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**North Korea and the International System:  
The Impact of the Changing International Environment on the Economic  
Trajectory of North Korea from the mid-1940's to the 1990's**

**By**

**Jong-Woon Lee**

**Submitted in partial fulfillment of the requirements  
for the degree of Master of Arts in  
International Development Studies  
at Saint Mary's University  
Halifax, Nova Scotia, Canada**

**August, 2000**

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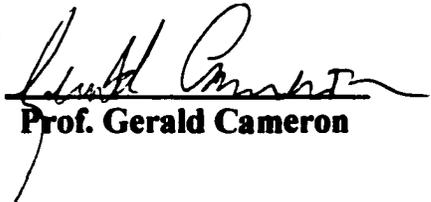
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Jong-Woon Lee

# **North Korea and the International System:**

## **The Impact of the Changing International Environment on the Economic Trajectory of North Korea from the mid-1940's to the 1990's**

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**August 2000**

### **Abstract**

The purpose of this thesis is to explore the development of the North Korean economy with a focus on the role of external factors. This study examines the relationship between the dynamics of the international/regional system and the development process of North Korea throughout the last five decades. As a result of researching North Korea's economic performance and problems within this focus, this thesis finds that the development course of North Korea has been profoundly influenced by external forces. It is demonstrated that the changes in the international system have been a determining factor in shaping North Korean development. Despite the North Korean regime's persistent emphasis on self-reliance, its economy has been greatly affected by the changing Cold-War environment. The impact of changing international situations on the North Korean economy has been both beneficial and detrimental. This study identifies some obstacles to North Korean development which arose from outside and consequently argues that the disruption of the North Korean economy in the 1990's is largely related to unfavorable changes in the international system.

***This thesis is dedicated to my parents,  
with gratitude and love***

# **Chapter One**

## **Introduction**

### **I. Background**

When the Japanese surrendered to the Allied Powers in August 1945, Korea was liberated from colonial rule. The entire Korean peninsula was alive in celebration of the end of 36 years of Japan's infamous occupation and of the nation's return to independent rule. However, Japanese colonialism and imperialism was replaced by the Cold-War conflict between the United States and the Soviet Union. Immediately following its independence, Korea was involuntarily divided into two zones. The two global powers of the postwar period agreed to divide Korea into two areas – North and South – along the 38<sup>th</sup> parallel in order to evacuate the Japanese forces on the Korean peninsula. As a temporary military expedient, Soviet troops entered the northern part of Korea, while American forces occupied the southern half. The occupation forces on both sides, supposedly taking a neutral position toward domestic politics, developed political groups that bolstered each side's power in its respective occupied zone and created antagonism between the North and South even before Koreans could implement their own plans for a single self-government. The territorial division based on the two superpowers' interests in Korea's geographical importance in East Asia resulted in the emergence of two distinct developmental patterns in Korea; a capitalist development in the South and a socialist development in the North.

It has been more than five decades since Korea was divided. Ideological conflict between the two hostile Korean states in the late 1940's brought about the outbreak of the

tragic Korean War (June 1950- July 1953). Since then, the two Koreas have continued to confront each other along the DMZ (Demilitarized Zone), one of the most militarized conflict areas in the World, with the number of heavily-armed forces totaling more than 1.5 million troops. Moreover, both states have engaged in a rivalry for ideological and economic dominance in the Korean peninsula, each side claiming that it is the only legitimate nation on the Korean peninsula.

Like many newly-independent Third World nations, North Korea was born as a nation of extreme poverty. Its per capita income at that time was far below the average level of other Third World countries in Asia and Latin America. The Korean War aggravated economic difficulties, ones associated with the human losses, the physical losses of industrial facilities, limited technical skills and the lack of capital investment. In the early 1950's, when North Korea was still suffering from the effects of the war, its economic outlook on the future was very pessimistic according to most scholars in Korea and abroad. However, during the early decades, North Korea improved its economic capacities through rapid industrial expansion. With the help of political consolidation, the socialization of the economy and foreign aid from the Soviet bloc, North Korea achieved a fast recovery from its war-ravaged economy, surpassing South Korea in economic strength until the mid-1970's (U.S. CIA 1978; Cumings 1997). In the course of executing a series of development plans, North Korea managed to become one of the most successful economies in the socialist bloc. Joan Robinson, a British economist, described North Korea's economic achievement as an "economic miracle" in her article in a 1965 issue of *Monthly Review*. North Korea was also praised when Harrison Salisbury referred to the

country as a leading Asian economy after his visit of 1972, by stating that “on a per capita basis North Korea is the most intensively industrialized country in Asia, with the exception of Japan” (1973, 199)

