

# BTI 2008 | North Korea Country Report

<b>Status Index</b>	1-10	<b>2.46</b>	# 122 of 125	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	22.5	HDI	-	GDP p.c.	\$	-
Pop. growth <sup>1</sup>	% p.a.	0.5	HDI rank of 177	-	Gini Index		-
Life expectancy	years	64	UN Education Index	-	Poverty <sup>3</sup>	%	-
Urban population	%	61.6	Gender equality <sup>2</sup>	-	Aid per capita	\$	3.9

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

On 9 October 2006, in defiance of international warnings, North Korea performed an underground nuclear test. This was seen as a major blow to global efforts aimed at curbing North Korea's nuclear ambitions, and as an emphatic statement of its determination to use every available means in order to survive.

North Korea poses an extremely difficult challenge to the international community. The state's ideology is driven by the goal of autarky – trust in its own strength and capacities in economic, military and political affairs. North Korea has developed peculiar political and economic systems that differ from most, if not all, systems found elsewhere. Though the North Korean model has some aspects similar to those found in the Chinese and former Soviet Union models, it is still fundamentally distinct. There are also traces of the South Korean and Japanese systems to be found, but, in the final analysis, North Korea's unique system has created a society that challenges our understanding of “normal” societies as well as our common sense.

More than ten years after the North Korean government asked for international humanitarian assistance, the country is still partially dependent on this assistance, and the problems that brought them into this precarious situation remain unresolved. The collapse of the Soviet Union and fundamental changes in the Chinese economy have shocked the North Koreans, who had been more dependent on their two great neighbors than they care to admit. The barter trade with these two giants, energy support at friendship prices, and technical and economic assistance in particular to develop the energy sector, are all important factors in North Korea's development, which was a success story from the mid-1950s to the mid-1980s. It is reasonable to state that the transformations of the Soviet Union and China, along with their satellite states, have forced North Korea to live up to its own declarations of autarky. Thus far, they have failed to do so. The unpredicted breakthrough of the six-party talks in

Beijing in mid-February 2007 may signal a very different development in North Korea in the years to come. The agreement not only rescues the country from a hopeless standoff with the United States, but it also may well mark the beginning of domestic normalization within North Korea as well as the normalization of its foreign relations. In a few years, the following evaluation may be outdated.

## History and Characteristics of Transformation

Post-colonial North Korea became a semi-Marxist, semi-nationalist state that followed a development ideology aimed primarily at maintaining independence while maintaining good and profitable relations to the country's two most important neighbors, the Soviet Union and China. After a devastating war (1950 – 1953) in which the country's infrastructure, including factories and cities, were leveled, the authorities pushed for socialist modernization. Heavy industry was prioritized at the expense of light industry and consumer goods, and agriculture was socialized in cooperatives or state farms. Agriculture was mechanized and irrigation was developed for the paddy fields. Up until the 1980s, North Korea did well from a development point of view.

Before the sudden crisis that hit North Korea in the early 1990s, reform or liberalization had never been considered. The Juche ideology, considered the expressions of a superhuman being and the greatest leader ever known in Korea or elsewhere, was thought to prescribe the right path. The northern part of Korea was depicted as closer to paradise than any other country on earth. The reforms that were sought and realized in the Soviet Union in the late 1980s were condemned by the North Korean leadership, and economic liberalization policies implemented in China was also dismissed as a departure from the true line of thought.

The North Korean regime passed a joint-venture law (1984), and a locality in the northeastern part of the country was targeted as an economic development zone. Although this area was developed to some extent to facilitate the invitation of foreign companies, nothing much happened. Later, another such project was established in the northwestern part of the country. This time, a Chinese businessman was assigned as the leader of the project, but he was found guilty of tax evasion in China and imprisoned there. Whatever the North Korean leadership did in order to attract foreign capital and technology, it was not part of a general reform process. On the contrary, the Korean authorities, like the Chinese in the early phase of their transformation, were anxious to keep foreign influence out of the country. Mainly because of this, the industrial zone in the northeast remained empty. It was not until South Korean companies engaged in economic activities in the North that things started to happen, although still at a rather slow pace. Foreign influence is still a hot-button issue. The South Korean projects in the North, such as a tourist resort area on the east coast at Kumgang-san, and the

Kaesong Industrial Complex across the demarcation line in the vicinity of the old capital of Kaesong, are behind fences. No free exchange between locals and foreigners are allowed, even if the foreigners are brothers and sisters from the South. It is nevertheless difficult, if not impossible, to continue this segregation policy. Growing projects draw more foreigners and demand greater interaction; in the case of the two Koreas, there is no language barrier to hinder communication.

