

# North Korea

<b>Status Index</b> (Democracy: 2.70 / Market economy: 2.64)		<b>2.67</b>	<b>Management Index</b>		<b>1.98</b>
<b>HDI</b>	n/a		<b>Population</b>		22.4 Mio.
<b>GDP p. c. (\$, PPP)</b>	n/a		<b>Population growth<sup>1</sup></b>		1.3%
<b>Unemployment rate</b>	n/a		<b>Women in Parliament</b>		20.9%
<b>UN-Education Index</b>	n/a		<b>Poverty<sup>2</sup></b>		n/a
			<b>Gini-Index</b>		n/a
<small>Figures for 2001 – if not indicated otherwise. <sup>1</sup>Annual growth between 1975 and 2001. Source: UNDP: Human Development Report 2005. <sup>2</sup>Population living below \$ 1 (1990-2003).</small>					

## A. Executive summary

The history of North Korea's evolution as a Marxist and nationalist state with deep roots in Korean authoritarianism complicates the DPRK's efforts to recover from its failed socioeconomic policies. That legacy influenced the emergence of North Korea's state identity, rigid hierarchical polity and bureaucracy and the ideological teachings of "Kimism" with its theological overtones. The excesses of this system produced a form of hyper-stability, an intolerance of dissent and a flawed quest for nationalistic self-reliance. Determining the level of North Korea's socioeconomic development is difficult because of the opaque nature of the DPRK state and the difficulty of obtaining pertinent data. Although North Korea is experimenting with market endeavors, it does so in a constrained manner and has not had much success. Despite this mixed record, North Korea has managed to avoid the collapse scenarios widely anticipated.

The way in which the authoritarian DPRK governing system has pursued a limited form of socioeconomic change and been compelled by devastating famine to seek international aid raises questions about the system's viability. That issue is underscored by the negative publicity received by North Korea's flawed domestic and international policies. To minimize any prospect of North Korea's power elite losing control, they enforce their leadership in the guise of a questionable national consensus, institutionalized support for the line of succession and coerced allegiance. Despite the questionable efficacy of the DPRK governing system, which underscores its socioeconomic problems, North Korea is able to utilize the interest both China and South Korea have in preventing the North's collapse to cultivate incentives for an expanded dialogue and economic engagement. That cooperation may yield positive results, but it will have to cope with North Korean ineptitude, which has rendered earlier attempts to help the DPRK rectify its stagnant circumstances unsuccessful.

The trend lines for North Korean democratic and economic development are bleak, according to prevailing criteria in the international arena. When measured by North Korean criteria, however, there seems to be substantial confidence that the DPRK is on an appropriate path. North Korea seems reassured that the People's Republic of China's (China) avoidance of democracy and embrace of a state-centered form of market capitalism can be a model adaptable to North Korea's circumstances and needs. Such expectations are questionable because of North Korea's notorious reputation for domestic repression as well as its reckless pursuit of a nuclear weapons agenda and use of risk-taking policies to generate geopolitical deterrence. While there is ample reason to be pessimistic about North Korea's future, there are also sound reasons for China, South Korea and the United States to become more active participants in a regional effort to guide North Korea toward reforms that would be mutually beneficial to all.

## **B. History and characteristics of transformation**

The transformation process in North Korea is a complex blend of incremental evolution from the Korean nation's cultural traditions and imported multicultural Marxist traditions with numerous static periods, periodic reversals and enormous uncertainty about what the future may hold in store. This complexity is compounded by North Korean sensitivity to the circumstances in which North Korea has existed since its de facto creation as a Soviet-occupied half of a Korean peninsula liberated from oppressive Japanese colonialism in August of 1945 and formally established as a state on September 9, 1948. Both dates were turning points for North Koreans, underscoring the reality that they, their territory and anything they might accomplish within their domain was only half of Korea but also that it was the half that could shape the destiny of a reunited Korea - if they pursued that goal assiduously and effectively. These circumstances infused North Korea's vision of its transformation with profoundly nationalistic overtones. This was made more acute by the division of the Korean nation, compelling North Koreans to cope with a semi-national identity and to confront the pressures fostered by the more widely acclaimed transformation processes that were occurring in South Korea. Because of these complex forces shaping North Korea's societal evolution, it is difficult to treat North Korea's transformation process as something truly warranting the words "transformation" or "process." Instead, it amounts to a dysfunctional accumulation of oscillations that, over time, create a pattern of overlapping authoritarian measures.

