

# BTI 2010 | North Korea Country Report

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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	23.8	HDI	-	GDP p.c.	\$	-
Pop. growth	% p.a.	0.3	HDI rank of 182	-	Gini Index		-
Life expectancy	years	67	UN Education Index	-	Poverty <sup>2</sup>	%	-
Urban population	%	62.3	Gender equality <sup>1</sup>	-	Aid per capita	\$	4.1

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

North Korea faces numerous serious challenges. First and foremost, the country continues to be a nuclear headache for its neighbors and the world at large. At present, North Korean authorities are preparing a satellite launch against the expressed warnings from friends and foes alike. In addition, U.N. agencies report that North Korea's food situation is critical. Meanwhile, relations with South Korea under the Lee Myung-bak government have deteriorated and Japan remains antagonistic. It is too early to judge whether or not the new U.S. government under President Obama will significantly change the country's approach to North Korea.

North Korea continues to pose an extremely difficult challenge to the international community. The state's ideology is driven by the goal of autarky, in other words trust in its own strength and independent capacities in economic, military and political affairs. Though North Korea bears some similarities to China or the former Soviet Union, it is still fundamentally distinct. In the final analysis, North Korea challenges both our common sense and our understanding of how "normal" societies function.

More than ten years after the North Korean government asked for international humanitarian assistance, the country is still partially dependent on foreign donors. Moreover, the problems that brought North Korea into this precarious situation remain unresolved. The collapse of the Soviet Union and the fundamental changes in the Chinese economy shocked the North Koreans, who had depended on their two great neighbors. China and the former Soviet Union provided North Korea with partners for barter trade, energy support at friendship prices, and technical and economic assistance to develop the North Korean energy sector, all of which played key roles in North Korea's successful development from the mid-1950s to the mid-1980s. The transformations of Russia and China, along with their satellite states, have forced North Korea to live up to its own declarations of autarky. Thus far, the country has failed to do so.

## 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 building good and profitable relations with the country's two most important neighbors, the Soviet Union and China. After a devastating war from 1950 to 1953, which destroyed much of the country's cities and infrastructure, North Korean authorities pushed for socialist modernization. They prioritized heavy industry at the expense of light industry and consumer goods, and reorganized agriculture into cooperatives or state farms, a process that included increasing mechanization and developing irrigation for the paddy fields. 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. This ideology depicted the northern part of Korea as closer to paradise than any other country on earth. In accordance with this ideal of infallibility, North Korea condemned the reforms that the Soviet Union enacted in the late 1980s. The North Korean leadership also considered and economic liberalization policies implemented in China to be a departure from its foundational ideology.

The regime realized, however, that it needed to broaden its international relations, and in 1984 it passed a joint venture law. Though the North Korean leadership acted in order to attract foreign capital and technology, it did not initiate a general reform process. On the contrary, the North Korean authorities, like the Chinese in the early phase of their transformation, were anxious to keep foreign influence out of the country. It was not until South Korean companies engaged in economic activities in the North that changes started to happen, although still at a rather slow pace. Foreign influence remains 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. Free exchange between locals and foreigners is not allowed. In 2008, a North Korean soldier shot and killed a South Korean tourist because she had entered a restricted area. The slowly but steadily growing industrial complex has also caused problems in relations between North and South.

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 and began accepting practices that had once been forbidden. Petty trade and local markets have since developed. It has been a short step from farmers' markets to local markets and the beginnings of a market economic system. In this simple way, and over a short period of time, money became an important means of survival for ordinary people. Some people eventually were able to buy luxury products.

These capitalistic developments also affected the state's economy. The state has introduced a sales tax, which will increase state revenues. On a larger scale, state-owned production and trading companies are increasingly operating as if they were private, and company leaders are enjoying an enhanced freedom of action. The transformation process, however, occurs randomly, and steps forward are often followed by two steps backward. One overriding consideration seems to guide the transformation process: whether reform will enhance or weaken the regime's chance of survival

## Transformation Status

### I. Democracy

#### 1 | Stateness

Korea is a divided country, and as such competition has always existed between the political authorities north and south of the demarcation line about who represents the Korean nation. The two states, North and South Korea, have coexisted during 60 years of partition, most of the time as enemies. During this time, each side has solidified its legitimacy over its half of the peninsula during.