Extreme poverty and difficult conditions during the first half of the 1990s made people struggle to endure, and the authorities, who were unable to provide what was necessary for the population to survive, grew increasingly lenient, accepting what had once been forbidden. Petty trade and local markets have thus since developed. It has been a short step from farmers' markets to local markets and to the beginnings of a market economic system. In this simple way, and over a short period of time, money has become an important means of survival for ordinary people, and, later, for them to buy luxury products.

The state economy is also affected by these developments; the state has recognized markets, a tax on sales has been introduced, which will obviously increase state revenues. On a larger scale, the state-owned production and trading companies are operating more and more as if they were private, and company leaders are enjoying an enhanced freedom of action.

# Transformation Status

## I. Democracy

### 1 | Stateness

Korea is a divided country, and as such there has always been competition between the political authorities north and south of the demarcation line as to who represents the Korean nation. Since this controversy remains unresolved and the two states have coexisted for almost 60 years, most of the time as enemies, this situation has solidified each state's legitimacy in its own half of the peninsula. There are no known challenges to state authority in North Korea, but, until recently, the fear of an attack from outside (a fear that became paranoia after Iraq) had solidified the legitimacy of the leadership. The agreement reached at the latest round of the six-party talks (February 2007) may alter North Korea's relations to the world in a positive way, and, from a wider perspective, may affect the regime's legitimacy, to the extent that it has been based on fears of enemy attacks.

Monopoly on the use of force

Koreans are a homogenous people, and no significant ethnic minority group exists in North Korea, although some people of Chinese descent live in the country. The same holds for religious groups; the country is basically atheistic, but it does tolerate some Buddhist activities, and there are now Christian churches in the capital of Pyongyang. These are primarily for the foreigners, diplomats and representatives of aid organizations. Both Buddhists and Christians are closely monitored by the authorities. Devoid of ethnic and religious cleavages, the North Korean authorities have created artificial cleavages and divided people according to their level of loyalty. It remains disputed whether and to what extent this typology has actually affected the whole population, and what the consequences of belonging to a certain strata may be. There is general agreement, however, that the country's extreme preoccupation with security issues may cause difficulties for people with relatives in South Korea. Due to dogmatic thinking, people with roots in the landowner aristocracy may confront difficulties in making choices regarding education and careers, at least as far as such choices are possible. This rigid system may have been loosened due to recent economic difficulties, which

State identity

for many meant facing the difficulties of survival, which explains why all kinds of unorthodox methods of earning a living were tested. This statement is based on observations reported by representatives of the foreign community in Pyongyang.

Although the state is secular and adheres to an atheistic profile by only cautiously and reluctantly allowing some religious activities, the state ideology can be characterized as quasi-religious. The Juche (self-reliance) ideology combines different ideas and values ranging from Shamanism (the original Korean religion), to Confucianism (the Chinese social and political moral code and code of conduct) to some aspects of Christianity (Pyongyang used to be the center of Christian missions), to Koreanized aspects of communist ideologies and terminologies. A central aspect of Juche is the cult of leadership, and the imagery associated with Kim Il Sung, the founding father of the North Korean state, as well as with his son and the present ruler, Kim Jong Il, has a deep religious content. The superhuman image of the North Korean ruler may render formal political procedures irrelevant, or relegate them to secondary importance. This may hinder reforms and block necessary change, but, if the supreme leader wishes to do so, it may also promote reforms and change. It is quite obvious from South Korea's engagement with the North that this belief in top-down change is a fundamental tenet. This corresponds well with the traditional, and to a considerable degree also modern, political culture of the two Koreas, and applies to the North even more than to the South.

No interference  
of religious  
dogmas

The North Korean administrative structure is organized as a net of interconnected levels, from the central state administration to county and municipal administration, down to village and cooperative administration, ending with neighborhood groups of five families that constitute the lowest "administrative" level in North Korea. Before the crisis, state farms and cooperatives delivered a fixed amount of products to state storehouses, from which grain and other products were distributed to families according to fixed quotas. In recent years, while North Korea has received considerable amounts of international aid, the same Public Distribution System (PDS) has distributed food aid to people in need, and this has happened without much criticism from the donors. Another example of crisis administration involves the military, since it is difficult to separate civilian from military authorities. Regular local markets now exist in cities throughout the country. Farmers' products are traded at these markets, as well as all kinds of daily necessities and a great many luxury items, most of them made in China. Military trucks often take care of transportation needs, and some markets are even organized by military authorities.

