious, as the North becomes increasingly dependent on the South. This might not ease the rhetoric, but it will constrain North Korea’s behaviour to a greater extent. On a long-term perspective the increased contact between the people of North and South may turn out to be the most decisive factor in changing the North Koreans mentality. The expectation is thus that an increase in economic cooperation will produce important political effects.

As the only country with which North Korea has a trade surplus, Japan makes an interesting case. Historic issues, such as North Korea’s kidnapping of Japanese citizens and Japanese fears of North Korea going nuclear, have hampered not only trade but also relations as such. Consequently, from 2002 to 2003 total trade decreased with 28.2 percent. A new momentum in trade is therefore heavily dependent on the settlement of the nuclear issue. Meanwhile, Japan continues to support North Korea with rice aid for more than USD 100 million. Also notable is Russia’s tiny influence compared to the crucial role played by the Soviet Union before its collapse in 1991.
The EU is playing a still more important role as a trading partner to North Korea. In 2001 the total trade volume was USD 313.5 million and in 2002 USD 347.7 million, up 10.9 percent. As a share of the total foreign trade volume, North Korea’s trade with the EU was 13.8 percent in 2001 and 15.4 percent in 2002. Included in the import figures of both 2001 and 2002 was German beef aid. North Korea has (2002) increased its import of machinery, which continues to be the largest import product, whereas the largest export products, clothing, mineral products, base metals and jewelry were stagnating.

**North Korea’s Trade with EU (USD m; %)**

<table>
<thead>
<tr>
<th></th>
<th>North Korea’s Export</th>
<th></th>
<th>North Korea’s Import</th>
<th></th>
<th>Total</th>
<th></th>
<th>% of total Foreign Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>81.1</td>
<td>66.5</td>
<td>232.5</td>
<td>282.7</td>
<td>313.5</td>
<td>347.7</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Source: KOTRA Overseas Trade Center Reports

**Exports by item**

The table on export by item illustrates North Korea’s dependency on the agricultural sector as a whole. In 2001 animal products became the most important export item, surpassing textiles. Since 1995, though with some fluctuation, textile export has been decreasing, mainly due to stagnating trade with Japan. The huge changes in growth rates illustrate how vulnerable North Korea’s export is to all kinds of disturbances. Instability is the general picture as North Korea tries to muddle through.

**North Korea’s Exports by Item (USD m; %)**

<table>
<thead>
<tr>
<th></th>
<th>2001 Amount</th>
<th>% of Export</th>
<th>2002 Amount</th>
<th>% of Export</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal Products</td>
<td>158.4</td>
<td>24.4</td>
<td>261.1</td>
<td>35.5</td>
<td>64.9</td>
</tr>
<tr>
<td>Textiles</td>
<td>140.5</td>
<td>21.6</td>
<td>123.1</td>
<td>16.7</td>
<td>-12.4</td>
</tr>
<tr>
<td>Machinery, Electrics &amp; Electronics</td>
<td>97.94</td>
<td>15.1</td>
<td>85.6</td>
<td>11.6</td>
<td>-12.6</td>
</tr>
<tr>
<td>Mineral Products</td>
<td>50.5</td>
<td>7.8</td>
<td>69.8</td>
<td>9.5</td>
<td>38.3</td>
</tr>
<tr>
<td>Base Metals</td>
<td>60.2</td>
<td>9.3</td>
<td>57.4</td>
<td>7.8</td>
<td>-4.7</td>
</tr>
<tr>
<td>Chemicals, Plastics</td>
<td>44.6</td>
<td>6.9</td>
<td>42.4</td>
<td>5.8</td>
<td>-5.0</td>
</tr>
<tr>
<td>Botanical Products</td>
<td>42</td>
<td>6.5</td>
<td>27.5</td>
<td>3.7</td>
<td>-34.6</td>
</tr>
<tr>
<td>Jewelry</td>
<td>14.1</td>
<td>2.2</td>
<td>14.6</td>
<td>2.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Wood Products</td>
<td>5.6</td>
<td>0.9</td>
<td>10.2</td>
<td>1.4</td>
<td>81.7</td>
</tr>
<tr>
<td>Other</td>
<td>36.4</td>
<td>5.6</td>
<td>43.4</td>
<td>5.9</td>
<td>19.3</td>
</tr>
<tr>
<td>Total</td>
<td>650.2</td>
<td>100.0</td>
<td>735</td>
<td>100.0</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Source: KOTRA Overseas Korea Trade Center Reports

**The military economy**

The military economy benefits from the “military-first” policy announced by Kim Jong-il on 1 January 1995. In September 2002 it was developed into “developing defense industry first”, replacing the old Marxist doctrine of “developing heavy industry first”. The intention was to give first priority to military production under distribution of the scarce resources. This has been done at the expense of the already run down civilian economy. Historically, the military has been organized as a people’s army, based on self-reliance so as not to be a burden to the people. Thus, the military has developed its own production facilities, not only to cover its demand for arms, but
also to produce a range of goods to supply the civilian economy. The former Director General of the South Korean National Intelligence Service, Lim Dong-won, assesses the military economy to be more affluent, which makes sense considering the priority given in the political ideology.

Military spending one-fifth of the national budget

In an assessment of the North Korean economy, the military is often put in a special category, as its share of the entire production is hard to assess. The military operates several hundred factories, employing up to half a million people. Since 1997 the publicized military spending has been about 14 percent of the national budget, but qualified estimates suggest that a more accurate figure is 18-20 percent. What is certain is that “military - first” priority is a political one, and should be regarded as such. It is not a guarantee for the most efficient distribution of resources. Having said that, not much in North Korea is in line with the law of the market and the military economy does, through wages and supply production, contribute to the economy as a whole.

Export of missile technology

The export of missile technology is often viewed as a way to provide hard currency, of which North Korea is in dire need. But, as evidenced by the fact that the value of arms export is the nearly the same as the value of arms import, most of the foreign currency earned in this way does not leave military circles. Contributions to civilian production in terms of foreign currency reserves therefore remain limited. On top of that, the export of missile technology is the main argument for the US to list North Korea as a terrorist state, making its entry into the international community difficult.

Military build up at any expense

Because North Korea feels threatened, the military build up happens at any expense, including at the cost of the citizens’ living standard. In the long run the political consequences are also severe. The military elite, who benefit from all this, are not likely to form a class promoting new ideas in opposition to the regime. A civilian elite would be more likely to develop a political project and contribute to gradual change of the political landscape in North Korea. If North Korea stays on the reform track, as anticipated, the sheer size of the military economy will delay any positive development. Another likely tendency is that the borders between the military and civilian economies will become blurred and develop into a muddy mishmash of overlapping ownership structures characterized by a complete lack of transparency, as has been the case in China. Whatever happens, in the current situation the military is deemed to continue to play an important role in the future North Korean economy. The development of more normalized foreign relations, which would ease the tension and the North Korean feeling of insecurity, is thus a precondition for further economic growth.

The economic base

A main problem in North Korea is the underdeveloped infrastructure. Roads and railways are poorly developed and have not been properly maintained. The approximately 5000 km rail network, of which a large part was built by the Japanese, is mostly worn down single-track lines, and most of the 20,000 km of roads are unpaved.

Energy

According to The Economist Intelligence Unit’s Country Profile 2003 for North Korea, the country had one of Asia’s largest electricity networks in 1980 (p.74). Since the collapse of the Soviet Union and the halt of oil delivery of friendship prices from China, energy provision has been a main problem. There are no known viable oil or gas deposits in the country and little coking coal, but there are reserves of brown coal and sources of hydroelectric power.
Before the economic collapse the registered energy consumption was 2.4 tons (coal) per person, which was two times that of China and two thirds of Japan’s per capita consumption.\(^2\) From 1973 to 1992 oil consumption increased by 8.1 percent annually, coal consumption by 2.4 percent and hydroelectric power by 5.1 percent annually.\(^3\) According to estimates by the Nautilus Institute for Security and Sustainable Development, generation of electricity fell from 46 billion kWh in 1990 to 25 billion kWh in 1996.\(^4\) The decrease has continued, and the latest estimate holds that the total amount by 2002 was 20 billion kWh.\(^5\) Thus, the output of the energy sector had been reduced by more than 50 percent. In addition, the equipment is now worn out or obsolete, causing transmission losses of around 30 percent. It is a widely held assumption that the North will be unable to overcome economic stagnation without securing energy resources and achieving normalization of the operations of its energy infrastructure. We will return to this question in: “Rebuilding North Korea – Large scale”.

### Industry

When Korea was temporarily divided in the aftermath of WWII, the Northern part was equipped with the major share of the country’s heavy industry and mining (but very little arable land). Factories were located in the eastern part of the country close to the mineral deposits. This pattern of industrialization – including its localization – was carried on by the Soviet-backed liberation government, since it was parallel to the classical communist path to issue priority to coal, steel, chemicals and machine tools. This was seen as the necessary foundation for an independent economic development (and for an indigenous military industry), i.e. as the basis for the subsequent development of light (consumer product) industries. The second phase never gained speed, however, moreover it was localized around the capital, which created problems in a country where local self-sufficiency was emphasized. It is thus safe to state that “heavy industry mass-mobilization” strategies successfully guided the economy as it recovered from the devastation of the Korean War. But these same principles failed to take North Korea to the next level of economic development.\(^6\)

The North is mountainous, and also rich in minerals including coal, iron ore, cement, copper, lead, zinc, silver and gold. It also has the world’s largest deposit of magnesite. These minerals have always been export items, but both production and export have decreased, in line with every other economic activity.

### Agriculture

Just as the initial industrialization was successful, North Korean agriculture began, despite harsh climatic conditions and a poor terrain, as a success story. Collectivization elapsed as a comparatively easy process (it has been maintained that only in North Korea have collectivization and increased output taken place simultaneously\(^7\)). After that, due to mechanization, the use of fertilizer, irrigation and electricity, the harvest was doubled from 3.5 million tons in 1966 to 7.7 million tons in 1984.\(^8\) This development was not sustainable, however. Only some few areas in the west and south, amounting to approximately 20 percent of the country, are cultivable.\(^9\) While the struggle for food self-sufficiency in a mountainous terrain initially paid off, on a long term basis the consequences proved disastrous. North Korea lost much woodland in the war, and a destructive deforestation was carried out in the post-war period. The extensive terracing and soil utilization caused floods in 1995-96, and the ensuing drought in 1997 and 2001 resulted in famine.

Although North Korea used to be seen as an industrialized economy, one-third of the workforce is still employed in the agricultural sectors. A must for a new start in agricultural production is a continued supply of fertilizer and electric energy, as well as fuel for tractors and other farming machinery. It seems clear that the sustainability of the field must be reconsidered. A thorough analysis of the agricultural sector will be presented in the section: “Rebuilding North Korea: Large Scale - The agricultural sector”.

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**Nordic Institute of Asian Studies**

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**Education**

The educational level, or the quality of existing human resources, is probably one of the most important “soft” aspects of a country’s economic base. Education in North Korea is an important part of the ideological schooling project and takes place constantly from cradle to grave; still, the system must be termed a success story. Literacy was attained in the early post-war period and a free and comprehensive primary and secondary school system has long been the pride of the North.

In quantitative terms, measuring school enrolment and educational attainment, the educational “stock” in the North is comparable to that of South Korea. Recent statistics are not available, but in 1987 the enrolment ratio in primary and secondary schools for children between 6 and 15 years of age was 96 percent in North Korea, compared with 95 percent in South Korea. Also, the tertiary level of education in North Korea is comparable to that of South in quantitative terms, with about 14 percent educational attainment for those above 15 years of age. This shows that North Korea has a higher level of educational attainment than several other transitional economies, not only China, but also the former communist countries in Europe.

It is most likely, however, that the quality of education in North Korea is lower than that in the South due to insufficient provision of educational resources, outdated curricula and thus also a lower quality of instruction. On the other hand, and seen from the perspective of usefulness in a transitional economy, the emphasis on science and technology in higher education may well endow North Korea with a comparative advantage over many other countries struggling to develop their economies. According to The Economist Intelligence Unit’s Country Profile for North Korea 2003 “Over 200 higher colleges train specialists, mainly in science and technology” (p.71). Another characteristic often seen as a positive aspect from the development perspective is the discipline of the workforce, and this is obviously connected to the socialization implemented in the educational system.

**Health**

Health conditions in North Korea are marked by the economic collapse and widespread malnutrition. It is difficult to measure, but one generally accepted measurement of a population’s health is life expectancy at birth. The latest reliable estimate based upon the best possible data (1993) shows that the life expectancy in North closely follows the pattern in the South with 68 years for men and 74 years for women. In an overall perspective, it seems that North Korea’s initial efforts to boost the health sector were effective. The health care was good measured against most world standards, and was in most cases ahead of South Korea with regard to the relative number of hospitals, clinics, doctors, nurses and hospital beds. However, in the late 1990s “foreign aid workers describe hospitals staffed by devoted professionals, but almost devoid of medicines and resources”. A UN World Food Programme survey in 1998 found that 16 percent of North Korean children were malnourished, while a follow-up study in 2002 showed that the figure had fallen to 9 percent.

**Water and sanitation**

Drinking water is a problem in North Korea. A main reason is the breakdown of the sewage system, which often lies in the same trenches as the fresh water pipes, resulting in contamination of drinking water. The water pipes are obviously in poor condition after 40 years in the soil, and natural oxidation and corrosion have broken down the galvanized steel of the pipes. International reports estimate that over 50 percent of the water produced is lost due to leaky pipes. Moreover, a shortage of wood for fuel means that few people boil the water before drinking it. As a consequence, diarrhea among children is the single most common cause of childhood illness and hospitalization. “The inadequacies in water and sanitation therefore remain major underlying causes of ill health and childhood malnutrition”.

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North Korea’s Economic Situation
- The Market Reforms

A new line of reform measures has altered the future prospects for North Korea’s economy in the short as well as the long run. Special economic zones have opened up and, as noted, a private economy has emerged concurrent with the collapse of the planned economy for consumer goods. Still, the direction of economic policy has been ambiguous and presumably undecided. All this changed with the 1 July 2002 reform measures. Here a wage and price reform as well as a change in the foreign currency exchange rates were introduced.

The significance of 1 July 2002
The value of the political signal given by the 1 July 2002 measures must be underlined. Throughout all the interviews conducted for this report, the significance of 1 July 2002 surfaced time and again. It was widely perceived to be an unmistakable sign that North Korea had begun serious market oriented reforms. The speed with which these reforms would be implemented as well as the reasons behind them were debated, but the market-oriented direction stood clear.

The market-oriented turn
The reasons behind this market-oriented turn in the North Korean economy go a long way back. There are two main ones. First, already under Kim Il Sung’s leadership in the late 1980s, there was an emerging understanding that something had to be done to revitalize the declining economy. This acknowledgement led to the initiation of a range of measures to support the planned economy, but more importantly, the first experiments with special economic zones were initiated. Second, after support from the Soviet Union was cut off, the planned economy gradually declined and the rationing system of consumer goods virtually collapsed in 1995.

Money increasingly important
This vacuum was filled by the emergence of a private, partly black-market, economy, evolving around the officially accepted farmer’s markets. While money traditionally had had an insignificant role in the state economy, this became very much different in the private economy. Money (mainly foreign currency) therefore became increasingly important in order for people to survive. Also, factories became more interested in selling goods on the private market at much higher prices. As a result of rampant corruption, state assets and resources started to appear on the farmers’ markets. The consequence was that two levels of pricing emerged, one the official, the other the free-floating sort found on the farmer’s markets.

Markets – a result of pressure from below
Most significantly, the free market took over the task of distributing commodities, which was traditionally performed by the state. That the North Korean leadership recognized this, and understood it to be a problem, was evidenced by the fact that one facet of the 1 July 2002 measures was actually to close down the farmers’ markets in an attempt to bring new life into the state sectors through the wage and price reform. This did not happen, simply because it could not be carried through. Too many people had become dependent on the market for earning an income. The solution was to grant the farmers markets official status, which happened in March 2003. At the end of 2003 there were more than 300 markets spread throughout the country, with about 40 in the capital. As such, the markets are a result of pressure from below. That is to say, the state was forced to make a market-oriented adjustment, accept reality and bring the state economy more into line with this more vibrant part of the economy.