Monopoly on the use of force

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) contributed to the leadership's legitimacy.

Koreans are a homogenous people. No significant ethnic minority group exists in North Korea. Devoid of ethnic and religious cleavages, the North Korean authorities have created artificial cleavages that divide people according to their level of loyalty. The extent to which this typology has actually affected the whole population remains an open question, as do the consequences of belonging to a certain strata. There is a general consensus, however, that the country's extreme preoccupation with security causes difficulties for people with relatives in South Korea.

State identity

The country is basically atheistic, though it does tolerate some Buddhist activities and permits some Christian churches in the capital of Pyongyang. These institutions are primarily for foreigners, diplomats and representatives of aid organizations. The government closely monitors their activities. Although the state is secular and atheistic, its own ideology can be characterized as quasi-religious.

No interference of religious dogmas

The North Korean administrative structure is organized as a net of hierarchically interconnected levels, from the central state administration to county and municipal administrations, down to village and cooperative administration, and ending with neighborhood groups of five families that constitute the lowest "administrative" level in the state. Before the early 1990s crisis, state farms and cooperatives

Basic administration

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, the same Public Distribution System (PDS) has distributed international food aid to people in need without much criticism from the donors.

## 2 | Political Participation

According to Article 67 in the Democratic People's Republic of Korea's (DPRK) Socialist Constitution, adopted in 1998, citizens are guaranteed the freedoms of speech, press, assembly, demonstration and association. The state, in theory, also guarantees the conditions for the free exercise of democratic political parties and social organizations. In practice, however, North Korea operates as a "hereditary republic." The extraordinary position of the supreme leader renders popular consent and elections irrelevant. North Korea does hold elections, in which citizens have the right to vote and to be elected from the age of 17. The Workers' Party of Korea dominates the political process. The state held the latest parliamentary election in March 2009, which was basically a ritualistic expression of support for the existing 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. The country remained stable during several months when the supreme leader was reported to be in ill health.

Effective power to govern

North Korea does not allow for any 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. Mass campaigns involve a huge proportion of the population, but these should not be confused with independent political actions. Election results, which always show the Workers' Party with an absolute majority, demonstrate that the system has been successful in making people understand and support its goals.

Association / assembly rights

The mass media are state-run and completely controlled by the political authorities, who do not even pretend that the country has any press freedom. The regime uses the mass media to praise the supreme leader, explain the party's policies, condemn enemies and to instigate mass campaigns. No channels exist for popular expression.

Freedom of expression

### 3 | Rule of Law

The separation of powers with checks and balances is not a part of the North Korean idea of good governance. Although Article 161 in the 1998 constitution stipulates that the Central Court supervises the trial activities of all courts, and Article 162 stipulates that the Central Court is accountable to the Supreme People's Assembly, 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 political authorities maintain complete control of the judiciary.

Independent judiciary

The secretive regime does not publicize cases where it punishes cadres for abusing their position, and such penalties could well be a by-product 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, ideology-based frugality will increasingly collide with personal greed.

Prosecution of office abuse

Though North Korean authorities claim that they are striving to protect, among others, workers' rights, equal rights for women and the rights of children, these claims are unsupported by the country's human rights track record. In times of relative prosperity, the country has upheld some social rights, but a private person would not 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 facing a chronic challenge because of the crisis that erupted in the mid-1990s and brought to the precipice of total collapse. After the disintegration of the Soviet Union and the serious changes in China's economy and foreign trade policies, North Korea conducted a great leap backwards. From 1995 and until now, North Korea has been dependent on foreign aid. A positive side effect of the presence of foreign aid workers in the country is the small but steady impact they have on the people with whom they interact.

Performance of democratic institutions

One difficult aspect of describing the political system in North Korea is that although it scores among the least democratic countries on earth, the system and its institutions are basically accepted by a majority of the population. At present, the slow but unavoidable reform process has actually been met with reluctance, if not outright resistance, by older bureaucrats who have great difficulties in changing their mentality. In order for the reform process to gain momentum, a transformation in this type of bureaucratic thinking needs to take place.