North Korea's initial backing from the Soviet Union, the Korean War intervention by Communist China, the close personal bonds of many North Korean leaders to the Soviet Union and China's Marxist bureaucracies and ideology, and the contextual Cold War dynamic that made it clear where DPRK loyalties stood, there is a

widespread perception of North Korea's history and societal transformation as being hardcore communist. While those roots are genuine, North Korea's authoritarian identity is just as firmly rooted in Korean traditions of Confucian hierarchy, familial clan networks, acute factional proclivities, bureaucratic rigidity and a heritage of trying to cope with such factors in ways that often exacerbated problems rather than resolving them. The result of these dual heritages is a North Korea that is a hodgepodge of Marxist and nationalist characteristics. Moreover, it is a North Korea that is ambiguous about its pluralistic heritage even as it projects an image of a hyper-focused regime strongly committed to its goals. Had the Cold War yielded a Soviet and/or Chinese victory over the U.S.-led non-communist camp, North Korea might well have stayed on a transformation path strengthening its communist identity. However, the collapse of the Soviet Union and China's socioeconomic transformation under capitalist influences put pressure on North Korea (1970s throughout the post-Cold War era) to adapt its political, economic, bureaucratic and defense systems in an increasingly nationalistic approach to pursuing the DPRK's well being while avoiding the concept of "reforms" because of a strong desire to refuse to admit any failures.

Since the founding of the DPRK, it has been ruled by a father (Kim Il-sung) and son (Kim Jong-il) succession of leaders who wield virtually absolute control and whose apex of power is surrounded by small concentric circles of elites displaying great deference to the overtly esteemed leaders. The origin of the leaders has been assigned mystical qualities, and the aura surrounding them is virtually theological. Their verbal guidance, drawing on Marxist and traditional Korean values, has become state doctrine - Kimism. This so-called Kim Dynasty is often characterized as Stalinist, but it is actually an ultra-nationalistic authoritarian incarnation of a traditional Korean state burdened with the legacy of a failed Marxist operating system. This North Korean combination of extremely authoritarian and doctrinaire systems, burdened by its own history, is resistant to domestic innovation and averse to accepting most external advice on transformative change.

## **C. Assessment**

### **1. Democracy**

#### **1.1 Stateness**

The identity of the North Korean state is synonymous with its *raison d'être*, which is seen as a direct consequence of the U.S.-backed creation of the Republic of Korea. North Koreans deem this creation to be the act of an imperialist United States,

initially in opposition to the Soviet Union, and subsequently as a neo-imperialist hegemon and the sole superpower. From a North Korean perspective, this identity legitimizes the DPRK's attempt to rescue South Korea from U.S. control, an attempt otherwise and correctly known as the North Korean aggression in the Korean War. From the North Korean perspective, which sees the international political system as manipulated by the United States, North Korea has upheld Korean national legitimacy and existed as an alternative to South Korea ever since the Korean War.

The DPRK's constitution supposedly protects all citizens' rights as members of the proletariat. It also supposedly guarantees an effective administrative structure for managing various levels of the state. Given North Korea's Marxist political traditions, North Koreans' acceptance of and pride in an authoritarian state is consistent with Karl Marx's endorsement of a "dictatorship of the proletariat." Devotion to Kim the father and Kim the son has spawned a cult of Kim, which embodies the notion that these two "great" and "dear" leaders speak for and fully represent the North Korean masses, and in this sense the DPRK state is perceived as fulfilling Korean national identity. Consequently, although objectively, the North Korean state is the antithesis of a democracy and shows no signs of being transformed into a genuine democracy of its own volition. The North Korean state's position is that it fully represents the will of its citizens and is poised to extend that representation to the entire Korean nation when the divided nation is reunified. In practice this authoritarian state, which demands unquestioned allegiance of its political hierarchy, is notorious for its dictatorial qualities, dismal human rights record and inept management style. As long as South Korea was run by a succession of authoritarian and military-backed regimes with poor democratic credentials, the North Korean state's identity could pass muster, but when South Korea was transformed into a genuine democracy with a well functioning government, the DPRK's comparative stature rapidly deteriorated, severely damaging the quality of its stateness.

## **1.2. Political participation**

Officially, North Korean citizens enjoy universal suffrage starting at age 17. Nominally, they elect the 687 members of the Supreme People's Assembly to five-year terms. The last elections were held in September 2003, and the next elections will be in 2008. These members, in turn, supposedly select all the senior officials in the executive and judicial branches of government. There are three official parties in North Korea -- the Korean Workers Party (KWP), the Social Democratic Party and the Chongu Party, which is linked to the Chondogyo syncretistic sect. This looks like sound participation on the surface, but in reality, the elections are a façade. The ruling KWP's designated candidates always prevail, there is no meaningful opposition and

only a few seats are symbolically allotted to the other parties. The actual election results are always announced as demonstrating virtually unanimous support for the KWP. Based on this façade, Kim Jong-il - who has not yet assumed the presidential title of his late father - uses his status as Chairman of the National Defense Commission to rule at the apex of an authoritarian hierarchy and to determine the entire civilian and military command structure, the members of which owe their abject loyalty to the “dear leader”.