Basic  
administration

## 2 | Political Participation

According to Article 67 in the Democratic People's Republic of Korea's (DPRK) Socialist Constitution, adopted in 1998, citizens have freedom of speech, of the press, assembly, demonstration and association, and the state guarantees the conditions for the free exercise of democratic political parties and social organizations. This does not pass a reality check, however, since North Korea has turned out to be a "hereditary republic," although this practice is not stipulated in the constitution. The extraordinary position of the supreme leader renders popular consent irrelevant, which is why the issue of elections in this context is also irrelevant. There are, however, elections in North Korea, where citizens have the right to vote and to be elected from the age of 17. The main and totally dominant party is the Workers Party of Korea. There are two other parties as well: the Social Democratic Party, and the Chondoist Chongu Party, which is based on a nationalist religious movement that evolved in the early 1900s from a peasant liberation movement. These two parties are not evidence of political pluralism in North Korea, however, since they are merely components of a monolithic system.

Free and fair elections

In North Korea, the de facto ruler is not democratically elected, but he is assumed to have effective power to rule. Since he declared the "Songun Chongch'i" or Military-First Policy on 1 January 1995, Kim Jong Il has, as chairman of the National Defense Commission, secured his position as the supreme commander of the country.

Effective power to govern

There is no freedom for alternative movements to nominate independent candidates with autonomous political platforms. Political participation is more a duty than a right; it is a centrally directed activity that aims to inform people about the policies of the party and to secure their understanding and support of this policy. Mass campaigns involve a huge proportion of the population, but this has nothing to do with independent political actions. Election results demonstrate that the system has been successful in making people understand and support its goals, since the Workers Party receives the absolute majority of the votes.

Association / assembly rights

The mass media are state-run and completely controlled by the political authorities, who do not even pretend (as is the case with party pluralism) that there is press freedom in the country. The mass media are used to praising the supreme leader, explaining the party's policies, condemning enemies, and to instigating mass campaigns. Media are thus tools for the authorities and not at all a channel for popular expression.

Freedom of expression

### 3 | Rule of Law

The separation of powers with checks and balances exists on paper, but not clearly; Article 161 in the 1998 constitution stipulates that the Central Court supervises trial activities of all courts, and Article 162 stipulates that the Central Court is accountable to the Supreme People's Assembly. Since all state organs are organized and operate on the principles of democratic centralism, the judiciary branches operate in support of the system and not as a possible refuge for people in opposition to the system.

Separation of powers

The judiciary cannot be seen as independent from the political authorities.

Independent judiciary

The secretive political system does not publicize cases where cadres are punished for abusing their position, and such penalties could well be a byproduct of political purges. It is not likely, however, that corruption resulting in personal profit goes unnoticed, and since opportunities to earn private money are growing, a conflict between ideology-based frugality will collide more often with personal greed. According to human rights groups monitoring North Korea, there are cases where the whole family is punished for the offense of one person. This is comparable to methods utilized in pre-modern Korea, based on a collectivistic responsibility system centered on the family and clan.

Prosecution of office abuse

Concepts such as civil rights and personal liberties are subdued political and ideological goals in North Korea, where the authorities will claim that they are striving to protect workers' rights, the equal rights of women, the rights of children, etc. Although these claims are unsupported by the country's human rights track record, the country has considered some social rights during periods of relative prosperity. It is unlikely that a private person would have any place to go in order to seek redress if the authorities violated his rights or those of his family.

Civil rights

### 4 | Stability of Democratic Institutions

The central political institutions of North Korea are now facing a challenge due to the crisis that erupted in the mid-1990s and brought the country close to a total collapse. What happened in North Korea after the collapse of the Soviet Union, along with the serious changes in China's economy and foreign trade policies, has been called a great leap backwards. From 1995 and until now, North Korea has been dependent on foreign aid. The country has reluctantly allowed the presence of representatives of aid organizations, and these representatives have developed cooperative relationships with North Korean state organs and local institutions. The presence of foreigners in North Korea, their monitoring of aid distribution,

Performance of democratic institutions



and their provision of expert advice to people in the agricultural and industrial production sectors, are an unwelcome alternative authority in the country. From the perspective of Juche, this is a contradiction in terms, and the North Korean authorities have had mixed feelings in this respect. As long as foreigners operate in North Korea, a positive side effect is the small but steady impact on the people with whom they interact. This side effect is perceived as negative by the authorities, but they are not immune to it themselves.

One difficult aspect of describing the political system in North Korea is that although it scores among the least democratic countries on earth in a democracy ranking, the system and its institutions are basically accepted by a majority of the population. The South Korean political miracle of the 1980s may be seen as an example of an almost fundamental shift among the powerful of that country, but in the case of North Korea, they are probably, if pressed, more interested in following the Chinese path. At present, the slow but steady reform process has actually met with reluctance, if not outright resistance, from older bureaucrats who have great difficulties in totally changing their mentality, a transformation that will be necessary for the process to be accepted, actively supported and for it to gain momentum.