Commitment to democratic institutions

## 5 | Political and Social Integration

The Workers' Party of Korea (KWP) does not mediate between society and state but is nonetheless the state's representative among the people. Because the 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 party's organizational and decision-making principles preclude it from aggregating and articulating societal interests.

Party system

Interest groups outside of and independent from the state system do not operate in North Korea. Some institutions, which must be considered part 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 difficulty of the current situation promotes a degree of autonomy among organizations and institutions, especially those located far from the capital. It is not likely, however, that this independence will grow to become a challenge to 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 consider that there may be alternatives.

Consent to democratic norms

Social self-organization is anathema to a system that claims to follow the leader as a monolithic entity. Society, from this perspective, is viewed as a big and united family without internal conflicts. The present situation has nevertheless promoted self-organization among people, because 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 outcomes of such self-help organizing. Trading people may prove to be an important foundation for social organization 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. Observers agree 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. In normal times, the North Korean population is comparatively equal in terms of living standards and access to social benefits, thanks to a broadly distributed health system, compulsory and free education, distribution of food and clothing, job security, and housing.

Socioeconomic  
barriers

### 7 | Organization of the Market and Competition

Market competition is embryonic. 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 remains 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. The country's main trading partners are South Korea and China, but often trade and aid are confused. Japan is another trading partner, although trade is sporadic. Some state-owned trade companies operate quite independently, but only because they have been given the authority to do so, and this is subject to change at any time.

Liberalization of  
foreign trade

The banking system is one of the weakest points of the embryonic North Korean market economy. Until now, banks have been state-owned and there is no capital market. A potential sign of change is that several economic experts have recently 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. The economic reforms of 2002 contributed to this trend by regulating prices and salaries, and by implementing currency reform. 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. Little information is 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 the Ministry of Agriculture regulates their activity. An individual person has property rights over the products from his own “kitchen garden,” which he can bring to the officially sanctioned markets. Commodities are available for sale at such markets, especially from China, and it might be that this trade and these outlets are slowly creating the basic conditions for a group of people to become the new entrepreneurs of a growing market economy. Private property, such as apartments, can be inherited, but, according to law, may not yet be sold. According to recent information, there is nevertheless an incipient trade in houses and apartments.

Property rights

Hardly any genuine privately owned companies operate in North Korea, but companies established on a joint venture basis with foreign partners act 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

Private enterprise

actors on the local private markets, are gaining experience with foreign companies and foreign trade, including the banking sector. Some state-owned companies might develop hybrid forms of business management and become the training ground for the future market economy.

## 10 | Welfare Regime

The North Korean system is highly focused on welfare provisions, but in a different way than other known welfare systems. The introduction to the constitution stipulates that the government's goal is to turn the whole society into a big and united family. The political leadership and the people take this idea literally, and before the economic collapse, this system worked quite well, especially in relation to the economic strength of the country. A nationwide health care system exists, and according to international aid agencies, this system has been functioning well; it remains impressive how much the country can do with scarce resources. All children are taken care of in crèches and kindergartens at public expense (Article 49 of the constitution). Laws prohibit children from entering the workforce before they are 16 years old, and equality between the sexes is 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.

Social safety nets

The majority of the North Korean population has equal opportunity to take part in society. Education is free and for all, and gender and wealth are not relevant criteria in the system. The authorities do, however, promote the development of elite schools and institutions, which explains the search for gifted children around the country. Family networks and connections may foster inequality by providing informal channels of social advancement in similar ways to what happens in other East Asia countries. The elite support the elite in more or less subtle ways. The state views some families, on the other hand, as politically problematic, because of family relations in South Korea or because a great-grandfather once belonged to the landowner class. These families may find out that even if all people are formally equal, in practice some are more equal than others.

Equal opportunity

## 11 | Economic Performance

A main problem with the North Korean reform process can be characterized as too little and too late. The authorities are reluctant to take any action unless they are forced, and then they do only the minimum necessary.