Regional differences
Since the private economy is also heavily dependent upon access to foreign markets, the emergence of private economic activities has exhibited regional differences. Northern provinces, such as North Pyongan and North Hamgyong, are in a better
position to barter with China – as a result private economies are more developed there.\textsuperscript{45} Also, coastline provinces with easy access to maritime products are more developed.

The market creates a change of mentality

The private share of the economy is difficult to estimate, due to the lack of reliable information. Its impact, however, seems to be related to the type of goods traded, i.e. mostly daily necessities that the state cannot provide anymore. The impact of the private sector also lies in the change of mentality that the market creates.

Flawed Monetary system

Another important effect is that on the monetary system, which has been seriously damaged, partly as a result of the private economy. The central bank has lost control of the cash flow because it has lost its means of retrieving cash. Normally, the central bank would retrieve cash through the state sector and when people deposited money in their savings accounts. But the failure of the state sector has forced people to purchase goods on the private market, leaving the state without income. In addition, a lack of trust in the official system means that money traded on the private market ends up in people’s closets and not in savings accounts in the central bank.\textsuperscript{46} As a consequence, the central bank cannot control the cash flow, which is the most important monetary tool. The flawed monetary system creates a risk of losing the current momentum and the benefits of market reforms.

Special Economic Zones

Experiments with special economic zones have been going on now for more than a decade. Although inspired by the Chinese success, experiences so far have not measured up to those of China.\textsuperscript{47} The first special economic zone, Rajin-Sonbong, was started in 1991, close to the Russian and Chinese borders in the northeast. It is still lacking in infrastructure, and the politically decided wages have been so high that foreign capital has been hard to attract.\textsuperscript{48}

Another attempt was made in December 2002 with the establishment of the Sinuiju Special Administrative Region in the city of Sinuiju, located at the Chinese border. The intent was to introduce a Hong Kong-type special zone linking the North Korean economy with the world market. The initiative came well under way, but despite warnings from Beijing, the North Koreans appointed the Chinese entrepreneur, Yang Bin, as the first chief executive of the zone. Yang Bin’s idea of a “Special Political Area” with full separation of legislative, executive and judicial affairs seemed to widen the Chinese concept of an economic zone too radically. Furthermore, the Chinese side had opposed the idea of locating a special economic zone close to China, mainly due to competitive reasons, as they did not want the Sinuiju special zone to attract capital away from the old industrial belt in Northeast China. Accordingly, Yang Bin was arrested in China, accused of corruption and sentenced to 18 years in jail. The future of the Sinuiju special zone is at this stage unknown and seems to depend on a North Korean acknowledgement of China’s say in this project. In April 2004, at an informal heads of state meeting, Kim Jong-il asked the Chinese President, Hu Jintao, for the release of Yang Bin, but so far nothing has happened.

A Hong Kong-type of special zone

One key player in the establishment of industrial zones in North Korea continues to be the South Korean Hyundai Asan Corporation. The late founder of Hyundai Asan was born in the northern part of the country, which later became North Korea. This tie to North Korea made him commit Hyundai Asan to an active pro-unification and engagement stance. This has already resulted in heavy investments, with huge projects in the pipeline.

The first step was taken in the late 90s with the establishment of the International Tourism Zone known as Mt. Kumgang. The first tour to this resort area was launched in November 1998. Since then, 593,953 South Korean tourists have visited Mt.
Kaesong Industrial Zone – a highly strategic location

The second project by Hyundai Asan is the Kaesong Industrial Zone. Both sides have agreed to the project, and actual implementation is ongoing. The Kaesong Industrial Zone is located at a convenient proximity to Seoul, just across the border to North Korea. From a business perspective this is a highly strategic and attractive location, close to the market and resources of South Korea, but it is also extremely politically sensitive because of the military implications for North Korea. The ambitious end goal in 2020 is a Kaesong special economic zone covering 16,300 acres with two thousand companies in operation. The population is projected to be 450 thousand, with 250 thousand people in employment. Hyundai Asan aims to have up to 300 South Korean companies operating already in 2007, mostly within textile production, apparel and electronics. Figures for the capital necessary to reach this end goal are so far unavailable, but the initial 2007 milestone project is budgeted at USD 184 million, which will be jointly invested by Hyundai Asan and the Korea Land Corporation.50

A basic wage of USD 50 per month

In order to realize the benefits of this future investment, certain laws and regulations were agreed upon in November 2002. A land use right for 50 years has been granted to Hyundai Asan and the area is established as a duty-free zone. The North Korean side has guaranteed the full property right of Hyundai Asan as well as the right to hire and dismiss employees and the right to hire South Koreans and foreigners. A stable supply of employees has also been guaranteed. Furthermore, sale of products produced in the Kaesong area will be allowed in North Korea, and no restrictions will be put on the use of communications and IT.51 The approved labour regulations secure a basic wage of USD 50 per month and 48 working hours per week. In a more recent agreement, North Koreans working for the project will receive a monthly salary of USD 65. The standard corporate tax rate will be 14 percent, and 10 percent for what they call “encouraged industries”, such as infrastructure and light and high-tech industries. Tax benefits include a tax exemption during the first 5 years and a 50 percent deduction for an additional 3 years.

How to attract sufficient capital?

A major problem for the special economic zones is still the attraction of sufficient capital. The insecurity stemming from murkiness surrounding the direction of reforms has scared off investors. Also, the lack of information and stability, monetary as well as political, makes it a high-risk business. This might have changed with the signal given by the price and wage reform, but results remain to be seen. This fact also sheds a singular light on the initiatives taken by Hyundai, underlining their political and not entirely business-minded nature.

Reform measures

Back in October 2001, Kim Jong-il introduced an important front-runner of the reforms in a lecture entitled: “On improving and strengthening socialist economic management towards the need for construction of a powerful and prosperous state”. In this lecture, several policy innovations with regard to economic management were explained. The main purposes were: to decentralize the planning process to lower organizational levels and firms; to establish an exchange market between firms for a certain percentage of their production; to strengthen an independent accounting system and rationalize production and distribution; to institute a better mobilization of
surplus workers from factories to the agricultural sector and to urban renovation; and to strengthen the link between contribution and economic compensation and reduce the free supplies from the state. All of these instruments have to do with overall economic management and the management structure. The general purpose was to transfer power and responsibility to managers in order to increase profits.

Price and wage reform

As one of the most important parts of the 1 July 2002 initiative, a price and wage reform was carried out in order to limit the gap between the official prices and the free floating prices on the farmers markets. Workers’ wages and consumer prices were significantly increased, thereby establishing a money economy. Suddenly, North Koreans had to pay for housing, transport and electricity, and prices on food also rose dramatically. This adjustment of prices naturally resulted in inflation, but as wages were simultaneously raised, the impact on the North Koreans’ livelihood came down to a question of purchasing power.

North Korea’s official price system before and after 1 July 2002

<table>
<thead>
<tr>
<th></th>
<th>Old price</th>
<th>New price</th>
<th>Nominal price change factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice (Kg)</td>
<td>0.08 won</td>
<td>44 won</td>
<td>550</td>
</tr>
<tr>
<td>Maize (Kg)</td>
<td>0.49 won</td>
<td>20 won</td>
<td>41</td>
</tr>
<tr>
<td>Electricity (kWh)</td>
<td>0.035 won</td>
<td>1.8 won</td>
<td>51</td>
</tr>
<tr>
<td>Bus fare</td>
<td>0.10 won</td>
<td>2.0 won</td>
<td>20</td>
</tr>
<tr>
<td>Average wage</td>
<td>110 won</td>
<td>2,000 won</td>
<td>18</td>
</tr>
<tr>
<td>Special wage</td>
<td>110 won</td>
<td>6,000 won</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: People’s Korea

A look at official prices before and after 1 July presents a clear picture. The nominal price change factor shows that the price of maize rose by a factor of 41, electricity by 51, bus fares by 20 and rice by an astonishing 550. This clearly indicates that especially the price of rice had been kept down in order to try to secure a minimum living standard – and, because rice is a highly symbolic commodity in Asia, also for political reasons. What is disturbing, however, is that the average wage only increased by a factor of 18. This means that the average worker has experienced a decrease in purchasing power, leaving him worse off than before the reform.

Reliable prices on the farmers’ markets before the reform are not available, but after 1 July 2002 they also increased, though not nearly to the same degree as the official prices. This works to limit the decrease in purchasing power, as most people purchase about half of their daily necessities on the markets. However, according to international monitoring the overall effect of the price and wage reform is that people in the urban areas, who rely only on their salaries, find themselves in worse conditions, as they have to spend 70 to 80 percent of their income on food. The rural population has benefited slightly from the increase in agricultural product prices.

The price and wage reform also included certain priorities. Groups earning special wages have had the size of their wages increased 55 times, giving them stronger purchasing power after the reform. For example, coal miners have been given a special wage increase, as the much-needed production of energy depends upon the supply of coal. Clearly it is hoped that by introducing economic incentives for the coal miners, the amount of coal extracted will increase.
75-fold devaluation
Another part of the 1 July measures was a change in the foreign currency exchange rates, in other words, a devaluation. Before the devaluation, one USD was traded at around two NK won. After 1 July, one USD was traded at NK won 150, which is a 75-fold devaluation. This is a drastic measure, but one year later in June 2003 the black market exchange rate had already increased to as much as NK won 920, indicating the weakness of the NK won. The intention behind the reform measures might have been to increase exports, putting North Korean industry in a better position to sell their products on foreign markets after the devaluation. Whether they will be able to truly utilize this opportunity is yet to be seen.

Benefits to the elite
The consequence of the devaluation was also that people holding their savings in USD strengthened their purchasing power. This indicates that those benefiting the most from the reform would mainly be from the elite, which is not an entirely new situation in North Korea.

In sum, the overall effects of the introduction of a money economy are immense. It is a huge and necessary step if the price mechanism is to work properly and thereby secure the benefits of the market. The effects of this will be beneficial to North Korea’s economy in the long run, but in the short run the average worker seems to be worse off.

Inflation – a problem
As illustrated by the price increase itself and by the difference between the commodity change factors and the average wage change factor, inflation is, and will most likely continue to be, a problem. To deal with the inflationary pressure in the future, the Bank of Korea assesses that North Korea will try to increase supply by shifting from heavy industry to light industry; producing, among other things, food and daily necessities. The increased supply should curb inflation, but it is far from clear whether North Korea will be able to realize this, and indeed whether they want to increase supply at the expense of heavy industry. Figures from 2003 do not support this assessment, as the share of heavy industry to total GDP has risen slightly.

“Earned income” index
Another important aspect of the 1 July measures is the introduction of an “earned income” index, which is now the main criterion for assessing the management of a firm and its production. The index represents the sum of social net income plus wages of a particular firm. The main purpose is to measure production in monetary terms, thereby matching the money-economy created through the price and wage reform. Moreover, the earned income index assesses the value of a firm on its sales, and not, as previously, on its ability to fulfil the goals of the plan, regardless of sales. The earned income index provides incentive for the firm to reduce expenditures, heighten efficiency and profitability – a certain amount of the earned income is distributed to the managers and employees, making salaries dependent on production. Also, firms are allowed to “leave the plan”, that is, to change production if new market opportunities arise.

In sum, the earned income index relates the interests of managers, the employees and the state to the income of a firm. The overall direction towards the use of market mechanisms is obvious, but one has to keep in mind that this is the intention of the reform. Its implementation in practice is another story. Nonetheless, economic incentives are gaining ground in North Korea, but huge differences and local solutions are still the general picture.

Economic management
The reform initiatives tell us a lot about how the economy as such is managed. First, the reforms clearly indicate acknowledgment of the failure of the former system. The general assessment is therefore that the regime will continue this line of policy and not return to former models.
Second, the reform measures and the creation of a money-economy bring the state sector and the private economy closer together. This is a great step, because a final abandonment of the rationing system means, to a certain extent, that control of the people is relinquished. People are not entirely dependent on the state anymore. This factor can be important in the years to come, as individual households will take more responsibility for themselves and rely on their own capability to earn a living. On the other hand, the leadership of North Korea has gained the most basic tool in the management spectrum: the use of economic incentives. This is now being applied to many sectors of the economy.

The economy continues to be weak and therefore extremely volatile. The North Korean leadership, though cautious in fully embracing a totally free market, does not as a rule seem to assess the weakness of the economy as a reason to use gradual measures. For example, the price reform seems to have left the average worker with decreased purchasing power. North Korean macroeconomic management can best be described as radical, ad hoc and, as a matter of principle, non-transparent.

One of the biggest tasks ahead in relation to economic management is to regain monetary stability. With the cash flow out of control economic stability cannot be achieved. North Korea simply seems to lack adequate knowledge of the functions of a money and market economy. The problem increases as some people start to benefit from the private economy. Lack of trust in the central bank combined with the absence of property rights will endanger further investments by the people themselves.

**Competitive Sectors in the North Korean Economy?**

The blunt answer to the above question is: there are none. Due to the prolonged period of economic downturn, there seems to be no remaining strength in any of the North Korean economic sectors. General problems are a shortage of energy and a poor infrastructure. The traditional communist planned – or rather command – economy with emphasis on heavy industry has worsened things considerably. Still, North Korea is in the process of change, however reluctantly. What is there, then, to build upon?

**Cheap labour**

From a foreign investor’s point of view, the competitive edge of North Korea are its cheap labour and low land rent. But of what does the labour force consist? Docile, dull “cheap hands” raised in a system where personal initiative and creative thinking have been banned? Trained to follow – or to pretend to follow – the whims of those above, from the foreman of the factory to the supreme leader?

Though the answer may be yes, the consequences may be less disturbing for future hopes than expected. A leading representative of the most active South Korean company operating in the North explained the development in the North Korean workers’ morale: "Initially they left the construction site at 5.00 p.m. When they found out, however, that they were paid extra for working overtime, they stayed on until midnight." It should be noted that such things take place just as money is gaining a new meaning in North Korea, and in parallel with the opening of regular markets all over the country. In the recent past, money had no real value since – ideally at least – basic living necessities were provided by the state (in the ideological context of the ‘Dear leader’), and the local shops and department stores excelled in empty shelves. A
recent eyewitness with experience from several visits in the past notes from a stay in Pyongyang (January 2004) that people now looked better and that they were more active. Visiting a market, a large indoor facility in which there were some 500 vendors, the visitor noted: “it was just jammed full of people doing commerce […] they had clothes, they had vegetables, they had meat, they had electronics, television, furniture — you name it. It was just remarkable.”

The power of markets
The above indicates that although political socialization has been carried out extensively (and there are good reasons based on available knowledge to believe that this socialization has been quite effective), the power of attraction of the market still works. Thus, ‘docile and dull’ may be nearly irrelevant when compared to one of the few relative advantages of the North Korean economy, i.e. cheap labour.

Land
Another economic factor, especially at present in light of a growing number of joint venture projects with foreign companies, is the land rent. Compared with prices in South Korea, those in the North are low. This must be seen in relation to the status of land and existing facilities for production. With an underdeveloped infrastructure, a problematic energy supply and a primitive telecommunication system (although foreign residents can use satellite phones), the rent is probably priced accordingly.

In the following, some possible development areas, mainly within the light industry and service sector, will be dealt with. The focus will be on areas in which North Korea has something to contribute, although it might be too optimistic to call them comparative advantages.

Light industry
As described in the section on the economic base, the industrial sector has focused on heavy industry, leaving light industrial consumer products in the hands of local areas and provinces. This is one reason why these sectors are even less developed than the rest of the economy. In addition, development is uneven, dependent on local circumstances. There is, however, much room for development in light industry, and a local as well as a regional market for cheap consumer products. Moreover, in order to curb inflationary pressure, the government is forced to increase the supply of domestically produced consumer goods. This means a stronger emphasis on light industry.

Luxury foodstuffs as a potential export commodity
Paradoxically, for a country dependent on foreign aid and a people suffering from malnutrition, North Korea is a potential exporter of food products. Scallops, shellfish (especially crabs) and squid are regional delicacies, locally caught. There is development potential both in the fisheries and in the processing of luxury foods.

Textile export
Another area in which there has always been some export is that of textile production. Cheap ready-made suits are even exported to Japan. Other consumer products cannot easily be pinpointed, but an area in which the North might be in a position to seek a comparative advantage is in the level of technological know-how and the skills of the workforce.

