

## Can North Korea Follow China's Path? A Comparative Study of the Nexus Between National Security and Economic Reforms

*Inyeop Lee*

*Why has North Korea been unable to implement serious economic reforms like those of China? By tracing the process of economic reform in China, this paper argues that the improvement of national security, especially as a result of diplomatic normalization with the United States, was an essential precondition for successful economic reform and growth. It reduced the fear of an open-door policy and eased domestic control as well as reallocation of resources from the military to economic development. Furthermore, diplomatic normalization with the United States lifted economic sanctions, and allowed access to global markets, foreign direct investments, and membership in major international economic organizations. However, North Korea has technically been at war with the United States for the last 66 years. Therefore, it maintains very tight control of its population and spends a substantial portion of its GDP on the military. It has also been under severe economic sanctions and does not have access to the global economy. The possibility of any meaningful economic reforms in North Korea will depend on its success in improving national security by resolving the nuclear issue and normalizing diplomatic relations with the United States.*

**Key words:** North Korea, China, economic reform, national security.

### Introduction

After the end of the Cold War, only a few communist regimes survived and maintained the communist one-party system. Among those countries, this paper analyzes and compares China with North Korea. While China successfully implemented economic reform and enjoyed rapid economic growth, North Korea could not follow the same path. What factors caused the divergence of those two countries, and what has prevented North Korea from economic reform? Many observers have said that North Korea is an extreme case and an outlier, completely different from China. But the two countries share a similar historical,

---

*Pacific Focus*, Vol. XXXIV, No. 1 (April 2019), 102–126.

doi: 10.1111/pafo.12135

© 2019 Center for International Studies, Inha University

cultural, and political context.<sup>1</sup> They have experienced a history of colonization and have suffered national division and civil war. They fought together against the United States in the Korean War. As a result, they were placed under diplomatic isolation and economic sanctions from the United States and its allies for decades and had neither access to global trade nor membership in major international economic organizations. China, at least until the late 1960s, had more similarities than differences with North Korea. And they are both communist states with a one-party system in Asia.

Both domestic and international factors have caused a clear difference between the economic developments in North Korea and China. Most existing literature on economic reforms in communist countries focuses on domestic factors, such as the nature of political leadership and that leadership's political decisions to pursue serious economic reforms. In China, the change of leadership from Mao Tse-tung to Deng Xiaoping was a crucial factor that allowed economic reform policies.<sup>2</sup> Mao enjoyed almost absolute power but did not pursue family succession, and Deng had a more moderate and pragmatic nature. After surviving the Cultural Revolution, he came to power as a reformer. In Vietnam, Ho Chi Minh neither pursued family succession nor established a personality cult. Vietnam developed a collective leadership system, including a level of diversity that allowed Nguyen Van Linh to rise as the new General Secretary and to implement reform policies. Conversely, Kim Il-sung purged most of his competitors and promoted a strong personality cult, resulting in an extremely centralized leadership structure. Three successive generations of the Kim family have ruled North Korea since, leaving very little room for reform-minded leaders or new policies. Therefore, many scholars have pinpointed a North Korean political leadership obsessed with its own survival and domination by extreme political ideologies (*Juche* and *Songun*) as the main obstacles to economic reforms and development.<sup>3</sup> Since economic reforms and liberalization would undermine its tight grip on society, the regime has been "muddling through," blaming its economic hardships on external factors, like economic sanctions imposed by the United States, instead of adopting Chinese-style economic reforms.<sup>4</sup>

---

1. Robert S. Litwak, *Outlier States: American Strategies to Change, Contain, or Engage Regimes* (Washington, D.C.: Woodrow Wilson Center Press, 2012).

2. Alfred K. Ho, *China's Reforms and Reformers* (Westport: Praeger, 2004), pp. 81–114.

3. Tat Yan Kong, "The Political Obstacles to Economic Reform in North Korea: The Ultra Cautious Strategy in Comparative Perspective," *Pacific Review*, 27-1 (2014), pp. 73–96; Adrian Buzo, *The Guerilla Dynasty: Politics and Leadership in North Korea* (London: I. B. Tauris, 1999); Nicholas Eberstadt, *The North Korean Economy: Between Crisis and Catastrophe* (New Brunswick: Transaction, 2007); Andrei Lankov, "Reforming North Korea," *Al Jazeera* (30 November 2014), at <<http://www.aljazeera.com/indepth/opinion/2014/11/reforming-north-korea-20141117121917871925.html>> (searched date: 1 July 2018).

4. Kongdan Oh and Ralph C. Hassig, "North Korea Between Collapse and Reform," *Asian Survey*, 39-2 (1999), pp. 287–309; Marcus Noland, "Why North Korea Will Muddle Through," *Foreign Affairs*, 76-4 (1997), pp. 105–118; Stephan Haggard and Marcus Noland, *Famine in North Korea:*

In contrast, this paper focuses specifically on those external factors, using process tracing to investigate the link between national security and economic reforms, and argues that, in addition to domestic leadership changes, the improvement of national security in China was an essential condition for its economic reform and development. In other words, domestic leadership and policy changes must be accompanied by improved external conditions, especially improvement of security conditions, for the success of economic reform policies. By conducting a comparative case study on China and North Korea, this paper will assess whether security still takes precedence over economic issues and if a lack of security imposes constraint on a state's ability to reform its economy.

Existing literature classifies three to four stages of economic reform in communist countries.<sup>5</sup> Communist countries, such as North Korea, only try “systemic adjustment” by adopting partial reforms to fix immediate economic problems, which generate short-term instability without fundamental reform, whereas other countries, like China and Vietnam, entered a “radical reform” stage by dismantling central planning and ownership by privatizing their economy and adopting an incentive structure. This paper hypothesizes that a minimum national security should be guaranteed in order to enter the radical reform stage. There are three causal mechanisms to elaborate our theory, especially the linkage between national security and economic reform. First, countries under hostile security conditions are fearful of external threats and enemy infiltration. They tend to maintain tight domestic control and limit international contact with other states. Economic reform tends to diversify and liberalize society, and to enhance international contacts while undermining domestic control.<sup>6</sup> Therefore, this study assumes that those countries under a security threat would sacrifice economic prosperity and reform for the sake of security and survival of the regime. Second, countries under a security threat tend to maintain large military spending. Military power has vested interests in more hostile and confrontational international relations and tends to resist changes such as liberalization and economic reform. China and North Korea are communist states that have gone through isolation, wars, and confrontation with the West. Thus, a certain degree of improvement in national security was necessary before they could divert resources from the military to the economy to begin reform. Excessive military spending can limit available resources for economic reform, and can be correlated with lower export and

---

*Markets, Aid, and Reform* (New York: Columbia University Press, 2007); Un-Chul Yang, “Reform Without Transition: The Economic Situation in North Korea Since the July 1, 2002, Measures,” *North Korean Review*, 6-1 (2010), pp. 71–87.

5. Janos Kornai, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1992); Bernard Chavance, *The Transformation of Communist Systems: Economic Reform Since the 1950s* (Boulder: Westview Press, 1994).

6. David Kang, “Acute Conflicts in Asia After the Cold War: Kashmir, Taiwan, and Korea,” in Muthiah Alagappa, ed., *Asian Security Order* (Stanford: Stanford University Press, 2003), pp. 349–379.

economic growth.<sup>7</sup> Third, the remaining communist countries' main security concerns came from their hostile relations with the United States, which maintains strong hegemony over the global political economy. The United States can exclude enemy states from the global economy through economic sanctions and control of the major international organizations when it virtually exercises sole veto power at the IMF and World Bank. Unless they resolve their hostile relations with the United States, communist countries will not gain access to the global economy, foreign investment, or major international organizations, which are essential for initial economic development and international trade.<sup>8</sup> The following sections of this paper will observe the process and conditions of economic reforms in China to process-trace the relationship between national security and economic reforms. This study will examine the current security conditions and economic policies in North Korea and investigate how these security conditions limit North Korea's economic policy options and whether or not a Chinese-style economic reform is applicable to North Korea.