However, since the later 1970’s, the North Korean economic growth has slowed for a variety of reasons. Faced with economic decline, North Korea attempted to establish economic links with non-socialist countries through trade expansion and foreign investment projects, in order to improve industrial technology and economic conditions. Nevertheless, North Korea met with poor results in resolving its economic depression in the 1980’s. The sudden collapse of the socialist regimes in the Soviet Union and Eastern Europe at the start of the 1990’s in particular brought serious economic and political difficulties. With regard to such serious economic difficulties in the 1990’s, North Korean political authorities unprecedentedly admitted economic hardship caused by shortages of food, energy and foreign exchange, even though this acknowledgement damaged North Korea’s public claim of having achieved self-sufficiency in agricultural production and self-reliance in industrial development. As one of the few survivors of the former socialist bloc, North Korea today is, without a doubt, confronting the most serious challenge since the birth of the socialist regime in 1945, struggling to find its vision for the future.

## **II. Problem Setting**

An enormous volume of books and reports from various theoretical perspectives on South Korean development has been published. Many scholars, both in development studies and Korean studies, have contributed to the growing literature on the economic

trajectory of South Korea, while highlighting the positive and negative aspects of rapid economic growth and industrialization. However, in comparison to the abundant theoretical and empirical works in South Korean development, literature on the northern part of Korea – the Democratic People’s Republic of Korea – is scarce. Considering frequent reference to North Korea either as an extreme case of successful self-reliant development or the failure of the Soviet-type economies in development literature, it is perhaps surprising to find that research on North Korean development has been limited and theoretical discussions in previous studies on this subject have been minor. Because of the ideological constraint of the intensive Cold-War environment in the Korean peninsula, academic research and debates on economic development of North Korea were restricted in South Korea and, therefore, South Korean scholarship has difficulty in interpreting and evaluating the socialist development experienced in North Korea. As well, a large portion of works on the economic and political systems of North Korea, which were made by scholars abroad, were distorted during the Cold-War era, since some scholars in North Korean studies possessed either anti-communist bias or pro-North Korean tendencies.

With the end of the Cold-War at the global level in the early 1990’s, the ideological constraint, which hindered objective observation on North Korea, has been alleviated and academic research on North Korean dynamics has become active both in South Korea and abroad. Scholars of North Korean affairs began to recognize the previous limitations of explaining the development path of the North Korean economy and have tried to improve the reliability of their publications. Under the circumstances of the recent advancement in

North Korean studies, a number of liberal scholars have shown their interests in the economic performance of North Korea during the last five decades. They acknowledge North Korea's achievement in industrialization and remarkable improvement of living conditions until the 1970's. However, reflecting the collapse of the socialist bloc and North Korea's economic deterioration in the 1990's, the primary concern of these scholarly works on the North Korean economy has lied in analyzing the causes of the current economic hardship in North Korea. The majority of liberal scholars on this subject tend to focus their attention on North Korea's economic problems. They stress that the reason for North Korea's present economic failure is the rigidity of its planned economic system. They also argue that a self-reliant policy based on *Juche* ideology has prevented North Korea from participating in international markets. These scholars posit that although it facilitated short-term economic growth, the inward-oriented development model of North Korea resulted in low industrial productivity, low efficiency, technological backwardness and, in the end, economic stagnation. The closed nature of the North Korean economy was blamed for paralyzing industrial and agricultural production. Comparing North Korea and South Korea (or China) on the basis of models of command vs market economy and autarkic vs open economy, some scholars in the field of North Korean studies forcibly argue that the better economic performance of South Korea (or China since the 1980's) over North Korea is attributable to its respect for capitalist economic system and fundamental market-reform. In this perspective, the North Korean political environment of totalitarianism and nepotistic leadership succession has largely limited comprehensive reform and the recovery of the North Korean economy.