Joint ventures – processing by commission
South Korean companies have in recent years developed joint ventures with North Korean counterparts in the low-tech, labour-intensive light industrial sectors. Assembly shops exist to which South Korean companies send material, and sometimes machinery, for manufacturing in the North. For instance, consumer electronics are assembled in the North. This kind of cooperation, processing by commission, will be developed in existing and future Special Industrial Zones and seems to be a model for future economic cooperation, as it has yielded the highest returns so far.
**IT industry**

It may seem strange for a country with a backward and now virtually collapsed economy to discuss information technology (IT) as a possible growth sector. This is nevertheless a relevant issue, and the idea is not even totally new. When Kim Il Sung visited Europe in 1984, he pushed for various technological cooperation agreements with his hosts. Later (1988–91), a plan was launched for long-term development of North Korea’s IT industry. These efforts continued during the second three-year plan (1991–94); the goal was the computer-aided automation of different economic sectors by the year 2000. Since 1996 the present North Korean leader has stressed: “this is an era of science and technology, which are the foundations of economic development”.

North Korea did not develop as a high-tech society, however, and compared to the other countries in the region, it must still be considered backward. Many different reasons contribute to this state of affairs: an unreliable power supply on the material side combined with extensive political-ideological control, making Internet a threat towards the system, spell out a hostile environment for an IT future. Why, then, should this sector be discussed?

A main reason is that the regime has designated IT as an important area, one in which they are prepared to aim high. IT has been given the highest priority, as it is seen as a means to revive the economy. In this connection it does not hurt that the software part of the IT industry is labour-intensive, and not unreasonably capital intensive. The goal of the second three-year plan has obviously not yet been reached, but important preparations have been made – here, the quality of education in the areas of science and technology lay the necessary foundation for further advancements.

The younger generation, moreover, is undoubtedly highly motivated to engage in IT development, and they would probably like nothing better than to replace compulsory ideological teaching with computer training. New programs have been launched in schools around the country, including a program directed towards young people gifted in the use of computers. A North Korean survey (a rare commodity) “reports that single women overwhelmingly hope to marry someone who is working in the computer science or engineering field.” In the 1980s the hope of the younger generation was reported to be a membership in the Workers Party of Korea. Such signals of change should not be overlooked. At least, the younger generation has most likely adopted the new way of thinking.

It is reported that the North has assigned about 1000 researchers to develop computer software, and developments are promising in the fields of voice and fingerprint-recognition, encoding and animation. It seems that attempts are made to promote this work by using incentives (benefits and privileges) similar to those known from the nomenklatura. Computer software is actually one of the few sophisticated commodities exported to both China and Japan.

But what about the political control and basic lack of freedom which obviously hamper the development of the IT sector? This problem is not likely to be solved by a voluntary lessening of the control measures of the regime. It will, however, be increasingly difficult for the regime to maintain its ideological grip when computers and the Internet have spread to larger parts of the population.

Another stumbling block to a take-off in the IT sector is the embargo system, which prohibits the export of certain high-tech products to countries considered to be a security risk. In 2001, for the 14th consecutive year, the US administration placed North Korea among the terrorist-supporting countries, and added to this the new label of “rogue state”. This presents a very real and practical problem for North Korea’s development ambitions. A South Korean representative of a huge corporation operating in the North explained that they had observed the problem of outdated...
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computers and suggested providing state-of-the-art equipment to their North Korean counterparts. This was stopped by the South Korean government because of the Wassenaar Agreement (on Export Controls for Conventional Arms and Dual Use Goods and Technologies), which replaced the Cocom agreement. It seems likely that this situation will continue until an agreement has been reached concerning the (assumable existing) North Korean nuclear program.

North–South IT Cooperation Council formed

Due to the skilled but cheap labour in the North Korean IT industry, this sector is interesting from the point of view of South Korean companies. At present a number of companies engage in different projects with North Korean counterparts. About 40 companies and institutions in the field of IT, including such giants as SK Telecom, Samsung Electronics, and Hyundai Asan (all from South Korea) formed the North–South IT Cooperation Council in April 2001. Joint development of software is taking place, although the restrictions due to the Wassenaar Agreement are limiting the scope of this activity. Thus an IT production and training center (The Hana Program Center) was established in Dandung, China in August 2001. The main activities of this center are to jointly develop software and to educate and train IT personnel from North Korea. A leading South Korean producer of network equipment will install 2Mbps level SDSL connections for 20 institutions in Pyongyang, and according to a pro-Pyongyang magazine in Japan the latest model personal computers are already on sale in stores under the control of the North’s Electronics Industry Ministry.

The necessity of international cooperation

After an agreement has been reached between the U.S. and North Korea concerning the nuclear problem, a revamping of the underdeveloped communication infrastructure in North Korea will be a huge task where international cooperation will be needed. The provision of fiber-optic cables to North Korea’s Internet system will be an important task in many respects, and clearly a valuable input to the country’s modernization project.

Tourism

Tourism is seen as an obvious possible sector of growth in North Korea. There is a clear over-capacity of hotels that have served small groups of Western tourists, (and, before 1990, larger groups of East European tourists as well). From the globetrotter’s point of view, North Korea may be one of the few remaining blank spots on the map, and as such, potentially attractive.

North Korea – a demanding alternative

In this era of alternative and more demanding forms of tourism, such as ”nature-tourism” or ”culture-tourism”, North Korea presents an interesting – and demanding – alternative. Not only are there huge statues of the late Great Leader, Kim Il Sung, (Eternal President of the DPRK) and other ”retro-Stalinist monumental kitsch”, but there are beautiful mountains in the east and north as well. The long isolation of the country may well turn out to be an attraction, in that the traditional cultural heritage here, under the political veneer, can be experienced in its pure form.

On the east coast, Mt Kumsang was already a local resort centre before Hyundai entered to develop the area with better tourist facilities. The area has been the preferred site in the North (and until recently the only site open) for South Korean tourists. Capacity here clearly exceeds demand. Tourists in the area will be captivated by the scenery as well as by the seafood delicacies. This provides a change in the organization of tourism from its current status as a state enterprise with a host of political/ideological obligations and restrictions, to a privately operated business aiming at the well-being and satisfaction of customers (obviously within the existing laws and regulations of the country). Whether this can create a basis for international cooperation, apart from the present North–South cooperation, remains to be seen.
Rebuilding North Korea: Large Scale

The energy sector

The following is a brief account of the North Korean energy crisis based on an interview with Lee Su-hoon, Research Director of the Graduate School of North Korean Studies, Kyungnam University in Seoul, and an article by the same scholar. Dr. Lee is a close aide of Dr. Jae Kyu Park, who was Minister of Unification in the Kim Dae-jung Government, and in this capacity he took part in a series of negotiations with his North Korean counterparts, including Kim Jong-il, prior to the 2000 summit in Pyongyang. The account reveals the numerous reasons for the North Korean crisis, including the collapse of the Soviet Union, grave mismanagement by those in charge of different sectors of the economy (this probably links up to the supreme leader), natural disasters, and finally the problematic triangle Pyongyang, Seoul, Washington, especially with the advent of the Bush administration.

The North Korean energy crisis

The problem started in 1990 with difficulties in maintaining the energy infra-facilities. Due to a lack of spare parts, earlier supplied by the Soviet Union, turbines, generators, transformers and power-transmission lines were not properly repaired and kept in order. Then came the floods in 1995 and 1996. These floods were “man-made”, although obviously unintentional. They tell the story of how short-term solutions often create long-term problems. Less than 20 percent of North Korea is suitable as arable farmland, thus, the government undertook different projects to expand the arable area. One method was to cut trees on the low hills and grow much needed corn instead, or even to develop terraces for rice cultivation. This deprived the hills of their ability to hold onto water in the rainy season. The planners had obviously failed to anticipate the need to build up effective banks, and the pouring rains washed off the topsoil, pouring sand and soil into the streams and silting the rivers. Hereby, fields in the lowlands were destroyed, as were many roads, railways, bridges, some coal mines and, even more importantly, power transmission lines.

A vicious circle

The basic source of energy in North Korea has always been coal, but with a very limited oil supply, coal became even more important. Although coal mining continued, it was severely hampered by the lack of electric energy for lighting, jackhammers and ventilators. Delivery on schedule to the power plants – on electrified railroads – became difficult, and a vicious circle began. The energy shortage in its turn affected fertilizer production (before 1990, the domestic production covered 80–90 percent of the demand), and irrigation facilities ceased to function, since there was no electricity to supply the pumps. In 1990 the consumption of diesel oil on farms was about 120,000 tons. The oil supply dried out by 20 to 30 percent annually, thus 70 to 80 percent of rice mills and farm machines had stopped running by the mid 1990s. The consequences of the energy crisis had by then become general, fiercely affecting agriculture – and thus food production. In September 1995 the regime made an international appeal for help. The Juche economy had failed, and it was acknowledged by the regime responsible for the failure.

Planners failed

At first the South Korean authorities underplayed the problems in the North, but in 2000 the Kim Dae-jung administration declared that it was ready to help re-establish and reconstruct the North Korean electrical infrastructure. This was also on the agenda at the 2000 Pyongyang summit, at which North Korea specifically asked the South to supply them with electricity. The preparations for this were carried out by the Ministry of Industry and Resources and the Korean Electricity Company. The goal was to help the North overcome the pending electricity shortage, and in the future the project was supposed to bring about mutual profit. In the meantime, the new administration in Washington decided to close down all relations with North Korea while reviewing the former administration’s policies and agreements with Pyongyang.

South Korea – ready to assist in 2000

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The general distrust of North Korea in Washington had a negative influence on the atmosphere of reconciliation that had been created through the Sunshine Policy of Kim Dae-jung. Seoul’s study of the possibility of an electricity supply was shelved due to US intervention, and Washington requested that talks on an energy supply to the North be put on hold.77

The international dimension

The reasonable conclusion to draw from this could be, as Lee Su-hoon claims: “the North’s total crisis, which began in the 1990s, was attributable to the energy shortage”.78 But, as we have seen, the energy crisis was partly caused by poor planning and mismanagement (i.e. incompetent leadership), and could have been dealt with in a much more effective way. Today the energy crisis has developed into a total economic and social crisis with a crucial international dimension. No matter how much the crisis rightly can be attributed to the collapse of the energy sector, it seems clear that an economic recovery will not occur without a major reversal of the present hostile situation between North Korea and the USA.

Recently staff from The Nautilus Institute for Security and Sustainable Development,79 a Berkeley based non-profit organization funded by grants and research contracts, conducted a study of the energy situation in North Korea reported in Asian Perspective Vol. 26, No. 1, 2002. The following account is based on this report. Initially, a quote from the report seems relevant:

“Rehabilitating the DPRK’s T&D [transmission and distribution] system will require new conductors, substation equipment, switching equipment, and perhaps above all, modern control facilities. Existing right-of-ways may be adequate, but in many places new towers or poles will be needed as well. The labor to accomplish these changes is readily available in the DPRK, though training will be needed in some areas. Rebar, channel iron, and cement can be supplied locally as raw materials for towers and supports, but grid-quality wire may not be available in-country without retooling a manufacturing facility specifically for the purpose. Even bolts and nuts are hard to come by in quantity. We have estimated the overall cost of grid reconstruction at USD 3 to 5 billion.”80

The above project is an immediate necessity in order to rehabilitate the energy sector in the North, and such a huge project would have to be supported by international stakeholders.81 It would be advisable to link up with South Korean counterparts who already have prepared for a massive contribution in this field, and who also have conducted extensive surveys covering the implications of such a mammoth project. Moreover, it seems important to develop the system in North Korea so that power transfer from the South and in the long run the other way as well, will be possible.

An overall cost of USD 3-5 bn

More effective use of available resources

Energy-efficient technologies and renewable energy

It seems clear that a good and sustainable investment would be to diversify the sources of energy. The sole domestic fossil fuel is coal, and there are substantial reserves of anthracite and lignite coal, of which a continued utilization seems necessary. The quality of this coal differs, however, and low quality coal is only a little better than dirt in terms of energy value. Poor coal burns inefficiently, producing more ash than energy. It is even questionable whether poor coal is usable in a modern coal-fired power plant, but technologies that can upgrade poor coal by separating the ash and improve the fuel value exists, and could be of valuable support to the energy sector. To strengthen the coal supply also presumes an upgrading of the infrastructure and transportation facilities needed to bring the coal to the power plants, for instance railway tracks and rail cars, locomotives and trucks.

The North Korean experts with whom the Nautilus team cooperated expressed a keen interest in energy-efficient technologies and in renewable energy. It should be noted
that this clearly is consistent with the overall philosophy of the regime of prioritizing self-sufficiency. Last year, about 250 small and medium-sized hydro-electric power plants were built in the country, according to the central (North Korean) news agency. These plants have not impressed foreign experts, however, who find that more cost-efficient and reliable equipment would be recommendable. One recommendation is to exchange the propeller/turbine variety currently manufactured in North Korea with "cross-flow or pelton turbines that have proven easy and cost-effective to manufacture in other developing countries." Wind power is likewise a possible energy source in the future of North Korea, where the geography may prove excellent for windmills. Existing local technology is deemed inefficient to non-functional. A third new possible source of energy would be natural gas from Russian Siberia. There have been negotiations on this, and one option would be that North Korea could benefit from gas-pipelines passing the North on the way to South Korea.

A more affordable, but still important, project would be to fix, repair, and replace inefficient end-use electrical equipment. As an example the Nautilus team describes the difference a modern light bulb can make: “North Korean incandescent light bulbs are virtually unbreakable, but produce so little actual illumination that housewives clapped with delight when the replacement fluorescent bulbs we provided, even at one per room, were turned on.” The point is that the North Koreans are not getting value for money with the present outdated equipment. They could get much more out of the existing and available energy, not to mention the 30 percent that is lost in transmission.

Another aspect of energy over-consumption (not to mention waste) is the generally low quality building construction and lack of insulation. Installation of window frames that actually fit the hole in the wall and the addition of double frames or sealed glazing units would be highly efficient and save capital. Supplementary insulation of houses, apartments and institutions would have the same positive effect. In combination with improvements in furnaces and boilers for residential and institutional end-use, this would considerably heighten the quality of life for the people concerned.

In the conclusion of the Nautilus report the authors assess the general situation in the energy sector and the social its political ramifications. They send a warning to those who might see the crisis as an intractable morass indicative of the imminent collapse of the society. “No one,” they state “should underestimate the toughness, discipline, or ability to endure privation of the North Korean people – especially given the extraordinary social and political control exercised by the DPRK government”.

There are at least two highly complicated political issues related to the establishment of a substantial aid program in order to cope with the North Korean energy crisis. The one is linked to the necessary relations with a regime that rightly is said to exercise extraordinary social and political control over the people, a control that must be condemned. We will return to this issue in the last section of the report. The other complicated political issue has to do with the international environment in the region, and especially the position of the US-administration concerning North Korea’s “behaviour”.

The international dimension seems to have first priority. At present, a solution to the energy crisis hangs on the concerns of the US and of North Korea’s neighbours with regard to its alleged nuclear weapons programme. A solution to the question of North Korea’s nuclear ambition is thus of paramount importance, and without a solution that can be accepted by both the US and North Korea, the crisis will deepen with unforeseeable consequences for the population of North Korea as well as for the whole region.
The agricultural sector

A negative spiral

The agricultural sector has never recovered from the economic shocks and natural disasters of the early and mid 90s. The economic difficulties have had severe consequences and the interplay of a range of factors have contributed to a negative spiral, which North Korea is only about to bring to a stop. First and foremost, North Korea is a case of an industrialized country with a relatively modern agricultural production experiencing a severe energy shortage as well as a breakdown in the supply of agricultural inputs. Consequently, the 90s and the beginning of the new century have been characterized by a gap between North Korea's demand for food and the actual production of cereals. Even with continued support from the international community, North Korea has been far from meeting minimum requirements. Malnutrition is therefore widespread. The figure below illustrates the humanitarian disaster.