### **China: National Security and Economic Policies in China (1949–1970)**

Mao Tse-tung's 27-year rule (1949–1976) is marked by domestic problems and international challenges. China was domestically under unrealistic economic policy, radical ideology, political violence, massive human rights violations, and a cult of personality, and internationally the country was challenged by serious security threats, high military spending, isolation, and economic sanctions. Mao's unrealistic policies in the "Great Leap Forward" movement caused approximately 30 million peasants to die of starvation.<sup>9</sup> After this failure, Mao resigned from his position as People's Republic of China (PRC) Chairman in 1959, and only remained as Chairman of the Communist Party of China (CPC). Liu Shaoqi succeeded Mao as PRC President and expressed concern about the abysmal outcome of the movement in August 1959 at the Lushan Plenum. In an attempt to

---

7. Kurt W. Rothschild, "Military Expenditure, Exports and Growth," *Kyklos*, 26 (1977), pp. 804–814; Saadet Deger and Ron Smith, "Military Expenditure and Growth in Less Developed Countries," *Journal of Conflict Resolution*, 27 (1983), pp. 335–353; J. Paul Dunne, "Economic Effects of Military Expenditure in Developing Countries," in Nils P. Gleditsch, Olav Bjerkholt, Adne Cappelen, Ron Smith, and J. Paul Dunne, eds., *The Peace Dividend* (Contributions to Economic Analysis, Volume 235) (Bingley: Emerald, 1996), pp. 439–464; Ron Smith, "Defense Expenditure and Economic Growth," in Nils P. Gleditsch, Goran Lindgren, Naima Mouhlebl, Sjoerd Smit, and Indra de Soysa, eds., *Making Peace Pay* (Claremont: Regina Press, 2000), pp. 15–24; J. Paul Dunne and Mehmet Uye, "Military Spending and Development," in Andrew Tan, ed., *The Global Arms Trade* (London: Europa/Routledge 2009), pp. 293–305.

8. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

9. Kenneth Lieberthal, *Governing China: From Revolution Through Reform*, 2nd edn (New York: W. W. Norton, 2003), pp. 59–82.

mitigate the damage, Liu Shaoqi and Deng Xiaoping attempted limited economic reforms and systemic adjustment. They tried to relax Mao's commune system and to increase incentives by leasing land to peasants. Domestic and international conditions in the early 1960s, however, were not ripe for such pioneering reform efforts by pragmatic and moderate communists. China was still an isolated country and experienced growing tensions with the West and the Soviet Union (the USSR). Most of all, Mao was infuriated by the reversal of his policies and began to blame Liu and Deng as "capitalist roaders." Mao was paranoid and obsessed about the potential end of his revolutionary efforts, and was fearful of losing his political power as well as a Chinese version of "de-Stalinization" after his death. Mao urged Chinese youth to destroy traditional beliefs, revisionist thought, and the enemies of the CPC. The notorious Cultural Revolution was started in part as a reaction to the limited reform efforts by Liu and Deng, and was marked by the extreme violence of the Red Guards from 1966 to 1969, which caused approximately 30 million deaths in the country.<sup>10</sup>

International conditions of the PRC throughout the 1950s and 1960s can be characterized by diplomatic and economic isolation and security challenges. China participated in the Korean War (1950–1953), and the United States imposed major economic sanctions over China and North Korea. Thus, those two countries maintained very tight relations often described as "lips and teeth" and shared a "co-pariah international status" until the end of the 1960s.<sup>11</sup> China successfully tested its first atomic bomb (Project 596) on 16 October 1964, even though Khrushchev stopped helping the Chinese with their nuclear program in 1959. China conducted its first nuclear ballistic missile test (Dongfeng 2) in 1966 and successfully tested a hydrogen bomb (Test No. 6) in 1967.<sup>12</sup> In other words, China was considered a rogue state in 1967, similar to the role that North Korea plays today.<sup>13</sup> At the same time, political and ideological relations between the PRC and the USSR began to deteriorate. In 1969, the two states experienced a border conflict over Zhenbao Island on the Ussuri River, which lasted 7 months.

Mao's international strategy was represented by the theory that "world war is inevitable and imminent" and the military strategy of the "People's War." According to Marx and Engels' viewpoint, the root cause of war is imperialism that grows out of capitalism. Mao firmly believed that the communist revolution inevitably caused struggles between capitalists and communists. Mao argued that

10. *Ibid.*, pp. 83–121.

11. Gregory J. Moore, "How North Korea Threatens China's Interests: Understanding Chinese 'Duplicitous' on the North Korean Nuclear Issue," *International Relations of the Asia-Pacific*, 8-1 (2008), pp. 1–29.

12. John Wilson Lewis and Litai Xue, *China Builds the Bomb* (Stanford: Stanford University Press, 1991).

13. William Burr, ed., "Missile Defense Thirty Years Ago: Déjà Vu All Over Again?" National Security Archive Electronic Briefing Book 36 (National Security Archive, 2000), at <<https://nsarchive2.gwu.edu/NSAEBB/NSAEBB36/>> (searched date: 1 July 2018).

China must take advantage of its manpower and geography to prepare for this inevitable military conflict and foreign aggression, whether from the United States, the USSR, or even Japan. Therefore, the PRC would maintain massive numbers of soldiers in the Chinese People's Liberation Army (PLA) and drag their enemies into China's vast interior to fight a war of attrition through prolonged guerrilla warfare. Because of Mao's obsession with the possibility of war, Khrushchev even termed him a "megalomaniac war-monger."<sup>14</sup> No exact data for military spending during the Mao era exists, but the number of soldiers in the PLA reached 6.25 million at its highest, and was about 4.24 million when Deng Xiaoping cut it by one million in 1985. This military strategy and international security challenges dictated the large allocation of resources and manpower to the military, causing inefficiencies and lack of economic development.

The US economic sanctions on China were initiated to punish the communist takeover of the mainland around 1949 and to impair the PRC's military potential. When China participated in the Korean War (1950–1953), the Truman administration imposed major economic sanctions over China and North Korea under the Trading with the Enemy Act to militarily disrupt these countries. Even though some US allies restarted trade with China after the war, Secretary of State John Foster Dulles, under the Eisenhower administration, insisted that the United States should maintain trade restrictions on China. These restrictions lasted until President Nixon decided to lift most of them. The direct economic effect of the embargo on China was meager when China could import goods from the USSR and other European countries, but it had psychological and political effect. Zhang argues that the disastrous Great Leap Forward, anti-rightist campaigns, and tension in Sino–Soviet relations were prompted, in part, by sanctions imposed by the United States and its allies when over-reliance and disappointment on both sides ultimately contributed to friction.<sup>15</sup>

## **China: Improvement in National Security in the 1970s and Economic Reforms**

China's process of diplomatic normalization and rapprochement with the United States started in the early 1970s, long before domestic political change from Mao to Deng, or the attempted economic reform in 1978. The sequencing shows that diplomatic normalization and improvement in national security paved the way for economic reforms in China and not vice versa. The strategic interests of China and the United States, based on global balance-of-power logic, drove

---

14. *Ibid.*

15. Shu Guang Zhang, *Economic Cold War: America's Embargo Against China and the Sino-Soviet Alliance, 1949-1963* (Washington, D.C.: Woodrow Wilson Center Press, in association with Stanford University Press, California, 2001).



the diplomatic normalization between the two states.<sup>16</sup> The United States attempted to drive a wedge between the USSR and China to isolate the USSR. Beijing also perceived a greater threat from the USSR than from the United States, due to closer geographic proximity and previous border conflict. Nixon's national security adviser, Henry Kissinger, took a secret trip to Beijing and met Premier Zhou Enlai in July 1971; Nixon visited China in 1972 and met with Chairman Mao, the first visit by a US president. It was a first step in the process of diplomatic normalization that ended 25 years of confrontation and containment policy toward China. The two governments issued the Shanghai Communiqué, a statement of their foreign policy and pledge to work toward full diplomatic normalization. In 1973, the United States Liaison Office in Beijing and a counterpart PRC office in Washington, D.C. were established. President Ford (1975) and President Carter (1977) visited China and continued the policy of diplomatic normalization and Washington and Beijing finally established full diplomatic relations on 1 January 1979. Deng Xiaoping visited the United States in January 1979, for the first time as leader of the PRC, and expressed that his priority was economic and technological development by opening China to the world economy and attracting foreign investment.

