

Chapter III

The Collapsing Planned Economic System

1. *Economic Situation*

The economy of Democratic People's Republic of Korea (North Korea) is now in a state of crisis. The severe food shortages clearly demonstrate this. The already deteriorating food situation in North Korea at the end of the 1980s was made even worse with the repeated flood damage in 1995 and 1996. The North Korean Ministry of Foreign Affairs announced that the flood damage in 1996 was 1.7 billion dollars (15.0 billion dollars in 1995). For this reason, North Korea started requesting food aid from the international community from 1995. This food crisis has also been reflected in the growing numbers of refugees crossing the border into China and escaping to South Korea.

First, let's examine the recent food situation. A report (released in September 1996) prepared jointly by the FAO (Food and Agriculture Organization) and WFP (World Food Programme) stated: "North Korea requires 1,417,000 tons of food, and already 848,300 tons have been supplied. Thus, 622,700 tons of additional food is required. Since the beginning of 1996, food rations have been 200 grams per person. Potatoes were harvested early from June and corn from August to be used as food rations."

In North Korea, the food rations for adult workers used to be 700 grams per day. With the deteriorating food situation, this dropped to the 500-gram level, and then to the current 200 grams per day. Nonetheless, it is not clear whether food is being supplied to the people as reported by the international organizations. In fact, Choi Sun Chan, who defected to South Korea from Kaesong in July 1996, testified that from the beginning of the year until July 8, he was supplied with only a 47-day ration of 540 grams per day⁽¹⁾. A simple calculation reveals an average food ration of 136 grams per day. This testimony plainly shows the seriousness of the food shortage. Although one cannot comment on the food situation in North Korea only based on this, this certainly suggests the figure of 200 grams of food rations a day reported by international organizations.

With the deteriorating food situation, a thriving black market has begun which deals not only in food but in all types of goods including daily commodities. According to the testimony of defectors, the number of black markets has been growing and industrial goods, which were once prohibited, have also been appearing on these markets. People obtain their necessities at these markets. However, prices have been rising steadily, reflecting the overall shortage of goods. The price of one kilogram of rice in Pyongyang is 80 to 100 won, far exceeding the average worker's monthly salary (60 to 70 won: author's note). The people's precarious struggle to survive through selling their belongings for food is approaching its limit.

As for production activities, there have been reports of the shutdown of operations at the Kim Chaek iron mill⁽²⁾ which was running at 30% until 1995, the shutdown of operations at two refineries located in Nampo and other place, and a slowdown of operations at the Pyongyang cotton mill (only 5 machines out of 200 operated)⁽³⁾. These facts reflect the severe energy shortage and indicate that production activities remain almost at a complete standstill.

Until recently, the only economic statistics that North Korea announced were the state budget and account balance. However, since 1995 even these figures have not been announced. This is a result of the essential government organ, the Supreme People's Assembly (corresponding to the Japanese Diet), not convening during this period. Setting this matter aside, the rate of increase for revenue (account balance base) announced every year had been the only official statistic which indicated the macroeconomic results for the North Korean economy. Thus, the absence of this statistical information meant the loss of any means of finding out the macroeconomic situation. The only remaining clue to North Korea's economic situation are the estimates of North Korean trade figures using the trade statistics from its trade partners.

The Korea Trade-Investment Promotion Agency (KOTRA) reported (May 27, 1996) that the

total amount of trade with North Korea in 1995 was 2.05 billion dollars, a 2.7% decrease from the previous year. This figure has been decreasing for five straight years so that now the 1995 figure is less than half the 1990 level. Exports totaled 736 million dollars, a 12.3% drop from the previous year. With the increased import of crude oil and grains, imports increased 3.7% from the previous year, reaching 1.316 billion dollars. An interesting point is that North Korea's trade with Japan has increased 20.5% from the previous year to 593 million dollars, making Japan the largest trading partner for the first time. On the other hand, trade with China decreased by 11.9% from the previous year to 550 million dollars as a result of worsening trade conditions. Clearly in the midst of a full-scale, gradual economic downturn, North Korea has made recent moves to find a way out. One move has been the promotion of the Rajin-Sonbong Free Economic and Trade Zone. Twenty-six countries and 439 people participated in the investment explanatory meeting held in Rajin-Sonbong in September 1996. It was announced that 285 million dollars was pledged at this meeting.

Another move has been the expansion of the cooperative management system. The cooperative management system has already been in existence for some time now, but the scale of the divided cooperatives has been reduced from 10 to 25 farmers down to 7 to 8 farmers. The aim was to give the farmers incentives to produce more under the lower production norm. This system is similar to China's system of responsible production, but in China it has been implemented in family units. For the present moment, the effect of this difference is unclear. Nonetheless, this system is expected to show results, and its expansion should be observed in the coming years.