### **1.3. Rule of law**

North Korea’s constitution was created in 1948 and thoroughly revised in 1972, and to a lesser extent, in 1992 and 1998. Its formal legal system is derived from German and Japanese models and communist theory, all of which were superimposed on Korean traditions. Its judicial courts are selected by the Supreme People’s Assembly. This entire system is subordinate to the authoritarian elite, which exercises leadership over the masses, instructs them on how to behave and harshly enforces the rules when any dare to disobey them. The specific civil rights guaranteed by the constitution are routinely violated, and punishment is notoriously harsh. Not surprisingly, therefore, North Korea has a dismal human rights record.

### **1.4. Stability of democratic institutions**

Until very recently (2003-2004), the authoritarian nature of the DPRK precluded any serious questioning of its institutional stability. While there has not been any truly serious challenge to state institutions, there is growing circumstantial evidence from defectors’ reports and from foreign visitor’s’ observations of societal and market factors that the authorities are pursuing policies designed to preclude any attempts to circumvent their control. By implication, this suggests that the authoritarian leadership appears to be concerned about its ability to enforce its authority as rigidly as it has in the past. The more North Korea is subjected to external pressures to transform its systems and the more North Koreans are exposed to opportunities, the greater the prospects for institutional instability.

### **1.5. Political and social integration**

On the surface, North Korea is the epitome of political and social integration. The KWP, unlike its ostensible communist party role models in the China or USSR, has always been a mass party with an overall population to party membership ratio of about 7 to 1. While intended to signal North Korea’s commitment to societal support

of a Marxist agenda, it also served as a very Korean way to exert control over factional tendencies, discourage dissent and create a network of loyal underlings, enabling those at the apex of power to know what is going on within the hierarchy beneath them. The party leadership's need to oversee and rigidly control its members gave birth to the organizing principle behind this approach to integrating the political and social layers of all North Koreans through an authoritarian and hierarchical KWP. Since the founding of the DPRK, there have been several cycles of purges designed to weed out potential dissenting cliques. In the DPRK's formative stage, the focus of Kim Il-sung's supporters was on eliminating any bureaucratic factions with loyalties to their political experiences in the USSR, China or from the Japanese colonial era. This fostered a nativist-nationalist North Korea-first emphasis in the 1950s, 1960s and 1970s that strengthened the DPRK's cause in opposition to South Korea and contributed to the quasi-theological cult of Kim that surrounded Kim Il-sung.

This yielded the mass lines approach in the 1950s and 1960s - the *juche* paradigm (self reliance), the *chollima* ("flying horse" version of China's Great Leap Forward) movement and others. In the 1970s, Kim Il-sung's cohorts institutionalized these means of control through a new constitution and KWP purges. This program for political change was designed to adjust hierarchical loyalties according to the internal generational evolution from Kim Il-sung to Kim Jong-il as well as to create enough flexibility within the leadership to adapt to shifting external contexts, such as growing Sino-Soviet tensions and the U.S.-Chinese dialogue process.

The de facto Kim dynasty used media indoctrination campaigns and a series of mass movements to ensure that the generational transition model would allow the Kims to retain their power at the top of a centralized state. While most of the mass movements proved to be ephemeral, one - the *juche* line - has been creatively revised over the years, enabling it to become a multi-faceted call for North Korean integrated support of Korean self-reliance and independence in the face of numerous challenges and threats.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

Measuring the level of socioeconomic development in North Korea is difficult because of its evolution over time and the tiers that exist within its societal hierarchy. Historically, dating from the Japanese colonial era well into the postwar years, North Korea possessed major industrial assets based on its mineral natural resources, hydroelectric potential and ports. The development of these assets yielded sophisticated infrastructure and considerable human capital in the form of labor and

low-level managerial expertise. Despite the damage done to those assets during the Korean War through bombing, casualties and the high number of defectors, North Korea emerged from the war better endowed than South Korea.

That advantage, however, did not prevent South Korea from catching up and then surpassing North Korea. Based on data that is unconfirmed and therefore questionable, the contemporary DPRK appears to have a barely adequate level of socioeconomic development in its infrastructure and human capital. This developmental status is presumably reinforced by the rigid social order that emphasizes communist-style equality in terms of educational access, gender parity and social welfare. A degree of relative homogeneity can be seen in the low standard of living shared by the masses. Conversely, because of the acutely hierarchical nature of the social order, characterized by small clusters of elites at and near the systemic apex, there is reason to believe that there is a very significant socioeconomic gap between the leadership and the rest of society.

That gap is underscored by evidence from North Korean defectors, international aid workers and foreign visitors who attest to significant differences between Pyongyang residents and the masses in rural and industrial settings. That circumstantial evidence is reinforced by the DPRK's acknowledgement of its need for economic assistance, stagnant living conditions, the widely publicized mass starvation of the middle of the 1990s, subsequent severe and widespread malnutrition and its impact on the health of average North Koreans. Since the 1980s, the DPRK's increased efforts to reinvigorate economic conditions, willingness to reach out to potential benefactors and the transformation of the *juche* paradigm undertaken to achieve these aspirations have had decidedly mixed results. Although the DPRK's leaders and masses are trying to improve their socioeconomic development, they have a long way to go and remain at risk of economic collapse.