The process of diplomatic normalization between the PRC and the United States resulted in fundamental changes in China's strategic thinking. It was also very important that Deng Xiaoping came to power in 1978 at the final stages of diplomatic normalization between the two countries. Deng was not only a faithful communist and revolutionary, who was supported by the party and the military, but was also purged twice during the Cultural Revolution. He could separate himself from Mao's past mistakes and pursue new economic reform policies. At the Third Plenary Session of the Eleventh National Congress of the CPC in 1978, Deng concluded that the possibility of another world war in the near future was remote, and decided to revise Mao's global strategies. He also made several statements in the 1980s repeating and underscoring this new strategic thinking that "world war would not break out for a fairly long period of time" and "war could be avoided if we did a good job."<sup>17</sup> Also, China had acquired nuclear weapons, and nuclear deterrence would prevent global warfare and make Soviet invasion of China very unlikely. Therefore, Deng reasoned that China should reduce the size of its military and modernize it, prepare for small-scale conflicts around the border and pursue stability around China rather than maintaining a large military. In accordance with Deng's policy, the PLA Academy of Military Science in the 1980s introduced the new theory that "war is avoidable," which ultimately enabled military reduction and the open-door policy to the outside world.

16. Gerald Segal, *The Great Power Triangle* (London: Macmillan Press, 1982).

17. Michael Pillsbury, ed., *Chinese Views of Future Warfare* (New Delhi: Lancer, 1997), pp. 3–9.

Deng argued that China's new priority should be the development of the "comprehensive power of the country" through economic development, science, and technology, rather than merely seeking military power. He believed that it was neither necessary nor desirable to be involved in international conflicts, while pursuing economic development. Also, he discouraged intense domestic debate on ideology. In his famous Southern Tour in 1992, he reemphasized his pragmatic view on economic reform and ideology by saying that the chief criterion for judgment is "whether it [policy] promotes the growth of the productive forces in a socialist society, increases the overall strength of the socialist nation and raises people's living standards."<sup>18</sup> Deng introduced the concepts of "China's peaceful rise" or "China's peaceful development" by saying, "China should keep modest and prudent, not serve as others' leader or a standard bearer and not seek expansion or hegemony."<sup>19</sup>

Changing priorities from seeking military power to enhancing comprehensive national power enabled reallocation of resources. Deng emphasized that defense development could subordinate economic development, and military resources could be diverted to economic development. He also believed that a modernized national defense was only possible if China achieved economic development. Deng wanted to reduce the size of the military while improving its quality. In 1985, he decided to reduce the military by one million soldiers – almost one quarter of the entire force, and also to cut military staff by half. This was only possible because of new international security conditions and Deng's control over the Chinese military and politics. He encouraged the military to participate in economic development, and specifically asked the air force and navy to allow joint use of some military airports and harbors, or to vacate them for civilian use.<sup>20</sup> Many retired soldiers were asked to join government-owned companies. The PLA had 11 military regions under Mao, but Deng reduced those to seven between 1985 and 1988 – a decrease from 6.25 million soldiers to around 4.24 million by 1985 only to be further reduced to 3.24 million by 1987. For example, he merged the Chengdu and Kunming military regions under his direct command, even though the two regions were his major military power base. This trend continued, with reductions by 500,000 during the Ninth Five-Year Plan (1996–2000) under Jiang Zemin, and by 200,000 in 2003 by Hu Jintao.<sup>21</sup> The CIA estimated that Chinese military spending fell from 8–10% in 1978 to 6–8% in 1986. After 1994, it remained between 1 and 1.5%. Obviously, a reduced

---

18. Deng Xiaoping, "Excerpts From Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai, January 18 - February 21, 1992" (1992), at <<http://en.people.cn/dengxp/vol3/text/d1200.html>> (searched date: 1 July 2018).

19. Sujian Guo, ed., *China's "Peaceful Rise" in the 21st Century: Domestic and International Conditions* (Aldershot: Ashgate, 2006).

20. Michael Pillsbury, ed., *op. cit.*, pp. 3–9.

21. James C. Mulvenon and Andrew N. D. Yang, eds., *The People's Liberation Army as Organization* (Santa Monica: RAND Corporation, 2002), p. 19.



share of military budget was also the result of a rapid increase in the overall size of the economy. But comparisons of defense procurement spending and industrial production from 1971 to 1983 show that the former increased by just 15% while the latter rose by 170%. It clearly indicates that China's leadership has prioritized economic development over military modernization since the 1970s.<sup>22</sup>

Diplomatic normalization with the United States and changing international security conditions enabled more trade and investment. The US economic sanctions on China started after the communist takeover of mainland China around 1949 and the start of the Korean War in 1950, and Nixon decided to lift all but strategically important trade restrictions after his diplomatic visit to China.<sup>23</sup> Then, in 1979, Deng Xiaoping visited the United States and completed a bilateral trade agreement. In addition, the United States granted most favored nation (MFN) trade status to China and has annually updated that status ever since. President Clinton believed that the best way to influence China was to keep it engaged in the world economy instead of isolating it, and successfully convinced US Congress to grant China permanent normal trade relations status in 1999; this was later established by the US–China Relations Act of 2000 (H.R. 4444). This permanent status was a stepping-stone for China's membership in the World Trade Organization (WTO) in 2000, which reaped enormous benefits for China's trade and symbolized the full acceptance of China into the global economy.

Deng officially launched economic reforms at the third plenary session of the Eleventh CPC Congress on 22 December 1978 with the famous slogan “Socialism with Chinese Characteristics.” It was right after the United States and China had announced the establishment of diplomatic relations on 15 December 1978. This was a gradual but fundamental reform of the economic system from a centrally planned and isolated economy to a more market-oriented open economy. Foreign direct investment (FDI) increased in China after the beginning of economic reforms, and played a major role in economic growth and the rapid increase in exports. In 1979, the amount of FDI was less than \$0.5 bn, but Chinese leadership allowed FDI into its special economic zones (SEZ), expanding them, reforming their legal structures, and adopting incentives to attract more FDI. China established SEZs in Shenzhen, Shantou, and Zhuhai (Guangdong Province), and Xiamen (Fujian Province) between 1980 and 1984. Those zones were chosen for their geographic advantages, such as proximity to Hong Kong, Taiwan, and Macao, as well as to attract overseas Chinese capital given the convenience in transportation of goods on China's southern coast. Those SEZs were incentivized by the Chinese government with exemptions from income tax and

22. Global Security, “China's Defense Budget” (2019), at <<http://www.globalsecurity.org/military/world/china/budget.htm>> (searched date: 18 February 2019).

23. Encyclopedia of the New American Nation, “Embargoes and Sanctions - Cold War Sanctions” (2019), at <<http://www.americanforeignrelations.com/E-N/Embargoes-and-Sanctions-Cold-war-sanctions.html#ixzz2qhAr9oZx>> (searched date: 18 February 2019).

custom duties.<sup>24</sup> As a result, China's trade volume increased from \$20 bn in 1978 to \$500 bn by 1985. Following this initial success, China opened 14 other coastal port cities, developing their infrastructure to forward its export-oriented strategy. By 1992, China had set up 60 SEZs, primarily along its coastal region, representing a success of gradual open-door policy via FDI and an export-oriented strategy. Wei argued that FDI in the late 1980s correlated with the economic growth in China's provinces due to technological and managerial spillover across firms.<sup>25</sup> Graham and Wada claimed that FDI was significantly correlated with China's economic growth, rapid increase in exports, wage increases, and rising income per capita in those provinces that received FDI, and also observed that the main source of FDI was the Chinese overseas investors in Hong Kong, Singapore, and other Asian countries until the mid-1990s.<sup>26</sup> From then on, China enjoyed enormous amounts of FDI from diverse global economic powers in Europe, North America, and Japan due to its comparative advantage in export processing. In the early 1990s, China had received more FDI than any other nations except the United States.

Along with the experiment of SEZs, the Chinese government adopted gradual domestic reforms by transforming its economic system from a centrally planned economy to free enterprise, from price controls and rationing to a free market, from income distribution to providing incentives as well as a management system responsible for profit and loss. A household responsibility system was adopted. Communes and a collectivized agriculture were transitioned to farmer households, selling overproduced crops on the free market, where a free market determined price. State enterprises began to enjoy increased autonomy, banking systems were diversified, and stock markets were developed. Departing from Mao's skepticism of intellectuals and the unrealistic policies of the Great Leap Forward movement, Deng underscored the importance of science and technology by putting forward slogans like "seeking truth from fact" and "respecting knowledge, respecting talents." Out of the surplus generated from economic reform, Deng pushed forward four modernizations in agriculture, industry, science and technology, and national defense.<sup>27</sup> Economic reforms had come under criticism from conservatives following the Tiananmen Square massacre in 1989. However, Deng overcame the challenge with his famous Southern Tour in 1992 by reemphasizing the importance of a pragmatic approach to continue economic reforms.