2. Failure of the Third 7-Year Economic Plan

First of all, in observing the economic crisis in North Korea, attention should be directed to the failure of the third 7-year economic plan (1987-1993). On what was to be Kim Il Sung's last New Year's message in 1994, he summarized the results of the third 7-year economic plan, "As a result of international developments beyond our expectations and severe conditions within our country, we

encountered major difficulties and obstacles in building our economy. Nonetheless, significant progress was realized in the building of a socialist economy in various fields." It is difficult to tell whether the 7-year economic plan was a success or a failure based simply on this summary by Kim Il Sung.

However, in the previous year, this was mentioned more specifically in the news report covering the 6th Term 21st Plenum of the Central Committee of the Workers' Party of Korea held in December 1993 (*Rodong Sinmun*: December 9, 1993). On that occasion, the Committee made the following analysis: "As a result of the collapse of the socialist countries and the socialist world markets, the long-term and short-term trade agreements concluded with these countries have been left up in the air or suspended altogether. This has led to a reduction of the traditional economic cooperation and trade with these countries. Not only has the building of our economy suffered from serious damage, ... but the third 7-year economic plan has also failed to achieve its originally forecast targets."

Then, the Plenum established the three years from 1994 to 1996 as a "buffer period" and worked out a "strategic policy" of "proceeding with a policy emphasizing agriculture, light industries, and trade."

This news report clearly admitted that the 7-year economic plan had failed. This was an unusual case where the Workers' Party of Korea acknowledged a failure of its own. However, this news report was also remarkable in that while North Korea had been claiming to stand for an "independent economy," it has been actually largely dependent on socialist economies such as the Soviet Union. The sharp decrease in trade with the Soviet Union was truly "serious damage" to the North Korean economy.

(1) Sharp Decrease in North Korean-Soviet Trade

As is well-known, the international situation surrounding the Korean peninsula changed dramatically during the period of the third 7-year economic plan, that is, the period from 1987 to 1993. The major events included the holding of the Seoul Olympics (autumn 1988), the rush by Eastern European countries to establish diplomatic relations with South Korea (1989), the holding of the

13th World Youth Student Peace Festival in Pyongyang (July 1989), the establishing of diplomatic relations between South Korea and the Soviet Union (September 30, 1990), the disappearance of East Germany with the unification of Germany (October 3, 1990), the breakup of the Soviet Union (December 8, 1991), and the establishing of diplomatic relations between South Korea and China (August 24, 1992).

Thus, the international status of South Korea improved significantly around 1990. By contrast, it is clear that North Korea became pressed into an extremely disadvantageous position. North Korea's sense of isolation and irritation echoes strongly in the words referring to this in the New Year's message: "international developments beyond our expectations."

These developments in the international situation had a tremendous impact on North Korea's foreign trade. This is plainly shown in Table 3-1. The following conclusions can be drawn from this table. First, trade with the Soviet Union dropped dramatically from 1991. Until 1990, trade with the Soviet Union accounted for a large share of North Korea's trade at around 55%. However, this share dropped to 14% in 1991 and has been falling ever since. It should also be noted that this decline in North Korean-Soviet trade caused the decline in North Korea's overall trade.

What were the causes of the sharp decline in North Korean-Soviet trade? As mentioned in the above news report on the General Meeting, the direct cause was the changes in the trade agreements. In other words, at the Soviet Union's request, trade with the Soviet Union from 1991 was changed over to the clearing system by hard currency with international prices. For North Korea, which had grown accustomed to the barter trade system with friendship prices, the measures taken by the Soviet Union were completely unexpected and embarrassing. Suffering from a severe foreign currency shortage, North Korea does not have the ability to import Soviet products using foreign currency, and lacking any competitive products, North Korea also cannot easily export to the Soviet Union. As a result, the sudden decline in trade with the Soviet Union was inescapable.

Another point which cannot be overlooked is the decline in the trade deficit with the Soviet Union. This decline in trade with the Soviet Union brought about a reduction in the trade deficit with

the Soviet Union and dealt a tremendous blow to the North Korean economy. This is because up to now the trade deficit with the Soviet Union frequently amounted to, in effect, assistance from the Soviet Union. As shown in Table 3-1, until 1990, the trade deficit with the Soviet Union was between 700 million and 1.1 billion dollars, but this dropped off rapidly from 1991. When the amount of exports over this same period totalling 1.3 billion to 1.8 billion dollars is considered, the size of this 700-million to 1.1-billion-dollar deficit is extremely large.

Another remarkable point in Table 3-1 is the growing presence of China. With the sharp decline in trade with the Soviet Union, China's share of trade has been growing as if to make up for this decline. This was a result of the sudden increases in grain imports from China in 1992 and 1993. The interesting point is that China, like the Soviet Union, informed North Korea of its changeover to the hard currency system. However, this has not been strictly enforced. This move was due not only to North Korea's strong resistance, but also China's judgement that the North Korean economy would suffer severe damage as a result of the changeover to the new payment system. And, China might reason, if the North Korean government collapsed, this would pose a severe threat to the security of China. This was also likely in the background of China's promise to supply 500,000 tons of food, 1.3 million tons of petroleum, and 2.5 million tons of coal each year over a five-year period under exceptionally favorable conditions⁽⁴⁾.