## **2.2. Organization of the market and competition**

North Korea's early reluctance to explore even limited forms of capitalist market practices and its political hesitancy to follow the paths of the USSR or China's market-oriented experiments predisposed North Korea's economy to the dismal conditions that have since emerged. North Korean leaders and managers were profoundly unfamiliar with market forces and not disposed to adapt to them. When the DPRK was compelled by the setbacks it experienced to explore options that would expose it to market forces, it did so in a state-controlled fashion. Although that approach can be successful if done in a limited manner (as demonstrated by Japan, South Korea and China), the Kim Jong-il government's approach was too controlling. Despite that rigid paradigm, North Korea has been drawn into a market-oriented

environment. Its commercial agreements with foreign partners, attempts to develop market enclaves for foreign investors and small-scale local agricultural marketplaces aimed at mitigating the malnutrition problems are relatively positive examples. Far less positive is the growth of domestic black market activities based on thievery and corruption. State-sponsored international smuggling activities and participation in the illegal arms and drugs trade also constitute participation in market activities, albeit in a less positive sense. On balance, North Korea is edging toward free markets in an uneven and inept manner and has a long way to go.

### **2.3. Currency and price stability**

Given the rigidity of the state system, including the state bank, and weakness of market forces, the North Korean won's official exchange rates are artificially set to benefit the state. Although it has been adjusted to reflect perceptions of North Korea's bleak economy, it almost certainly is unduly stable and high. North Korea's use of the euro since December 2002 as its official currency for international commerce makes evaluating the won's stability even more difficult. Use of the euro also halted speculation that the North Korean economy was experiencing "dollarization".

Officially prices are deemed stable, but black market activities and the uncertainties resulting from dramatic revisions in sanctioned prices and wages in 2002 and from the use of the Public Distribution System for rationed provisions that were once essentially free have introduced considerable fluctuations in prices. The actual inflation rate is not known. The net result is growing uncertainty about the stability and predictability of both currency and prices and unease among the masses that find themselves in the vortex of these changes. While this is a cause for concern for those with a stake in North Korea's rigid state system, it also helps generate momentum for market-based economic reforms.

### **2.4. Private property**

Private ownership, once a non-existent economic factor, has emerged as an abstract principle linked to the merits of profits and incentives. In June 2004, Kim Jong-il publicly praised "the principle of profitability." Nonetheless, most property in North Korea remains collectively state-owned. There are, however, private "kitchen garden" plots, a fluctuating number of small marketplace kiosks and a nascent sense that the North Korean portions of joint ventures with capitalist foreign investors may be setting the stage for evolving private ownership or corporate shares in the DPRK. On balance, however, state ownership, including the officially sanctioned marketplaces

with peddlers' stalls, retains an overwhelmingly firm grip on virtually all property and production.

## **2.5. Welfare regime**

North Korea's former claims regarding "cradle to grave" state-sponsored welfare have evaporated as the state encourages a hodgepodge of economic initiatives. The state's inability to prevent starvation, acceptance of massive foreign aid, introduction of structural reforms that put some elderly, ill and unemployed people at risk, its tolerance of illegal commercial activities and its inability to halt illegal Chinese border crossings that help subsidize the weakest economic regions of North Korea illustrate the failure of its welfare system. Because of North Korea's Marxist legacy, these welfare vulnerabilities could have consequences for state stability.

## **2.6. Economic performance**

North Korea's economy has grown enough to enable it to avoid the kind of regime-ending collapse that many had forecasted in the recent past. Its GDP is slowly growing, but rigid state controls, a dismal international image, erratic geopolitical behavior, skewed budgetary priorities that favor a disproportionately large military establishment, poor competitive stature compared to other developing countries and constraints imposed by its relatively isolated position make it extraordinarily difficult for North Korea to be competitive in economic performance. As a result of its liabilities, most foreign investors rank North Korea's economic performance at or near the bottom.

The volume of North Korea's foreign trade is estimated to be about 1% of South Korea's foreign trade volume. Nonetheless, North Korea's foreign trade relations with several countries are significant for its economic prospects. Its leading trade partners in descending order are China, Japan, Thailand, India and Russia, which cumulatively represent 76% of North Korea's foreign trade. In 2003 and 2004 Chinese-North Korean trade surpassed \$1 billion per year, compared to three-fourths of that in 2001 and 2002, and less than half that in 2000. Since it enjoys a relatively well-educated populace, a solid work ethic and the widespread expectation that its citizens could be as well off as South Koreans, North Korea is not without performance potentials.

## **2.7. Sustainability**

North Korea's present bleak situation is not sustainable, a fact reflected by numerous predictions of regime collapse spurred by economic factors. Taking its natural resources and labor force into account, were North Korea to intensify its tentative economic reforms and implement similar economic approaches as those used in South Korea and China, its prospects for progress would probably be more sustainable. Its best option for sustainability would be to merge its economy with that of South Korea as part of a reunified Korea.