---

24. Salvatore Babones, "If North Korea Opens Up, Rason Could Become North Korea's Shenzhen," *Forbes* (2 May 2018).

25. Shang-Jin Wei, *Open Door Policy and China's Rapid Growth: Evidence from City-Level Data* (NBER Working Paper 4602) (National Bureau of Economic Research).

26. Edward M. Graham and Erika Wada, *Foreign Direct Investment in China: Effects on Growth and Economic Performance* (Working Paper No. 01-03) (Washington, D. C.: Peterson Institute for International Economics, 2001).

27. Alfred K. Ho, *op. cit.*, pp. 115–130.

There is no question about the success of Chinese economic reforms. China started as one of the poorest agricultural countries under a centralized and closed economic system, and is now the second-largest economy in the world. Since 1978, reforms have helped lift about 650 million people out of poverty, reducing the overall rate from 53% in 1981 to 8% by 2001.<sup>28</sup> Per capita GDP multiplied 11.1 times from \$224.3 in 1978 to \$2,487.3 in 2007. China's GDP reached \$3,280 bn in 2007 – fourth in world production, with a foreign currency reserve reaching \$3.3 trillion in 2012 (number one in the world). From 1978 to 2010, China experienced economic growth of about 9.5% a year; and an average growth rate of 8–9% annually for the past two decades, which is an unprecedented achievement.

### North Korea: National Security and Economic Policies

The Korean War (1950–1953) was traumatic and devastating for the two Koreas and their major allies, the United States and China. North Korea, who initiated the war, suffered the greatest damage, mostly from US bombs, and it has developed fierce anti-US sentiments.<sup>29</sup> The Korean War ended with an armistice treaty that was never replaced by a peace treaty. Therefore, the Korean peninsula technically remains at war and the two Koreas have experienced division, military confrontation, and small-scale clashes for the past six decades. This “eye-ball-to-eye-ball” encounter is a constant reminder of the trauma of the Korean War, and the possibility of another war on the peninsula. The United States introduced nuclear weapons to South Korea in 1958 and those existed until 1991. After a short period of recovery from the war (1953–1961), Kim Il-sung adopted a policy of “parallel economic and military development” at the fifth plenary meeting of the Fourth Party Central Committee in December 1962. Contrary to the term “parallel,” the policy focused on military buildup over the consumer industries. Military spending significantly increased from 3.7% in 1959 to 30% by 1967.<sup>30</sup> Kim Il-sung also purged the factions who challenged his authority and his polices focused on heavy industry and national defense.

The end of the Cold War exacerbated North Korea's national security further. When the Cold War ended, South Korea successfully normalized its relations with North Korea's former allies: the USSR in 1990 and China in 1992. Yet, the North could not acquire cross-recognition with the United States or Japan. Therefore, North Korea lost its traditional allies and security guarantees even as the balance of power between the two Koreas shifted against the North. South Korea

28. Martin Ravallion and Shaohua Chen, “China's (Uneven) Progress Against Poverty,” *Journal of Development Economics*, 82-1 (January 2007), pp. 1–42.

29. Bruce Cumings, *North Korea, Another Country* (New York: New Press, 2004), p. 1–42.

30. Global Security, “Military Spending – DPRK,” *Global Security*, at <<https://www.globalsecurity.org/military/world/dprk/budget.htm>> (searched date: 1 July 2018).

was catching up to North Korea's economy by the late 1970s, and experienced exponential growth in the 1980s. Currently, South Korea's GDP is about 30–40 times that of North Korea with a military budget three times that of North Korea over the last two decades.<sup>31</sup> With the shifting balance of power, diplomatic isolation, and no sign of a peace treaty or diplomatic normalization with the United States, North Korea developed nuclear weapons. It could use its nuclear weapons program as a bargaining chip in its negotiations with the United States. The negotiations began in 1994, but Washington and Pyongyang could not reach agreement on how to exchange North Korea's denuclearization with a peace treaty and diplomatic normalization. The nuclear crisis deepened North Korea's international isolation and prevented the conditions for economic reform, when the United States and the UN imposed more economic sanctions over the country. The first North Korean nuclear crisis in 1994 was resolved with the Geneva agreement when Washington and Pyongyang agreed to freeze the graphite-moderated 5MWe nuclear reactor and Washington committed to providing the more nuclear-proliferation-resistant Light Water Reactor power plants by 2003, as well as providing heavy fuel oil to North Korea (500,000 tons per year) until the completion of construction. When both sides were to "move toward full normalization of political and economic relations," the United States was asked to "provide formal assurances to the D.P.R.K., against the threat or use of nuclear weapons by the U.S.," to which North Korea agreed to "remain a party to the Treaty on the Non-Proliferation of Nuclear Weapons."<sup>32</sup> But the Clinton administration, under domestic criticism from the Republican Party who believed that North Korea would collapse in the near future, could not fulfill its pledges on the light water reactor or the diplomatic normalization process. Clinton's successor, President George W. Bush, was strongly skeptical of the North Korean regime, and rejected direct talks with North Korea, including it among the three countries he termed "Axis of Evil" and demanded the "complete, verifiable, and irreversible dismantlement" of their nuclear weapons. After Assistant Secretary of State's James Kelly's visit to North Korea in October 2002, the Bush administration declared that North Korea had violated the Agreed Framework by the secret highly enriched uranium program, and stopped the shipments of heavy fuel oil and abrogated the Agreed Framework. The Six-Party Talks started in 2003 and continued until 2007 and reached some agreements, such as the joint statement on 19 September 2005, the 13 February agreement in 2007, and the 3 October 2007 agreement, but it failed to achieve denuclearization of North Korea and has not restarted since 2008. North Korea went on to conduct nuclear tests in October 2006, May 2009, February 2013, January 2016, September 2016, and

---

31. David Kang, *op. cit.*, p. 349.

32. Agreed Framework between the United States of America and the Democratic People's Republic of Korea, at <<https://2001-2009.state.gov/t/ac/rls/or/2004/31009.htm>> (searched date: 1 July 2018).

September 2017, and also conducted numerous Ballistic missile tests.<sup>33</sup> A security dilemma continues on the Korean Peninsula. Annual joint military training exercises between the United States and South Korea are perceived by North Korea as a serious threat that involves the participation of about 200,000 soldiers and the deployment of nuclear-capable B-2 and B-52 bombers in 2013.<sup>34</sup> Therefore, the intense security challenges have strongly influenced North Korean ideology, leadership structure, security strategy, diplomatic relations, and allocation of resources.

Extreme security challenges in North Korea correlate with the rise of “*Juche* ideology” and an economic policy focused on heavy industry and national defense over the production of consumer goods. Private ownership of businesses rarely exists and workers and farmers do not have any material incentive or private market access. Given the intense security challenges and diplomatic isolation, along with a radical ideology that dictates tight control of civilian life, there is a lack of social mobility and freedom. A consolidation of power prevents any challenge and remains the regime’s priority, seriously inhibiting social and economic flexibility. When the Soviet Union and other Eastern bloc regimes collapsed, North Korea lost economic aid and trading partners. It suffered a lack of economic investment capital and a shortage of resources and fuel. The natural disasters and famine in the 1990s exacerbated conditions leading to food shortage and economic depression. These miserable conditions were caused by its own economic inefficiencies as well as by the collapse of the eastern bloc communist countries. The country went through the period of “Arduous March (1994–1998)” and scholars estimate that 3–5% of the population starved to death in the late 1990s.<sup>35</sup>

Kim Jong-il intensified Kim Il-sung’s policy focused on the military by proclaiming “*Songun politics* (military first politics)” from 1995.<sup>36</sup> With a serious national crisis, the military was the only functioning sector in the country to guarantee national survival and further played many different roles, such as delivery of food and construction work. Kim assumed the chairmanship of the Military Commission and lifted the status of the military to strengthen his control and gain its loyalty. Under the Songun policy, military spending was 15–25% of national GDP and about 1.1 million people served in the military. No exact data on North Korea’s GDP or military expenditures exists, but the CIA has estimated North Korea’s GDP to be \$28 bn, and its military spending to be \$7 bn, that is, almost a quarter of the country’s GDP (2003–2012).<sup>37</sup> This is due to the

33. Yangmo Ku, Inyeop Lee, and Jongseok Woo, *Politics in North and South Korea* (New York: Routledge, 2017), pp. 153–163.

34. Steven Borowiec, “US-South Korea Joint Military Exercises – Three Things You Need to Know,” *Security Watch - Christian Science Monitor* (6 February 2014).