(2) Worsening Domestic Economic Situation

The problems do not stop at the effects from international changes. In his New Year's message, Kim Il Sung mentioned "severe conditions within our country," referring to the many difficulties in the domestic economic situation. Of these "severe economic conditions within our country," only the "rising costs of national defense" was cited in the above-mentioned news report. However, it is clear that it is not limited to simply this. In addition to the severe food shortages described in other chapters, chronic shortages in energy and materials and the enormous extravagance shown in the building of "a great monumental structure" also cannot be overlooked. We will examine the "rising costs of national defense" and "shortage of energy" here.

Table 3-1 Trends in North Korean Trade with its Major Trading Partners

(Unit: million dollars, %)

	1987		1988		1989		1990		1991		1992		1993		1994	
	Amount	Share														
Import/Export Grand Total	3,913	100	4,860	100	4,529	100	4,704	100	2,588	100	2,706	100	2,690	100	2,300	100
Soviet Union/Russia	2,102	51.4	2,728	56.1	2,451	54.1	2,620	55.7	367	14.2	335	12.4	234	8.7	97	4.2
China	520	13.3	592	12.2	566	12.5	516	11.0	655	25.3	734	27.1	932	34.6	648	28.2
Japan	456	11.7	556	11.4	483	10.7	465	9.9	496	19.2	477	17.6	465	17.3	481	20.9
South Korea	0	0.0	0	0.0	17	0.4	12	0.3	102	3.9	160	5.9	171	6.4	180	7.8
Other Developed Countries	378	9.7	285	5.9	259	5.7	377	8.0	358	13.8	350	12.9	314	11.7	317	13.8
Other Developing Countries	546	14.0	699	14.4	753	16.6	713	15.2	610	23.6	650	24.0	574	21.3	578	25.1
Total Exports	1,387	100	1,706	100	1,657	100	1,847	100	945	100	1,066	100	1,080	100	1,027	100
Soviet Union/Russia	621	44.7	807	47.3	810	48.9	952	51.5	173	18.3	71	6.7	49	4.6	40	3.9
China	215	15.5	212	12.4	167	10.1	118	6.4	78	8.3	140	13.1	269	24.9	181	17.6
Japan	218	15.7	293	17.2	267	16.1	271	14.7	250	26.5	231	21.7	222	20.5	293	28.5
South Korea	0	0	0	0	17	1.0	11	0.6	96	10.2	148	13.9	162	15.0	160	15.6
Other Developed Countries	113	8.2	81	4.7	55	3.3	97	5.2	110	11.7	160	15.0	116	10.7	122	11.9
Other Developing Countries	220	15.9	313	18.4	341	20.6	399	21.6	237	25.1	316	29.6	262	24.3	231	22.5
Total Imports	2,526	100	3,155	100	2,872	100	2,856	100	1,644	100	1,639	100	1,610	100	1,273	100
Soviet Union/Russia	1,391	55.1	1,922	60.9	1,641	57.1	1,669	58.4	194	11.8	264	16.1	185	11.5	57	4.5
China	305	12.1	380	12.0	399	13.9	398	13.9	577	35.1	594	36.2	663	41.2	467	36.7
Japan	238	9.4	263	8.3	216	7.5	194	6.8	246	15.0	246	15.0	243	15.1	188	14.8
South Korea	0	0.0	0	0.0	0	0.0	1	0.0	6	0.4	12	0.7	9	0.6	20	1.6
Other Developed Countries	265	10.5	204	6.5	204	7.1	280	9.8	248	15.1	190	11.6	198	12.3	195	15.3
Other Developing Countries	326	12.9	386	12.2	412	14.3	314	11.0	373	22.7	334	20.4	312	19.4	347	27.2
Balance	-1,138		-1,449		-1,215		-1,009		-699		-573		-530		-247	
Soviet Union/Russia	-771		-1,115		-831		-717		-21		-193		-136		-17	
China	-90		-168		-232		-280		-499		-454		-394		-286	
Japan	-20		30		51		77		4		-15		-21		105	
South Korea	0		0		17		10		90		137		153		140	
Other Developed Countries	-152		-123		-148		-184		-138		-30		-82		-73	
Other Developing Countries	-106		-73		-71		85		-136		-18		-50		-116	

Note 1: Other developed countries: 21 countries; Other developing countries: 53 countries.

Note 2: The figures for the Soviet Union/Russia, South Korea, China (1994), and Japan were gathered from the statistics of the respective governments, adjusted by assuming the transportation costs and insurance fees at 10%. Other figures from 1987 to 1993 were taken from the IMF's *Direction of Trade Statistics Yearbook 1994*. The figures for 1994 are estimated by JETRO.

