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Internal Developments in North Korea: The Economy

38 NORTH

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INTERNAL DEVELOPMENTS IN NORTH KOREA: THE ECONOMY

On July 15, 38 North held a workshop in Seoul, South Korea, which gathered together experts from the U.S., South Korea, Europe, China and Japan, to discuss the latest developments regarding North Korea, both internal and external, with the goal of identifying future research priorities.

38 North is pleased to provide excerpts of this dialogue to our readers. This is the first of two installments on domestic developments in North Korea, which focuses on the economy. Part II of the internal developments dialogue will deal with the issue of succession and will be released next week at www.38north.org.

INTERNAL DEVELOPMENTS PART I: THE ECONOMY

MODERATOR: Thank you and good morning to all of you. This morning we will talk about the domestic issues of North Korea. Don't talk about *Cheonan*. Don't talk about bilateral relations. Don't talk about the Six Party Talks. Let's focus

on domestic issues. If it makes sense we should look at the economy, domestic politics, and social issues separately. But if you'd like to connect those issues please feel free to do so.

To get started, my first question is related to the economy. I'd like to know what you think the main issues are regarding North Korea's economy at the moment. Is it agriculture? Is it industry? Is it trade? Is it monetary issues and the financial system? Is it the reorganization of property rights? Or is it really the organization of the bureaucracy?

SOUTH KOREAN EXPERT: This morning I read in the paper about North Korea giving rights to fish (squid) to the Chinese. That, I think, signifies a kind of desperation on the North Korean side.

Let's start with the currency reform, which took place November last year. From this, we can detect various implications. The first is that the real intention of the regime is not to reform the economy, but to manage the economy within the boundaries of socialist ideology. That's why I think they implemented this reform. The second is

that the North Korean regime does not have the capacity to implement a well-organized reform. If they had prepared the recent reform in a better way, the reform would have lasted longer. But the reforms just lasted a few months and then things went back. So, the regime doesn't have the real capacity to manage the economy. They can't reform the economy (or they don't want to) and they don't have the capacity to manage the economy in an effective way. That means, I think, they are in crisis.

But to what extent are they in crisis? The Bank of Korea estimated the growth rate of the economy last year as -0.9%. This may be regarded as very small and we have some sensible doubts about these estimates—given data problems, the estimate may not be accurate. But, the minus growth rate means the economy is not in a good shape. That is quite clear. Is that a real crisis? Real crisis may occur when the public feels that there is a crisis—like they could starve to death. That could occur, but right now, because when they implemented the currency reform last year, the formal sector was not in good shape. Also, the markets were repressed. Therefore the public made informal complaints to the authorities. Given the situation, the authorities allowed the markets to reopen. So, it's a bad situation but not a crisis leading to say, the collapse of the regime.

The question is: How long can this type of situation be sustained? I don't think it can last long. Most of growth in North Korea is achieved through trade. But when increasing trade volume, the North Korean regime has difficulty maintaining the system because they have to import from China. But this money comes from Korea because Chinese trade is deficit. But trade with North Korea-South Korea is surplus. Money from Korean trade is used to pay the deficit with China. If South Korea implements strong restrictions on trade, it means the regime will have to find other sources of funding to buy imports from China. So they can survive for some period, but for how long?

MODERATOR: Thank you very much. We have the issue of external support; the issue of North Korea-China economic relations; and the question of reform—does the regime want to reform, does it have the capacity to actually run the economy? Another question is about the shape of the North Korean economy—how bad is it? How desperate are they?

SOUTH KOREAN EXPERT: I would add that the currency reform they had last year, I think it was a total failure. According to some estimates about the economic situation in North Korea, even if they try to restrict market activity through currency reform, they allowed them to exchange the price levels. For example, they could buy 1 kg of rice for 750 won, on average. That is approximately the same value as it was before the currency reform. That means they denominated former North Korean currency 1:100. But the price almost reached that point, which means the reform was a total failure. Another problem is that the exchange rate between North Korean currency to Chinese Yuan or US Dollar is about 150 North Korean won: 1 Yuan. It is almost same as South Korean won. That means if they could buy 1 US dollar, they have to pay 1000 North Korean won. Because of these exchange rate problems—they cannot instill confidence in the North Korean government. Most people in North Korea who are involved in market economy or trade, have to buy foreign currency because they don't trust the North Korean government. That means, because of this exchange rate problem, the price of basic materials will go through hyperinflation.