According to the liberal scholars who dominate the literature on North Korean development, the inefficiencies of a central economic system and the totalitarian features of North Korean politics are largely responsible for the present economic problems of North Korea. Liberal scholars have quite correctly pointed out the problems of the North Korean development model. However, although these mainstream scholars have helped to shed light on the basic nature of the North Korean economy, they have focused exclusively on internal economic and political systems of North Korea. This thesis finds that previous studies on this subject have largely ignored the historical and international factors on North Korea's development path. Since most previous studies limited their discussion to the role of domestic factors in determining the economic performance of North Korea, this thesis recognizes that part of the literature on North Korean development is missing; the beneficial and detrimental effects that changes in the international system have had on the economic trajectory of North Korea. In order to gain a comprehensive understanding of North Korea's recent economic difficulties, it seems necessary to examine the socialist development experience of North Korea within the larger context of the international political economy.

Since the start of the 20<sup>th</sup> century, the Korean peninsula has been a place where the interests of superpowers have collided. By being located on the geographic frontier of the Cold-War confrontation, North Korea, along with South Korea, was more sensitive than other Third World countries to the changing international situation. The early state building process of North Korea took place within the framework of the antagonistic Cold-War system. Opposing the global hegemonic power, the United States, North Korea

could not fully participate in the international market. Indeed, unlike pro-North Korean scholars' argument that North Korea achieved self-sufficient capacity of the state, North Korea depended extensively on the former Soviet Union and China for security and economic resources in the form of capital, market access and technology, which was revealed by the rapid economic deterioration after the end of Cold-War. Given this historical basis, it can be argued that the internal development process of North Korea has profoundly been shaped by the dynamics of the international system. In this context, this thesis believes that an analysis of North Korean development cannot be completed without examining the relationship between domestic and international forces. Consequently, assuming that strong support from the West during the Cold-War both bolstered and cushioned the South Korean economy, exploring the impact of unfavorable changes in the international system – such as the Sino-Soviet conflict and the sudden collapse of the socialist bloc – on the North Korean economy seems appropriate.

As an alternative way of explaining the development path of North Korea, this thesis poses the following research questions; (1) How and to what extent have international factors been working to facilitate or hinder the development process of North Korea? (2) How has North Korea reacted to changes in the international situation in its quest for economic development? In responding to these two questions, this thesis will examine the relationship between the economic performance of North Korea and the changing international situation. This examination will allow us to identify the strengths and weaknesses of the North Korean developmental system and provide useful insights into a

complex process.<sup>1</sup> As well, this thesis will suggest possibilities for and limitations of Third World development in the contemporary international system.