Source: JETRO

1) National Defense Cost Burden at its Limit

First, let's examine the "rising costs of national defense." It is well known that North Korea has been imposing on itself a military burden some consider to be too heavy. The cause for this basically resides in North Korea's opposition and struggle against South Korea, an antagonism which has even led to war. North Korea's ultimate objective is "North-South unification." The strengthening of its military power was essential to ensure military superiority and to prepare for North-South unification, including through military invasion, in the governmental struggle between the North and South. Then, as mentioned before, the development of the international situation around 1990 deepened North Korea's sense of isolation, prompting North Korea to develop nuclear weapons, chemical weapons, and missiles in order to maintain its system. As a result, North Korea's military expenditures became exceptionally large.

How much is being spent on the military in North Korea? Although the fiscal reports for 1995 and 1996 were not announced, 4.817 million won was appropriated for the military in the 1994 fiscal report. This represents 11.6% of the total budget for that year. In terms of the GNP, this comes to 10.3% using the estimated GNP found in the Bank of Korea's "North Korean GNP Estimated Results." Although this figure is not low, this is not large enough to be considered a major factor in the failure in building the economy as North Korea has claimed.

Therefore, there is a strong suspicion that North Korea has been manipulating the figures for the publicly announced military expenditures. In other words, the military costs are hidden under other expense items to make them smaller⁽⁵⁾. There is some support for this standpoint since in fact North Korea's military expenditures occupied roughly 30% of total annual expenditures until the early 1970s and then dropped to around 10% from 1972.

There are several viewpoints on North Korea's military expenditures in proportion to its GNP. First, in the U.S. Arms Control and Disarmament Agency's (ACDA) "1993-94 Current Situation," this figure is said to be at least 22%. This was second in the world only to Bosnia-Herzegovina which was currently at war. In the British International Institute for Strategic Studies's (IISS) "Military Balance" 1995/96 re-

port, the figure for 1994 is 26.8%. In the Bank of Korea's "North Korean GNP Estimated Results" 1995 report, this is cited as 26.7%. Thus, in all three estimates, North Korea's military expenditures in proportion to GNP surpass 20%.

Needless to say, this 20% proportion of GNP places an exceptionally heavy burden on the North Korean economy. According to Katsuichi Tsukamoto, president of the Research Institute for Peace and Security, the ratio of military expenditure to GNP in Japan was estimated to be 17% in 1937 at the outbreak of the Sino-Japanese Incident. Thereafter, it was 29.5% in 1938, 25% in 1939, 24% in 1940, and then 35% in 1941 at the start of the war with the United States. An examination of the figures suggests that North Korea is on the verge of war. How long will North Korea endure this tremendous military burden? It is also discomfoting that for a long time the North Korean people have been anticipating and waiting for the outbreak of war⁽⁶⁾.

2) Chronic Energy Shortage

Next, let's briefly examine the energy situation. Almost every year in the New Year's message, the topic of the energy problem is the top task for the economic sector. In the 1994 New Year's message, it was stated: "The essential sectors ... necessary for people's economy, such as the coal industry, power industry and railroad transportation, must be given priority, and the metal industry must also continue to be developed." From this New Year's message, it can be seen that not only is there an energy problem, but that there is a bottleneck in transportation and materials.

However, it is important to notice that this energy problem has become the foremost priority, and this was not simply limited to the 1994 New Year's message. In fact, the energy problem became the chief problem raised in the New Year's message from 1983. This indicates that the energy problem has continued to exist as a chronic problem for North Korea. The sudden drop in trade with the Soviet Union described before had a tremendous effect on the energy problem. This was because North Korea was heavily dependent on the Soviet Union for the import of crude petroleum, coke, and other fuels. In fact, crude petroleum imports from the Soviet Union dropped suddenly from 410,000 tons in 1990 to 65,000 tons in 1991. Although crude petroleum imports from the Soviet Union have

increased somewhat since then, the amount is still a significant decline when compared to the previous level. It can be said that the already bad energy situation was made even worse with this development.

Of course, as an energy shortage becomes serious, factories have no choice but to lower the rate of operation. Kang Myung Do (son-in-law of North Korean Prime Minister Kang Song San, although this is denied by North Korea), who defected to South Korea in May 1994, stated that the rate of factory operation is 30%, but there is no reliable information. Cho Myung Chul, formerly lecturer of economics at Kim Il Sung University who defected in July 1994, said, "Among North Korea's major factories including Hungnam Fertilizer, Kang Sun Steel Mill, and Kim Chaek Iron Mill, the only factory where the machines are currently running as usual is the Nampo Iron Mill. ... Because of this situation, companies are not accepting requests for factory tours."⁽⁷⁾ As for the Kim Chaek Iron Mill, for instance, the operation of the three blast furnaces was reduced to one in 1989, and as mentioned before, this last furnace was stopped in 1996. In addition to the energy shortage, the difficulty in obtaining materials has made the rate of factory operation extremely low.