Another problem relates to having to sell their fishing rights to the Chinese in the East Sea. Of course they sold their rights to fish in the western sea to the Chinese already, but the sale of rights to the East Sea to Chinese fisheries is because they need hard currency. Now, South Korea has reduced trade with the North. Even if they are still operating in the Kaesong special economic zone, the amount of hard currency that was allowed to go to the North has already been reduced a lot. So, North Korea has to try to do everything they can to make hard currency.

Another problem is that they are executing some former elites in charge of these economic affairs. They already executed Pak Nam Ki, who was in charge of economic planning, because of his wrong policy recommendations in the reform. Also, they executed another top leader in charge of railroad transportation. That means they are trying to blame this kind of failure on individuals in top positions in the party or in government. I don't know if they can continue these executions or purges to rationalize what the top leaders have done.

U.S. EXPERT: I have two questions. The first has to do with this news about the sale of the fishing rights. Did this just come out today? Did the North Koreans announce that or did someone else?

SOUTH KOREAN EXPERT: I just read it in the *JoongAng Ilbo* this morning. (Note: The report cited a confidential source).

U.S. EXPERT: Well, Chinese fishing boats already fish up there. To some extent a lot of them fish illegally up there. The question is: Are the North Koreans going to finally be getting benefits from a situation that already existed? So, they're not really giving anything away. The second question has to do with the execution of the officials. Apart from whether or not we really know if they were executed, if they were, isn't this new? The North Koreans have not frequently, as far as I know, executed government officials for policy failures. And if it is new, doesn't it tell us something about the political situation and leadership decision making?

SOUTH KOREAN EXPERT: An execution hasn't been carried out since 1993 or 1994. In recent days, we have observed some tremendously unprecedented things. In two months, there was the traffic accident of Ri Jae Gang (first deputy director of the party Central Committee's Organization and Guidance Department)... At the same time, Kim Il Chol (Vice Minister of People's Armed Forces) has been dismissed. So we have observed very unexpected and unprecedented changes in recent days.

MODERATOR: We have to move on.

EUROPEAN EXPERT: From my point of view, it's not only about reforming the socialist economy, it's about restoring socialist purity. If you go to Pyongyang, it looks different from three years ago. Because of the prospects of 2012, they spent a lot of money to rebuild and renovate buildings. All streets are new. You see many more cars... and it stands to reason, more accidents and more misdirection. When you go to Pyongyang, you get the impression that the economy is doing quite good. But Pyongyang is not North Korea, as you know. The countryside looks totally different in terms of the economy.

My impression is that their having to do a currency reform was in itself a surprise; they had to react to the inflation. The prices went down after the currency reform, but they didn't simply drop two zeros, because the price of potatoes is back to around 1,000 won. So they came back and in February or March, they were exploding again, and then they had to close the farmers' market because they didn't take into account that the currency revaluation would break down the border trade with China. The reaction is interesting. The wages were not cut by two zeros. The wages are still the same. The prices are down but the wages are the same! This means that people today, at least in Pyongyang, are better off than they used to be before the currency reform. Somehow, they (the government) had to give in because they saw the building of the potential political reaction of the population, especially of the farmers and traders, would be traumatic for the system.

To come back to your question of fishery rights, there might be one explanation because the intention of the currency reform was two-fold. One was that they wanted to bring down the farmers' market and the private sector, which was growing at the time. And on the other side, as usual in a socialist system, they wanted to raise their own production in order to press the private business out of the market.

I don't think you can discuss the economic situation isolated from the political question of succession. Everything is connected to the question of succession. We know that the military and the police are under the roof of the Department of Homeland Defense, which used to be under the supervision of the administration of the prime minister of the cabinet, which has changed last year in October and is now under supervision of the National Defense Commission. You see, this has all to do with regaining the purity of Socialism. The selling of the fishery rights might also be seen in this context. In the Northeast provinces, people who fish and sell to China in border trades come back with rice. The government wants, of course, to avoid this in future.