Commitment to  
democratic  
institutions

## 5 | Political and Social Integration

The Korean Workers' Party (KWP) does not mediate between society and state, but must be seen as the state's representative among the people. Because KWP is a mass party, however, and thus to some extent is socially rooted, one can conclude that local party branches actually articulate social interests, but in this case probably only local interests that resonate with those of the state. The organizational and decision-making principles of the party make it difficult to see it as a system that articulates and aggregates societal interests.

Party system

The idea of interest groups outside of and independent from the state system is not realistic in the North Korean context. Some institutions, which must be considered part and parcel of the state system (such as the Public Distribution System), have, according to foreign observers in North Korea, demonstrated extraordinary efforts toward helping vulnerable groups in their area of responsibility. Some observers maintain that the current difficult situation promotes a degree of autonomy among organizations and institutions, especially those located far from the capital. And the North Korean Red Cross might be one example of such an association. Because its members work in disaster areas with people in dire need, and especially because the local representatives work in close collaboration with foreigners (i.e., representatives from the International Red Cross), it may develop a certain independent stance vis-à-vis the local as well as central authorities. It is not likely, however, that this independence is directly voiced to challenge those in power.

Interest groups

It is not possible to assess North Korean citizens' consent to democratic norms and procedures based on hard evidence. Apparently, a strong majority of people in North Korea are socialized to function in the given system, and few may ever consider that there are other ways. It is interesting then to compare this with South Korea, where the political culture is quite similar, and where an authoritarian government suppressed opposition and brainwashed the population while they created a "miracle" economy. The South was never closed to the surrounding world, and it was mainly the student population that rebelled. Due to this, and also to foreign pressure, representatives of the authoritarian regime stepped down and accepted a democratic change. Even if South Korea's political and ideological history is an incompatible model for the North, it would be unwise to disregard this clear affiliation between the two.

Consent to democratic norms

Social self-organization may be anathema to a system that claims to follow the leader as a monolithic entity, where society is seen as a big and united family without internal conflicts. The present situation has nevertheless promoted self-organization among people, since the state has failed to provide even the minimum of daily necessities. Farmers' markets and more comprehensive markets with imports from China and other countries in the region are one outcome of such self-help organizing. Small and large entrepreneurs pop up around the markets and work as creative leaders in state-owned enterprises. Such people may naturally be loners and not form associations, but they also naturally form networks and they may be considered an important basis for social capital during the reform process.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

The level of social exclusion is low in North Korea, although the country has been poverty-stricken since the beginning of the 1990s. There is consensus among observers that the elite are comprised of a very small number of people around the supreme leader. Although the population in the capital is seen as privileged in comparison with people in the countryside, this inequality does not amount to the social exclusion of the latter. Thanks to a widely distributed health system, compulsory and free education, and, in normal times, food and clothing, job security and housing, the North Korean population is comparatively equal in terms of living standards and access to social benefits.

Socioeconomic barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	-	-	-	-
Growth of GDP	%	-	-	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.0	3.0	3.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

Market competition is embryonic in North Korea. Since North Korea runs a planned economy (Article 34 of the constitution), the newly established farmers' markets and other markets have an experimental character and exhibit a sense of accepting the inevitable, as long as the old system fails to deliver. Some larger companies have developed a market-oriented approach in production and trade, although they are still state-owned. Competition is still more dependent on political links than on economic efficiency.

Market-based  
competition

Safeguards against economic monopolies and cartels are irrelevant for the time being. One should remember, however, that the South Korean economic miracle was based on the establishment of huge conglomerates and close cooperation between government, capital and military forces. It is possible that larger state-owned companies, as well as companies owned and managed by the military, may eventually achieve monopoly status in some areas.

Anti-monopoly policy

Foreign trade with North Korea is minimal. Its trade partners are first and foremost South Korea and China, but often trade and aid are confused. Japan is another trading partners, although trade is sporadic. There are state-owned trade companies that operate quite independently, but only because they have been given the authority to do so, and this can obviously change.

Liberalization of foreign trade

One of the absolute weak points of the embryonic North Korean market economy is its banking system. Until now, banks have been state owned and there is no capital market. A sign of change may be the fact that several economic experts have been dispatched to foreign countries to join educational programs focusing on the banking system and its international standards.

Banking system

## 8 | Currency and Price Stability

In the recent past, money played a minor role in the North Korean economy, since salaries were basically seen as pocket money – the state provided what people needed “free of charge” – and trade with other communist countries was mainly barter. There were few outlets where money could be used. The current crises and the development of markets have changed this situation, as have the economic reforms of 2002, in which prices and salaries, as well as a currency reform, were formulated and implemented. The regulation of prices seeks to balance between state and market prices, and the stipulation of the exchange rate is politically motivated. It is a common perception among foreign observers that because the system is unable to control the money flow, inflation may ruin what is left of the North Korean economy.