North Korea’s Cereal Production and Demand (m tons)

![Graph showing North Korea’s cereal production and demand](image)

Source: Understanding North Korea, 2004, Institute of Political Education for Unification, Ministry of Unification, and FAOSTAT.86

Current status

Since 2002 the agricultural sector has experienced a slow recovery after the famines throughout the late 90s. North Korea’s total crop production for 2004/5 is forecast at 4,235 million tons, which will be a 2.9 percent increase from 2003/4.86 This slow recovery is attributed to: more favourable weather conditions, provision of fertilizers from the international community, increased reliability in the supply of energy, improved irrigation systems and better utilization of agricultural equipment.87

Lack of energy and machinery

The lack of energy is estimated to have led to an 80 percent reduction in the use of agricultural equipment. Spare parts cannot be produced, water pumps necessary for irrigation and draining cannot operate and tractors and other machinery are left obsolete. In 2004 only 36,836 tractors were operational out of a total of 64,062. As a direct effect of the energy crises, the rural population has turned to cutting wood as a source of energy, with deforestation and soil erosion as a foreseeable but unavoidable consequence. This has been a problem throughout North Korea’s short history.

Arable land resources

Out of North Korea’s 12 million ha of land, 80 percent is mountainous and generally unsuitable for agriculture. This leaves 1.85 million ha of arable land used for agricultural production. Of this, 300 thousand ha are used for permanent crops, 580 thousand ha for paddy production (rice), 496 thousand ha for maize, 200 thousand ha for vegetables, 123 thousand ha for wheat and barley and 187 thousand ha for potatoes.88
Overall there has been a decrease in the number of corn-growing fields, while potato-growing fields have seen a dramatic increase. Against the backdrop of deep-rooted traditions, specifically targeted policies based on prior experiments and experiences have, in a decade, made potatoes a major crop in North Korea’s agricultural production. Measured in hectares (ha), the potato fields have expanded from 48 thousand in 1996 to 188 thousand in 2003. Cultivation of potatoes is generally assessed to hold a substantial potential for further increased food production.

As the map above suggests, North Korea is characterized by huge geographical differences. Most of the arable land is concentrated in the lowland plains along the western coast. Here, adequate rainfall and a longer growing season allow an intensive cultivation of a variety of crops. A narrow strip along the eastern coast is also arable. The vast mountainous area covering most of North Korea’s interior contains the main part of North Korea’s forest reserves. Between the major agricultural regions, foothills provide grazing for North Korea’s livestock and fruit tree production.

North Korea’s agricultural capacity is heavily constrained by unfavourable weather conditions. A series of natural disasters through the 90s illustrates the challenges to North Korean agricultural production: In 1995 and 1996 floods resulted in overall damage estimated at USD 15 billion and USD 2.27 billion respectively. A big drought in July 1997 left 466 thousand ha of arable land damaged (approximately a quarter of total arable land) and 80,000 heads of livestock were lost. A tidal wave the following month damaged 289 km of sea dykes, and flooding caused by sea water damaged 108 thousand ha arable land. Again in 1998 floods caused damage estimated at USD 2 billion and 15 thousand ha of arable land was damaged. In late Spring 2000, a drought damaged 400 thousand ha of arable land and 530 thousand ha were affected by insect infestation. A few months later, a typhoon resulted in damage estimated at USD 6.1 billion out of which the agricultural sector sustained USD 165 million. In August 2001, heavy rainstorms resulted in the loss of 85 thousand ha of grain and general damage amounting to USD 4.8 billion. As weather conditions are not likely to improve, the future will undoubtedly bring similar examples of disasters to the North Korean people. Unfavourable weather conditions are the terms under which North Korea’s agriculture has to be able to operate.

Source: FAO Country Profiles and Mapping Information System
Fertilizers are needed in any agricultural production, but the poor quality of soil in North Korea makes the availability of sufficient fertilizers a must. Compared to the situation in the 80s North Korea’s consumption of fertilizers has fallen considerably. The shortage of energy has resulted in low domestic production of chemical fertilizers and imports have been limited due to a lack of foreign currency. Even with the support from international donors, the consumption of fertilizers in North Korea is still well below recommended rates. This has had a huge negative influence on the overall agricultural production and food security in particular. In 2004, total consumption amounted to 230,174 tons of fertilizers, a decrease of 6 percent from 2003. Out of the total consumption in 2004, 72 percent were provided as humanitarian assistance, with South Korea accounting for 82.8 percent, the EU 12.9 percent and NGOs 4.3 percent respectively. North Korea’s domestic production of fertilizers increased in 2004 by 75 percent, but still made up only 28 percent of total consumption.

North Korea’s Total Fertilizers Consumption and Production (1.000 Mt)

Crops and yields

Due to inadequate supplies of fertilizers and unfavourable weather conditions, average crops yields for the four traditional main crops: rice, maize, wheat and barley have been well below potential. 1996 and 2000 were especially harsh years, but from 2001 and onwards yields have been more stable though still below potential.

Actual Crop Yields and Potentials (t/ha)

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<tr>
<td>Rice</td>
<td>3.4</td>
<td>2.5</td>
<td>3.2</td>
<td>4.1</td>
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</tr>
<tr>
<td>Maize</td>
<td>5.4</td>
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<td>2.1</td>
<td>3.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Wheat</td>
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<td>1.3</td>
<td>0.8</td>
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</tr>
<tr>
<td>Barley</td>
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<td>2.2</td>
<td>0.9</td>
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</tr>
</tbody>
</table>

Double cropping was a success

A double cropping programme was launched in 1997 with support from FAO and UNDP. The programme has so far yielded substantial results and it has been expanded from 47 thousand ha in 1997 to 192 thousand ha in 2001. The success of the programme has reduced the need for food aid. However, double cropping is constrained by a number of factors. For one thing, it requires a higher consumption of fertilizers and more labour power. Furthermore, due to the heavy time constraints, double cropping is even more vulnerable to the general shortcomings of the North Korean agricultural sector, such as inadequate use of machinery. In its most recent study from November 2004, FAO assesses that double cropping has reached its limit.
with the current level of mechanization.\textsuperscript{92} Another problem is that a delayed planting of the second crop, for example due to a prolonged seasoning of the first crop, will reduce yields.\textsuperscript{93}

\textbf{Livestock} In recent years North Korea has encouraged the development of livestock industry in an attempt to improve people’s dietary nutrition. Policies have mainly been targeted at grass-fed livestock, especially goats and rabbits, as well as cultivation of ducks, chickens and geese. Limited availability of fodder has made it impossible to expand cattle, pig and sheep cultivation.\textsuperscript{84}

\textbf{Structural rigidity} North Korea’s agricultural crisis cannot solely be attributed to natural disasters, energy shortages and limited supply of agricultural inputs. Well-known problems with lack of incentives under the quota production system, structural rigidity, centralism and general mis-management have also played their part. Central planning has excluded the use of local knowledge and experiences, a problem that has been exacerbated by the huge regional differences and changing weather conditions. But the agricultural sector has not been left untouched by the reform programme and the incipient change in mentality.

\textbf{Managing agriculture} Framed by Communist ideology and \textit{juche} principles, North Korea’s attempt to increase production through agricultural policies have often had limited or unexpected results. Since 1996, however, new and promising initiatives in the management of the agricultural sector have been implemented. Work units were reduced to less than 10 members, production quotas were lowered and it was permitted to sell above-quota production. These policies, which follow the lines of the Chinese model, initiated a marketization of the agricultural sector and pushed the establishment of farmers’ markets. Recently, a system with family work units has been implemented and experiments with an increase in privately farmed land have been conducted. Results have so far been positive and they have been published in North Korean media. The above mentioned reforms are, however, far from adequate if local expertise and economic incentives are to be fully exploited. A complete de-collectivisation could be an option, and decisions with regards to the use of land must be localised to a far greater extent.

\textbf{Prospects and new initiatives} North Korea cannot fight its way out of the agricultural crises by its own means. The simple reason being, that there is not enough arable land for complete self-sufficiency. In this regard, it is important to keep in mind the recommendations from the 2004 Consolidated Inter-Agency Appeal, which can be summarized as follows: While humanitarian assistance must be continued there is a dire need for development assistance if North Korea is to overcome its severe economic difficulties.\textsuperscript{95} In other words, North Korea depends on support from the international community in the short run and even more so if long-term investments are to be realised. As the situation is now, it would be more profitable on a short-term basis to support North Korea’s economy to enable them to buy their way out of the food shortage. However, in the long run, a rebuilding of North Korea’s agricultural sector is a necessity and investments are needed in many areas.

\textbf{Agricultural capacity} A look at the recent history reveals that protection of the agricultural capacity is needed to withstand future natural disasters. Dykes need to be strengthened to protect against flooding. Likewise, better pumping facilities and steady energy provision can maximise utility of reservoirs and irrigation systems, which will lessen the effects of droughts. The massive deforestation needs to be dealt with in order to prevent soil erosion caused by sandstorms and heavy rainfalls. We will return to this issue below in: Rebuilding North Korea: Small scale.
Transfer of agricultural technologies

The rebuilding of North Korea’s agricultural sector depends upon a well-functioning supply of energy as well as fuel for agricultural machinery. Without these essential components a large-scale rebuilding cannot be accomplished. Setting aside these preconditions, North Korea also needs a massive transfer of agricultural technologies in order to strengthen its self-sufficiency. More knowledge about new varieties of crops suited for North Korea’s climate, soil fertility, and seed selection and breeding is needed. The North Korean side has showed an interest in these matters, where the acceptability of such proposals is helped along by the emphasis on science in the juche-ideology.

Rebuilding North Korea: Small Scale

Sustainable use of natural resources

The earlier descriptions of natural disasters and the collapse of the energy sector mentioned the impact of floods and how they destroyed the already vulnerable electricity network. These floods were described as man-made to a large degree, due to obvious planning mistakes in not anticipating the need to build up effective banks to prevent soil erosion. International expertise within this sector may be needed to secure both the arable land and the infrastructure against the recurrence of such natural calamities.

A Danish company with an advantage

Denmark has a comparative advantage if it will consider offering assistance to this basic problem with North Korea’s man-made landscapes. Although there might not be many experts on rice cultivation in Denmark, all Koreans, North and South, have learned about Dalgas and what he initiated in Denmark after the loss of land to Germany in the 1864 war. The company that Dalgas – and other visionary men – established in 1866, “The Danish Heath Society” (DDH), is today a major private player in the forestry sector, as well as in landscape conservation, energy, water and environmental sanitation. Moreover the company has interests in utility supply engineering, organic waste treatment and organic fertilizer production, as well as optimization of technical solutions and operational logistics through the integration of IT systems. DHH operates internationally – including in some developing countries – and would because of its comprehensive approach to land utilization be a relevant actor in the rebuilding of North Korea. Should this happen, the importance that North Koreans would ascribe to the company’s roots and the positive impact this would have for cooperation between DDH and its North Korean counterparts cannot be overestimated.

Renewable energy

Another area where cooperation would be relevant is within the energy sector. It has been mentioned in the section dealing with North Korea’s energy crisis that wind power would be a useful additional source of energy. In many areas of the mountainous country, the barren ridges would be excellent wind power sites. Renewable sources of energy are clearly of interest to the North Koreans, who have produced some small scale, low-tech windmills that according to international experts, range from inefficient to non-functional. In this field Denmark holds a position as the leading international player, due to its development and construction of a major share of windmills for the world market.

Educational projects

In a recent study focusing on the current changes on the Korean peninsula, North and South, the authors, in dealing with different obstacles to change in the North, state: “What is most striking, though, is the country’s shortage of economic understanding and trained people. Its infrastructure for economic engagement with the rest of the
world is extremely limited”.

North Korean xenophobia

It is obviously of principal importance to engage in educational and training programs for North Korean professionals in the fields of economy and international law, as well as for bureaucrats in many different fields. European countries, in particular the Scandinavian welfare societies, might have something of interest to offer in this respect. The basic assumption of North Koreans who travel abroad is that the outside world is a threatening and dangerous place, and although foreign know-how might be worthy of imitation, foreign ideas, values and norms should be rejected. Such is the case – and this is not conducive to a learning process. Nevertheless, this process should be pursued, as the xenophobia imbued in the North Korean people is an effect of the state of isolation in which people have been living. Their ideologically imposed fear can hardly be maintained for long, as soon as people are allowed to have their own experiences. This is why any kind of educational offer, training course or official visit abroad will be conducive to the development of a more realistic understanding of the state of affairs among North Koreans.

Exchange programs should be promoted

Based on the above assumption, we believe that student and expert exchange programs of all kinds should be promoted. This goes for educational and training programs in such professional areas as health and law, as well as for more general studies within the natural sciences and the humanities. Having said this, we will in the following point at a number of particularly interesting fields where Denmark could offer important assistance.

Agricultural students

Taking South Korea’s earlier development period as a point of departure, one might find a clue to fields of education and training that might be of particular interest. Although the vast majority of South Korean intellectuals who were trained abroad went to the USA, there were several agricultural students who studied at the Royal Agricultural University in Denmark. It was obviously common knowledge of Denmark as an international leader in the agricultural sector that attracted Korean students. This could also be the case with regard to North Korea.

The banking sector

Finally, the banking sector is an area in which North Korea is in dire need of expert assistance and relevant training. With the changeover from a virtually money-free society to a far more market-oriented economy in which money actually makes a lot of difference, it is of paramount importance that the banks gain insight into ways of maintaining monetary stability and control of the cash flow. Another important issue related to this is that of trust in the banking system. These tasks – trust included – are linked to the professionalization of the banking sector. Danish banks could well be in a position to train North Korean economists, as the “Danish model” of a relatively peaceful coexistence between a public and a private sector; a welfare state does not seem as fearful as the more liberalist alternative.

Student selection procedure

A practical problem that has to be solved before offering any training programs is that of the selection procedure to be used for the North Korean experts and students. Since an offer from an educational institute would be limited to a fixed number of students, the selection procedure should be agreed upon beforehand as a part of the package. The only way to secure the best possible outcome of such investments is to ascertain a selection procedure based on professional qualifications and English language proficiency. It is obviously necessary to bring this up with the North Korean authorities and convince them that the colour of the cat is less important than the fact that it can catch mice. It would be advisable that applicants be required to conduct tests organized and overseen by the host institution.
Rebuilding North Korea: 
Foreign Policy Obstacles

North – South relations as a test
North Korea’s relations with foreign countries are so problematic that one might speak of a general obstacle. The most important country in the region with regard to North Korea’s present development is – or ought to be – South Korea. Although contacts with the South both formally and especially in terms of trade, are seen as internal, relations with South Korea can nevertheless be seen as a test case when gauging North Korea’s capacity to operate internationally. While North Korea has been one of the most isolated countries on earth throughout its entire existence, South Korea has been outwardly oriented and, due to its close links with the USA, also Western oriented to a certain extent. Put generally, although South Korea probably is the North’s most generous partner, it nevertheless experiences prolonged and difficult negotiations that often threaten to ruin business before it ever starts. South Korean companies still have to build a bridge over to the North before they can cross it, and each time they must build a new bridge. Moreover, a lot of money is often needed so that the deal finally comes through. Even after an agreement has been reached, there is no guarantee that implementation will follow upon words. This notwithstanding, the relations between the two halves of Korea, also in business, have the immediate advantage of being driven by a common cultural-nationalistic desire. Whether this will turn out to be an advantage in the long run – from an economic point of view – has been disputed.

A mutual understanding is developing
South Korea is the country, besides its Northern counterpart, which will suffer most from any miscalculation or failed strategy. From a position as the worst of enemies, through South Korea’s engagement policy, the two Koreas are slowly developing a mutual understanding. South Korea has transformed itself from a military dictatorship to a democracy wielding a strong attitude of responsibility towards its former enemy. This responsibility is translated into humanitarian aid, economic and technical support and several joint development projects. Although it will take a long time before normal relations are established, Kim Dae-jung’s visit to Pyongyang, and the positive personal chemistry between the two leaders have undoubtedly paved the way for subsequent deals and projects.

Common roots
Positive personal feelings between leaders may play a far greater role than is usually acknowledged in Western political thinking, but in the relations between the two Koreas there are other factors at stake. The importance of having common roots as two halves of one peninsula that were a united political entity for a millennium or more, with a mutual and highly developed socio-cultural system cannot be overestimated.