MODERATOR: It's fascinating to see how North Korea is moving faster into the direction of ordinary Eastern European socialist countries. That's my personal experience with it. Once you decide to have monetization of your economy, inevitably you will start caring about hard currency and no matter what you do, it will break the back of the system.

EUROPEAN EXPERT: The only success of the currency reform was that the cross-border trade with China was interrupted. You could see this in Dandong. People who had left their jobs because they could make more money by trading came back to their ordinary jobs in 2-3 days.

MODERATOR: We will see if this is good for overall (domestic) production.

SOUTH KOREAN EXPERT: You keep on saying that North Korea is trying to revive the virtue of socialism. I don't quite get it, because North Korea has long deviated from the true identity of socialism. And whatever North Korea is doing at this moment at the central, elite level, I don't think it's trying to go back to the original socialist mechanism. The government doesn't provide anything to people. How can you start to try and revive this?

EUROPEAN EXPERT: Is a question of the term or what is your question?

SOUTH KOREAN EXPERT: I mean, linking the term and the reality. If the market is blossoming and people are on their own for their subsistence, and there is no welfare, education, health care... how can a government let your people believe this is a revival of socialist ideals?

EUROPEAN EXPERT: The state wants to get everything under control again. This is the intention. They want to restore the public redistribution system and get rid of all private market systems. I'm not saying institutions but...

SOUTH KOREAN EXPERT: But that has been reversed.

U.S. EXPERT: I don't think he's saying they've been successful. He's saying they're trying.

EUROPEAN EXPERT: They had to do so. They had to give up the control once, but this doesn't mean that they gave up the intentions.

MODERATOR: I usually compare it to an iPhone or any mobile phone. If you never had one it's not a big deal if you don't have it. But if you had it for a couple years and it's taken away from you, it's a different thing. That's what's happening in North Korea. I was very excited in 2002 when they had economic reforms in July and I was even more excited about the ideological side of it when they had a Constitutional change in 1998 and Article 24 and 31 where they talk about kitchen gardens (small private gardens) and private profits. It was a whole new ideology. They had this Kim Jong Il article in *Rodong Sinmun* in January of 2001, talking about "this is not the 1960s anymore so we have to behave differently." But in 2009, he actually said "our officials should show distinct spirit as in the 1960s." It's really amazing that they have come full circle. I did a quantitative analysis of North Korean media. If you look at key terms like *sadejunnui* (worship of the powerful, i.e., kneeling to big powers), it went down since 2002 and since 2005-6, the frequency of the use of terms went up.

You can really see the ideological shift in North Korea towards neo-conservative socialism—a new orthodox socialism—returning to those positions in ideology which doesn't necessarily mean it's happening in practice; the historical inevitability of socialist victory and so on. I found it quite funny; the North Koreans had given it up at some point but now they are returning to this. The big question is whether it's going to work. But it shows the intention of the government to try to steer back and to regain control over the minds of the people and over their daily lives—which I think they had given up deliberately. What I really don't understand, and maybe you can enlighten me, is why they gave it up in the first place. If you read what Kim Jong Il wrote about socialism's collapse in Eastern Europe in the 1990s, he did a lot of this. I think he had a very good understanding of what was going on there. He said ideology is really the part you should not touch because that is the crucial part. Once you start messing around with ideology—and that means the sole construct of who's leading and who's lagging and so on—once you touch this, the whole system goes down. That's exactly what they did around the inter-Korea Summit. That's what I don't really understand.

SOUTH KOREAN EXPERT: A comment to your question. My reading of the July 2002 measures is that North Korea attempted a kind of compromise. I don't think their intention was to deviate from real socialism. Some of you believe that there is only one socialism in the world, but there are many kinds of socialism from the left to the right. And I think the July 2002 measures were very close to extreme left wing socialism.

MODERATOR: If I may intervene, I think socialism is a little bit like pregnancy. You're either pregnant or not. You cannot be a little pregnant. You either have state control of the economy or not. If you give it up even partially, you give it up. You either have a one party monopoly over political power or not. If you give it up only a little bit you still give it up... and then everything else follows after that.

SOUTH KOREAN EXPERT: That's not true. I think here, the real key to a better regime is whether the leader is serious about reform or wants to get more power within the boundaries. I think it was the intention of Kim Jong Il to make some compromise to keep power without reforming the realities of the social system. I think it's quite feasible or sensible option otherwise they could bankrupt themselves, so they compromised.