Anti-inflation / forex policy

The government’s fiscal and debt policy is quite unorthodox. There is little information available about it. What is known is that the country has old and unsettled debts to several of its former trading partners, such as China, Russia, Germany and Sweden.

Macrostability

## 9 | Private Property

Private property is guaranteed by the constitution, but the main property holder is the state. Cooperatives may own the land they are cultivating and their means of production, but they are regulated by rules and regulations stipulated by the

Property rights

Ministry of Agriculture. An individual person has property rights over the products from his own “kitchen garden,” which he can bring to the officially sanctioned markets, and these markets are the seedbeds of private property in the country. There are commodities for sale at such markets, especially from China, and it seems that this trade and these outlets create the basic conditions for a group of people to become the new entrepreneurs of a slowly growing market economy. Private property, such as apartments, can be inherited, but, according to the law, may not be sold. According to recent information from informants in North Korea, there is nevertheless an incipient trade in houses and apartments.

There are hardly any genuine privately owned companies in North Korea, but companies established on a joint venture basis with foreign partners are managed in a manner consistent with market principles. Such companies may form the backbone of a new phase in the economic development in North Korea, since they, compared to the actors on the local private markets, are gaining experience with foreign companies and foreign trade, including the banking sector. It is not unlikely that some state-owned companies may develop hybrid forms of business management and become the training ground for the future market economy.

Private  
enterprise

## 10 | Welfare Regime

The North Korean system is highly focused on welfare provisions, but in a different way than other known welfare systems. In the introduction to the constitution, it is stipulated that it is the aim of the government to turn the whole society into a big and united family. This was to be taken literally, and before the economic collapse, this system worked quite well, and, compared to the economic strength of the country, worked very well. A nationwide health care system exists, and according to international aid agencies, this system has been functioning well; it remains impressive how much they can do with scarce resources. To prevent unequal distribution of basic foods, the state has established a Public Distribution System (PDS), which operated earlier as a rationing system and today mainly distributes aid. All children are taken care of in crèches and kindergartens at public expense (Article 49 of the constitution). There are laws prohibiting children from entering the workforce before they are 16 years old, and equality between the sexes are also guaranteed by law. “At public expense” means that the state withholds some part of the salary to finance the system, but the amount of this withholding is not known, since there is no transparent tax system. Cooperatives and state factories have some welfare offerings for their employees, and families and clans may make up informal networks that provide some welfare provisions. The current crisis constitutes a major problem for a political system that has based its legitimacy on benevolent power, and practiced this benevolence by providing every kind of requirement for daily life to its citizens as an extended family.

Social safety nets

In North Korea there is equal opportunity to take part in society for the majority of the population. Education is free and for all, and it seems reasonable to assume that neither gender nor wealth are relevant criteria in the system. It is well-known that the authorities promote the development of elite schools and institutions, which explains the search for gifted children around the country. Family relations may create problems of inequality. North Korea may want to be, but hardly is, an exception in East Asia when it comes to the importance of networks and family connections. The elite support the elite in more or less subtle ways. Then there are families who are perceived to be politically problematic, because of family relations in South Korea or because their great-grandfather belonged to the landowner class in the past. These families may find out that, even if all people are formally equal, some are more equal than others in practice.

Equal opportunity

## 11 | Economic Performance

A main problem with the North Korean reform process can be characterized as too little and too late. It seems like the authorities are reluctant to do more than they are forced to, and that they wait until they are forced to act.

Output strength

## 12 | Sustainability

North Korea has basically failed to take environmental concerns into account in the development process. Due to shortages of arable land, hillsides have been cultivated, and due to shortages of firewood, scrub and small trees have been cut down, resulting in huge problems. The land no longer absorbs water without causing landslides, which has worsened the effect of floods. The economic sectors of North Korea have been developed in tandem so that industry serves agriculture, and agriculture also produces for industry. What was not taken into consideration were the energy needs required to keep both sectors going. The availability of oil at friendship prices allowed the planners to neglect the problem of oil pricing until it suddenly became extremely acute. Now, the lack of oil, and the ensuing low productivity in both the industrial and agricultural sectors, has resulted in some kind of ecological sustainability. This is not, however, socially or politically sustainable.

Environmental policy

As stressed already, the educational system in North Korea is widespread and solid. Education is, from cradle to university, open and free, and everybody reads and writes in North Korea. A system of elite schools has been developed, and at present computer science and software development are top priorities. This notwithstanding, the whole school system is old-fashioned, with outdated textbooks and antiquated pedagogical theories and methods. There has been some cooperation with UNESCO to revitalize education, but the fear of being

Education policy / R&amp;D

contaminated by foreign ideas and viewpoints has hindered progress. In the R&D sector, this fear is even more disruptive, and it obviously hampers the computer industry, including software producers, since the usage of the Internet is officially prohibited. The country's isolation is the major obstacle to the necessary development of education and research.