Similarity in leadership style
Another outcome of this communality, but seldom mentioned by Koreans, is the similarity in authoritarian leadership style, although with a difference in political ideology and time sequence. During the leadership of Park Chung-hee in South Korea, from 1961 to 1979, when the Southern part of the peninsula experienced what has later been termed an economic miracle, “Park relied extensively on the state authoritarian techniques, especially the Korean Central Intelligence Agency (KCIA) and the military to silence the opposition”. During a long period of successive dictatorship the shifting leaders followed a similar framework: “Rhee, followed by Park, and then Chun, frequently used national security to legitimize their brutality against domestic enemies with only limited American protestation”. This tough period of economic development under authoritarian rule is not unambiguously celebrated in contemporary South Korea – although there is some nostalgia with regards to Park, the architect of the economic miracle. One could claim that South
North Korea at that time also had some kind of “military first” ideology, and something resembling leadership cults (although only a pale imitation of the one developed in the North), and human rights were not discussed openly as a critical assessment of the government. Because of these experiences, there is in South Korea potentially a more realistic appraisal of the current developments in North Korea.

**The problematic relations with Japan**

Other important relations to neighbouring countries are no less problematic. Since the Japanese colonization of Korea from 1910 to 1945 Japan-Korea relations have fundamentally been hostile. This period has been described in the worst possible way in North Korean textbooks and literature, in plays and songs, in popular films and all other kinds of political propaganda, and has created hatred towards what is still seen as a former colonizer (a similar, although more relaxed, negative relationship exists between South Korea and Japan, but is presently undergoing a change in a more positive direction). A negative attitude towards the Japanese has thus been developed and kept alive in North Korea. Adding to the negative perception of the Japanese are the estimated 700,000 Koreans, descendants of emigrant workers – some of them forced labourers during the colonial period – still living in Japan, many as second rate citizens. It is safe to say that mutual enmity and distrust characterize the relations between the two peoples, despite (or maybe because of) the common cultural roots.

**Abduction cases main priority**

Japan has its own agenda regarding North Korea. Although ostensibly coordinating its North Korean policy with the USA and South Korea, the previous abduction of Japanese nationals by North Korean agents clandestinely operating in Japan (to capture language “teachers” to train North Korean spies) remains high on the Japanese agenda. Forced by extensive media coverage of the abduction cases, the Japanese government has not been able to maneuver away from this topic. The nuclear issue and a shocking North Korean missile test over Japanese territory, not to speak of the human rights situation in North Korea, are all very important and alarming, but are still secondary to the trauma created over the years when people suddenly disappeared from the shores of Japan. Currently, relations are not good, and the Japanese Diet has recently passed a law, which enables it to introduce sanctions against North Korea, including freezing the transfer of money from the Korean minority in Japan.

**North Korea and the US – mutual distrust**

Without doubt the most important external player with regards to North Korea is the USA, the country which fought a war on the Korean peninsula in the 1950s, a war that was not properly ended with a peace agreement. The war and the years that followed, where US troops were stationed in the South to protect this part of the peninsula and prevent another war from braking out, have shaped the extremely hostile relationship between the USA and North Korea. In the latter part of President Clinton’s term, however, a kind of rapprochement took place between North Korea and the USA, not least due to a convincing engagement policy of the then South Korean President Kim Dae-jung.

**“Rogue state” and “axis of evil”**

The present administration in Washington immediately re-established a confrontational relationship with North Korea, preferring to abolish every sign of rapprochement the former administration had achieved. North Korea was included on the list of so-called rogue states and in the axis of evil, which clearly signaled that the new administration opted for regime change.

**The nuclear program**

Since North Korea allegedly admitted that they had a nuclear program, perhaps even a bomb or two, relations with the USA have turned sour. Some observers claim that the North only stated that if they had wanted to develop such a program, they felt that they had the right to do so. Nevertheless, the possible programme has turned out to be quite a strong card in the tough negotiations with the US, and the North has skilfully played this card over and over again. Basically, North Korea want to have a
security guarantee from the US, they want the embargo dropped, they want to establish normal diplomatic relations with the US, and of course, they want US aid and development assistance.

**Who is threatening whom?**

The problem is that the Americans do not like the way the North plays its cards (neither do most other countries in the region or elsewhere). The question is, who is threatening whom? In 1999 the former US Defense Secretary William J. Perry said: “We do not think of ourselves as a threat to North Korea, but I truly believe they consider us a threat to them”.

The current relations between the two adversaries have not been improved by the Bush administration and a defense secretary who might not express himself as cautiously and accommodatingly as Perry did.

Then there is China. China has a special relationship with North Korea. Politically, it dates back to the Korean War, where “a million strong Chinese volunteer army” intervened when General MacArthur captured Pyongyang and considered crossing Yalu, the river making up the border between China and North Korea. Traditionally, in pre-modern times, China claimed suzerainty over Korea, and Korean independence was formally granted by the Chinese emperor. The relationship could be seen as a superior-inferior one within the same family of nations, since the state ideology of both countries was based on a Confucian understanding of authority and power, as well as international relations. In the post-war period China has been one of the main providers – together with the former Soviet Union – of technical assistance and barter trade opportunities. However, the relations between the two ‘brothers in arms’ and communist regimes are close, but not cosy. North Korea has never played its role well as the younger brother in relation to China, but has profited much from Chinese support. This is still the situation.

The recent transformation of the Chinese economic system has not fundamentally altered the political relations. Although the Chinese influence on North Korea is thought to be significant, this should be seen in relation to the total absence of influence of the other players. It should be kept in mind that China primarily follows a strategy conducive to Chinese interests. China keeps North Korea afloat because it cannot accept the scenario of a systemic collapse and an ensuing reunification according to the will of the South, (which includes American troops closer to the Chinese border). Moreover, a collapse could result in massive numbers of refugees pouring into the already unstable North Eastern China. At the moment (December 2004), China plays an important role in preparing a new round of six-party talks concerning the issue of possible North Korean nuclear arms. It seems clear that China does not want an arms race, which may make Japan feel pressured to include nuclear arms in their self-defence forces.

When the Soviet Union had disintegrated it took a while before Russia reappeared as a country of concern to Korea. One reason for this reappearance is the existence of great many experts on Korean affairs in Russian academia and foreign service. This may be due to the fact that people and institutions survive political and ideological breakdowns. Another factor is obviously Russia’s ambition of regaining some of the great-power status it lost with the Soviet collapse. For years Russia had suggested “a six-party format as a vehicle for peace and security in Korea and Northeast Asia.” When China suggested five-party talks concerning the nuclear issue, the North Korean leader telephoned the Russian President, asking Russia to enter the negotiations, if possible as a host. The Bush administration accepted Russia’s inclusion hoping for another country enlisted in the group to pressure North Korea to dismantle its nuclear programmes, while Kim Jong-il saw Russia’s role as a counterbalance to Washington. Although Russia before entering the six-party talks had been saber-rattling in the Far East, conducting a large-scale military exercise in the region and even, according to reports carried by the daily Izvestiya, considered carrying out a
preventive strike on North Korea’s nuclear facilities, this was probably first and foremost a signal to the US, and possibly China and North Korea, that Russia’s interests in the region should be taken seriously. This seems not to have ruined relations between Russia and North Korea, previously based on political and ideological affinities, but now replaced with the more solid personal friendship and trust between the two leaders.

**A greater role for the EU**

Relations with the EU are improving, as diplomatic relations have been established in recent years. Moreover, the continued humanitarian assistance has strengthened the position of the EU in the eyes of North Korea, which is of importance for the future success of EU policies towards the North. The EU is perceived by both North and South Korea to represent a balanced approach and as such it could play an important role in being supportive of the South Korean engagement policy, and be conducive to promote peace and security as well as inter Korean reconciliation.

**International approach to Korean unification**

Considering the strategic interests of China, Japan and the USA, it is not absurd to imagine that all three easily could agree on two issues: 1) to keep the Korean peninsula nuclear free, and 2) to keep it divided. This contradicts the expressed reunification policies of both Koreas. However, in the current situation it might not contradict real politics in the two halves of the peninsula. Regime survival is a main objective of Kim Jong-il, and the South Korean engagement policy is, in addition to humanitarian and business considerations, based to a large extent on the idea that the South cannot afford a collapse of the regime in the North. Former president Kim Dae-jung’s idea of development over three stages can in this connection be seen as a constructive approach. In an interview on 15 January 2004 he said: “I told this to Kim Jong-il. First we have to have peaceful coexistence, then peaceful exchange, and finally, maybe 10 or 20 years from now the next generation can pursue unification on a very stable basis their way.”

**Lack of expertise in the foreign service**

The second stage, however, the peaceful exchange period, seems to cause certain problems that should be carefully addressed in order for the third stage to be realized within a foreseeable future. Plainly stated, North Korea’s foreign relations in recent years show that the hitherto closed and isolated country has great difficulty in manoeuvring in international waters and in general in coping with foreigners. Although the leadership in North Korea seems to have acknowledged this problem around 1995, there is still a long way to go. One measure to deal with the lack of knowledge about the outside world has been to dispatch specialists to foreign countries to participate in courses in international economy and law, as well as international trade and management training. Between 1998 and 2001, around 400 specialists went to Australia, China, and Hungary for training. Some have even participated in courses in the US and in different EU member countries. In 2001 alone, the number reached 480, if one includes both short-term visits and more comprehensive courses in statistics and capitalist economy. Still, it is obviously correct to state that outside of these few and carefully selected experts, “only the top echelon of the Workers’ party has more than an inkling of what the rest of the world is like”. A South Korean scholar emphasized that this problem is much more important than usually acknowledged: “They do have excellent experts and people with deep knowledge about the world outside North Korea. But the number is so small. They are so few, and can only be in one place at a time, and this seriously hampers the development of normal relations between North Korea and the rest of the world”.

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Engaging North Korea
– Problems and Prospects

There are many reasons to engage with North Korea and to contribute to easing the problems on the peninsula. One important reason is to help to maintain peace and stability in the region, another to aid a deprived population which otherwise risks a future in continued poverty and starvation. Engaging North Korea, however, is not without complications: The experiences of aid organizations are mixed but point towards a positive development, human rights issues continue to be an obstacle – finally, it is unclear who will be the agent of change. We will look into these three issues below.

Is North Korea opening up?

In the whole post-WWII period, North Korea had remained an almost hermetically sealed country, until a prolonged famine made the authorities plead for international aid and opened the country for relief workers from different parts the world. In the beginning the international community confronted very difficult conditions in North Korea. The general working procedures of the aid organizations, developed throughout the years in different parts of the world, could not be applied due to strict regulations regarding freedom of movement and contact with the local people. Ideals acclaiming transparent procedures and effective distribution control had to be compromised, and suspicions arose as to who benefited from international aid: the starving people or the party elite and the military forces? During this period all markings showing the country of origin were removed from the rice-sacks sent from South Korea, apparently to uphold the idea of the Southern brothers as poorer than those in the North and subjugated by the US imperialists.

Today, only a few years later, North Korean workers use the latest heavy construction machinery from Hyundai to construct roads and railways in order to expand and modernize the ill-equipped North Korean infrastructure. Freedom of movement for relief workers has also improved somewhat. In 2002, the number of counties out of a total of 310 open to monitoring by aid agencies was 270. This has resulted in more efficient cooperation with representatives of the regime as well as better and more frequent contacts with the local population. It is this positive development, which has taken place within a relatively short period of time, that is seen as a necessary test for a more comprehensive contribution to change and development in North Korea. The country may remain an ”absolute monarchy” but it is, at least, no longer a hermit kingdom.

Democracy and human rights

International Human Rights organizations have regularly focused on the critical situation in North Korea. Despite poor and biased information, there is no reason to doubt the existence of labour-camps and a relatively large number of dissidents and political prisoners. This has been observed for years, but no foreign intervention, protests or other measures to change the situation, have been effective. On the contrary, the North Korean regime has seen such efforts as a provocation and as “regime threatening”, and have refused to engage in any serious dialogue about the matter. In the light of this, it seems difficult for Western countries bound by an obligation to promote democracy and human rights to keep up a dialogue with a notorious regime like that of North Korea.

A stalemate situation

The great majority of the people that were interviewed for this report in South Korea expressed the opinion that to overcome this stalemate, it is advisable to see freedom and rights within a broader context. Currently, the population depends on
international aid for sheer survival. In isolation, the North Korean people are left with the present leadership. Until now there has not been any way out except to flee the country, and that has been difficult and dangerous, to say the least. In order not to abandon the population, the international community has to continue and increase its involvement with North Korea. While humanitarian aid and technical assistance projects have the practical goal of achieving progress in North Korea’s ability to sustain itself, a side effect is influence on the people and the system within which they operate.

Outside models needed

Democracy and human rights are not latent forces that will automatically develop as soon as suppression disappears. To accept freedom and respect human rights on a political and societal level where such advantages never have existed before presupposes a long period of trial and error and, ultimately, changes in socialization and education. Moreover, in an isolated country such as North Korea, where the regime has imbued people ideologically, alternative models and methods have to be introduced from outside.

Normalizing relations as a first step

The engagement policy initiated by the former South Korean administration and sustained by the current government under President Roh Moo-hyun has the immediate goal of normalizing relations between the two Koreas. The South Korean administration has no illusions about the North, but they have reached the conclusion, after years of enmity, that engagement is the most effective way of establishing better relations between the two halves of the country. Hereby, the situation for people in the Northern part of the peninsula has already been improved somewhat. If the international community – including the EU – decides to increase contact with North Korea and to shift its focus from aid to development projects, this will contribute greatly to the ongoing process of opening, and it will certainly also contribute to alleviating the suffering of the North Korean population. Such a process is an important step towards improving the standards of living of the ordinary people, and in the long run it also will lead to a humane and open society.

Agents of change

Up until now, what has been seen in North Korea has been a slow development from a basically hostile and reluctant attitude in the recipients of foreign aid to a more relaxed atmosphere, acknowledging the given state of affairs. Will this development continue, and are there any signs of the advent of more profound changes in the North Korean economy? Are there, so to speak, agents of change that can be identified and seen as future counterparts for foreign-supported development projects in the country? The basic answer is that there are neither any opposition nor any consolidated groups within the bureaucracy or the army with an opinion different than the prevailing one. Instead, in the long run, it is the population of North Korea that will foster the agents of change, as has been the case in most societies around the world. The push from below leading to the emergence of markets is a sign pointing in the direction of a civil society. It is, however, still non-existent. It is not realistic to see the people, not to mention their freely elected representatives, in this role in the foreseeable future.

One agent of change

The main agent of change for the time being seems to be the North Korean leader and his close aides, and therefore an adequate understanding of Kim Jong-il is of paramount importance if an engagement policy is to have success. With him as the unquestionable and (for a long time to come) possibly also unchallenged leader, it becomes highly interesting to better understand his ideas, priorities and ways of governing. A leader of a nation that is still far from open, he obviously remains shrouded in mystery. There are voluminous official legends depicting his childhood and youth, extolling the chosen future leader, as well as fabrications of the opposite kind produced by Western, primarily South Korean, government agencies. A balanced,
trustworthy, presentation of his character is more than difficult to come by. The best one can do is to refer to the impressions of intelligent and respected people who have met with Kim Jong-il.

**As others see him**

In 2001 the Swedish prime minister, Göran Persson, visited Pyongyang as the head of an EU delegation with Javier Solana and Chris Patton. After the visit, Persson offered positive remarks to the press on the North Korean leader, who is otherwise depicted as the last Stalinist dictator. We pointed this out to the former president of South Korea, Kim Dae-jung, who became the first South Korean leader to meet his Northern counterpart in the highly publicized summit of 2000. Stalinist dictator or well-informed, accommodating leader, who is right?

"They are both right" Kim Dae-jung responded, and continued: "Kim Jong-il is just as much a dictator as Stalin. His administration and party are based on the military, so he is a dictator. On the other hand he is bright and interested in international affairs, he is artistic and greatly interested in film. I negotiated with him for about nine hours, and even on matters he opposed in the beginning, if he heard me through and found it logical and okay, he would agree to it right there on the spot. So he has the competence to be a leader and the decisiveness as well, and also the knowledge a leader needs. But he is a dictator, we cannot deny that. Before Persson went to North Korea, he asked me what my impression was of Kim Jong-il, and after he came back, he had the same impression. The same with Madeleine Albright (the US Secretary of State under the Clinton administration), she also asked me, and had the same impression when she came back."