MODERATOR: So the question is, now going back to the old system, shouldn't we expect new reform after awhile?

SOUTH KOREAN EXPERT: I can't penetrate his mind, but I think it's quite consistent basically, his real intention is to keep power. The economy (in the process) may be sacrificed. But that is his real intention behind this currency reform business. Another explanation is that they tried to regain control by taking away money from private traders and hopefully giving some money to some enterprises. But they underestimated how prevalent this market mechanism was in the system itself because the informal sector is very much linked with the formal sector.

U.S. EXPERT: I only want to add one side element to what I think is a very interesting description of what's driving some of the North's economic policies these days. And that is, what seems to me to have been an important part of the 2002 reforms and this still is important today, is really the externals. I know that we want to concentrate on just the internal stuff today but when you talk about the economy, it seems to me what is critical to understanding the thinking of the North Korean leadership, and that means Kim Jong Il, about what's possible and desirable in terms of economic policy, is the state of the external environment. And if the external environment is seen as hostile, aggressive, pressing, dangerous, you end up with a different set of options for your economic policies. In 2002, it was at the end of the high point in the relationship with the United States, the very end. Only the North Koreans didn't realize it. Kim Jong Il was still riding this wave of the end of the Clinton era, when it looked as if the external environment was entering a golden period. Therefore, as the Chinese have told us over and over again, Deng Xiaoping did not and could not ever have instituted economic reforms in China until he had settled the external problems and therefore why don't you Americans back off the North Koreans. Well I think that's what Kim Jong Il thought had happened. So to his horror and surprise, after the July measures were taken, three months later Jim Kelly showed up in Pyongyang and everything was blown up. Suddenly the externals went from good to

terrible and that meant he was exposed in terms of his internal policies. So while that may not have the driving force, the externals, I think, really shape the thinking and reality in which they make their decisions.

JAPANESE EXPERT: I agree with you. For the North Koreans, the most important purpose is regime survival. They have to secure the country—that’s their top priority. And after that, as you mentioned, they can deal with the internal economic reform. We have to be aware of the lessons from Chinese economic reform. They implemented their reform after the normalization of the relationship with Japan and the United States. North Korea also has to secure their country first with normalization with the United States. After that they can plan their internal economic reform. They have planned reform but they can implement that plan only after normalization with the United States or Japan.

MODERATOR: Sounds like South Korea in 1965 as well. At least the North Koreans are flexible, I find that really remarkable. The government is capable of undoing the measure that obviously was stupid within only two months. That’s not so easy. I wonder how many democratic governments would even be able to do that. What would we expect from a stupid dictatorial system? That they stick to whatever they do even if it’s a big mistake. They would say, “No, I don’t care, I decided that. I am leader. I am right. I don’t care about what’s happening in reality.” But this is not happening, right? They took a measure, it failed, and they obviously found a way to give it up. I think this is something positive, if we are looking for positive things, but we have two more opinions here about that.

EUORPEAN EXPERT: Just to reply immediately. I would say this is a wrong perception of the system because of course Kim Jong Il is in charge, the leader is in charge, and he is accountable. But to conclude that there is no discussion in the background is the wrong conclusion. There is a lot of discussion ongoing also about market reform in North Korea. The question for me is what impact does the economic situation and the economic change in North Korea have on the political system? I say it will be a failure because the instruments they used are the same instruments they always use.

But there are indications—more than that, there is evidence—that the currency reform was a failure. For one, the black market for currency still exists—it’s back. The dollar—the official exchange rate of course has changed—but the black market is back again.

MODERATOR: I think the biggest mistake when they had the reform is that unless you are able to reinstall the public distribution system immediately, you can forget about a reform because you still have people who have to rely on other sources to get goods. They will find those ways.

CHINESE EXPERT: I’d like to say some points from my observations of North Korea’s economic situation. First, the economic situation in the North is maybe not as bad as the outside world thinks. In recent years the economy has achieved apparently recovery growth. Although the recovery is still far away from that of the 1980s, which was the best period for the DPRK, the economic situation is the best since 1994.