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<sup>1</sup> Before moving to the literature review section, it seems essential to define the meaning of development as it is used in the context of this thesis. Development can be understood and measured in many different ways: economic growth, sustained structural change, equitable distribution of income, poverty elimination, improving basic human needs and/or economic decolonization (Martinussen 1997, 34-43). As well, development can be explained as such non-economic factors as political progress, greater participation of the population in decision-making, higher social mobility and/or environment sustainability. There are substantive points of disagreement on the definition and measurement of development among the various schools of thought. The debate on this issue has appeared complex since economists and other social scientists in the development field have generated a wide variety of analyses based on their individual intellectual standpoints. Indeed, given the fact that the economic growth experienced by some developing countries did not necessarily bring about improvement of the living standard of the entire population, there is a distinction between economic development and economic growth in development literature. Some studies done for cross-national comparison of development take into account the problems in the traditional measurement of a country's development – such as the level of gross national product (GNP) and the level of per capita incomes – and have searched for alternative ways of analyzing development. As recently as the early 1990's, for example, UNDP's *Human Development Report* demonstrates the importance of recognizing quality change (improvement) of the country's population, by including such variables as educational enrollment, overall life expectancy and infant mortality in its measurement of average living standard. However, despite its acknowledgement of the differences between economic growth and development, this thesis will not make a clear distinction between them because the purpose here is to merely study the relationship between the dynamics of the international system and the trend of the North Korean economy. Although the risk of oversimplification exists, for the sake of convenience, this thesis will refer to economic growth and development synonymously when examining the economic performance of North Korea. Therefore, in this study, development primarily means national economic growth (including level of GNP and increasing per capita incomes), increased economic capacity, increasing production and consumption levels, industrialization, structural change of the workforce and increased national wealth (even though these conceptions seem conventional). In order to measure the growth performance (development process) of North Korea, this thesis will mainly employ quantitative macroeconomic aggregates such as the growth rate of gross national product and gross domestic product. In this context, development does not necessarily refer to improvement (or change) toward equal distribution, sustainability, political democratization, legitimatization of political institutions, value changes, cultural advancement, improved human rights, et cetera, conceptions that are used as important indicators in measuring the level of a country's development by some scholars in the development field.

### **III. Literature Review**

Two competing views explaining the North Korean economy were most prevalent in literature until 1970's. However, following the economic downturn in North Korea in the 1980's and the aftermath of the collapse of the Soviet bloc in the late 1980's, one view advocating North Korea's socialist style of development and its self-reliant strategy disappeared from the literature of North Korean scholarship. The neo-classical perspective, the competing view, came to dominate writing in North Korean studies. Therefore, in order to provide an appreciation of the current mainstream view of the North Korean economy, this thesis reviews the important assumptions and prescriptions of the theoretical level in the neo-classical perspective for developing countries. Then it will move forward to deal with the writings of North Korean scholarship adopting this perspective.

#### **1. The Mainstream View of the North Korean Economy: The Neo-Classical Perspective**

Although the emphasis given to the market varies, the virtues of the free-market system are, in general, given prominence in the literature outlining neo-classical prescriptions for the so-called transitional economies in the former socialist bloc and for other Third World economies. The rationale for market superiority lies in the principle of classical economics that says that the market is able to achieve an optimal allocation of economic resources through profit-seeking behavior of rational humans. Subsequently, this efficient resource allocation function under perfect competition creates favorable conditions for maximizing long-term economic growth (Wade 1992, 271; Ericson 1991).

Since economic resources concerning production, consumption and investment can be utilized at maximum levels in economic development under the operation of the market mechanism, the role of the state, in the neo-classical view, should be limited to supplying public goods and adequate infrastructural facilities in order to facilitate the operation of the private economic forces. From the neo-classical perspective, private economic actors – such as business enterprises, private commercial banks and individuals – acting in the pursuit of their self-interests helps to create market conditions conducive to economic growth and to provide solutions to Third World problems. Believing in the notion that state intervention in the market mechanism is more harmful than beneficial, neo-classical economists view the economic problems of Third World countries, including high inflation, large fiscal deficits, large foreign debts and slow economic growth as having resulted from macro-economic inefficiencies of state intervention and central planning. In this context, defending the criticism of “market failure,” Lal (1985) has pointed out that the economic intervention of governments, in conjunction with their economic plans, leads to deleterious effects on the resource allocation function of markets in the Third World: “most government interventions attempting to supplant the price mechanism (by direct controls) have done more harm than good – even compared, possibly, with laissez-faire. Most of the more serious distortions in the current workings of the price mechanism in the Third World countries are due not to the inherent imperfections of the market mechanism but to irrational government interventions...”(Lal 1985, 77). By emphasizing the inefficiency of the central-planning model in the real world, Lal highlights the superior function of the market-based economy over the planned economy in terms of allocating