35. Stephan Haggard and Marcus Noland, *op. cit.*, pp. 73–76.

36. Han S. Park, “Military-First Politics (Songun): Understanding Kim Jong-il’s North Korea,” *Korea Economic Institute Academic Paper Series*, 2-7 (September 2007), pp. 1–8.

37. CIA, “The World Factbook” (2019), at <<https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>> (searched date: 18 March 2019).

economy's small size, but it is still extreme when compared with a Chinese military budget of around 2.1% of GDP and with South Korea's of 2.7%.<sup>38</sup> Such large military expenditures divert resources away from economic investment, civilian consumption, and production. Kim Jong-un became supreme leader in North Korea when Kim Jong-il died on 17 December 2011. He has continued his grandfather's and father's policy, focusing on a national security based on military power. He announced the "*Byungjin* line," his signature policy, which means "dual policy of nuclear and economic development" on 31 March 2013 and then accelerated the country's missile and nuclear development. North Korea had conducted the third nuclear test on 12 February 2013, just before declaring the *Byungjin* line in March 2013. A fourth nuclear test was conducted on 6 January 2016, which was claimed to be a hydrogen bomb. A fifth test was conducted on 9 September 2016 to determine whether a warhead could be mounted onto a rocket. A sixth nuclear test, conducted on 3 September 2017, was claimed to be a hydrogen bomb. While Kim Il-sung conducted 15 missile tests (1984–1994) and Kim Jong-il had 16 missile tests (1994–2011), Kim Jong-un conducted 89 missile tests (2011–2017).<sup>39</sup> Pyongyang claims that it tested inter-continental missiles with a long enough range to reach the US mainland.<sup>40</sup> North Korea's military expenditure averaged about \$3.5 bn a year between 2004 and 2014. It accounted for 23.3% of the country's average GDP of \$15 bn, according to the State Department's World Military Expenditures and Arms Transfers 2016 report. Thus, it ranked top in the world for military expenditures relative to its GDP. In 2018, it was estimated to spend \$7.5 bn on the military. Such enormous spending is a result of ongoing confrontation with South Korea and the United States, as well as Pyongyang's fear for its survival. North Korea ranked only 46th in absolute military spending terms against an 11th-ranked South Korea, averaging \$30 bn in spending, with the United States ranked first with an average spending of \$701 bn a year.<sup>41</sup> In addition, North Korea maintains large numbers of soldiers – around 0.94 million regular military soldiers and 5.5 million army reserves (ages 17 to 60 years), ranking third or fourth in terms of its military size as of 2018.<sup>42</sup> It is estimated that 40 out of every 1,000 people are serving in uniform. Usually both men and women join the military at age 17 years and serve

---

38. SIPRI, "SIPRI Military Expenditure Database" (2019), at <[http://www.sipri.org/research/armaments/milex/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database)> (searched date: 18 March 2019).

39. Joshua Berlinger, "North Korea's Missile Tests: What You Need to Know," *CNN* (3 December, 2017), at <<https://www.cnn.com/2017/05/29/asia/north-korea-missile-tests/index.html>> (searched date: 1 July 2018).

40. Joshua Berlinger and Hilary Whiteman, "The Pledge to Halt Missile Tests Comes After a Busy Year of Launches by North Korea," *CNN* (7 March 2018), at <<https://www.cnn.com/2018/03/06/asia/north-korea-missile-tests-2017-intl/index.html>> (searched date: 1 July 2018).

41. "N. Korea Ranks No. 1 for Military Spending Relative to GDP: State Department Report," *Yonhap News* (3 December 2016).

42. Global Fire Power, "Total Available Active Military Manpower by Country" (2019), at <<http://www.globalfirepower.com/active-military-manpower.asp>> (searched date: 18 March 2019).



until the age of 27 for men and 23 for women. Most males serve 10 years in the military. This means an enormous opportunity for the labor force and economic production. The North Korean military holds enormous power based on its political importance, budget, and manpower.

The United States has maintained tight economic sanctions over North Korea from the Korean War onwards as a means of retaliating against the North Korean threat to the South, which includes nuclear weapons development, protesting human rights abuses, impairing the military and pushing for regime change. Those sanctions prevent any meaningful foreign investment or global trade for North Korea. The Export Control Act, enacted after the start of the Korean War, prohibited any export to North Korea. The Trading with the Enemy Act of 1917 was applied to North Korea. The Trade Agreements Extension Act of 1951 prohibited any MFN status for communist countries, including North Korea. The Foreign Assistance Act of 1961 disqualified North Korea from receiving US aid. After the 1987 bombing of Korean Air Flight 858, North Korea was listed as a “State Sponsor of Terrorism” in 1988, and came under more comprehensive sanctions on arms sales, economic aid, international finance, borrowing from international financial organizations, and MFN status. After the Geneva agreement in 1994, the Clinton administration relaxed some sanctions, but those were tightened again by the Bush administration after the second nuclear crisis in 2002, in the name of preventing nuclear proliferation. The Bush administration removed North Korea from its list of state sponsors of terrorism on 11 October 2008, after 20 years from 1988 in the process of negotiation at the Six-Party Talks. President Trump re-designated North Korea as a State Sponsor of Terrorism on 20 November 2017 to increase pressure on the country for denuclearization.<sup>43</sup>

North Korea is not a member of major international economic organizations and does not have access to economic aid, developmental loans, financial support, or advantages in trade and tariffs. North Korea is one of only five UN member states without a membership in the World Bank. Neither is it a member of the Asian Development Bank, WTO, or IMF. For North Korea to receive economic aid, it needs to acquire memberships in the Asian Development Bank or the International Development Association. But IMF membership is a prerequisite for membership in these organizations, and it is impossible to join the IMF without US approval.

The problem of US sanctions over North Korea is that they have worked in terms of isolating and containing North Korea, but have not pushed it into economic or political reform, rather increasing its dependence on China.<sup>44</sup> In the

43. Adam Taylor, “North Korea’s On-Again-Off-Again Status as a State Sponsor of Terrorism,” *Washington Post* (20 November 2017).

44. Marcus Noland, “The (Non-) Impact of UN Sanctions on North Korea,” *Asia Policy*, 7 (January 2009), pp. 61–88.

middle of diplomatic and economic isolation, China plays the role of a “black knight” for North Korea.<sup>45</sup> After his visit to China, US Secretary of State John Kerry stated on 17 April 2013, that “China provides almost three-quarters of the fuel to the North. China is a significant banking conduit for the North. China provides significant food aid to the North.”<sup>46</sup> China, South Korea, and Japan each had occupied about 20% of North Korea’s overall trade in 2000, but China’s share has drastically increased. Between 2000 and 2015, bilateral trade increased 10-fold. China accounted for around 40% of North Korean trade in 2007 and reached almost 90% in 2017, providing North Korea with most of its food and energy supplies.<sup>47</sup> Inter-Korean economic cooperation was also heavily influenced by the changes in international security and political conditions around the peninsula. It expanded after the historical summit meeting between South Korean President Kim Dae-jung and North Korean leader Kim Jong-il on 15 June 2000. The Kaesong Industrial Complex was opened in December 2004 in North Korea as a symbol of inter-Korean cooperation, combining South Korean investment and technology with a North Korean labor force. Inter-Korea trade reached its peak in 2007 and accounted for almost 36% of North Korea’s trade. As of April 2013, 123 South Korean small-to-medium companies were employing 53,000 North Korean workers and 800 South Korean staff to produce goods in Kaesong. Conservative ROK president, Lee Myung-bak, who came to office in 2008 was, however, very skeptical about inter-Korea cooperation, and the bombardment of South Korea’s Yeonpyeong Island by North Korea and the sinking of a South Korean naval vessel in 2010 also exacerbated inter-Korean relations. President Lee stopped most economic cooperation and aid to North Korea except the Kaesong Industrial Complex on 24 May 2010. But another conservative president, Park Geun-Hye, finally decided to completely shut down the Kaesong Industrial Complex in February 2016. Thus, China became a dominant actor occupying 90% of North Korea’s trade, especially since the arrival of the conservative government in the South in 2008.

Starting from North Korea’s first nuclear test in 2006, the UN Security Council imposed nine sanctions, including the one in September 2017. The UN Security Council voted unanimously for fresh sanctions on 11 September 2017 (UNSC Resolution 2375), after North Korea conducted its sixth nuclear test and dozens of missile launches in 2017, in spite of previous UN resolutions. It bans North Korean exports of coal, seafood, iron (including iron ore) and lead, and

---

45. Jinhwan Oh and Jiyong Ryu, “The Effectiveness of Economic Sanctions on North Korea: China’s Vital Role,” *Korean Journal of Defense Analysis*, 23-1 (2011), pp. 117–131.