In the 1980s and 1990s the present North Korean leader was depicted as an erratic playboy, a womanizer and heavy drinker with a particular taste for (foreign) movies and fast cars. This image still holds, but lately, other aspects of his activities have come more into focus. In a recent article in the New York Times Magazine (19 Oct. 2003) the author Peter Mass gives the following characterization of Kim Jong-il: "The Dear Leader is a workaholic. Kim Jong-il sleeps four hours a night, or if he works through the night, as he sometimes does, he sleeps four hours a day. His office is a hive of activity; reports cross his desk at all hours". Surprisingly the article is characterized as "comprehensive and impressive" in *Vantage Point*, the authoritative "official" South Korean news magazine on North Korea’s development. There are a couple of interesting aspects to this striking change of attitude towards the North Korean leader. The account presented in the New York Times Magazine is actually very close in its wording to the official North Korean leader-worship rhetoric – this, again, is very similar to traditional Korean leadership worship, even evoking resonance in a South Korean audience.

If the above characterization of the North Korean leader is to be read literally, then he is really a hands-on leader. Several of our informants, who had met with him and engaged in lengthy negotiations (such as Kim Dae-jung whom we quoted above), expressed views supporting this characteristic. Kim Jong-il is not a figurehead, but rather the chairman of the board and the managing director at the same time. He works both to promote change and to hinder it. One aspect of this paradoxical role is that he tries to be selective, promoting change that allows him to stay in power. Another aspect, which actually carries even a more negative consequences, is that his project to micromanage the modernization of a collapsed economy is an impossible endeavour. What can be hoped for is an increasing delegation of power and a professionalization of the reform project.

It is not a new thing in Confucian Asia for economic developments and, to a lesser extent, political reforms, to be promoted by authoritarian leaders. The most obvious
case of comparison is South Korea under Park Chung-hee. Under his non-democratic leadership (he clearly expressed contempt for Western democracy), South Korea rose from rags to riches. Park is seen today as the mastermind behind the economic miracle which took place during his reign. It is interesting to note that recently, when he received Park’s daughter, who is now a prominent conservative politician in the South, Kim Jong-il expressed admiration for her father.

Park – with a totalitarian touch

Kim Jong-il might be an extreme case, perhaps similar to Park (but with a totalitarian touch). He might both be intelligent and shrewd, witty and mean. The harsh truth is that he commands the power in North Korea, and that therefore the world outside has to deal with him. The survival of 23 million North Koreans and the peace and stability of the region are at stake.

A culturally accepted licentious life

The article commented upon in Vantage Point also touches upon the previously-held negative opinion that Kim Jong-il was more interested in parties than the Party, not to speak of the people and the country. The assessment of this part of the story has also changed. According to Peter Mass:

“Now, however, his bacchanalian ways are being viewed from a different, subtler perspective. As anyone who has spent time with South Korean or Japanese politicians knows, boozing and womanizing are an integral part of their political culture. Your drinking buddy is your political ally. It is the equivalent, in Tokyo and Seoul, of jogging with George W. Bush. Bonds are forged; loyalties rewarded.”

Emotional rapprochement

What we are witnessing, in the new opinion on the North Korean leader, resembles a kind of emotional rapprochement between two former enemies, here due to the intervention of a third party. This tendency is spreading. In the aftermath of the 2000 summit, South Korean attitudes towards the North changed both quickly and remarkably. Referring to a recent poll showing that expectations of a North Korean invasion had dropped from 40 to 10 percent, the author of the latest book about the North Korean leader, the Seoul-based Michael Breen, maintains: “Such rapidly shifting perceptions underscore South Korean yearning for reconciliation and an end to fear”.122 This is probably true, and despite the obvious fact that political and ideological disparities remain strong, there is a powerful emotional affinity between the people of the South and the North that may well be needed in the future relationship between the two materially unequal halves of the country.

The road ahead

The outside world, including Denmark and the E.U. countries, can contribute to the ongoing change in North Korea by engaging in different kinds of contact and projects in the poverty stricken country. This report has touched upon both problems and possibilities in taking an active approach towards North Korea. The economic background has been described, together with recent reform measures. The pace is slow, and there are many obstacles, but the direction towards marketization seems to be clear and the risk of a general backlash is not considered likely.

North Korea used to be part of the communist camp, but there is no such camp anymore. It is a matter of survival for the country to learn to cope in the new regional and overall world order. Kim Jong-il has travelled to China and Russia to see how the new world affects his former allies, and he has publicly expressed that what he saw impressed him. He has also, on several occasions, emphasized that North Korea has to change, and as this report documents, his views have, to some degree translated into action. What this shows is that the world is now beginning to change Kim Jong-il.
Although an authoritarian, micromanaging leader has no place in the modern world, the South Korean government and business community seems to be convinced of one thing: North Korea is changing, the present leadership is forced to go along with it, and by doing so, they will create the basis for a new society in which people are empowered and dictators outdated. It took South Korea a long while to reach this state, but with support from the international community the engagement strategy seems a realistic way forward in relations with North Korea.
Appendix: Human Rights in North Korea

Summary and suggestions
The human rights situation in North Korea is alarming. The international community, including governments and non-governmental organizations dealing with the issue, agrees that the situation is grave, and that something has to be done. Disagreement arises, however, regarding strategies and practical solutions. A major fault line exists between proponents of an approach aiming at the implosion of the North Korean regime (the US position), versus those who support the engagement strategy, advocated by South Korea and the regional powers. The present report has argued that the engagement strategy is the most rational, reasonable and sustainable position. This position is also taken concerning the human rights issue.

Based on the reflections and analysis in this appendix, the following actions by the international community, including the EU, are recommended:

To facilitate the processes of change, the international community should:

- Agree that engagement is better than isolation
- Accept that the right to food is a human rights issue
- Avoid politicizing the human rights issue
- Recognize and guarantee North Korea's security
- Keep up humanitarian aid and upgrade regular development projects
- Abolish the economic embargo
- Accept North Korea as a recipient of development loans from the World Bank and Asia Development Bank
- Discuss human rights and security issues guided by the precedent of the Helsinki Final Act in Europe

To ensure that the assistance to North Korea is publicly accepted, the following conditions should be acknowledged by the North Korean authorities:

- The human rights dialogue must be continued within a diplomatic context
- Monitoring of development projects should meet no restrictions
- No region should be closed to international aid agencies
- The border area of North Korea and China should be kept open, as it is a lifeline for many North Koreans during famine
- The office of the UN High Commissioner for Refugees should be able to control the fate of the refugees returned from China
How to cope with a serious problem

The North Korean human rights situation is presently among the key concerns of the international community, and it is seen as an essential part of the EU’s dialogue with the country. It is not an issue suitable for statistical treatment, as numbers may be deceptive. Nor do we see any reason to catalogue and describe abuses and cruelties, since various existing reports from human rights groups provide this kind of information. In the words of the experienced and respected Korea-expert, David Steinberg: “a paper on rights in the North [could be completed] in one, short declarative sentence: there are none”. Steinberg does not conclude his excellent paper with that statement, however, and neither will we.

In a report produced for government officials and policymakers in the Foreign Service we deem it necessary to provide the best possible foundation for policy recommendations. What is needed is to comprehend an issue that concerns morals, or lack of morals, but which cannot be resolved on moral grounds. Hence we will try to contextualize the issue as part of a larger whole. The question of human rights is impossible to understand or resolve if it is isolated from the social and political aspects of the North Korean society. Furthermore, the fact that North Korea is located in East Asia and has virtually always been isolated from the rest of the world, has given rise to a peculiar indigenous culture. Thus, besides all the other difficulties, there is also a cultural code that needs to be broken. This is the reason why the appendix, dealing with a problem that could be described in one declarative sentence, demands a fuller understanding of the problem.

The setting

Around the turn of this century the human rights situation in North Korea entered the agenda of international non-governmental human rights organizations. The event that occasioned this was the collapse of the North Korean economy, leading to the country’s sudden dependence on international aid and thus the presence of aid organizations in the country. Their observations and reports, combined with accounts from a growing number of defectors from the hitherto isolated country, alarmed the international community.

The point of departure is that the problem is grave, and should be addressed. The task of how to address this problem, however, is not simple and straightforward. One basic but problematic precondition is to see the issue and its context clearly, since it is all too easy to judge everything related to North Korea in a negative light. A system apparently clinging to something resembling a combination of Soviet Stalinism and Chinese Maoism, can hardly expect international sympathy. On the contrary, the surrounding world is, in most cases, more likely to believe the worst possible scenario. Lack of transparency and a tightly controlled political and social system providing little if any trustworthy information about the situation in the country strongly contribute to these negative assumptions.

International concerns

In April 2003 the European Union submitted a resolution on human rights in North Korea at the 53-member UN Commission on Human Rights in Geneva. This became the first formal UN assessment of the human rights situation in that country, and the resolution expressed deep concern about reports of systematic, widespread and grave violations of human rights. In October 2004 the US President George W. Bush signed the “North Korean Human Rights Act of 2004”, “To promote human rights and freedom in the Democratic People’s Republic of Korea, and for other purposes”. Before these two initiatives, different internationally recognized non-government Organizations (NGO’s) such as Amnesty International, Human Rights Watch and Freedom House had for some years been lobbying for a clearer and more
visible international stand on the issue. It is safe to say that by now “the West” has clearly expressed its concern, and human rights has become a main topic with regard to relations with North Korea.

North Korea
—a black spot

At first glance the current situation in North Korea seems to justify this tougher Western position. The country is one of the black spots on the global human rights map. Black, because still very little is known and the country is closed to effective outside monitoring, and also because what is known from scattered sources, mostly refugees, former inmates in prison camps or former officials in the system, tells a sad story of human deprivation. Although such sources, the unlucky targets of the regime’s suppression, may have a vested interest in painting a bleak picture to justify their escape and to some extent please their new patrons, there is still reason to believe that dissidents and enemies of the system lead a miserable life in North Korea.

How to contribute
to change

It is beyond doubt that North Korea’s human rights record is deplorable as well as subversive to the international reputation of the country. The question is how to contribute to change that situation to help targeted people suffering inhuman conditions and, in the longer run, to eradicate the use of inhuman punishment for social and political disobedience.

How to crack the code

Some keen observers of the peculiar North Korean system have questioned the mainstream Western approach to that country. In an insightful article entitled “Seeing North Korea Clearly” Saunders and Pinkston, two scholars from the Monterey Institute’s Center for Nonproliferation Studies simply advocate that “empathy is required”. The authors stress that one should not confuse empathy with sympathy: to understand reality as it is understood by others does not imply any kind of agreement. To understand the world as viewed from Pyongyang, however, is vital in order to avoid, at best, sub-optimal solutions, and at worst, inadvertent war. Such an understanding is also extremely important to be able to intervene with regard to the missing human rights in the most efficient way. The following offers a few but essential elements to construct the above mentioned necessary empathetic understanding of this very atypical phenomenon.

North Korea a part of the
Communist sphere

During the colonial period, between 1910 and 1945, many patriotic and nationalistic Koreans fighting for their country’s independence adopted socialism or communism as their ideology. It is significant that this ideology did not enter Korean soil together with the Soviet Red Army in 1945. At the end of WW II, due to international agreements between the victorious powers, in particular the USA and the Soviet Union, Korea was divided: the North to be adopted into the Communist sphere, and the South into the Western, liberal-democratic sphere. This temporary division has become the interminable ill fate of the Korean people.

Juche coloured by pre-communist values and norms

A particular trait in the North Korean development of a communist-like state was a fierce emphasis on its independent position vis-à-vis the Soviet Union, China and others. Juche, a state ideology, was created hailing national self-reliance and independence as the core values. By doing it their own way, their model became coloured more by values and norms inherent in the pre-communist social system, than by foreign ideological constructions à la Marx, Engels and Lenin. Initially, from an economic point of view, this indigenous system functioned well, partly due to its inner workings, and partly because of strong support from the communist bloc. As a result, North Korea commanded respect and considerable goodwill abroad, as well as among students and intellectuals in South Korea. This situation did not last, however, and the grave outcome has been described in the present report.
Total isolation

Notwithstanding the economic failure, in order to understand this peculiar system, it is important to realize that a long period in almost total isolation has formed the way leaders and followers coexist; the way the individual versus the group are perceived; how people at large view the world outside their own country; and how they see their own role in society. A lot of traits attributed to the new political ideology and rationalized within that context, were actually already deep rooted in the traditional culture. Examples are the emphasis on the collective before the individual, on ideologically-based leadership and the perception of society as a family writ large.

Charismatic leadership

In the particular North Korean version of tradition-based communism, political socialization has been designed to instill a system of mass belief reminiscent of that often found in sectarian and fanatic religions. A basic goal of the mass belief system has been the creation of charismatic leadership. This again is based on a traditional patriarchal social and moral ideology informed by the teaching of Confucius, with which the Korean people were imbued throughout the Yi Dynasty (1392-1910) when Confucianism was the state ideology as well as a dominant social morality. The selective utilization by the political elite of certain aspects of a widespread and deep-rooted creed may explain the durability of the ideology, even beyond the material collapse of the system.

Effective socialization

When people are virtually cultivated to see the leader as their father, his hardship and failures (which of course are theirs as well) will not necessarily make them turn against him. The results untold, people tend to believe that whatever the leader chooses to do, it is for their own good, as was assumed in the traditional paternalistic family. “The ordinary people”, writes Park, “submit themselves voluntarily to the authority because they are not accorded with alternative choices or oriented toward doubting the virtue of the leadership”. Are they then blind to the dire reality of their daily life? Do they not feel their own hunger and discomfort? According to Park, “the people in North Korea are sufficiently informed and socialized with the notion that their economic difficulty is due to the hostile international community and natural disasters for which their regime is not liable”.

A Confucian-communist view

The present North Korean worldview is to be understood as the result of a cleverly designed combination of political socialization and political propaganda, both based on a total information monopoly. The effect is that it sustains the support for the given system. The political socialization, an area of top priority in North Korea, has been emphasizing this Confucian-communist view, without any challenge from alternative ideas or views for 50 years. The current problem is, of course, that this education and the resulting political culture, are totally outdated and have no place in the contemporary world.

Clash of political cultures

An example of how difficult it can be to grasp the outcome of this political culture outside the relevant context is revealed in the following. In October 2002 the US Assistant Secretary of State James Kelly visited Pyongyang and confronted the North Koreans about their clandestine nuclear programme. The Northern counterparts reportedly responded that they had something even stronger than nuclear weapons. “US analysts initially concluded that the North Korean delegation was alluding to chemical and biological weapons”, write the authors, and they continues: "it took US officials weeks or months to clarify the meaning of the North Korean delegation’s statement by speaking with foreign envoys [in Pyongyang] and the South Korean government". And what was the meaning? Not surprisingly, when interpreted "empathetically", the North Koreans just said something like: as united behind the direction of our leader we make up a fierce and undefeatable force and as such we will reject any sort of aggression.
North Korea aware of communication problems

Although the North Koreans may use a form of communication unfamiliar to the outside world, they seem to be aware of the problem. The miscommunication between Kelly and the North Koreans is thus touched upon in a DPRK Foreign Ministry statement: “US Hostile Policy Disrupting 6-Way Talks”, issued 8 October 2004 by the Korean Central Broadcasting Station: “In October 2002, special envoy Kelly, who visited Pyongyang, said that he had intelligence data on the highly enriched uranium program and threatened us by saying that if we did not present it; not only DPRK – US relations but also DPRK – Japan and North – South relations will enter a catastrophic state. We were angered by the US side’s extremely overt pressuring act that ignored not only our sovereignty but even the guests’ etiquette to the host in the oriental culture. Thus our side clearly stated that we are entitled to possess even more powerful weapons than nuclear weapons to cope with the United States’ growing maneuvers to isolate and crush us and we did not even feel the need to bother to explain to the US side, the most hostile country, what they (the weapons) are”.

It seems clear that there is more to this matter than just translation difficulties. Had the American delegation been more familiar with Korean culture (note the reference to oriental etiquette), and North Korean political rhetoric, this incipient crisis could have been avoided. Sensitivity to Korean ways is needed. One possibility to acquire the necessary skills would be to have diplomats based in North Korea who can observe the situation on the spot, build relations with officials and develop a more profound understanding of the people and the country. Another way is to make use of the available expertise on Korean affairs in academia. A third, and very important way, is to learn from South Korea, both from what they say and what they do.