economic resources and fulfilling the numerous needs of individual economic participants (1985, 72-75). Unlike the market-based economy, in a centrally planned economy, the prices of goods and services are determined by the state. Generally, the prices of consumer goods and agricultural products were maintained relatively lower than equilibrium prices that would have been arrived at in a free market system. In this connection, neo-classical economists view that the state's control of price setting and production/distribution of goods and services is inefficient because central planning agencies have difficulties in collecting adequate information of resource allocation and in guiding investment decisions. Indeed, since private property has been abolished and all enterprises are owned by the state, according to the neo-classical perspective, the socialist economies have encountered the inevitable consequences. Low incentives, the absence of competition and the lack of entrepreneurship lead to low productivity and further economic problems. Therefore, in the neo-classical literature dealing with the transitional economies in Asia and Eastern Europe (Rana and Hamid 1995; Ericson 1991; Fischer and Gelb 1991), state-led market distortions were considered as the prime reason for the collapse of the socialist economies in the Soviet Union and Eastern Europe.

The neo-classical literature on this subject also identifies the inward-oriented development strategy and trade-restricting industrial policies of the socialist countries (and Third World countries) as another main cause of their economic problems. Neo-classical economists theorize that international trade makes the allocation of economic resources more efficient and strengthens the rational price structure of domestic markets. Inspired by Ricardo's comparative cost theory, which says that all nations involved in free-trade

gain benefits through comparative advantage in specialized production, neo-classical theorists – supporting trade liberalization and the open economy - treats international trade as the main engine of economic growth and rapid industrialization in the Third World. Based on the assumptions that small domestic markets, limited competition and poor economic inputs hinder economic development, advocates of neo-classicism have suggested that participation in the world market through trade and international specialization allows Third World countries, with relatively small domestic markets, to enjoy tangible benefits such as greater efficiency of production and reduction of waste because of the economics of scale in the enormous international market (Balassa 1981, 17; 1988, 280). And this will lead them to be more competitive in the international market. Thus, they claim that the inward-oriented development strategy – particularly the model of the autarkic economy – have produced adverse consequences for Third World economic development because of the inefficient utilization of resources and low-productivity of domestic industries.

Adopting the assumption that economic difficulties of developing countries are primarily caused by deteriorating terms of trade and heavy dependence on primary exports, many states in the World, including some Third World socialist countries, tried to expand their domestic industrial sectors, during the third quarter of the 20<sup>th</sup> century, with the goal of replacing imports of industrial goods with domestic production. Subsequently, many of these states established trade barriers; including high tariffs, quota systems and import-licensing, and controlled foreign exchange, in order to protect domestic industries from foreign competitors and accelerate national economic growth. However, after the early

stages of import-substituting industrialization, many Third World countries that had employed this development strategy later encountered stagflation and large foreign debts. Taking into account the adverse results of import-substituting industrialization, neo-classical economists emphasize that high rates of trade protection and the absence of competition gives rise to large-scale “rent-seeking” activities of domestic entrepreneurs, therefore making domestic products more expensive and of lower quality than imported goods (Balassa 1981; Lal 1985). Indeed, according to neo-classical perspective, import-substituting industrialization resulted in large-scale foreign indebtedness because developing countries adopting this strategy were importing more intermediate and capital goods to construct the industrial base at the same time that export earnings were decreasing. For these reasons, many studies taking a neo-classical perspective have claimed that the outward-looking development model based on free-trade and financial liberalization is much better than an inward-looking development model for creating conditions conducive to fast economic growth and industrialization. For example, in his comparative analysis of the patterns of the economic development among his research countries, Balassa (1981) emphasizes the positive relationship between outward-looking trade policies and economic growth, stating that “countries applying outward-oriented development strategies had a superior performance in terms of exports, economic growth, and employment whereas countries with continued inward orientation encountered increasing economic difficulties” (1981, 16-17). He concluded that integration of Third World economies (as well as the socialist economies in Eastern Europe) into the world market will have a beneficial effect on economic development and recommends a change