## **3. Management**

### **3.1. Level of difficulty**

Given the opaque nature of the North Korean government, it is extremely difficult to ascertain with accuracy the level of difficulty experienced by those running the DPRK's governing institutions. In terms of perpetuating an extraordinarily authoritarian regime that is widely deemed to be a dictatorship permitting no dissent, exerting total control and demanding fanatical loyalty from a highly structured hierarchy of followers, North Korea's leaders appear to experience very little difficulty in governing society. Despite these appearances and the closed nature of the DPRK, there were sporadic indications that not all was going well and that the Pyongyang elite was experiencing difficulty in maintaining the so-called cult of Kim during the period of observation.

The hagiographic aura surrounding Kim Jong-il that caused many observers to characterize his regime, inherited from his father in a monarchical fashion, as "Stalinist" is no longer as sacrosanct as it once was. The DPRK's problems have become impossible to conceal, making the cult of Kim and the notion of infallibility surrounding the leadership more obviously unbelievable and putting the putative "Kimdom" on increasingly shaky grounds. The Pyongyang leadership elite tried to elevate the massive celebrations of Kim Jong-il's birthday on February 16, 2004 to the same level as the lavish commemorations of Kim Il-sung's birthday, but such public displays of fawning devotion to the "Dear Leader" and his father, the revered "Great Leader," amidst global consciousness of North Korea's economic plight inadvertently underscore the regime's fragility.

As much as the regime's propaganda machine proclaims Kim Jong-il to be "the sun of the 21st century" and disseminates information about Kim's assiduous work habits, efforts designed to encourage outside observers to be empathetic toward North Korea's ability to improve its conditions, such praise is more than offset by the

negative publicity generated by the candid appraisal of Kim's lavish lifestyle while his people starve portrayed in a 2003 book by a Japanese chef, Fujimoto Kenji, who catered to Kim's taste's for 13 years. Kim's stature was eroded further by criticism of North Korea's human rights record in 2003 and 2004 by the UN and others, reports that drew attention to the bleak conditions in prison camps, characterized in 2003 by one activist as North Korea's "Gulags." That dismal human right record was accentuated by Kim Jong-il's recent emphasis on the sung-gun (army first) model, a program hailing the Korean People's Army's total loyalty to Kim as exemplary and imposing this standard on regular citizens.

Against the background of such negative factors in North Korea, Pyongyang attempted to put a positive spin on two elections in August and September 2003. In the first election, for the 687 members of the Supreme People's Assembly, North Korea's news agency (KCNA) - reported that Kim Jong-il received 100% of the votes in his district: 649. Then, in the second election, the Assembly reelected Kim Jong-il to his most important official position as Chairman of the National Defense Commission by a unanimous 687 to 0 vote. Both of these elections were actually important for North Korea's evolution because they endorsed Kim Jong-il's innovative approach to using institutional adaptations to resolve various problems. The tone of the abject deference showed by others in the elite, however, reinforced the negative aspects of the cult of Kim and underscored the difficulties in governing the DPRK.

### Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	<i>0</i>
Head of State:	<i>Kim Jong Il</i>		
Head of Government:	<i>Pak Pong Ju</i>	Cabinet duration:	<i>09/2003- present</i>
Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution.			

### 3.2. Steering capability

The ability of North Korean leaders to guide their followers and the state bureaucracy often appears greater than it really is behind the scenes. Throughout its authoritarian history, those at the apex of power have used traditional Korean techniques with feudal overtones to scrutinize what rank and file North Koreans were doing, to ascertain whether factional blocks were emerging and to steer North Korean society in the desired direction. As is evident from the surge in scholarly and media speculation about possible instability in the Kim Jong-il regime, there is reason to

conclude that its steering capability is eroding and that the elites are attempting to resolve the problem. By late 2004 such speculations had gone so far as to theorize about possible attempts by South Korea and/or China to prevent a disaster by externally steering North Korea in a direction amenable to their purposes.

By late 2004 press coverage of a seemingly weakening cult of Kim - notably fewer portraits of and a lower systemic profile by Kim Jong-il - made this speculation very public. Before that surge, there had been signs of shifts within the power elite. Some were isolated but still possibly significant, such as the defections of high-ranking military officers, notably to China. Probably more important were the evident shifts within the line of succession within the so-called Kim dynasty. By the middle of 2003, it was evident that Kim Jong-il and his advisors were shifting the heir apparent line from his eldest son (by one mistress), Kim Jong-nam, 33, to his half-brother (by another mistress who reportedly died in mid-2004), Kim Jong-chul, 23.