# Transformation Management

## I. Level of Difficulty

The structural constraints for the leadership's governance capacity are possibly first and foremost psychological, in that ingrained ideological constraints may prevent the leadership from reaching necessary decisions. There are widespread speculations about the role and capacity of the supreme leader, Kim Jong Il. Although most observers believe that he is in political control, not least after the "military-first" line was secured, there are different opinions about his position with regards to continuity or reform. By definition, he represents continuity as his father's heir, but South Korean observers claim that he is a reform-minded politician. This said, there are a host of other structural difficulties. The very slow and uneven recovery from the economic collapse must be seen as a constraint on the government's capacity. The inadequate educational level of the workforce is, from a reform perspective, another difficulty, although traditional education and ideological indoctrination may, from the government's ideological point of view, be seen as an advantage. North Korea's geographical location is problematic, since it is a divided country squeezed between its (better) half and its (former) ally, now a reluctant and half-hearted savior. The country's infrastructure is poorly developed and inadequately maintained, and in some areas the infrastructure needs to be totally renovated.

Structural  
constraints

Civil society, at least as this concept is understood in a Western context, does not exist in North Korea. A regime that aims at developing the country into a big, harmonious family, cannot tolerate non-governmental, independent organizations.

Civil society  
traditions

Ethnic or religious conflicts have never been reported from North Korea. Social conflicts accompanied by violence may have occurred from time to time, but this is seldom reported. People fleeing the country because of poor living conditions may be viewed as signs of serious social conflicts with potentially violent outcomes.

Conflict intensity



## II. Management Performance

### 14 | Steering Capability

The present and ongoing economic crisis, marked by low or no productivity in several sectors of the economy, continued dependency on foreign aid, and wavering attitudes towards the reform process, leaves little room for strategic priorities. The first priority of the leadership is undoubtedly its own survival. It is still unclear whether the strategic aims of the North Korean leadership are to revitalize the planned economy or to move forward in the direction of a market economy without giving up the political command, a project that has been explored by the Chinese leadership in recent years. With a political system based on benevolent, patriarchal leadership, it seems far-fetched to expect developments in the direction of constitutional democracy, but it may be possible to envisage a socially responsible market economy as a future goal. This may be the outcome of a modernized and rationalized 1998 constitution that stresses welfare as a political priority. Based on the expectations that the North Korean population have developed towards the leadership of the country, welfare provisions may be the key justification for the survival of this leadership. Contrary to speculation, the Public Distribution System has apparently sought to provide food as justly and equitably as possible, which may reflect central policy priorities or the priority of local personnel. The nature of the present leadership in Pyongyang is to shun external influence and to in no way compromise what has been established as fact in the state ideology. A change in the state ideology, in political priorities, and in leadership practices will probably not happen as the result of foreign pressure. It might, however, come as a consequence of the leadership's realization of the state of affairs in their country and the subsequent need to take action.

Prioritization

Reform is a non-concept in North Korea. For years, the cautious reform policy had to be termed an "adjustment policy" to stress that there was no implicit criticism in new policies. In the political vocabulary of the leadership, a revolutionary action was per definition good, a reform per definition bad. This may explain why a sudden shift causes problems and creates misunderstandings; the North Korean reform process tries to distinguish between the economic and the political spheres. Furthermore, the leadership tries to isolate reforms in special developmental zones to avoid negative impacts on the rest of society. This may explain how the political authorities judge reforms.

Implementation

To admit errors and mistakes is not easy for a leadership elevated to a superhuman status, which is why this never happens. One way out is to relate to changes in the present world: to point at global factors, changes in alliances and new power relations, etc., which does happen. The Juche ideology leaves some room for a pragmatic approach to the given circumstances, and this has been utilized in recent years. A culturally sensitive interpretation of the ideological statements, however, can detect change, and possibly a more flexible and innovative position than was the case in the past.

Policy learning

## 15 | Resource Efficiency

The centralized style of management, combined with what could be termed an ideological bent on all important economic considerations, makes the government inefficient. On a grand scale, decisions regarding military expenditure can be questioned from an economic perspective, as can decisions regarding huge monuments, although they may be explained from a political perspective. Planning and administrative arrangements regarding new economic zones are also, from an economic point of view, questionable. It is well-known that the lack of coordination between different government agencies and between their ongoing projects is detrimental to the efficiency of the overall system. This top-down decision-making process contributes to this general lack of efficiency. It is only on the smaller scale of both agricultural and industrial projects that examples of resource efficiency are to be found. It has been reported that local hospitals have been able to function with minimal resources, that farmers have managed to repair machinery considered to be beyond repair, that factories invented ways of coping with scarce energy and raw materials, as well as a lack of spare parts for the machinery. There might be a pool of creativity among the people that is not utilized in production due to political and ideological considerations.