in industrialization policy from import-substitution to export-promotion. As well, in his work on the East Asian NICs (Newly Industrializing Countries), Balassa (1988) examines the effects of export-oriented development on the rate of economic growth and subsequently argues that export expansion based on comparative advantage in the world market is a main factor contributing to the success of the East Asian NICs. Lin (1988), in the comparative analysis of economic performances between East Asia and Latin America, also highlights that the trade liberalization of the East Asian countries has contributed to the rapid economic growth in this region, arguing that the constant trade-restriction policies of the protectionist Latin American countries reduced their economic capacity and led to their economic decline. In the light of the economic difficulties in both the former Soviet Union and Eastern Europe, the inward-looking development strategy and the concentration of trade within the CMEA (Council for Mutual Economic Assistance) have been criticized by neo-classical economists as contributors of serious economic problems in these socialist countries. From the neo-classical perspective, the isolation of domestic industries from the world market limited the effect of economies of scale and upgrading of industrial technologies. As industrialization progresses, it requires more sophisticated technology and larger markets for further development. However, since the socialist economies largely relied on domestic technology and markets, the industrial upgrading is retarded, which resulted in production costs higher than world costs and a reduction of export demand because of higher price and lower quality. Moreover, a wide variety of internal trade regulations, including exchange rates, subsidies on trade and price regulation (the so-called “friendship prices”) in the CMEA countries isolated domestic product prices

from the competition of international prices and removed the competitive pressure for the state enterprises in these socialist countries.

Unlike those who believe in the radical concept that capital investment by transnational corporations (TNCs) causes socio-economic marginalization and a reduction of economic autonomy in Third World countries, neo-classical economists have laid great emphasis on the positive role of foreign investment in Third World development. From the neo-liberal perspective, capital transnationalization and global activities of TNCs relying on "the international division of labor" have provided prosperity to the Third World with such benefits as technology transfer, capital accumulation, increased exports and job creation (Martinussen 1997, 114-128). Thus, as various studies from the neo-classical standpoint have shown (Balassa 1981; Lal 1985), an important role of governments is to maintain a stable political and economic environment that is liberal enough to attract foreign investment. Developing countries also need to set up, through a series of liberalization programs, investment incentives that channel international capital into domestic economies. Therefore, neo-classical economists have recommended that developing countries are better creating labor-intensive light industries by hosting foreign investment in the early stages of their development since they have a comparative advantage in the production and export of labor-intensive products. This idea, stressed by such economists as Lewis (1954), Little (1979) and Lal (1985), is based on the crucial assumption that the expansion of capital, technology and employment will move the industrial structure of developing countries from labor-intensive to capital-intensive and technologically sophisticated industries in the long-run. In order to accelerate the growth

rate in the early stages of development, capital and technology investment, with the help of transnational corporations, into light industries is considered especially important in the neo-classical literature. In this framework, the high priority given to heavy industry in the so-called Soviet model (the Stalinist model) is inappropriate for sustaining economic development in the long-run (Rana 1995; Ericson 1991). Despite rapid industrialization and economic growth in the earlier phase, the Soviet model ended up with stagnation and economic decline. Given this historical fact, neo-classical economists are likely to point out that the heavy industry-first policy in the Soviet bloc countries failed because of misguided and unrealistic investment. They argue that the creation of a heavy industrial base, relying on domestic resources, in the early stages of development is counterproductive since the production of heavy-industrial goods requires initial high costs of inputs and capital per unit. As well, the unbalanced heavy-industrialization resulted in negative impacts on the development of light industry and agriculture, having hampered the economy from developing or strengthening “backward and forward linkages” for continued economic development.

Taking the above into consideration, in the neo-classical sense, economic development of the developing countries (including the transitional economies) is only possible through facilitation of efficient market functioning, as well as macroeconomic stabilization and outward-oriented development strategies. This notion is clearly shown in the Structural Adjustment Programs (SAPs) of the two Bretton Woods institutions (the IMF and the World Bank). As well, these assumptions and policies were reinforced by the rise of neo-liberalism in conjunction with the emergence of conservative leadership in the