46. Matthew Pennington, “North Korea Would Collapse Without China’s Support: Kerry,” *Global News* (17 April 2013).

47. Eleanor Albert, “The China–North Korea Relationship,” *Council on Foreign Relations* (28 March 2018), at <<https://www.cfr.org/background/china-north-korea-relationship>> (searched date: 1 July 2018).

garments, and also bans or restricts fuel exports to the North.<sup>48</sup> China finally restricted supplies of fuel, and ordered all North Korean companies operating in China on 28 September 2017 to cease operations within 120 days in response to new UN Security Council sanctions.<sup>49</sup> And trade between the two countries had fallen to the lowest level in early 2018. Some scholars claim that China's participation in economic sanctions could be a significant factor in Kim Jong-un's decision to start negotiation with the United States.<sup>50</sup>

### North Korea: Limited and Unsuccessful Attempts of Economic Reforms

North Korea had actually attempted economic adjustment and limited reforms to overcome its economic hardships. After passing a Joint Venture Law for the first time in 1984, it established a special economic zone in the Najin and Sunbong areas in 1991, similar to the Chinese policy. While China's experiments with SEZs were very successful with the legal and political support and investment from Hong Kong, Singapore, Taiwan, and later the West after diplomatic normalization, the SEZ project in North Korea did not yield any meaningful success under domestic and international constraints. It had never received enough foreign investment as the country was under many different sanctions and excluded from international organizations, and also lacked infrastructure and legal and political support.<sup>51</sup>

At the end of 2000, Washington and Pyongyang had a positive momentum in negotiation and Vice Marshal Jo Myong-rok visited President Clinton during 9–12 October 2000 and issued a US–DPRK Joint Communiqué. In response, Secretary of State Madeline Albright visited Pyongyang and met with Kim Jong-il on 24 October 2000. In that meeting, Kim Jong-il said to Albright: “In the 1970s, Deng Xiaoping, the Chinese leader, was able to conclude that China faced no external security threat and could accordingly refocus its resources on economic development.” He also said, “with the appropriate security assurances” he would be able to “convince his military that the US was no longer a threat and then be in a similar position to refocus his country's resources.”<sup>52</sup> Thus Kim

48. Jeremy Page, Andrew Jeong, and Ian Talley, “China, Finally, Clamps Down on North Korea Trade—And the Impact is Stinging,” *Wall Street Journal* (2 March 2018).

49. “China to Shut Down North Korean Companies,” *BBC* (28 September 2017), at <<https://www.bbc.com/news/world-asia-41431057>> (searched date: 1 July 2018).

50. Liu Zhen, “North Korea Still Looking to China for Economic and Political Security, Analysts Say,” *South China Morning Post* (28 April 2018).

51. Andrei Lankov, “North Korea Needs Foreign Investment, But Has Done Little to Attract It,” *Radio Free Asia* (20 September 2016), at <<https://www.rfa.org/english/commentaries/parallel-thoughts/korea-investment-09202016152846.html?searchterm:utf8:ustring=kim+jong+un+economic+reforms>> (searched date: 1 July 2018).

52. Charles Pritchard, “A Guarantee to Bring Kim Into Line,” *Financial Times* (10 October 2003).

Jong-il himself explained how the improvement in security conditions was necessary for meaningful economic reforms. On 4 and 9 January 2001, Kim put forth his “New Thinking” theory in the joint New Year editorials, and defined the year 2001 as “the year for new advancement and gigantic transformation in opening paths to constructing a powerful great state.”<sup>53</sup> During 15–20 January 2001, Kim Jong-il visited Shanghai, China where he praised China’s economic reforms and incredible success and allegedly said he was shocked by “cataclysmic” change and development in Shanghai.

Expecting improvement in their relations with the United States as well as encouraged by China’s successful model, Pyongyang announced “economic management improvement measures” on 1 July 2002 (hereafter, “the July 1st Measures”), which included the abolition of the rationing system, massive price increases, and a wage raise for workers, as well as exchange-rate increases, enhancement of self-management of enterprise, an increase in the number of privately owned farms, devaluation of the North Korean currency, and a partial open-door policy. Under these measures, the government permitted private farming on an experimental basis to increase agricultural production, and allowed farmers to sell a wide range of goods. In September 2002, Kim also designated Sinuiju, a city on the border with China, as a Special Administrative Region, modeled after China’s Special Administrative Regions (SARs) to introduce market economics. North Korea also passed the Kaesong Industrial Zone Law on 20 November 2002 and granted the South Korean company Hyundai a land use permit on 23 December 2002.

North Korea, however, experienced drastic inflation, expansion of the non-governmental sector in the economy, and a sudden increase in their currency exchange rate on the black market as a consequence of the July 1st Measures. Furthermore, the United States and North Korea experienced the second nuclear crisis during 3–5 October 2002, when US Assistant Secretary of State for Asia and the Pacific, James Kelly, visited North Korea for the first high-level talks under the new Bush administration and accused Pyongyang for its alleged highly enriched uranium program. Pyongyang was still expecting to improve relations with the Bush administration and wanted to continue the negotiation that “the previous Clinton administration had left off.”<sup>54</sup> But the Bush administration was very skeptical of the regime in Pyongyang and had no intention to continue Clinton’s policy. First Vice Minister Kang Sok-ju said, “Barely 3 months after the great general (Kim Jong-il) had launched his economic reforms on the assumption things would improve with the United States, everything collapsed. Needless to say, he was not pleased.”<sup>55</sup>

---

53. Yonhap News, *North Korea Handbook* (Armonk: East Gate, 2003), pp. 360–361.

54. Charles Pritchard, *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb* (Washington, D.C.: Brookings Institution Press, 2007), pp. 11–15.

55. Robert Carlin, “Policy Forum 06-78A: Wabbit in Free Fall,” *NAPSNet Policy Forum* (21 September 2006), at <<https://nautilus.org/napsnet/napsnet-policy-forum/wabbit-in-free-fall/>> (searched date: 18 March 2019).

With no sign of improving relations with the United States and the difficulty of controlling the consequences of the July 1st Measures, Pyongyang reversed most of these policies 3 years later, by October 2005.<sup>56</sup> By November 2009, the government had suddenly imposed currency reform by the redenomination of the North Korean won and a limited amount of the old currency could be exchanged for the new to control the resultant nongovernmental sector and black markets.<sup>57</sup> Many North Korean people resented this when their hidden assets became useless. The process of limited economic reform and retraction show that Pyongyang was still fearful of losing domestic control while it faced confrontation with the United States.<sup>58</sup>

Kim Jong-un came to power after his father's death in December 2011. He had been exposed to capitalism during his education in Switzerland (1996–2001), and had allegedly expressed his interest in the Chinese economic model when he was young.<sup>59</sup> He also added that he was determined to make sure that his people would “never have to tighten their belt again” in his first speech in public on 15 April 2012.<sup>60</sup> He announced a new measure on 28 June 2012, 10 years after the July 1st Measure. Formally known as “the June 28th New Economic Management Measure,” it bears many similarities to the July 1st Measure. According to the June 28th Measure, the state would collect 70% of production under the state plan and agricultural producers would retain 30% and any overproduction; they would be permitted to sell at free-market prices. Also, workers in small and medium-sized enterprises would be paid entirely in cash instead of receiving state distribution. Private investment in production would be allowed if under the auspices of state or cooperative enterprises. In general, the June 28th Measure promised greater incentives and autonomy to farmers and businesses, and increased agricultural production. He emphasized the importance of improving the nation's economy and the standard of living in the New Year's Day speech in 2013. Kim also announced 30 May measures in 2014, allowing some experimental state-owned enterprises greater autonomy in management in buying supplies, producing and selling their products at market, hiring and firing personnel at will, and setting wages at their chosen

56. Rüdiger Frank, “Ideological Risk Versus Economic Necessity: The Future of Reform in North Korea,” *Japan Focus* (2009), at <[http://www.japanfocus.org/-R\\_diger-Frank/3197/article.html](http://www.japanfocus.org/-R_diger-Frank/3197/article.html)> (searched date: 31 May 2018); Patrick McEachern, *Inside the Red Box: North Korea's Post-Totalitarian Politics* (New York: Columbia University Press, 2010).

57. John Ishiyama, “Elite Volatility and Change in North Korean Politics: 1997-2010,” *Journal of Asian and African Studies*, 49-5 (2013), pp. 570–583.