Nonetheless, there is an exception in this extremely low rate of factory operation pervading North Korea's manufacturing industries. This is North Korea's so-called "second economy," the military munitions sector. This sector is controlled by the Second Economic Committee under the National Defense Commission (Chairman: Kim Jong Il). The factories belonging to this committee are being given priority in the allotment of materials and electricity so that they are at "full operation"⁽⁸⁾. Some think that the share of this "second economy" has reached 40% of the whole economy⁽⁹⁾. Therefore, it is important to be aware that there is another side to the North Korean economy different from the "first economy" (general sectors) controlled by the Cabinet.

In addition to the "first economy" and "second economy," we should also point out that there is a "third economy" which is controlled by the Party. According to Cho Myung Chul, in the current North Korean economy, these three economies move freely without any coordination between them.

Nonetheless, it is important to recognize that the second economic sectors are not beyond the

effect of the economic movement of the whole economy afflicted by the gradual decline in foreign trade.

3. *Why Did the 7-Year Economic Plan Fail?*

(1) **Triggered by Sharp Decline in Trade with the Soviet Union**

Although the news report of the Central Committee Plenum already referred to explained the causes for the failure of the third 7-year economic plan, we would like to reexamine these points again. In fact, rather than shifting the blame for the failure in the North Korean economy to an outside factor, in reality the sharp decline in trade with the Soviet Union dealt a fatal blow to North Korea's economic activities. As exemplified by its "independent national economic doctrine," which shall be described in the next section, the North Korean economy has been viewed as an extremely independent economy. However, the truth behind this policy of self-reliance was different after all. In North Korea's actual economic development, the Soviet Union's economic and technical aid played an extremely significant role. For instance, this becomes evident upon examining the study on the North Korean economy written by a Soviet economic expert⁽¹⁰⁾. This work explains in detail how large a role the economic and technical aid from the Soviet Union has played in building the North Korean economy. From this fact, we can understand that the existence of the enormous trade deficit in the form of a tremendous amount of material goods from the Soviet Union supported the North Korean reproduction structure. Therefore, with the collapse of the cold war system and the Soviet Union no longer having the need or resources to spare for supporting North Korea as before, the fragility of North Korea's planned economy was exposed at a single stroke.

(2) **Flaws in the "Independent National Economy" Doctrine**

When considering the current crisis in the North Korean economy, it is clear from the above situation that an examination of the internal factors cannot be left out. In fact, it is probably correct to

view the essence of this crisis as residing in these internal factors. As is well-known, the North Korean economy has been rigidly adhering to the socialist planned economic system. Therefore, the flaws inherent in socialist planned economies are also present in the North Korean economy. Since North Korea was originally established, it learned from the Soviet Union in various fields and received assistance. This was the same in the building of the economy. As a result, the North Korean economic system has come to have many striking similarities with the Stalinist political and economic system. Therefore, the North Korean economy did not have to face the problems like the Soviet economy such as inefficiency, bureaucratism, overemphasis on heavy industry (with little importance attached to production of consumer goods).

North Korea is also notable for promotion of its unique kind of self-reliance called the “independent national economy doctrine” (to be simply called “the doctrine” below). The doctrine embraces the above-mentioned flaws to an even greater degree. When viewed internationally, the doctrine manifests itself in North Korea’s attempt to eliminate interference by the two major powers it lies between, China and the Soviet Union, thus maintaining its independence. Economically, the doctrine seeks to secure economic gain by using the Soviet-Chinese rivalry. And domestically, the doctrine attempts to economically support the closed nation-building policies pushed forward by Kim Il Sung.

The general outline of the doctrine is clearly expressed in the following assertions made by Kim Il Sung: “The government of the Republic began the policy of building an independent national economy and has relied on our country’s resources, our country’s technology, and our country’s cadre carrying through the revolutionary principle of self-reliance. An independent national economy with diverse development and equipped with the latest technology has been magnificently built. Our country’s economy today has managed to provide all of the items necessary for building socialism and for the people’s lives through domestic production. This is not affected by any global changes and continues to develop at a rapid pace.”⁽¹¹⁾

The main points of “the doctrine” are based on the following four principles. We would like to introduce some passages cited from “Juche Ideology Commentary.”⁽¹²⁾

First, the principle of self-reliance must be rigidly adhered to in the building of the economy: “We can develop our economy rapidly on our own initiative, only if we use our people’s power and domestic resources based on our own capital and technology”

Secondly, the economy must grow in all directions and in integration: “The purpose of having the economy grow in all directions is to build an economy complete with structures in various sectors to enable production of all the items necessary for the country’s wealth and improving the people’s lives. The purpose of having the economy grow in integration is to build an economy complete with all production processes from raw material and fuel production to semi-manufactured goods and completed goods.” In addition, “While emphasizing the development of heavy industries, it is important to rigidly adhere to the policy of developing the light industries and agriculture simultaneously.”