Efficient use of assets

Coordination is a weak point in the North Korean system, although as a planned economy it should be the other way around. Coordination was a main consideration when the postwar government established their development strategy by simultaneously focusing on heavy industry and agriculture. Both sectors experienced impressive growth rates, but this was due both to international economic and technical support and assistance (first from the Soviet Union and eastern Europe, and later from China) as well as excellent North Korean leadership. Moreover, the combined strategy depends on energy delivery from friendly nations, which, in the 1990s, proved fatal for the entire system.

Policy coordination

Corruption has not yet been a huge problem for North Korea for different reasons. First and foremost, the system closely monitors people who have

Anti-corruption policy

opportunities to cheat. Second, it has been very difficult to get access to financial means or other valuables, even for elite groups in North Korea. Third, the official norm of frugality has made it problematic to administer illegal assets. Recently, with the development of markets and a growing commodities trade with China, a new situation has developed in North Korea. The selection of luxury commodities at different markets and department stores in Pyongyang is impressive, and there are people with purchasing power. The number of private cars, often second-hand cars from Japan, is steadily growing, and women's fashion has improved considerably in just a couple of years. If it is more or less accepted, or at least tolerated, that people earn money, and that they publicly exhibit their purchasing power, then there might be a new situation with regards to corruption. This new situation could be reflected in massive personal importation of high-tech and luxury articles by Korean travelers returning by air to Pyongyang.

## 16 | Consensus-Building

The known major actors in North Korea, namely the top leadership and the military establishment, agree on rejecting both democracy and a market economy as a strategic, long-term aim. As far as any foreigner knows, this position is shared by a majority of the carefully indoctrinated population. The crisis may have started a process that, in the long run, will alter the present consensus considerably. Because of a general scarcity of resources, the authorities have been forced to accept that people find their own way to survive. Trade has been a preferred way for many people in North Korea, and many more people have realized that their fate would have been even worse without the local private markets, where food and daily necessities are available, even when they are not in state shops. It would be strange if this had no impact on the population's worldview. On a higher level, the establishment of joint-venture businesses and the capitalistic management (at least in practice) of some state-owned companies point to a similar direction: the market appears to provide solutions where the state fails. Leaders of such companies seem to have an extended freedom to act, and interact in a private economy that matches that of their colleagues in real private enterprises.

Consensus on goals

In the case of North Korea, the reformers and the opponents of reform are both part of the government system. Some have speculated that reforms would be hindered by the military establishment. This idea may be based on quite traditional, Western perceptions of the relationship between military and civil society; it is not meaningful to maintain such a distinction in this case. The military establishment is already engaged in private business, as is the party and state apparatuses. The core question will therefore be, will the reforms be

Anti-democratic veto actors

successful and thus change North Korea, or will they fail, and inevitably start a reverse movement that will end in some kind of planned economy? In this difficult balancing act, foreign actors will play an important role. If the neighboring powers continue their engagement with North Korea, and the EU continues to play its positive although not central role, and the United States changes its approach from hostility to accommodation, and brings Japan on board again, then it will be extremely difficult, if at all possible, for North Korea to maintain its anti-all-things-foreign posture.

Political cleavages are for the time being impossible to envisage in the monolithic North Korean system. The continuation of the existing system precludes a slow but inevitable softening of the leadership cult, which may have already started.

Cleavage / conflict  
management

Exactly how the decision-making process works in North Korea is probably a state secret. What we know is that the system is extremely hierarchical and top-down oriented, political debates are not conducted publicly, and civil society is nonexistent, which is why popular participation in the political process only happens when the masses carry out the instructions of the leadership.

Civil society  
participation

The question as to what extent the political leadership can bring about reconciliation between victims and perpetrators of past injustices applies to Korea as a divided country. The division and the war, followed by almost 60 years of mutual animosity, have affected all the people living in Korea, and the nascent and very slow change going on over these years has only partly addressed this question. However, the North Korean leader has met a number of former enemies and their representatives, and these meetings at least signal a willingness from both sides to address the question.