58. Un-Chul Yang, *op. cit.*, pp. 71–87; Tat Yan Kong, *op. cit.*, pp. 73–96.

59. Hyonhee Shin and James Pearson, “The Thinking Behind Kim Jong Un's ‘Madness’,” *Reuters* (30 November 2017), at <<https://www.reuters.com/investigates/special-report/northkorea-kimjongun>> (searched date: 1 July 2018).

60. Choe Sang-Hun, “North Korean Leader Stresses Need for Strong Military,” *New York Times* (15 April 2012).

level.<sup>61</sup> North Korea under Kim Jong-un at least shows some sign of recovery and he has not retracted reform measures, in contrast to Kim Jong-il. South Korea's central bank estimated that North Korea's economy in 2016 grew at its fastest pace in 17 years with GDP up 3.9% despite international economic sanctions. North Korean defectors reported that the number of *jangmadang*, private markets to purchase consumer goods, increased from about 200 in 2010 to 400–500 in 2015, and about 200,000 rich private entrepreneurs, called *donju*, emerged and actively conducted business.<sup>62</sup> Kim also invested in some showcase projects, such as the Ryomyong Street and Scientists streets in Pyongyang around 2017.<sup>63</sup>

Kim Jong-un's economic policy has been part of his *Byungjin* policy, simultaneously pursuing nuclear weapons development and economic development; but overall, those two goals are not compatible in the long run. Kim claims that North Korea can focus on economic development and improvement of standard of living since nuclear weapons development guarantees national defense and deterrence without additional spending on conventional weapons. But North Korea's share of military spending is high and its nuclear developments prevent the process of negotiation for a peace treaty and diplomatic normalization with the United States that is necessary for serious economic reforms. For example, Kim Jong-un increased the number of SEZs and there are now more than 20, but those exist just in name, since foreign investments are still restricted because of international sanctions and security conditions.<sup>64</sup> It is still very difficult for North Korea to modify its central planning and ownership structure, since those issues are closely connected to the regime's control of the society. North Korea has generally referred to its attempts in 2002 and 2012 as "measures to improve economic management," and has never directly used the term "economic reform," which reflects the fear of losing control and allowing too much nongovernmental elements. Thus, those attempts are closer to "systemic adjustment" attempted in socialist states rather than fundamental economic reforms adopted in China and Vietnam.<sup>65</sup>

---

61. Andrei Lankov, "North Korea Appears to Have Slowed Down Economic Reform Drive," *Radio Free Asia* (1 June 2015), at <<https://www.rfa.org/english/commentaries/parallel-thoughts/korea-lankov-06012015155436.html?searchterm:utf8:ustring=kim+jong+un+economic+reforms>> (searched date: 1 July 2018).

62. "N Korea Economy Grows at Fastest Rate in 17 years," *BBC* (21 July 2017), at <<https://www.bbc.co.uk/news/business-40679333>> (searched date: 1 July 2018).

63. Sang-Hun Choe, "Will Kim Jong-un Trade His Nuclear Arsenal to Rebuild Economy?" *New York Times* (21 April 2018).

64. Andrei Lankov, "North Korea Appears to Have Slowed Down Economic Reform Drive," *Radio Free Asia* (1 June 2015), at <<https://www.rfa.org/english/commentaries/parallel-thoughts/korea-lankov-06012015155436.html?searchterm:utf8:ustring=kim+jong+un+economic+reforms>> (searched date: 1 July 2018).

65. Bernhard Seliger, "The July 2002 Reforms in North Korea: Liberman-Style Reforms or Road to Transformation?" *North Korean Review*, 1-1 (2005), pp. 22–37.



*Byungjin* could be a temporary policy of “muddling through” until North Korea finally resolves its security issue with the United States, as have China and Vietnam.<sup>66</sup> *Byungjin* has made political promises of economic prosperity while completing its nuclear and missile capabilities to finally negotiate with the United States. On 29 November 2017, North Korea declared it had “completed” its state nuclear force, after conducting its longest-range missile test of Hwasong-15, capable of “carrying [a] super-heavy [nuclear] warhead and hitting the whole mainland of the U.S.”<sup>67</sup> And then Pyongyang started active dialogue with Seoul and Washington from early 2018 while declaring on 21 April 2018 that it would stop nuclear and missile tests and dismantle the nuclear test site. Kim also announced that he had retired the *Byungjin* policy since it already had achieved a “great victory” and that the country would exclusively focus on economic development. Such a major course of change was followed by the third inter-Korea summit convened on 27 April, and the first US–DPRK Summit was held in Singapore on 12 June 2018.

Kim Jong-un’s historic move could be driven by a few factors. First, he understands that economic reforms and development would never be successful without improving relations with the United States. Second, North Koreans have gradually developed more desire for economic development, even through the process of limited reforms and retractions during Kim Jong-il’s era and another chapter of limited reforms under Kim Jong-un. Kim had to make a political commitment to economic prosperity even for his own legitimacy and leadership. Third, South Korean President Moon Jae-in’s diplomatic mediation with Washington and Pyongyang also convinced Kim Jong-un to try serious diplomacy with US President Trump. Finally, China’s recent participation in economic sanctions could impact the North Korean economy negatively and push Pyongyang into negotiation. Overall, the success of Kim’s diplomatic move and any chance of economic reform still depend on whether Pyongyang, Washington, and Seoul can successfully negotiate North Korea’s denuclearization with a peace treaty and diplomatic normalization.

## Conclusion

The case of China shows that improvement of international security conditions, in addition to domestic leadership change, is essential for economic reform and growth in communist countries. China under Mao Tse-tung was very similar to today’s North Korea, but the United States normalized its relationship with China, mostly because of the balance-of-power logic. However, this decision

66. Stephan Haggard and Marcus Noland, *op. cit.*, pp. 73–76.

67. Uri Friedman, “North Korea Says It Has ‘Completed’ Its Nuclear Program,” *Atlantic* (29 November 2017).

substantially improved China's national security and generated the necessary conditions for economic reforms. Deng Xiaoping was able to reallocate resources from military to economy and relax governmental control over the economy as he was confident about international security and domestic stability. The United States lifted economic sanctions on China, signed a bilateral trade agreement, and granted MFN status to China, which gave China access to global trade, foreign direct investment, and membership in major economic organizations that led the country into exponential growth.

The case of Vietnam is beyond the scope of this paper but it is worthy of brief discussion. In China, the improvement of external security conditions came first in 1972 and was followed by domestic political changes in 1978 with the rise of Deng Xiaoping. The sequence in Vietnam was different. Domestic political change and attempts at economic reform came first with the rise of reformist Nguyen Van Linh and the *Doi Moi* policy in 1986. This was followed by improved relations with the United States in the early 1990s.<sup>68</sup> The case of Vietnam shows that economic reforms and domestic leadership changes can be attempted even under limited security conditions. Its attempts at economic development met with little success, however, as it still suffered from severe economic sanctions and diplomatic isolation until the early 1990s. US economic sanctions on North Vietnam began in 1954, intensified during the Vietnam War and with Vietnam's occupation of Cambodia in 1978, and continued until 1994. Vietnam's invasion of Cambodia in 1978 also resulted in conflict with China by 1979, which cut external financial support, tightened sanctions, and worsened its diplomatic isolation. Therefore, the country went through a mixed period even after implementing the *Doi Moi* policy. Efforts at reform bore little fruit until 1993. That is why the country decided to improve its foreign relations by withdrawing from Cambodia in 1989 and to negotiate diplomatic normalization with the United States and other countries. In 1994, Vietnam finally resolved its security issues by negotiating diplomatic normalization with the United States under the Clinton administration. As a result, economic sanctions lifted and the country gained access to major international organizations, global trade partners, and financial investment. The military budget sharply declined. It was in the mid-1990s that Vietnam transitioned from partial, and minimally effective, reforms to radical reforms like active privatization and economic liberalization, adopting structural and macro-level measures, such as financial reform, price reform, and an open-door policy. The Vietnamese economy finally took off. Thus, the case of Vietnam also supports the conclusion that domestic political changes and reform policies need to be combined with improvements to national security and diplomatic relations for those reforms to be successful.

---

68. Mark E. Manyin, "The Vietnam-U.S. Normalization Process," *CRS Issue Brief for Congress*, June 17 (2005), pp. 1–5; Carlyle Thayer, *The Vietnam People's Army Under Doi Moi* (Singapore: Institute of Southeast Asian Studies, 1994); Brantly Womack, *China and Vietnam: Politics of Asymmetry* (Cambridge: Cambridge University Press, 2006).