Thirdly, the economy must be equipped with modern technology and the national technical cadres must be extensively cultivated: “Technical independence is an essential element of economic independence.” Also, “Resolving the problem of national technical cadres will allow the economy and technology to develop under their own power.”

Fourthly, bases for domestic raw materials and fuels must be firmly built: “In order to be economically independent and develop an economy securely over a long period of time, ... from the very start, independent industries must be developed using the domestic raw materials and fuels.”

These are the main tenets of the doctrine. As can be seen from the cited passages, it is clear that the doctrine aims for the forming of a production cycle structure which is extremely independent and self-contained.

What role then do foreign economic relations play in the doctrine? In “Juche Ideology Commentary,” it is stated: “The building of an independent national economy does not necessarily imply a closed economy. Close economic and technical cooperation with foreign countries plays an important role in the building of an independent national economy.” However, as can be seen from the four principles above, it is clear that the foreign economic and technical cooperation is only expected to serve a supplementary role for the North Korean economy.

At this point, we will not delve into a detailed examination of the doctrine, but instead we will only add several comments from the standpoint of development economics. First, as an independent state, the principle of self-reliance must be naturally observed. The lofty ambition to “mobilize the power of the country’s people and resources and depend on the domestic capital and technology” is admirable. However, this entails a large cost politically and economically. This increases the economic cost and sacrifices by the people so that the country tends to be only left behind in the quickly-changing world of technical innovations. Realizing this reality, North Korea has promoted a partial open-door policy through the establishing of joint ventures with foreign capital since the mid-1980s. However, this brought very poor results since there were clashes and contradictions with its closed nation-building policies which made conditions impossible for active promotion of these activities.

Secondly, the realizing of a “one-set policy” has tremendous difficulties. The ultimate image of attaining an independent economy is the formation of a self-contained production cycle structure, that is, the realizing of a one-set policy. However, although this type of one-set policy may be possible for countries with plentiful resources and large domestic markets such as the United States and the former Soviet Union, a small country like North Korea could not easily attempt to do this. The simultaneous development strategy in various sectors is idealistic, and it also requires an enormous amount of capital and personnel resources, including technical experts. Apart from countries having an abundant supply of foreign currency such as the Middle Eastern countries at one time, this is a policy that most countries are unable to promote.

Thirdly, the sticking to technical independence is harmful. The assertion that “Technical independence is an essential requirement for economic independence” is a sound argument. However, if an underdeveloped country aimlessly tries to direct its own development in today’s world where technical innovations are ever progressing, it will only result in lost time and costs so that, in the end, the country lags far behind the majority of the world.

Fourthly, sticking to domestic resources increases cost. Certainly if a country has an abundance of raw materials and fuels domestically, then there is nothing better than developing “independ-

ent industries.” It can be said this is possible for North Korea with its relative abundance of mineral resources. However, even if there is self-sufficiency in raw materials and fuels, its economic effect is a separate issue. Sticking with scattered or low-quality resources from one’s own country may entail high costs and harm the development of industry.

(3) Realization of Economic Stagnation

We have just examined the doctrine from the standpoint of development economics. It can be said that though the doctrine looks idealistic there are many faults in adapting its ideas to a real economy. As a result of North Korea’s rigid adherence to its self-reliance policy, it has fallen far behind in the competition for world economic development.

North Korea’s economic growth can be said to have already started its downward movement in the late 1960s. This was revealed in Kim Il Sung’s article announced in 1969 entitled, “Several Theoretical Problems in the Socialist Economy.” In this article, Kim Il Sung argued against the assertion that “when the size of the economy reaches a certain level, the economic growth tempo slows down” by declaring that it is possible to overcome this through strengthening the ideological revolution. In the background of this article loomed disagreement over the growing economic stagnation due to the increases in military expenditure, a situation which led to a three-year extension to the first seven-year plan. In addition, the article was intended as a countermeasure to the economic reform movement shown in Eastern Europe. From that point, North Korea strove to promote production through government-directed campaigns for increased production as indicated by the activities of the young groups who promoted the Big Three Revolution and the “Speed of the 1970s” movement. However, by ignoring the actual situation and in some cases taking action ignoring the plan itself, the economy fell into even greater stagnation. Gradually, economic statistics were no longer released, and the total production growth rate for industry was no longer announced from 1983. Thus, the stagnation in the North Korean economy started from a considerably early stage.

Table 3-2 shows the estimated economic targets and results beginning from the 6-year economic plan (1971-1976). What is particularly remarkable in this table is the continual long-term

shrinking growth rate in revenue. National finance occupies an extremely high share in the North Korean economy. Therefore, the growth in revenue can be considered to be a barometer of economic growth in the North Korean economy. The continual decline of this indicator shows that the North Korean economy has lost its dynamism.