By late 2004 this possibly new line of succession was confirmed when Kim Jong-il and his advisors reportedly ousted his ambitious brother-in-law, Jang Song-taek, 58, who wielded power within the KWP and the military. Such maneuvers are entirely consistent with patterns in the North Korean autocracy since Kim Il-sung and his advisors made comparable shifts in the 1970s and '80s to clear the way for Kim Jong-il. Such moves made it more clear whose hands would later control the steering wheel. Reinforcing that message domestically and externally, North Korean leaders tried to control the flow of leaked information about the DPRK's brutal prisons and pockets of dissent that could spawn political factionalism by creating much more restrictive laws designed to deter potential dissenters in late 2004. This move countered the reduced level of popular respect for Kim Jong-il and strengthened his steering capability and that of his core advisors.

### **3.3. Resource efficiency**

For most of its authoritarian existence, North Korea's main state management goal was to maximize its control over the instruments of governance to efficiently optimize total control. By that definition of efficiency, the government could consider itself to have been successful over the first several decades after the Korean War. However, as North Korea was forced to confront a post-Cold War strategic environment, dramatic shifts in China's approach to international markets and global acceptance of South Korea as an economically and politically very successful country, the North Korean leadership has been compelled to come to terms with different definitions of efficiency in governance. This need also applies to government agencies that have no basic grasp of capitalist market efficiency and government officials whose notions of political efficiency are predicated on the

simplicity of control mechanisms. These officials now have to learn to maximize their control over complex new variables with which they have little familiarity.

At the core of these new standards for governance efficiency lies the DPRK's ability to control the flow of two key resources, namely money and information. North Korea's sluggish adjustment to shifting economic priorities has clearly not been good for its still stagnant economy, but perversely, the many weaknesses of the North Korean economy have become an asset in terms of government efficiency for an authoritarian regime bent on preserving only itself. Had North Korea been compelled by circumstances to pursue economic reforms on a broad scale, measures comparable to those undertaken in China, the Kim regime would have been forced to adapt to the complexities of those reforms. By going slow economically and retaining most of its old ways of governance, Kim Jong-il's small power elite is able to maintain control and prop up the regime through reliance on a network of support systems.

These mechanisms were publicized in the media in a 2003 report based on revelations from defectors and Asian intelligence sources. At its core is an organization called Division 39, which arranges funding internally and externally, enabling Kim to retain control over his government by precluding any rivals from posing a credible challenge. Because of the closed nature of North Korean society it is impossible to know how much of that funding comes from legitimate activities and how much comes from the many highly questionable activities - illicit drug trades, weapons sales, and counterfeit currencies - in which the North Koreans are reputed to be involved. Press reports suggest Division 39 is what keeps Kim Jong-il in power, enabling him to be backed by overseas cash holdings in the range of \$4 to \$5 billion. While the political ethics of such practices are clearly questionable, they do seem to be efficient in terms of utilizing government resources.

This brand of efficiency is reinforced by the efficacy of the DPRK's entrenched propaganda machine, which denies the North Korean masses access to accurate information about what their government is actually doing in their name. This aspect of governmental efficiency is increasingly being forced to cope with a freer flow of information, which is a by-product of the limited forms of economic changes the government has sanctioned. This has become increasingly evident with the passage of time, and by 2003-04 North Korea's efforts to reach out to potential foreign trade partners and tourists led to a significant expansion of foreign visitors and cross-cultural events, especially in Pyongyang. Although governmental restrictions on inter-personal contacts remain, there is little reason to doubt that a higher proportion of North Koreans are being exposed to foreign information, thereby diminishing the efficiency of governmental controls.

This reduction in efficiency is exacerbated by the popularity of video cassette

recorders (VCRs), which enable North Koreans to see some of what exists beyond their borders. In addition, and perhaps more importantly, the illegal spread of cell phones and battery-operated radios that are smuggled in from China enable a sub-set of North Koreans to hear and talk about matters their government once had been able to totally control. A 2003 poll indicated an increasing proportion of defectors from North Korea who cite such factors as being behind their discontent. The less the government can control communication, the more it must cope with this definition of efficiency.

### **3.4. Consensus-building**

When assessing North Korean consensus building it is crucial to understand Korea's heritage of using Confucian-based principles of consensus, adapted to feudal patterns by a series of traditional dynasties. This led to the Korean emphasis on the appearance of consensus centered on a strongman leadership model in which a hierarchy of followers is rewarded for detecting the aspirations of the leaders and building support groups based on clan factionalism. As a state solidly rooted in this tradition, the DPRK assiduously cultivates a cadre of loyal followers who display an understanding of Kimism's Orwellian dynamic and a readiness to rally around the ordained consensus emanating from the apex of power.

Kim Jong-il and his core advisors clearly wish to govern in a manner that allows them to implement state controlled reforms that are not acknowledged as overt reforms and to guide the state in ways that will assure continuity of the so-called Kim dynasty with loyalty to the collective leadership's vision.