North Korea, on the other hand, has been continuously under very intense security challenges since the Korean War. The armistice treaty was never replaced by a peace treaty, and the North has had to confront superior US forces and the South Korean military for the last 65 years. The balance of power has shifted against North Korea with the end of the Cold War. North Korea, losing its allies and security guarantees, has attempted to bridge the power gap and guarantee its survival by developing nuclear weapons, but this has isolated the country even further. It has also been under tight US economic sanctions and excluded from global trade, financial investment, and international economic organizations. Domestically, it has developed a centralized, authoritarian regime in a three-generational family succession, and has maintained tight control of the population and excessive military spending. Kim Jong-il and Kim Jong-un have tried limited economic reforms, but those have either been retracted or have had limited effects due to the country's security challenges and international isolation. The chances of serious economic reforms in North Korea depend on whether Pyongyang can make a breakthrough in its national security condition by successful negotiation with the United States.

## References

- Albert, Eleanor, "The China–North Korea Relationship," *Council on Foreign Relations* (28 March 2018), at <<https://www.cfr.org/backgrounders/china-north-korea-relationship>> (searched date: 1 July 2018).
- Babones, Salvatore, "If North Korea Opens Up, Rason Could Become North Korea's Shenzhen," *Forbes* (2 May 2018).
- Burr, William, ed., *Missile Defense Thirty Years Ago: Déjà Vu All Over Again?* National Security Archive Electronic Briefing Book 36 (National Security Archive, 2000), at <<https://nsarchive2.gwu.edu/NSAEBB/NSAEBB36/>> (searched date: 1 July 2018).
- Buzo, Adrian, *The Guerilla Dynasty: Politics and Leadership in North Korea* (London: I. B. Tauris, 1999).
- Carlin, Robert, "Policy Forum 06-78A: Wabbit in Free Fall," *NAPSNet Policy Forum* (21 September 2006), at <<https://nautilus.org/napsnet/napsnet-policy-forum/wabbit-in-free-fall/>> (searched date: 18 March 2019).
- Chavance, Bernard, *The Transformation of Communist Systems: Economic Reform Since the 1950s* (Boulder: Westview Press, 1994).
- Cumings, Bruce, *North Korea, Another Country* (New York: New Press, 2004).
- Deger, Saadet and Ron Smith, "Military Expenditure and Growth in Less Developed Countries," *Journal of Conflict Resolution*, 27 (1983), pp. 335–53.
- Dunne, J. Paul, "Economic Effects of Military Expenditure in Developing Countries," in Nils P. Gleditsch, Olav Bjerkholt, Adne Cappelen, Ron Smith, and J. Paul Dunne, eds., *The Peace Dividend* (Contributions to Economic Analysis, Volume 235) (Bingley: Emerald, 1996), pp. 439–64.

- Dunne, J. Paul and Mehmet Uye, "Military Spending and Development," in Andrew Tan, ed., *The Global Arms Trade* (London: Europa/Routledge, 2009), pp. 293–305.
- Eberstadt, Nicholas, *The North Korean Economy: Between Crisis and Catastrophe* (New Brunswick: Transaction, 2007).
- Graham, Edward M., and Erika Wada, *Foreign Direct Investment in China: Effects on Growth and Economic Performance* (Working Paper No. 01-03) (Washington, D. C.: Peterson Institute for International Economics, 2001).
- Guo, Sujian, ed., *China's Peaceful Rise in the 21st Century: Domestic and International Conditions* (Aldershot: Ashgate, 2006).
- Haggard, Stephan and Marcus Noland, *Famine in North Korea: Markets, Aid, and Reform* (New York: Columbia University Press, 2007).
- Ho, Alfred K., *China's Reforms and Reformers* (Westport: Praeger, 2004).
- Ishiyama, John, "Elite Volatility and Change in North Korean Politics: 1997-2010," *Journal of Asian and African Studies*, 49-5 (2013), pp. 570–83.
- Kang, David, "Acute Conflicts in Asia After the Cold War: Kashmir, Taiwan, and Korea," in Muthiah Alagappa, ed., *Asian Security Order* (Stanford: Stanford University Press, 2003), pp. 349–79.
- Keohane, Robert O. and Lisa L. Martin, "The Promise of Institutional Theory," *International Security*, 20-1 (Summer 1995), pp. 39–51.
- Kong, Tat Yan, "The Political Obstacles to Economic Reform in North Korea: The Ultra Cautious Strategy in Comparative Perspective," *Pacific Review*, 27-1 (2014), pp. 73–96.
- Kornai, Janos, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1992).
- Ku, Yangmo, Inyeop Lee, Jongseok Woo, *Politics in North and South Korea* (New York: Routledge, 2017).
- Lewis, John Wilson and Litai Xue, *China Builds the Bomb* (Stanford: Stanford University Press, 1991).
- Lieberthal, Kenneth, *Governing China: From Revolution Through Reform*, 2nd edn (New York: W. W. Norton, 2003).
- Litwak, Robert S., *Outlier States: American Strategies to Change, Contain, or Engage Regimes* (Washington, D.C.: Woodrow Wilson Center Press, 2012).
- McEachern, Patrick, *Inside the Red Box: North Korea's Post-Totalitarian Politics* (New York: Columbia University Press, 2010).
- Moore, Gregory J., "How North Korea Threatens China's Interests: Understanding Chinese 'Duplication' on the North Korean Nuclear Issue," *International Relations of the Asia-Pacific*, 8-1 (2008), pp. 1–29.
- Mulvenon, James C. and Andrew N.D. Yang, eds., *The People's Liberation Army as Organization* (Santa Monica: RAND Corporation, 2002).
- Noland, Marcus, "Why North Korea Will Muddle Through," *Foreign Affairs*, 76-4 (1997), pp. 105–18.
- , "The (Non-) Impact of UN Sanctions on North Korea," *Asia Policy*, 7 (January 2009), pp. 61–88.
- Oh, Jinhwan and Jiyong Ryu, "The Effectiveness of Economic Sanctions on North Korea: China's Vital Role," *Korean Journal of Defense Analysis*, 23-1 (2011), pp. 117–31.

- Oh, Kongdan and Ralph C. Hassig, "North Korea Between Collapse and Reform," *Asian Survey*, 39-2 (1999), pp. 287–309.
- Park, Han S., "Military-First Politics (Songun): Understanding Kim Jong-il's North Korea," *Korea Economic Institute Academic Paper Series*, 2-7 (2007), pp. 1–8.
- Pillsbury, Michael, ed., *Chinese Views of Future Warfare* (New Delhi: Lancer, 1997).
- Pritchard, Charles, *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb* (Washington, D.C.: Brookings Institution Press, 2007).
- Ravallion, Martin and Shaohua Chen, "China's (Uneven) Progress Against Poverty," *Journal of Development Economics*, 82-1 (January 2007), pp. 1–42.
- Rothschild, Kurt W., "Military Expenditure, Exports and Growth," *Kyklos*, 26 (1977), pp. 804–14.
- Segal, Gerald, *The Great Power Triangle* (London: Macmillan Press, 1982).
- Seliger, Bernhard, "The July 2002 Reforms in North Korea: Liberman-Style Reforms or Road to Transformation?" *North Korean Review*, 1-1 (2005), pp. 22–37.
- Smith, Ron, "Defense Expenditure and Economic Growth," in Nils P. Gleditsch, Goran Lindgren, Naima Mouhleb, Sjoerd Smit, and Indra de Soysa, eds., *Making Peace Pay* (Claremont: Regina Press, 2000), pp. 15–24.
- Thayer, Carlyle, *The Vietnam People's Army Under Doi Moi* (Singapore: Institute of Southeast Asian Studies, 1994).
- Waltz, Kenneth, *Theory of International Politics* (New York: Random House, 1979).
- Womack, Brantly, *China and Vietnam: Politics of Asymmetry* (Cambridge: Cambridge University Press, 2006).
- Yang, Un-Chul, "Reform Without Transition: The Economic Situation in North Korea Since the July 1, 2002, Measures," *North Korean Review*, 6-1 (2010), pp. 71–87.
- Zhang, Shu Guang, *Economic Cold War: America's Embargo Against China and the Sino-Soviet Alliance, 1949-1963* (Washington, D.C.: Woodrow Wilson Center Press, in association with Stanford University Press, California, 2001).

Copyright of Pacific Focus is the property of Wiley-Blackwell and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.