The second point is that North Korean economic situation faces severe challenges because the economic structural contradictions, such as inflation, the imbalance between cost and benefit, and the booming black

market are really becoming more and more acute. The currency reform conducted last year I think succeeded partially in screening the black market, but failed to solve the inflation problem. From my point of view, the recovery growth of the DPRK is not sustainable. So I think those structural contradictions are the biggest uncertainties in the DPRK's economy.

The third point is that from China's point of view, North Korea is confronted with two choices in its economic policy. One is to return to the highly centralized planned system to regulate the price and conduct distribution in order to adjust the inflation. The other is to control inflation by means of market economy. But the precondition for market reform is to adopt an opening up policy. That's the only way I think the North Korean economy can realize its soft landing. So currently Kim Jong Il is trying to combine those choices together—he's opening up without reform, rather than following China's opening by reform policy.

MODERATOR: If I might add to that, I think they basically have two options: one is to collapse as Eastern Europe did or transform itself as China did. The question is how will they decide? Sometimes it's good to be an academic and read theoretical books. One book about socialism I'm very fond of describes what North Korea is doing at the moment—so-called perfection methods—where you don't yet understand clearly that socialism as a system is failing or flawed but you still believe, "I'm just not doing it right. So we have to adjust a little bit here, improve planning there, introduce a little remedy here, and a little extra ministry there, and then everything will be fine." Unless you really understand that you've got to change the system, you will keep on doing those perfection methods. It will have a short term effect, but then in a couple of years you'll have to do it again. But I hope they will be smart enough and be well advised by the Chinese side to make the right choices.

U.S. EXPERT: I am not in any way an expert on the Chinese reforms, but I sort of lived through it. I was in the government as we were analyzing it. Deng Xiaoping did not just wake up one day and say "I need to reform." This was a long process. It could have failed at several points. There was tremendous opposition from within the Chinese leadership. And it was an iterative process that, in many ways, resembled what you just said. The reformers would try a little thing and it wouldn't work and then they would say, "Well, we need to do one more little thing," and the conservatives would come back and say, "We know what you're doing; you just want to open the door so we go down this slope. The answer is no." This took 10, 15, 20 years of back and forth. So reform in North Korea is not going to be a big bang if it follows the Chinese example. It is going to be this small back and forth—take some steps like 2002 and then retreat a little bit. One of the bigger problems is unlike China, where Deng Xiaoping had a cadre of committed, smart and relatively experienced young people who were willing to advise him on reform, I don't see that in North Korea.

MODERATOR: And he was willing to listen.

U.S. EXPERT: Yes, he had the strength of character to sustain it. That's where I am afraid the North Koreans don't have it. They are teaching people, they are getting people trained and they want to get people trained because they know they don't have this, but they don't have it yet, and until they do...

EUROPEAN EXPERT: Well wait. We should not underestimate what they know.

SOUTH KOREAN EXPERT: When I visited Japan last May, I met one Korean-Japanese economist who worked for intellectuals in Pyongyang in the 1990s up to the early 2003. He opened some courses at Kim Il Sung University about the introduction of capitalism and he had a lot of colleagues there. Recently he visited North Korea and all those people—faculty and students—were expelled from the university. That means that in the early 2000s or late 1990s, some in the leadership in North Korea tried to make some changes following Chinese reforms or taking some market system, but they gave up that kind of effort.

I think there is still contradiction or confusion in the North Korean economy. In 2002, when they adopted the reform measures, Kim Jong Il mentioned “New Thinking” just like the government had done in the late 1980s. When they adopted these measures, inter-Korea relations were working very well and they expected to get hard currency from tourism, business and exchanges with South Korea. There were some conservatives who were working hard in the ideological sectors, and who worried about that kind of relationship and described it as kind of backwards and toxic. But Kim Jong Il had reluctantly accepted that new measure. And last year when they adopted the currency reform, basically two new measures, I assume they expected to get general assistance from China. Because before the currency reform, Prime Minister Wen Jiabao visited Pyongyang and mentioned aid from China and finally Kim Jong Il decided it was time to return back to socialism if they could get general assistance from China. But, in fact, they realized Chinese aid was not on the table. Conservatives are gaining momentum and therefore confusion or some contradictions still remain.