Consistent with this vision, bureaucratic personnel reshuffles in September 2003 and May 2004 reflected this very Korean style of consensus building. The first reshuffle involved Kim's cabinet. The prime minister, two of three deputy prime ministers and five heads of ministries were replaced. Although the new officials were notable for their more technocratic credentials in keeping with the state's plans, they were also considerably younger than their aging predecessors were. This shift suggests a generational transition toward younger cadres whose loyalty to the vision of Kim Jong-il and the next Kim successor will assure continuity in the supportive consensus. The second reshuffle involved a similar generational shift within the DPRK's five-member delegation tasked with coordinating negotiations with South Korea. Both cases underscored regime loyalty by picking people committed to continuity of the regime's consensus.

### **3.5. International cooperation**

In terms of governance, there is virtually no international cooperation constituting external support for North Korea. The only relatively significant example of such collaboration is found in what remains of the North Korean-Chinese security relationship. Although China clearly is wary of being too close to North Korea's reckless strategic posture, some of the close geopolitical bond remains because of China's unease regarding the potential loss of a North Korean buffer between China and U.S. forces stationed in South Korea. While China's posture does not mean that it will automatically come to North Korea's rescue in a future crisis, it does constitute an ambiguous prop for the Kim regime. Similarly, Chinese concerns about North Korea's potential for collapse and the risks of North Korean refugees surging across their shared border contribute to China's readiness to work with the DPRK to bolster border security in ways that amount to supportive collaboration.

On a broader level, there is nascent international cooperation with various countries and multilateral groups that can be deemed collaborative in sustaining the DPRK's viability and ability to avoid regime collapse. In that regard, China plays a major bilateral role as a conduit for external trade and supplies that enable the North Korean economy to avoid becoming worse than it already is. The Chinese-North Korean border also enables North Korea to not be closed down by the U.S.-led de facto international embargo called the "Proliferation Security Initiative," designed to prevent North Korean illicit trade, and which serves as a deterrent to other existing and potential trade partners.

South Korea also plays a major bilateral role in sustaining North Korea through its efforts to bolster the North Korean economy enough to make it a more amenable partner in a future reunification process. Higher levels of South Korean tourism at Mt. Kumgang, which is north of the eastern portion of the demilitarized zone, benefited North Korea's economy in 2003 and 2004. By June 2004, the initial portion of the Kaesong Industrial Park in a Special Economic Zone north of Panmunjom had been completed, a project backed by South Korean firms. This complex will aid the DPRK, but also is strongly supported by South Korean manufacturers who want to make use of North Korean low cost labor. In mid-2004 Russia also began to expand its role in supplying electricity and gas to North Korea in a supportive manner.

Partly driven by the U.S.-led de facto embargo, North Korea emphasized its readiness to be a partner in free enterprise and to open trade routes through the DPRK for its neighbors on all sides in 2003 and 2004. Although some progress was made in that realm, North Korea's two prime regional free trade enclaves in Sinuiju on the northeast border with China and the Najin-Songbon Enterprise Zone in the northeast corner of the peninsula have not flourished so far. These flawed models have raised

questions about the prospects for future South Korea collaboration in the Kaesong zone. This doubt is reinforced by the mixed track record of multilateral international cooperation efforts (such as the UN World Food Program and UNICEF), by the withdrawal of non-governmental aid groups (such as OXFAM, CARE and Medicins Sans Frontieres) due to the difficult environment, by North Korea's increased constraints on NGO foreign aid in September 2004, and by the growing perception that North Korea uses such international support as a form of subsidy for the regime's excesses and as a way to bribe those countries that want to encourage change in the DPRK.

#### **4. Trend of development**

##### **4.1. Democratic development**

The highly autocratic nature of the North Korean political system makes the governing system's political parties and electoral process only a thin veneer of democracy. Despite the use of the word "democratic" in the country's official title, Democratic People's Republic of Korea, it is not remotely democratic, scarcely qualifies as a genuine republic in the western understanding of the word and is noted for the harsh circumstances of its people. Nothing has occurred in the 21st century so far to alter this bleak situation.

Equally important is that the DPRK's governing system is not flexible enough to permit its people to enjoy the freedom to transform their government into a democracy or a republic. If North Korea continues to pursue the type of state-controlled structural transformation it presently seeks, it is most likely to adhere to a paradigm resembling China's post-Mao evolution. Just as China is very reluctant to expand its free market economic reforms to the political and labor union marketplace in ways that might unleash too much civic freedom, which could jeopardize the ability of the state to shape policies, North Korea will follow some variant of that model. The regime will do its utmost to avoid any form of genuine democracy within or outside the state-dominated system.

There are two prospects that could cause North Korea to shift course toward some form of democracy, abandoning its authoritarian tradition verging on a dictatorship. One is the possibility that the advocates of "regime change," especially those in the U.S. under the Bush administration since 2001, might prevail in ways that would lead to replacing the North Korean leadership with some sort of democratic regime. Because of the military risks associated with the first option, the second option is politically transforming the North Korean government by merging it with the South Korean government through reconciliation negotiations that would yield either a

federal or a confederate state amenable to South Korean style democracy. This option is far more promising in terms of producing the successful development of Korean democracy throughout the peninsula and transforming the North Korean polity.