Output strength

## 12 | Sustainability

North Korea has 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. This has caused huge environmental problems. The land no longer absorbs water without causing landslides, which have 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. The availability of oil at friendship prices allowed the planners to neglect the problem of oil pricing until it suddenly becomes extremely acute. At present, the authorities have voiced strong interest in sustainable energy.

Environmental  
policy

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. The state has developed a system of elite schools, 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. North Korea has undertaken some cooperation with UNESCO to revitalize education, but the fear of being contaminated by foreign ideas and viewpoints has hindered progress. This fear is even more disruptive in the R&D sector, where it hinders research, including software engineering. The usage of the Internet is officially prohibited.

Education policy /  
R&D

## Transformation Management

### I. Level of Difficulty

The structural constraints for the leadership's governance capacity are first and foremost psychological, in that ingrained ideological constraints seem to prevent the leadership from taking necessary actions. Speculations abound 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, opinions differ about his position with regard to continuity or reform. By definition, he represents continuity as his father's heir, but he is also perceived to be a reform-minded leader. A host of other structural difficulties also exist. The very slow and uneven recovery from the economic collapse acts 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 the more successful South Korea and China, its former ally, now a reluctant and half-hearted savior. The country's infrastructure is poorly developed and inadequately maintained, and in many areas the infrastructure needs to be totally rebuilt.

Structural  
constraints

Civil society, at least as this concept is understood in a Western context, does not exist in North Korea. The regime, which aims at developing the country into a big, harmonious family, does not 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 process 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 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, political priorities or leadership practices will probably not happen as the result of foreign pressure. It might, however, come as a consequence of the leadership's realization that reform is needed.

Prioritization

Reform has been a non-concept in North Korea. For years, the state referred to its cautious reform policy as an "adjustment policy" in order to stress that the new policies were not a critique of the old. In the political vocabulary of the leadership, a revolutionary action was by definition good, a reform by definition bad. Furthermore, the leadership tries to isolate reforms in special developmental zones to avoid "negative" impacts on the rest of society. If more projects identified as parts of the reform prove successful, however, it is doubtful that the regime will continue to be present reform in this negative light.

Implementation

To admit errors and mistakes is not easy for a leadership elevated to a superhuman status, which is why this never happens. As a substitute, the regime emphasizes the

Policy learning

impact of global factors, changes in alliances and new power relations. 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. Change, including reforms, which can be rationalized within the Juche ideology, may have an easier way from idea to implementation.

## 15 | Resource Efficiency

The centralized style of management, combined with its ideological bent on important economic considerations, makes the government inefficient. Decisions regarding military expenditure and the erection of huge monuments, for example, are highly questionable from an economic perspective, though they have a political function. Planning and administrative arrangements regarding new economic zones are also, from an economic point of view, problematic. 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 a general lack of efficiency. Resource efficiency can only be found on the smaller scale of both agricultural and industrial projects. Reportedly, local hospitals have been able to function with minimal resources, farmers have managed to repair machinery considered to be beyond repair, and factories have invented ways of coping with scarce energy and raw materials, as well as a lack of spare parts for the machinery. There seems to be a pool of creativity among the people that is not utilized because of 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 theoretically 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 to international economic and technical support and assistance (first from the Soviet Union and Eastern Europe, and later from China) as well as efficient 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 opportunities to cheat. Secondly, it has been very difficult to get access to financial means or other valuables, even for elite groups in North Korea. Thirdly, 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

Anti-corruption policy

different markets and department stores in Pyongyang is impressive, and there are visibly 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 the regime more or less accepts, or at least tolerates, that people earn money and publicly exhibit their purchasing power, then this could signify a new situation with regard 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 considerably alter the present consensus. 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. This development will likely have an 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 in a similar direction: the market appears to provide solutions where the state fails. Leaders of such companies seem to have more freedom to act and interact in a private economy, like 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 the military establishment hinders reform, though this idea may be based on traditional, Western perceptions of an antagonistic relationship between the military and civil society. This is not the case in North Korea. The military establishment is already engaged in private business, as are the party and state apparatuses. The core question is whether reforms will be successful and thus change North Korea, or whether they will fail and inevitably start a reverse movement that will end in the re-establishment of some sort 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, if the European Union continues to play its positive although not central role and if the United States changes its approach from hostility to accommodation and brings Japan on board again, then North Korea will find it very difficult, if not impossible, to maintain its anti-foreign posture. The conservative

Anti-democratic  
veto actors

Lee Myung-bak government in South Korea (2008) has for some time reversed relations with the North by distancing itself from the policy of the two former presidents (Kim Dae-jung 1997-2003, and Roh Moo-hyun 2003-2008). This seems to have negatively affected the reform process in the North.