According to findings by Park Jin, the share occupied by national finance in the North Korean GNP has been increasing each year. In 1990, it was 71.9%, and this rose to 89.1% in 1994. This percentage is exceptionally high, even when compared to the ratio of 64.0% for the highest country in Eastern Europe, Hungary in 1989. In fact, in 1978 before the open-door policy, China's ratio was 34.0%. In 1988, this ratio dropped to 22.0%. Needless to say, this was a result of the growth in the private sector. By contrast, it is clear that North Korea has been shrinking its private sector (family businesses) each year. A 90% ratio of national finance to the GNP indicates that the rigid state of the North Korean economic system has reached its limit⁽¹³⁾.

4. Future Outlook

(1) Difference between Kim Jong Il's Articles and Actual Policy Development

How will the North Korean economy develop in the coming years? The death of Kim Il Sung in July 1994 was a serious blow to North Korea. At that

time, the country was drifting toward greater isolation internationally, and domestically the third 7-year economic plan had failed and the country already faced a food crisis. Kim Il Sung not only had charisma, but he also was the center of all policies. As a result of the death of Kim Il Sung, the coordinating function between the Cabinet, military, and party was lost so that progress in the planned economic system was plunged into even greater turmoil. As an indication of this, for example, the Supreme People's Assembly was not held in 1995 and 1996. For this reason, the fiscal report, the so-called nucleus of the planned economy, was not announced for two consecutive years. Even the settlement of accounts for 1994 was not released until April 1996. Moreover, the fact that Kim Jong Il, widely regarded as the successor, has not assumed the highest posts for some reason or another further worsened the situation.

Then, how will the North Korean economy perform in the coming years? Before considering this, the policy asserted by the leader must first be examined. In this sense, it is necessary to touch on Kim Jong Il's article released in November 1994 entitled "Socialism is Science." This article was the first one announced by Kim Jong Il since the death of Kim Il Sung. Therefore, in a certain sense, it may be considered an administrative policy speech by Kim Jong Il. This article is particularly remarkable in its complete disavowal of the reform and open-door policies taken by the former Soviet Union and China.

Table 3-2 Economic Targets and Results

	Growth Rate of Gross Industrial Production (%)		Growth Rate of National Revenue (Settlement of Accounts) (%)	Grain Production (million tons)	
	Target	Result		Target	Result
Average for 6-Year Plan (1971-76)	14	16.3	15.4	7 - 7.5	8
1977 (Adjustment Year)	—	—	9.2	—	—
Average for Second 7-Year Plan (1978-84)	12.1	12.4	9.7	10	10
1985 (Adjustment Year)	—	—	4.3	—	—
1986 (Adjustment Year)	—	—	4.0	—	—
Average for Third 7-Year Plan (1987-93)	10	5.6	5.2	15	—
1994 (Adjustment Year)	—	—	2.5	—	—

Source: Teruo Komaki, "North Korea's Experiment in Special Economic Zones – Limited Use of the Market Economy under Self-reliant Policies," Institute of Developing Economies. (The figures for 1994 were added by the author.)

Kim Jong Il stated, "Today, the betrayers of socialism have illusions about capitalism, pin their hopes on the "assistance" and "cooperation" of the imperialists, and are causing a growing excitement about the return to capitalism. History shows that placing hopes on the "good intentions" and "class cooperation" of the exploiting class is a path that sends the revolution to ruin." He went on to add, "The Juche socialism theory ... made it clear that to build a successful foundation for socialism, the two fortresses of socialism and communism, that are the ideological fortress and the material fortress, must be held through vigorous fighting, and in doing this, priority must be given to establishing the fight for holding the ideological fortress."

These assertions by Kim Jong Il are basically the same as he made in his later released articles, "Giving Priority to Ideological Activities is an Essential Requirement for Accomplishing Great Works in Socialism" (June 1995) and "The Workers' Party of Korea is the Party of the Magnificent Leader, Comrade Kim Il Sung" (October 1995). As long as one looks at these articles, there seems to be no possibility that North Korea could head on the road to reform and towards an open-door policy.

Nonetheless, the actual policy development in North Korea is considerably different from the direction indicated in the Kim Jong Il articles. In connection with this, we would like to first indicate two points. The first point is the relation between Kim Jong Il and the Rajin-Sonbong Free Economic and Trade Zone Plan promoted extensively by North Korea. This plan clearly clashes with the main concept of Kim Jong Il's articles presented above. However, at the explanatory meeting for the Rajin-Sonbong Free Economic and Trade Zone held in Tokyo, Kim Jong U, Chairman of the Committee for the Promotion of External Economic Cooperation and close advisor to Kim Jong Il stated, "Secretary Kim Jong Il ... is also guiding the development activities for the Free Economic and Trade Zone." What does this mean?