MODERATOR: I always liked the idea that Kim Jong Il was a reformer and when he finally got to power he had to wait a couple of years, then he had the famine and had to wait longer, and finally he could implement his ideas of how to run the country but then he got sick. So in a way, I think there is also connection to his personal capacity of really running everything. This is just a question, whether it’s true or not.

EUROPEAN EXPERT: Also, is he still in charge?

MODERATOR: This is a very old question isn’t it? Anyhow, running a country isn’t an easy job, right? I’m not even sure whether Kim Jong Il changed his mind. I think what changed was his capacity to control the country. He had to delegate away much of that, especially since 2007 and 2008.

SOUTH KOREAN EXPERT: If I may add one thing to that, the North Korean economy is a very poor economy, which needs to accumulate production, as we have seen in the Chinese model. So, they allowed more incentive for farmers to work harder. But in North Korea, even if they made some economic progress in 2002, there is a kind of irony between allowing farmers some incentive but the state trying to control how big the incentives were; so they could not maintain that kind of momentum.

MODERATOR: Which is why I would be careful comparing the Chinese reforms to those in North Korea. I think the Chinese were, though limited, much more determined to let a few things happen than the North Koreans were from the very beginning.

SOUTH KOREAN EXPERT: I think there are a group of scholars and experts who are liberal minded and reform oriented, but it's just they are not in the right time or the right place. These groups of officials who are oriented to reform actually exist and evidence can be found in the pages of the official economic journal called *Kyongje Yongu*, translated as the Studies of Economics. And in the reform period you mentioned (2002-05), there were tons of articles about this. There was debate between conservatives and liberal scholars. There is a Korean scholar who reads these articles and does analysis on these issues so I do think this group does exist.

I do not agree with the judgment of Kim Jong Il as a reformer or even a reluctant reformer. I think he's far from it. I don't think there is any chance for him to engage in any sense, even in his remaining days. I think his governance has been a disaster. Kim Il Sung had some merits, but I think that if the political succession does take place, and if it's successful, I think we can more optimistic about his successor Kim Jong Un, or whoever. He belongs to a younger generation and has been educated in Europe and will be supported by the rise of a younger generation who has been educated outside. I think with the rise of the new leadership, there will be more hope for eventual reform of the North Korean government system.

EUROPEAN EXPERT: But whoever it is will be surrounded by other guys who will also have to change. We have yet to talk of the role of China. We have seen that China can be a model, but when it comes to the economy, we have to talk also about China's influence not only on the political field but on the economy.

China is obviously the key for the economic development in North Korea because 70% of North Korean trade is done with China. China obviously does execute the sanctions which are imposed on North Korea after their second nuclear test. But on the other hand, its foreign direct investments in China have increased. China has the right to build up the harbor in Rajin for 50 years. This means China has direct access to the Pacific Ocean over the territory of North Korea. This also has political-strategic implications.

MODERATOR: They leased the harbor or one pier? We keep getting confused on this.

U.S. EXPERT: Did they lease the harbor or one pier?

EUROPEAN EXPERT: One pier. They are obviously also afraid of getting under too much Chinese influence because this would be contradictory to their own ideologies to fight *sadaejui*.

MODERATOR: It was always thought that improving relations with China would automatically mean improving relationships with other countries, but The North Koreans know they can only play their opponents if they can balance them against each other. And they will simply lose the game if they depend too much on China. In 1991, I already sensed that they were very much concerned with the Chinese, they don't trust them. They know them way too well; they speak the language way too well; they are too close, too big and too strong. Whenever we see an improvement of economic relations between North Korea and China I think this also improves opportunities for others to jump in. The question is whether we are using this, but that's another point.

SOUTH KOREAN EXPERT: If I am asked to evaluate the importance of external relations relative to internal structure in determining the possibility for reform, I would say internal structure accounts for 70% and external relations would be about 30%. The real barrier to reforming North Korea is internal problems. I don't think Kim Jong Il is a reformer. If you look at the histories of socialist countries, political transformation preceded economic transformation in most cases. If you look at the Chinese transformation, Deng Xiaoping needed some kind of economic measures to strengthen his power against the opposition. Therefore there is no saying that, waking up in the early morning and determining, "From today I will be a good guy." This kind of possibility we economists disregard completely. I don't think Kim Jong Il is flexible. He is very wise perhaps in keeping power, therefore in order to keep power, he may compromise on the economy. But if the economy touches the basis of his power, he will attack it.