Political cleavages are for the time being impossible to envisage in the monolithic North Korean system. A slow but inevitable softening of the leadership cult may have already started in the context of North Korea's first steps toward economic reform.

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

Issues of reconciliation between victims and perpetrators of past injustices in North Korea have to do with the peninsular war and subsequent partition. The war and division, followed by almost 60 years of mutual animosity between the two Korean states, affected all Koreans. The state's leadership has only partly addressed this issue. 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 past injustices.

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 steadily growing. The reasons for the appeal were not a conscious policy shift of the Juche leadership, but rather pressure to find a solution to the sudden eruption of crisis. As a result, the relationship between North Korean authorities and foreign organizations began with 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 necessary and extremely helpful. Whether and how this perception and the ensuing positive attitude will affect the leadership in the long run is a difficult question. Public support for foreign aid might convince the authorities 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 the success of every aid organization is a blow to the North Korean system.

Effective use of  
support

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 could envision the present leadership steering 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. The nuclear controversy has revealed the leadership's stubbornness, which observers see as a negative development in the reform process. The 2007 agreement between the representatives of the six party talks created cautious optimism among the participants. For a while, North Korea seemed to live up to its side of the agreement. The process, however, only just got started before it stalled. The content of the deal, which aims at a denuclearized North Korea, also consists of very important and necessary offers that will bring North Korea into the world. If the process can be brought back on track and given some momentum, something that is under consideration by the new U.S. administration, North Korea will be in a position 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 its northern neighbors Russia and China in order to avoid dependence on either and to receive support from both. At the same time, it has maintained and aggravated its hostile relationships with powers in the south (South Korea, Japan and the United States). Pyongyang's self-inflicted and self-imposed isolation notwithstanding, the country'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 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, though it has also been hindered by North Korea's lack of transparency and poor economic statistics.

Regional  
cooperation

## Strategic Outlook

International relations with North Korea have been dominated by the nuclear issue since the country tested its nuclear bomb in October 2006. Nothing much can be done before this issue is settled. External efforts at promoting regime change in North Korea have clearly had counterproductive consequences, including possibly increasing North Korea's determination to join the nuclear club.

The regime in Pyongyang is not likely to embrace democracy soon, nor is it likely to collapse, no matter how much 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 earlier political experiences in neighboring countries. The present regime has been unsuccessful in economic terms, but it has been quite successful in psychological engineering, and because of isolation and massive indoctrination, a majority of the population remains loyal. The authorities in North Korea maintain that they are the next target of the United States. This has created an atmosphere of fear in the country and a pervasive mentality among the people that the country is on the brink of war. Security issues override all others. Although outsiders know very little about the inner thinking of the people in this isolated country, it is safe to say that 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 the international community hopes to encourage change in North Korea.

In the meantime, the world should not remain idle while waiting for the agreement between the six parties in the nuclear talks to be implemented. 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. Before the significant and tangible differences between the parties can be discussed with the aim of reaching a solution, however, the parties have to develop at least a basic level of trust in each other.

Practical cooperation is a main provider of trust, which means countries involved in the six party talks should continue to improve the overall level of engagement. Increasingly robust engagement is the best method of supporting the preliminary agreement. Some North Korean students and experts are taking part in educational programs at foreign universities. This type of exchange should be nourished and expanded in hopes that if the program becomes widespread enough it could at some point affect both society at large and the existing political system. Accordingly, to reach a sufficient number of North Koreans, a majority of the EU countries and others should open their educational institutions to North Korean students. The European Union

could also present to the North Koreans a turnkey educational facility, which focuses on subjects relevant to their future participation in the global market economy.