Reconciliation

## 17 | International Cooperation

Since the appeal for international aid was sent out from Pyongyang in 1995, relations between local authorities and international actors have been growing steadily. The reason for the appeal was not a conscious policy shift of the Juche leadership, but rather pressure to find a solution to the sudden eruption of crisis. The advent of foreign actors in North Korea was not a choice but a necessity, which explains why the relationship between the authorities and the foreign organizations began with a lot of mutual suspicion and misinterpretations of intentions. This difficult relationship has improved, although it is still not smooth. Practical cooperation and aid that makes a difference convinces local people that foreign aid can be good, necessary and extremely helpful. Whether and how this perception and the ensuing positive attitude may affect the leadership in the long run is a difficult question. It might convince the authorities

Effective use of  
support

that foreign cooperation is necessary, but it might also affect the authorities in a negative way, convincing them that foreign actors are their competitors, and that every aid organization success is a blow to the North Korean system. If the North Korean authorities can see it as their role to find ways of adapting external advice to domestic realities, and can learn how to integrate international assistance into a domestic agenda of reform, then one may see the present leadership governing a genuine reform process.

As long as the North Korean government remains secretive and refrains from informing partners and other actors about their economic performance, they will not be considered reliable in the international community. The main open question with regard to North Korea is whether the present leadership is moving away from isolation and their so-called self-reliance policy at all. The nuclear controversy has revealed the leadership's stubbornness, and observers have seen this as a negative development in the reform process. In the light of the recent agreement between the representatives of the six-party talks, there may be reasons for cautious optimism. There is a long way to go, and North Korea has only just started, but the content of the deal, which aims at a de-nuclearized North Korea, also consists of very important and necessary offers to bring North Korea in to the world. If the process develops as outlined in the agreement, North Korea will stand to gain a reputation as a more credible and reliable international partner than it has been in the past.

Credibility

Historically, North Korea has balanced between the two friendly powers to the north in order to avoid dependence and not least to receive support from both. In the same period, it has maintained and aggravated its hostile relationships with powers in the south (South Korea, Japan and the United States). Pyongyang's isolation is self-inflicted and self-imposed. North Korea's reconstruction and modernization can hardly be accomplished without massive economic and technical aid from neighboring countries, as well as from the United States and the European Union. North Korea has actually expressed interest in joining some regional and international organizations, including some of the larger international financial institutions. Until now, the United States, as the major stakeholder, has blocked such moves, but it has also been hindered by North Korea's lack of transparency and poor economic statistics.

Regional cooperation

## Strategic Outlook

Since the nuclear test in October 2006, relations with North Korea have been dominated by the nuclear issue; nothing much can be done before this issue is settled. There is little doubt that external efforts at promoting regime change in this particular case would have counterproductive consequences. The regime is not likely to embrace democracy soon, and nor is it likely to collapse, no matter the amount of pressure it confronts. For many different reasons, North Korea has developed a peculiar system, far from models of democracy and market economy, but not as different as is usually maintained from political experiences in neighboring countries. The present regime is not successful in economic terms, but it has been quite successful in psychological engineering, and thanks to isolation and massive indoctrination, a majority of the population remains loyal. The authorities in North Korea maintain that they are the United States's next target, and, more or less justifiably, this has created an atmosphere of fear and an on-the-brink-of-war mentality in the country. Security issues override all other issues. Although we know very little about the inner thinking of the people in this isolated country, this siege mentality promotes suspicion, fear, and a strong reluctance to engage with foreigners. A first and very important step to change this state of affairs would be to convince the North Korean leaders that no powerful external actor means to topple their government. A second step would be to escalate, improve and coordinate massive external aid to North Korea, an activity not only meant to keep people alive, but also to fundamentally rebuild the country. A change from humanitarian aid to development assistance is a must, if this long-lasting problem is to be solved.

In the meantime, while waiting for the agreement between the six parties in the nuclear talks to be implemented, the world does not have to remain idle. A main obstacle in these talks, as in other diplomatic relations between North Korea and other countries, especially the United States, has been mutual misunderstanding and a lack of trust. A relationship marked by mutual distrust is the social environment in which nuclear talks and other important topics are going to be dealt with. There are of course other, more tangible disagreements between the parties, and obviously, they have different perspectives on how the conflict can be solved. Before these differences can be taken seriously and discussed with the aim of reaching a solution, the parties have to develop at least a basic level of trust in each other. Engagement is a main provider of trust, which is why the best possible support of the agreement reached in Beijing in February 2007 is to engage the North Koreans. There are already some students and experts taking

part in courses and seminars, or attending educational programs at universities in foreign countries. What is new and different in this suggestion is that this can only succeed in affecting the society and the system if it is carried out on a grand scale.

Any project that intends to make up for ages of isolation cannot only address a few people; thus, to reach a sufficient number of North Koreans, a majority of the EU countries should be asked to open their educational institutions to North Korean students. And the EU could present a turnkey educational facility to the North Koreans, focusing on subjects relevant to their future participation in the global market economy.

A substantial improvement in interpersonal relations between North Koreans and the rest of the world will help to remove misunderstandings and misinterpretations, undermine stereotypical notions about the other, and promote mutual comprehension.