Sensitivity to Korean ways are needed

The present report has mentioned several reasons why South Korea must be the leading force with regard to the North. The most important reason, however, especially when dealing with human rights, is that the South and North share the same cultural traditions. From a political and ideological point of view they are adversaries, but each party still has the key to understanding the other. The long time observer of the Korean scene, David Steinberg, writes: “In societies, such as Korea, in which individualism is not held as sacrosanct, a strong tradition of shared values, relationships, and social expectations, together with the acceptance of the political legitimacy of a particular regime, may create forces toward ideological conformity and orthodoxy that have both positive and negative attributes”. From a Western position one may be inclined to dwell on the negative effects, especially in the case of North Korea, but foreign observers should be able to understand the context from a more objective position, including the historical perspective. In Steinberg’s words: “Perceived external threats, in the Korean cases from either the left or the right in the instances of the South and the North, produce a sense and manifestations of nationalism that encourage the subjugation of individual or group concerns to the common, threatened, weal”. One may disagree and find the social dynamics described by Steinberg as very negative, undemocratic and clearly against the human rights perspective. Nevertheless, until recently such social rules were entrenched in Korea, South and North, and they still characterize the Northern part of the peninsula.

Each party has the key to understanding the other

Western observers should take care not to employ their own worldview as the only measurement when observing and judging things going on in Korea. Individualism, civil society and the hard won independence between the state and the individual are not necessarily ideals everywhere. The role of the state versus society is different in Korea, and in East Asia as a whole, which means that the state has a much more active and interventionist role with regard to society as well as the individual than is normally accepted in the West. In Korea this has extensive historical precedent. “Koreans in both North and South”, writes Steinberg, “rule on the basis of perceived moral authority, however defined, and that authority is likely to continue to give the leaders the motivation to act paternaly. And the people to accept such actions from a regime
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that is regarded as politically legitimate”.

Remnants from South Korea’s authoritarian past still exist

The division of the country into two antagonizing camps brought about mutual hostility and kept alive repressive regimes in both halves of Korea for a prolonged period after liberation in 1945. Both regimes represented, to some extent, a continuation of the traditional political culture, although the differences between them were not trivial. In South Korea a democratic government has emerged, where human rights are seen as part and parcel of that system. Remnants from the authoritarian past still exist, however, hitherto legitimized with reference to the division of the country and the potential threat from the Communist North. Such a remnant is the National Security Law (NSL) from 1948, which still allows “the state to impose ideological orthodoxy in matters pertaining to ‘anti-state’ organizations (i.e. North Korea) as the government wish”.

In a special report: North Korea’s Human Rights in the independent/semi-official South Korean journal, Vantage Point, which follows the developments in North Korea, it is stressed that “many South Koreans have painful memories of their own country’s poor human rights situation in the past”.

The NSL is today heatedly debated in South Korea, (and heavily criticized by the North) and will probably be abolished as a result of the improving relations with the former brother-enemy.

North Korea is not a total anomaly

The lessons learned from South Korea must be that a) North Korea is not a total anomaly in the family of nations, and b) when conditions improve and relations with the outside world grow better and stronger, the authoritarian and repressive aspects of the political culture, regardless of the system, will ease and slowly evaporate.

The scope of the problem

According to estimates by main organizations and institutions, such as Human Rights Watch, Amnesty International, Freedom House, and the US State Dept Human Rights Report 2003, who are monitoring the situation in North Korea, there are about 200,000 political detainees in the country, roughly one percent of the population. Added to this – as the border between political dissent and criminal actions may be blurred in North Korea – are the inmates in “some 30 forced labor camps for common criminals serving shorter terms”.

Another significant group is made up of North Korean refugees in China, where two million ethnic Koreans are living. The actual number of refugees in that area is uncertain, however, as is the correct term to characterize this group. Some humanitarian organizations claim that there are 300,000 refugees, while official Chinese figures estimates around 10,000 (but reject the term refugees), and the South Korean government sets the number between 10,000 and 30,000 North Korean refugees – or defectors – in north-east China.

No one disputes, however, that the number has been steadily growing during the last 10 years parallel with the deteriorating economic conditions in North Korea, and lately also due to the presence of South Korean and international religious and human rights activists in that area, assisting and supporting fleeing North Koreans.

The situation is far from international standards

What concerns the international community is obviously not only the number of prisoners and refugees, but the conditions they suffer and the way they are treated by the authorities in North Korea, and also in China. Although very little solid and unbiased information is available, one can safely conclude from what is known that the situation and conditions do not meet international standards. One way of explaining it is to see the inhuman treatment of people as the practical outcome of an evil system. The problem with such a moral judgment, however, is that it limits the number of realistic solutions to practically one: to get rid of evil.
**A realistic approach**

As this is an unrealistic solution, the central question must be to identify the causes of the problem and then to point at possible and practicable solutions. In order to reach such a realistic approach, one needs to look at the central players, their positions and interests and their relations with North Korea.

**The key external players**

The approach to the human rights violations in North Korea differs significantly and is why one of the important and pressing tasks for the international community, including government agencies and NGOs, is the establishment of a consensus approach. An agreement on what the world expects of North Korea and what it in return should offer, and not least how to deal with the present volatile situation is needed. One issue blocking this consensus is that different players follow different national interests, be it matters of security, ideology, humanitarianism etc.

**Different national interests**

As discussed in the report (see: *Rebuilding North Korea: Foreign Policy Obstacles*), the USA, China, South Korea, Japan and Russia makes up the most active and important players with regards to North Korea. When observing their different approaches one can conclude that it will be extremely difficult to form an international bloc of agreement. The USA and South Korea, two close allies, occupy the most different positions, the first aiming at regime change in North Korea, the other peaceful coexistence and gradual change through engagement. China’s position is probably linked to regional and wider international issues, but together with South Korea, China is the major hindrance to an externally-directed regime change policy. Japan focuses on particular problems in relation to North Korea, but is also concerned with the nuclear issue and a possible military build-up. And finally Russia tries to utilize the earlier close relations with the North – and regain some lost influence in the region – while it continues to develop links with the economically more interesting South Korea.

**Difficult to form an international agreement**

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**An enforced regime change is not an option**

If a peaceful solution to the conflicts on the Korean peninsula is seen as a basis for improved conditions for the people in North Korea, differences in positions and approaches among the international players towards North Korea can be seen as a positive factor. It means that it will probably not be possible to exert more pressure on North Korea, to further isolate the country, tighten the embargo and ultimately threaten with preemptive strikes or a fully fledged war. All countries in the region seem to see such a strategy as counterproductive. In other words, an enforced regime change is not an option because South Korea and China would veto such a strategy. What then is the realistic option?

**Perspectives and Policy Options**

The regional solution, strongly supported by the closest neighbours South Korea and China, and more lukewarmly preferred by Japan and Russia, is *engagement*. In a European perspective, if there are two options: 1) (pre-emptive) war to promote peace, human rights and democracy versus: 2) engagement to strive for the same goals, it is likely that the second option would be more popular. However, also in a European perspective, there is a serious problem if engagement entails support to a dictatorship, to the very people responsible for the violations of human rights and anti-democratic practices. It is therefore necessary to approach this issue not from a moral but from a practical and result-oriented point of view: what would be the best possible way to handle this situation from the position of the unfortunate inmates in prisons and labour camps, North Korean refugees in China and the general population in North Korea, suffering from a collapsed economy and a threatened and insecure regime.

**Insecurity stems from foreign powers**

With regard to the insecurity of the regime, most North Korea observers agree that the present leadership in Pyongyang has a solid grip on power. Opposition groups are non-existent (or at least invisible to outside observers) and the only possible alternative
power structure is to be found within the military forces, although these seem to be well integrated into the present leadership. The source of insecurity stems from foreign powers, first and foremost the USA. In particular the military attack on Iraq and the consequent collapse of the still then powerful Iraqi leadership, including the capture of the dictator, has clearly alarmed the North Korean leadership. Moreover, as the country has been mentioned as a possible next target, the North Korean leaders have continued to engage in a military build-up and they have tightened internal security and surveillance of possible opponents or dissidents.

In this case the external pressure transforms into internal pressure. In an editorial, the American-based Korean internet news-source, Minjok-Tongshin, asks whether a threatened North Korea would improve human rights. We have already made our comments, but it might be useful to include one of the arguments put forward in that editorial i.e. to turn the scenario upside-down: would the US, the editorial asks, be able to guarantee the human rights of its people if an enemy just outside its borders, one hundred times stronger than it, threatened to perform preemptive attacks or total obliteration? Again, from what has happened after the 9/11 terrorist attacks it seems clear that the answer is no. In a situation where an enemy threatens to undermine the whole system, the scope of freedom for the individual will be limited and the human rights situation will deteriorate in any country. This argument seems to be universally applicable. Although it should not be taken as an excuse for human rights violations, it is an argument for non-violent solutions to the present problem.

This is also the case regarding the refugee problem. A main reason for people fleeing their country is the difficult economic situation, which for a not insignificant minority during the last 10 years has meant fatal starvation. This is the responsibility of an inefficient political system and a moribund economy. It seems clear, however, that the political system is not moribund (despite our rationally based expectations) and moreover the system by itself is unable to restart the economy so as to provide what is necessary for the survival of their people. This places the international community in a delicate situation: the outside world can not bring about regime change (without a war causing extreme human suffering) which leaves us with a responsibility to help and assist the given order to solve the immediate and urgent problems.

There are two countries which are mainly affected by people fleeing North Korea: China, with the longest and most accessible border with North Korea, and South Korea, with an inaccessible border, but where most of the refugees are expected to flee to. In the northeastern part of China there are about 2 million ethnic Koreans, having stayed there for generations. This group makes up an obvious place of shelter for newcomers from Korea, but, the crucial problem is that the Chinese authorities do not recognize North Koreans illegally entering China as refugees, but simply as illegal emigrants or illegal migrant workers. As such, they are frequently taken back to their country of origin, and it is not difficult to imagine that ethnic Koreans in China may confront problems if found to be sheltering illegal foreigners. Although the Chinese practice of returning North Koreans to their point of departure has aroused heavy criticism from human rights organizations, claiming that it entails cruel penalties and imprisonment, other sources maintain that there is a weak basis for such a claim, and mention examples of North Koreans who have crossed the border several times after being forcibly extradited back to the North.

Recently human rights groups and religious groups based in South Korea or in the USA have started to help and assist North Koreans coming to China. These groups are under increasing criticism from Chinese authorities, seeing their activity as a form of human trafficking and pointing at high prices paid (sometimes out of the money they receive as a start help from the South Korean authorities). The fact that
spectacular events such as groups of North Koreans rushing into foreign embassy compounds in Beijing are often expected by foreign media who have TV teams ready on the spot has further annoyed Chinese authorities, who question the whole organizational set-up and the humanitarian aspect of the actions.

**40% came to earn money**

Although spectacular events, sometimes jointly arranged by activists and the media, have a strong impact on public opinion, more serious research should not be neglected. At a workshop held at the University of California at Berkeley on September 15, 2004, a rare survey of 1,000 North Korean refugees in China was presented. It was found “that about 40% came to China to earn money, and only 23% came to China to secure grains and medicines, and about 10% to get married”. Professor Hyun Ok Park of New York University who presented the survey at the workshop concluded that “although the reports of North Korean defectors paint South Korea as the ultimate destination for North Korean migrants, most North Koreans prefer working in China in order to maintain contacts with their families at home”. And she continued: “They fear arrest and deportation not necessarily because they expect punishment […] but because they fear losing their jobs”.

**Migrant policy has changed significantly**

The same scholar maintained that North Korean policy concerning the migrants had changed significantly, as the authorities seem to have stopped criminalizing migrants unless they have been involved in NGOs, especially Christians and other politically implicated cases. This scholar sees a connection between Korean-Chinese increasingly taking up low-paid jobs in South Korea, and North Koreans filling the jobs created and vacated by the Korean-Chinese in China. Another impact of the information revealed above is that foreign human rights activists, by operating among North Koreans in China may make life even more complicated and dangerous for this group.

**Exodus from North to South not a viable solution**

Turning to South Korea, apart from the aforementioned activist groups very few see an exodus from North to South as a viable solution to the problem. A massive move from North to South – a foreign activist announced in 2002 that a flood of refugees would soon wash away any hindrances – would hardly be welcomed in the South for the simple reason that the country would be unable to provide decent living conditions for a sudden huge influx of people. This scenario, among others, has made South Korea strongly emphasize engagement as a solution, not least with regard to human rights issues. Another equally plausible reason to be skeptical of the activist strategy of destroying the system, or at least forcing it to abide by humanitarian principles by “emptying” the country of people, is that this strategy could turn out to have the opposite effect. Those who believe that floods of fleeing people will make the authorities realize that they have lost the game, base their prediction on East German experiences. But, as has been emphasized by others, floods of refugees leaving Vietnam and Cuba turned out to strengthen the regimes, as they got rid of those who most opposed government policies.

**“North Korea Human Rights Act of 2004”**

Unfortunately – because it may affect how the world will deal with this issue in the near future – the US “North Korea Human Rights Act of 2004” seems to be more in tune with human rights activists than with what is here presented as a more realistic approach. A main feature of this Act is to assist refugees from North Korea to enter the United States. Critics claim that the main idea is to encourage defection to bring about implosion. In addition it is intended to provide radios capable of receiving broadcasting from outside North Korea and also to increase programmes from Radio Free Asia and Voice of America aimed at the North Korean population to 12 hours per day. Although the intentions may be well-meant, anyone with more than superficial knowledge about the North Korean system may wonder whether the US authorities have considered the fate of people in North Korea detected while secretly listening to Voice of America from an illegally kept radio receiver?
Such problems have made the South Korean authorities keep a low profile with regard to the US human rights initiative. While the conservative opposition seems to follow the US lead, criticizing the government for remaining silent, the government agencies stick to its “silent diplomacy” towards human rights issues in North Korea, maintaining that this issue must be seen in a broader context. The third group, the South Korean NGO Community wonder why the US passed this law, with great potential for developments on the peninsula, without consulting with its close ally, South Korea.

**Government agencies stick to “silent diplomacy”**

**Rights issues function as lever**

The US administration’s approach to North Korea follows two tracks: 1) blocking nuclear proliferation, and 2) focusing on the human rights situation. Observers in Seoul see the two as interconnected: if there is stalemate in the nuclear talks, the US may choose to focus on the rights issue, which then functions as a lever pressuring the North. Due to the present moral basis of the US foreign policy, both issues carries equally heavy weight and will probably not be isolated from each other. Both issues certainly function as explosives in North Korea’s international relations, which is why North Korea, not surprisingly, also links the two, claiming that there is no reason to meet with the USA (in the six-party forum) as long as the US obviously tries to destroy their system with the hostile policy of using human rights as a political weapon. Thus, although these issues tend to fall into separate subfields of international politics, we will briefly look at how the problems in this particular case are linked and dealt with by the parties concerned.

**North Korea is issuing mixed signals**

The international focus on the nuclear issue in North Korea, that is, whether or not North Korea is conducting an enriched uranium programme to enable it to produce nuclear weapons, has alarmed the surrounding countries and the USA. It has prompted these powers, with China as the broker, to set up the six-party talks to deal with the issue. Remarkably, North Korea is one of the six parties, a fact that could be taken as a sign of good will. Paradoxically, there is still a reasonable doubt about the possible secretive North Korean nuclear program. As recently as on his trip to South America (November 2004) President Roh Moo-hyun was quoted as saying: “We cannot conclude that North Korea has necessarily been trying to develop nuclear weapons to attack somebody or support terrorism.” To further blur the picture, North Koreans themselves are issuing mixed signals, sometimes refusing to have any military nuclear ambitions, but at other times stressing that if they so wished, they could rightfully, as a sovereign nation, develop any weaponry to enlarge their self-defence capacity. Since the advent of the US led operation in Iraq, the latter position has been mostly taken.