I think keeping power in a socialist dictatorial regime requires two important characteristics of the dictators themselves: (1) randomness and (2) cruelty. If the power becomes softer and not arbitrary, people may think this dictator is soft and rise up against the power if some kind of event takes place like the currency reforms. If you look at the history of Asian dictatorships, dictators should be cruel and punish randomly—the fear level has to be controlled. Otherwise the regime will collapse easily. I'm not sure if Kim Jong Un is capable of maintaining the system because of his age and his current level of respect. He may be viewed as being softer than his father. And if he does not punish people cruelly, then public can at least say this guy can be challenged. I think the political succession has started new stage of the North Korea problem.

JAPANESE EXPERT: It seems to me that North Korea, especially the highest leadership, doesn't want to lose the party's control not just over politics but over economy. In the New Year's Editorial in 2008, they emphasized the strengthened superiority of the people's economy. And now they have announced the conference of the party. This means they are trying to strengthen the control of the party over the economy. The lesson from the Chinese reforms, the main point of the reform should be the elimination of the party's intervention in economic management in the factory or cooperative farm. But it seems to me now that the North Korean leadership doesn't want to lose the intervention to the economy by the party.

SOUTH KOREAN EXPERT: Some thoughts on the political aspects of the currency reform. I believe the intention of the currency reform was to prevent the consolidation of the alliance between newly rising market forces and the military regime and the labor party members. It turns out this kind of economic coup failed due to the lack of supply and North Korea is relying more on market forces and expansion of the market to get out of the situation it is in. North Korea briefly turned to central economy, but due to lack of supply from the center and the centralized plan it inevitably failed. And now it is turning more towards market mechanisms.

Part of the reason for the currency reform was to prepare for the succession of authority from Kim Jong Il to Kim Jong Un. The July 2002 measures were an attempt at more openness and integration into the global economy, but because of the worsening of U.S.-North Korea and U.S.-China relations it couldn't make the kind of integration it wanted to achieve through the measures. The differences between reform in China and North Korea are that while China would welcome North Korean reform, China in the 1970s was able to

make economic reform and progress mainly because of the rapprochement with the U.S., but North Korea currently does not have that advantage. China made a leadership transition in the 1970s when it carried out economic reforms but in North Korea, because authority is passed down from father to son, the system is inevitably more resistant to policy changes. North Korea is currently trying to get of this economic depression by being more open and integrating more with the global economy. Beginning in the 1990s North Korea first relied on Tokyo's support from colonial reparations and planned to use this money for reform. But when this didn't work, it turned to Washington for external support. But now in the wake of the Cheonan incident and in its isolation from international society, North Korea is turning more to its traditional ally China for economic development. This kind of external reliance, as was pointed out before, is of course against *juche* ideology, and North Korea will inevitably have to find its way through China for its economic survival. So North Korea's options for entering the world economy come down to either engagement through trilateral talks with the U.S., Korea and Japan or through China.

SOUTH KOREAN EXPERT: In my opinion what the central administration in North Korea is aiming for is a dual economy until at least 2012. It seems to be willing to sustain and strengthen a socialist regime, and the currency reform was one means of that. North Korea also seems to be trying to tackle its economic situation and difficulties by strengthening its economic ties to China. What is interesting to me is that Kim Jong Il brought along his provincial secretaries to China. This was extraordinary and strange, and signaled that the North is trying to change the dynamics of its economic relations with China in order to solve the internal deficiencies.

I think this kind of China-North Korean relations is based on two things. First, North Korea seems to think that the Lee Myung Bak government will not change its policies any time soon. And second, that there will be no real progress on North Korean nuclear weapon problems. So the North may see China as its only consistent support system at this point.

Other countries should pay close attention to China's influence on North Korea. The dual economy—meaning inside it is a socialist regime and on the outside it is pursuing a close economic relationship with China—implies that if this kind of relationship is established between North Korea and China, it will be even more difficult for the South Korean government to solve the North Korea problem it is dealing with now.

— END PART I —