Secondly, improvement measures for the divided cooperative management system have started to be introduced in farming communities since the beginning of 1996. These improvements in the divided cooperative management system were confirmed by agriculture specialists from Japan who visited North Korea in 1996. This point was already mentioned briefly in Section 3-1, but this was an extremely important change in agricultural policy.

In the introduction of stronger material incentives, this may even be considered a groundbreaking measure. This point also clashes with Kim Jong Il's articles above.

These two points demonstrate the differences between Kim Jong Il's articles and the actual policy development. How then should this difference be interpreted? This issue relates to whether Kim Jong Il actually controls power. The following interpretations are possible. First, Kim Jong Il thinks along the same lines as asserted in his articles, but the severity of the actual economic conditions have forced him to adopt compromise measures. In other words, he is in a position where he must direct and promote partial reforms and open-door policies. The second interpretation says that Kim Jong Il thinks along the same lines as asserted in his articles, but these policies have been pushed upon him by the reform clique since his power base is so weak. The third interpretation says North Korea is obliged to accept the reform and open-door policies to get economic aid from China. This interpretation is suggested by the testimonies of refugees that improvement measures in agriculture have been practiced only in the border area with China. Several other variations are possible, but no matter what the motive, North Korea is undoubtedly heading in the direction of reform and openness.

(2) Future Developments

Lastly, we would like to consider the future of North Korean economy. When considering the future economic development, the opening of two major holes in the rigidly closed socialist system must not be overlooked. The first major opening is the movement toward the above-mentioned reform and open-door policies. To maintain its power, North Korea has embarked on a path of reform and open-door policies, albeit fragmentary and limited. This is quite significant. It is no small action, and once this movement has been taken, it can only grow larger. Since the North Korean planned economic system has not functioned for some time now, it can be said that its defenses are in a state of disarray. For the North Korean government, the adopting of partial reform and openness policies are for the purpose of defending its socialist economic system, but in the end, these measures will only promote the impending collapse of the existing system.

The second opening is the increase in freedom of movement among the people. Since the food distribution system in North Korea began to face difficulties at the end of the 1980s, the strict travel restrictions rapidly started to be relaxed. Authorities could not restrict the people's movement for the purchase of food. As a result, people became able to travel more, and together with this, information on the outside world, such as China and South Korea has been rapidly spreading in North Korean society. This has caused the North Korean people's conception of South Korea to be considerably altered. The recent sharp increase in the number of defectors to South Korea surely reflects this change. Thus, the purchase of food has promoted the movement of people and opened a hole in North Korea's closed social system.

The testimonies of defectors reveals that the black market is active everywhere. At the black markets, anything can be bought. It is said that food illegally channeled from the military is sold in large quantities. For people who are not provided with food or not enough food, they can only purchase it or obtain it through the black market. However, prices have risen sharply with the growing shortage of goods. The people's living on the sales of their personal effects has neared its limit. It is indeed plausible that those without connections to those in power or those without resources will not be able to eat.

The problems are not limited to the food shortages. The supply of consumer goods, including daily commodities which must be exchanged for food, seems to be tapering off with the lower rate of factory operation. The testimony of defectors reveals that the illegal channeling of factory products and raw materials is occurring repeatedly. This can stop a factory from operating. And if the

supply of goods in the thriving black market runs dry, then it too will cease to function.

Although it is possible that the testimonies of defectors may be mixed with exaggerations or untrue statements, the actual state of the North Korean social economy becomes clear when reading these testimonies carefully. To describe current North Korean society in one expression, we could say that the black market economy is dominating the North Korean economy. Thus, the North Korean planned economic system is already collapsing.

Notes:

1. *AERA*, 25 October 1996, page 13.
2. National Unification Board, announced on 23 March 1996.
3. Press conference by Choi Se Un, 27 March 1996.
4. *Mainichi Shimbun*, 18 July 1996.
5. Park Jin, "The Current Situation and Changes of North Korean Finances," Korea Development Institute, April 1994, pages 40-41.
6. It was in the press conference given by North Korean Captain Li Ung Pyung, who defected to South Korea using a MIG 19 fighter plane in 1983 that the author first became aware of the North Korean peoples' expectation for war.
7. Cho Myung Chul, "The Party Destroyed the Economy," *Chosun Ilbo*, 23 March 1995.
8. Cho, *ibid.*, 31 March 1995.
9. Testimony of Kim Su Heng, "Testimonies of 50 North Korean Defectors," *Asahi Shimbun*, page 44.
10. Natalia Bazanova, "The North Korean Economy at the Crossroads," Han'guk Kyeongje Shinmun Inc., November 1992.
11. Kim Il Sung, "Raise High the Banner of the Juche Ideology and Further Promote the Building of Socialism," "The Selected Works of Kim Il Sung," Volume 7, Miraisha, 1981.
12. "Gekkan Chosen Shiryo", August 1984 issue.
13. Park, *ibid.*, pages 20-22.