**Nuclear bombs as bargaining chips**

Whether or not North Korea by now has one or more nuclear bombs remains uncertain. What we do know is that such weapons (imaginary or not) are seen by the North Korean regime as bargaining chips in the ongoing six-party talks. It is not conducive to a realistic solution of the problem, however, to see North Korea’s nuclear ambition as a recent whim, invented as a last resort to try to blackmail its counterparts. Ever since the US threatened to use atomic bombs in the Korean War, North Korea has been interested in acquiring such weapons. Until 1991, when the US withdrew its tactical nuclear weapons from South Korea, the North was directly threatened “and its desire for a strategic deterrent was hardly irrational.” Paul Monk, the Australian security expert on China and Korea, continues that given the [North Korean] economic problems from the 1980s onwards, “such a desire was even less irrational.” To this is added the collapse of the Soviet bloc and, in the wake of the war in Iraq, a renewed threat from the US, hinting at a military solution in North Korea, which immediately prompted the North to present nuclear weapons as the only guarantee for its security. Another Chinese observer states that “it is highly unlikely [that] Pyongyang will agree to unilaterally dismantling its nuclear weapons program.
US - North Korea relations have deteriorated

Three meetings in the six-party forum have been held (as of the time of writing) but this has not been enough to make either of the main opposing powers (USA and North Korea) yield. The relations between those two have, if anything, deteriorated. What has been developing in a negative direction is the already very limited amount of trust between the two adversaries. Distrust has prevented any positive steps, even when all parties saw a possible agreement ahead, the two adversaries could not agree on who should take the first step. The main disagreement seems to concern sequence. “This uncompromising stance is all the more remarkable” writes John Feffner, “given that both sides are talking about roughly the same elements of a deal – ending North Korea’s nuclear program in exchange for various economic, political, and security guarantees”. The author terms this “talks without negotiations”. James Palais, a leading American specialist on Korea, stresses that when the Bush administration claimed that they opted for a settlement of the nuclear problem through “negotiation”, this meant a willingness to talk but not to offer the other side something in return for something received. The US administration wanted to solve the problem through a concerted pressure by several international players, this, however, seems to be a dead end strategy. The above quoted Chinese security expert, Xu Xianzhong, writes that “both China and Russia as well as the other parties have proposed to the U.S. to take the DPRK demand seriously and offer the latter a serious promise of ensuring security”. In stark contrast to this is a fairly recent statement by President Bush during the presidential election campaign, explaining his ideas on how to solve the problem with North Korea: “I felt that it was important to bring other countries into the mix, like China and Japan and South Korea and Russia, so there’s now five countries saying to the tyrant in North Korea, disarm, disarm”. As an almost direct response to this statement, the article by the aforementioned Pan Zhenqiang in the Chinese journal, Research and Progress in Arms Control, concludes by stressing that “If the Bush administration, […] wish to use China only for the sake of exercising pressure on North Korea, and bringing about the eventual regime change, instead of seeking a solution acceptable to all parties, the cooperation between China and the U.S. cannot be sustained”.

Military threats touch exposed nerves in Pyongyang

The nuclear issue affects the human rights situation in North Korea. It seems plausible that when the North Korean regime feels threatened by the American approach in the talks on the nuclear issue and fear a military attack, they may treat assumed dissidents – people not following the given guidelines – more harshly as well as be less willing to open a dialogue on human rights with such an aggressive adversary. As formulated by Paul Monk: “pressure and threats of military action touch exposed nerves in Pyongyang”. And the American-based political scientist, Han S. Park, reminds us that Hwang Jang-yop, the highest positioned person in the North Korean leadership ever to defect to the South has warned “that the Kim Jong Il leadership is fully prepared for and willing to wage a long-awaited war…”.

The danger of a confrontational approach

The different positions outlined above clearly expose the danger of a confrontational approach to North Korea, whether we are dealing with the human rights or the nuclear issue. The question is: would it be possible to approach North Korea in a way conducive to the preferred outcome, a peaceful development on the Korean Peninsula, without thereby deserting the victims of the present regime?

Change without change?

Is North Korea really changing? The report preceding this appendix describes changes in North Korea. The communist command economy is on its way out and cautious steps are being taken towards a market orientation. It might be that the leadership hopes to avoid too radical changes, although they have skipped the economic basis of...
their political ideology. In other parts of East Asia we have seen that economic reforms have preceded political and ideological reforms. If we expect nothing less than a Western-style market economy and a liberal democracy respecting the universal human rights covenant, we may wait for a very long time. However, less should be acceptable.

Kim Jong-il is changing the system

The argument that the present authors find it extremely important to convey in this appendix is that the North Korean system, its agents and their actions can be explained, although seldom justified or accepted. Kim Jong-il is a dictator and a clever leader. He inherited a system, and a position within it, and he is now apparently in the process of changing that very system and his position in it as well.181

North dependent on the South

Firstly the relationship to South Korea has improved. In fact the North is now economically dependent on the South, which means that Pyongyang has a strong interest in avoiding a major crisis and economic fallout of foreign, particularly South Korean, investments, which could destabilize the North. Laney and Shaplen compare the situation with that between Taiwan and China, although in the Korean case the numbers are much smaller.182

An adaptation process

Secondly, North Korea terms the ongoing process of change not a reform process, but an adaptation process and this is what is needed.183 North Korea must adapt itself to the surrounding world, and the surrounding world must give the process time. A major problem is the lack of external trust in North Korea. It has been commonplace to see North Korea as the cheating party, deceiving partners and adversaries alike. This image is undeserved, according to Leon Sigal, director of the Northeast Asia Cooperative Security Project at the Social Science Research Council in New York, who has followed the talks between Washington and Pyongyang. Sigal writes that: “Pyongyang’s bargaining tactics led many to conclude that it was engaging in blackmail in an attempt to obtain economic aid without giving up anything in return. It was not. It was playing tit for tat, cooperating whenever Washington cooperated and retaliating when Washington reneged, in an effort to end enmity”.184

Money has displaced politics

Furthermore, many sources, whether they are optimistic or pessimistic with regard to the final outcome, report that change can be observed. In the Political and Strategic Report from AsiaInt, December 2004, it is stated: “At the grassroots, life for ordinary North Koreans is in a state of upheaval. In a radical recasting of the old social contract, money has displaced politics as the main determinant of life-chances. While this creates new inequalities, aid workers and other regular visitors – who travel beyond Pyongyang, crucially – report that most people seem to welcome the fresh opportunities, increased mobility, scope for business and personal ambition, and a slight easing of political control”.185

“Developmental dictatorship”

It is only by ignoring changes that have occurred since the summit meeting between the two Korean leaders that one can maintain the stand that nothing has changed. One would imagine that the West would celebrate North Korea giving up socialism in the Marxian sense.186 It should be possible to read the so called “military first” strategy, not necessarily as a threat, but signaling the relative demise of the working class, moving North Korea towards the position of a “developmental dictatorship resembling South Korea under Park Chunghee”.187 Furthermore, would it be totally unrealistic to expect the West to show “the moral superiority we claim to possess and helping the DPRK to become more responsible and more internationally compatible. Giving them a fair chance to change themselves would produce a much more sustainable result than a change induced from the outside”.188

Forced to adapt a new pattern

North Korea is undergoing dramatic change. Whatever term one chooses to use, reform or adaptation, the whole fabric of the society – which is imbued with an
indigenous and outdated ideology – will find itself forced to adapt a new pattern. Most likely the recent downsizing of the leadership cult should be interpreted as a part of the ongoing adaptation process. Likewise with the human rights situation: if the process of change is supported by the outside world, North Korea has the potential to emerge from its dire strait to become a growth economy with a totally reformed political system, in which human rights are accepted, respected and cherished, as is the case in South Korea today.
Notes


4 Interview with Park Jae Kyu, Seoul, January 15, 2004

5 Interview with Kim Dae-jung, Seoul, January 15, 2004

6 Interview with Park Jae Kyu, Seoul, January 15, 2004

7 Moon Chung-in, one of the architects behind the Sunshine Policy used this zen-buddhist expression when explaining why South Korea should continue its engagement policy. Personal conversation, January 13, 2004.

8 The Economist Intelligence Unit, North Korea Country Profile 2003, p.75.

9 Source: The Bank of Korea.

10 The Economist Intelligence Unit, North Korea Country Profile 2003, p.85.

11 Interview with Koh Byung Chul, Kyungnam University (Institute for Far Eastern Studies) and Park Sukh Sam, Bank of Korea.


13 Interview with Lee Dong-Cheol, Director General, North Korea team, KOTRA.


17 The Economist Intelligence Unit, North Korea Country Profile 2003, p.23.


19 Ibid, p.84.

20 The Economist Intelligence Unit, North Korea Country Profile 2003, pp.6-7.

21 Interview with former President Kim Dae-jung.


24 The military personnel amounts to 1.170.000 soldiers according to a ROK Ministry of National Defense publication (Participatory Government, Defense Policy 2003), p. 26


26 Ibid, p. 5.

27 The Economist Intelligence Unit, North Korea Country Profile 2003, p.84.

28 Ibid. p.74.


35 The Economist Intelligence Unit, North Korea Country Profile 2003, p.80.

36 Ibid. p.72.
39. The Economist Intelligence Unit, North Korea Country Profile 2003, p.72
40. Ibid.
43. “Number of Pyongyang’s Markets Increasing Rapidly”, Vantage Point, Developments in North Korea, Vol. 27, No.1, 2004, p.29
44. This is also the assessment of Lee Dong-Cheol, Director General, North Korea team, KOTRA. In an interview he explained: “the reforms was accepting realities…(...)…a justification of what was already going on”.
45. Park Suhk Sam, “Measuring and Assessing Economic Activity in North Korea”, paper published by the Korea Economic Institute, 2002, p. 78.
48. The Economist Intelligence Unit, North Korea Country Profile 2003, p.86.
50. “North Korea Adopts Measures to Govern Operation of Kaesong Industrial Complex” Vantage Point, Developments in North Korea, Vol. 27, No.1, 2004, p.37
53. Interview with Koh Byung Chul, Kyungnam University (Institute for Far Eastern Studies).
54. See: www.korea-np.co.jp, August 17, 2002. (This is the least biased North Korea-friendly source.)
58. Interview with Jun Bong-Geun, Policy Advisor to the Minister for Unification
59. Interview with Jang Whan Bin, Senior Vice President, Hyundai Asan, Seoul January 2004
61. The Economist Intelligence Unit, North Korea Country Profile 2003, p.81
67. Ibid.
68. Interview with Jang Whan Bin, Senior Vice President, Hyundai Asan, Seoul January 2004

71. Another center operated by the South Korean Samsung and the North Korean Choson Computer Center had already been opened in Beijing in 2000.


74. The Economist Intelligence Unit, North Korea Country Profile 2003, p.83

75. Lee Su-hoon, “North Korea’s energy shortage and the second nuclear weapons crisis”, Vantage Point, Developments in North Korea, Vol.26, No.8, 2003, p.45

76. Ibid. p.46

77. Ibid. p.51

78. Ibid. p.52

79. See: www.nautilus.org


81. An agreement with Asea Brown Boveri (ABB) was signed in December 2000. The Swiss-Swedish company agreed to a long term cooperation to improve the industrial base and the outdated electrical transmission system in North Korea. ABB opened an office in Pyongyang in 2001.


83. Ibid. pp.16-17

84. Ibid. p.27

85. Numbers for average demand are presented in “Understanding North Korea”, 2004, Institute of Political Education for Unification, Ministry of Unification. Precise estimates of North Korea’s cereal production are difficult to obtain. Here numbers from FAO are used, even though the same time series is highly inaccurate prior to 1995. See: Marcus Noland, July 3003: “Famine and Reform in North Korea”, Institute for International Economics.


89. Data provided by FAOSTAT, FAO 2004.


92. Ibid. p. 11.


95. 2004 Consolidated Inter-Agency Appeal for DPRK, p. 11.


98. The 2000 summit in Pyongyang involved payment from South to North of about 500 million dollars. It should be added that money and politics is not en entirely unknown cocktail in the South.


101. Ibid.:148-9


104 An unnamed rapporteur at the Eighth Annual Conference of Russian Korea Experts held on 25-26 March 2004 writes, that “it should be kept in mind that there are people in the Chinese leadership willing to forsake North Korea for Taiwan, although their opinion is not the official state policy”, Far Eastern Affairs. A Russian Journal on China, Japan and the Asia-Pacific Region, Vol. 2, No. 2, 2004: 139.


106 ibid.

107 ibid. p. 46, 48

108 ibid.: p. 50

109 Joo Seung-ho writes that Kim Jong-il’s 24-days visit to Russia in the summer of 2001 was a turning point in the relations between Moscow and Pyongyang, and that the two leaders developed favourable feelings and trust toward each other, and that they maintain close contacts and frequently consult each other on a wide range of issues (51-52, esp. note 15)


111 Interview with Kim Dae-jung, Seoul, January 15, 2004


117 Harrison, Selig S. (ed.), (2003), Turning Point in Korea. New Dangers and New Opportunities for the United States, The Center for International Policy/The Center for East Asian Studies, Univ. of Chicago, USA, p.16


120 Quoted from Vantage Point, Vol.26, No.11 (Nov. 2003), p.26

121 ibid. p,91


125 EU Resolution: E/CN.4/2003/L.31/Rev.1

126 108th Congress, 2nd Session, H.R. 4011/ www.theorator.com

127 After disclosing that South Korean groups working for human rights in North Korea are receiving financial aid from the United States, MP Lee Hwa-young of the ruling Uri Party said that reports from such groups exaggerate the conditions to get more funds (Seoul, Yonhap Oct.22, 2004).


129 ibid. p,91

130 Helgesen, Geir, 1998, Democracy and Authority…p. 27

131 CIA reported in 1976 that North Korea in several areas, notable energy and heavy industry, were ahead of South Korea.

No. 15, 2005


134 Park, Han S. 1998, Human Needs… p. 234

135 ibid.: 225

136 Pinkston and Saunders, 2003, Seeing North Korea …p. 82


139 Pinkston and Saunders, 2003, Seeing North Korea …p. 79

140 Ironically, outside South Korea, the best informed and qualified experts on North Korea are to be found in the USA.

141 Steinberg, David, 1998, Human Rights in North Korea… pp.241-242

142 ibid: p. 242

143 ibid: p. 248

144 ibid: p. 245

145 “North Korea’s Human Rights”, *Vantage Point*, Vol. 27, no.11, p. 4

146 On September 6, 2004, in a televised panel discussion, South Korea’s President Roh Moo-hyun touched on the human rights situation in the South during previous regimes: “The National Security Law has been used mostly to oppress people who opposed the government rather than to punish those who threatened the country into crisis. During this process, tremendous human rights abuses and inhumane acts have been conducted.” (Asian Centre for Human Rights, 27.09.04.Webpage: www.achrweb.org).

147 2004 Freedom House Annual Report on North Korea


149 The EU is not included in the group of key external players as this label is reserved for the member countries in the six-party talks. The EU could, however, assume a more central role by preparing a plan for North Korea’s movement towards a place among the normal nations in the international community. Such an international consensus approach to North Korea, with a balanced set of offers and demands, is needed, and only an economic world power will be able to bring this about.

150 www.minjok.com/english/editorial, 01.11. 2004

151 Ruan Zongze, interview in Copenhagen, November 5, 2004


153 Hwang, Jaehoo, 2004, Northeast Asia’s Pandora’s Box…p.56


155 ibid.

156 ibid.

157 Glosserman, Brad and Scott Snyder, 2004, “Borders and Boundaries…

158 This was announced by Vollertsen to *Far Eastern Economic Review*, April 4, p.20


160 Hankyoreh, Editorial, Sept.9, 2004

161 “Sec.103. Radio Broadcasting to North Korea” and “Sec.104. Actions to Promote Freedom of Information” in “North Korea Human Rights Act of 2004”

162 Seo Dong-shin, The Korea Times, Oct.19, 2004


164 Woo Seong-ji in The Korea Times, Nov. 12, 2004

165 KCNA/FBIS-EAS Oct. 8, 2004


167 ” Korea Herald, November 15, 2004, internet version

168 That North Korea is blackmailing the US with clandestine nuclear programmes has been the preferred view of the US side since the collapse of the 1994 Agreed Framework, and has also been their argument for not giving in to North Korean demands.
At the time of writing, international – and South Korean – news agencies are speculating on the reported removal of pictures of Kim Jong-il at different places in the capital. It is happening allegedly on the supreme leader’s order, and the media immediately suggests all kinds of reasons except a reasonable wish of the leader to downplay the cult while currently pioneering change.

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177 Yonhap, Vantage Point, Vol. 27, No. 10, Oct. 2004, p. 20
178 Pan, Zhenqiang, 2004, Solution for the Nuclear Issue...p. 35
181 At the time of writing, international – and South Korean – news agencies are speculating on the reported removal of pictures of Kim Jong-il at different places in the capital. It is happening allegedly on the supreme leader’s order, and the media immediately suggests all kinds of reasons except a reasonable wish of the leader to downplay the cult while currently pioneering change.

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185 Asia Intelligence Ltd., Political & Strategic Review, December 2004, www.asiaint.com
187 ibid. p. 3