#### 4.2. Market economy development

Compared to North Korea's democratic development, its market economy development has made progress that is more apparent in the first four years of the 21st century. This is due to its revised economic agenda, which was designed to compensate for its manifest stagnation, to greater enthusiasm about the profit motive intended to cultivate a revised work ethic and to attempts to take advantage of opportunities presented by the international commercial situation surrounding the DPRK. If one relies on North Korean media coverage of its market economy's development and the corresponding data, this progress could be deemed substantial. However, because the DPRK's rigid state controls the flow of information and routinely manipulates such data for self-serving propaganda purposes, it is very difficult to ascertain the precise dimensions of North Korea's economic track record. In most comparative analyses of all the countries in the world, the sections on North Korean economic performance are replete with "NA" sections, either because the data is literally "not available" or because the data that is available is deemed too unreliable to be cited along with other countries' verifiable data. Even the CIA World Factbook, a publicly available source providing the largest volume of data on North Korean society and economy and which can draw on that institution's major research assets, provides only limited data in the categories listed for all countries in the Transformation Index.

	2000	2001	2002	2003	2004
Growth of GDP in %	3%	-3%	1%	1%	1%
Exports	\$520 mil	\$708 mil	\$826 mil	\$1 bil	\$1 bil
Imports	\$960 mil	\$1.7 bil	\$1.8 bil	\$2 bil	\$2 bil
Inflation in % (CPI)	NA	NA	NA	NA	NA
Investment, % of GDP	NA	NA	NA	NA	NA
Tax Revenue, % of GDP	NA	NA	NA	NA	NA
Unemployment in %	NA	NA	NA	NA	NA
Budget deficit, % of GDP	NA	NA	NA	NA	NA
Current account balance	NA	NA	NA	NA	NA

Source: CIA World Factbook, 2001-2005

Because of the paucity of plausible economic data, North Korea's actual level of development in its fledgling economy is profoundly unclear. This opaqueness is a

direct result of the DPRK's secretive governmental style, designed to assure firm control by the leadership and to prevent a negative image of North Korea's developmental status from provoking political unrest. It is also a major causal factor in the sluggish pace of developing a DPRK market economy; many potential foreign trade partners and investors do not have access to the sort of reliable economic data that might motivate them to become engaged in North Korea's economic development.

#### **D. Strategic perspective**

North Korea's place in international strategic affairs varies greatly depending upon the vantage point from which it is perceived. Arguably, the greatest gap in that perspective exists between Pyongyang and Washington, yet each side uses the same word to characterize the other: "evil." To the Bush administration, North Korea is arguably the most dangerous member of the "axis of evil." Conversely, the Kim regime uses its demonization of the U.S. as evil incarnate to solidify North Korean popular resolve against a country portrayed as the "sworn enemy" or the "core enemy" ever since the U.S. intervened against the DPRK in what North Koreans call the "National Unification War." Bridging or eliminating that bilateral gap will be a formidable task, but it is an essential task if further conflict is to be avoided and if North Korea is to have any serious prospect of transforming its development process and achieving meaningful results.

The two players with the greatest incentive to help North Korea's economic development - and by extension the positive political ramifications such development may yield - are China and South Korea. Since the United States encourages both China and South Korea to play such a role as part of a multilateral process of tension reduction and international dialogue to resolve the nuclear issue, the United States also can be counted as a *de facto* supporter of improving North Korea's circumstances.

China and South Korea share a similar approach to North Korean development based on preventing the DPRK from sudden and abject collapse, which would unleash new problems on China's eastern border and would impose tremendous burdens on South Korea, its economy and its geopolitical support network. South Korea wisely wants to bolster North Korea's economy over a couple of decades, encourage North Korean political pragmatism amidst generational change and use such change to minimize North Korea's anxieties, all so that the DPRK can be provided with a road map toward inter-Korean reconciliation and longer term national unity. China has reasons to support that agenda if it can be carried out in ways that are compatible with China's regional and global aspirations. Therefore, it is desirable for China and South

Korea to become catalysts for North Korean economic and societal development in ways that will cause North Koreans to see them as benefactors.

Whether the United States and Japan will be supportive of Chinese and South Korean efforts to guide North Korea in the direction of such development is uncertain. This is due to their doubts that the DPRK is amenable to such genuine reforms because of its track record of using brinkmanship to induce appeasement on the one hand, and their questions about the long term desirability of Korean reunification on the other. Such elimination of the North Korean threat could lead to a new Korea whose ties to China might cause new geopolitical uncertainties. Bearing such reservations in mind, South Korea and China should cultivate engagement policies aimed at North Korea's meaningful economic and societal development, designed both to create incentives within the DPRK for welcoming transformational results and to convince U.S. and Japanese leaders that such results are in the interests of the United States, Japan and the rest of the world. Similarly, others who are skeptical about such prospects should reconsider their cynicism and explore the advantages of working with North Korea to help it accept a reform-based road map in cooperation with its neighbors and all other interested parties.