West in the early 1980's (George 1999, 2-4). As the ideologically-embodied form of neo-classical economics, neo-liberalism also criticized state intervention in the market mechanism, while emphasizing a radical economic liberalization – including deregulation of the price system and foreign trade, rapid privatization and other fundamental structural reforms – in the former socialist countries as well as in many other developing countries (Fischer and Gelb 1991; Ericson 1991). Following neo-liberal (neo-classical) prescriptions, the former Soviet Union and a majority of the East European countries, supported by the IMF and the World Bank, have undertaken market-oriented reforms in order to make the transition from a planned economy to a free-market one within a short-time period (Rana 1995). Although the claims of the neo-classical economists have been criticized for the negative impact of the market-led development approach, the liberal policymakers in the former Soviet Union and Eastern Europe during the 1990's implemented anti-inflationary monetary and austere fiscal policies, based on the logic of neo-classical economics, in an effort to achieve macroeconomic stabilization. From the neo-classical (neo-liberal) perspective, this is considered as a precondition for successful market reforms.

In the literature dealing with the North Korean economy, most scholars have taken the neo-classical position mentioned above, suggesting that the present economic problems of North Korea are similar to the experiences of other former Soviet bloc countries. According to this perspective, the basic cause of economic difficulties in North Korea lies in the shortcomings of its central-planning economic system. Noland (1998) supports this belief, pointing out that North Korean social and economic development has

been hampered by the inefficiency of a centralized system of economic management and planning controls. Emphasizing the importance of introducing a market economy for resolving the current economic hardships in North Korea, he summarizes the main features of the North Korean economy, which has created the present economic phenomenon, as follows:

North Korea exhibits the usual problems of centrally planned economies (CPEs) exacerbated by the *chuch'e* ideology of self-reliance and extreme centralization of power: There has been an overemphasis on heavy industry to the detriment of consumer goods and services; there has been overaccumulation and misallocation of capital; the infrastructure is in dire condition; enterprises operate using outdated technology, and the country is largely unable to acquire new technology from abroad; the suppression of international trade has contributed to foreign exchange shortages, which have inhibited the importation of even essential products such as cooking coal; shortages of power and parts have reduced capacity utilization; the bureaucratization of agriculture has contributed to falling production, and a famine of unknown magnitude may well be under way; regional development is unbalanced; and, as in many socialist CPEs, real living standards are reduced by environmental degradation, a massive military, and the diversion of resources into what Aidan Foster-Carter has described as "monumental edifices." (Noland 1998, 33)

In his influential works on the North Korean economic performance, Joseph S. Chung (1974, 1983, 1987) has provided further analyses of a series of North Korean economic plans beginning with the one-year plan of 1947. In examining the declining rates of North Korea's economic growth, he argues that the North Korean economy has experienced technology shortages in industry and serious bottlenecks in transportation, energy and foreign currency, those found commonly in the other centrally planned economies (1983, 168-179). According to Chung, as the scale of the North Korean economy was expanded, the task of North Korea's central planning agency became complex and, therefore, economic decision-making by the authorities was unable to respond quickly to demands of its economy as well as the fast-changing global economic conditions. In the meantime, the inefficiency of the rigid plan-management over resource allocation, along with the lack of adequate technology, resulted in unfulfillment of planned

targets since the first Seven-Year Plan (1961-67) and a continuous decline of the North Korean economy.

In their joint work on the system of industrial management in North Korea, Sin-Lim Choi and Suk-Ki Lee (1998) also feel that decreasing production capacity of North Korean industries stems, to a large extent, from the inappropriateness of the centralized industrial management. They regard this management system as leading to enormous waste of resources and disruptions in the planned production system because central planners and state-owned enterprises pay more attention to fulfilling the required outputs rather than quality. Indeed, considering the state's control over the production and distribution process, these two writers argue that an inappropriate incentive system and severe shortages of consumer goods have limited labor incentive and achievement motivation of workers, which has caused a slowdown of industrial growth. From the neo-classical perspective, the same problem – the lack of material incentives for increasing production – has occurred in North Korean agriculture, where the collectivization process was completed in 1958. The respective studies of Ky-Hyuk Pak (1983), Hy-Sang Lee (1994) and Phillip W. Lim (1997) have commented that North Korea achieved some impressive success in increasing agricultural production until the early 1980's, through land reform, high mechanization, chemicalization and mass mobilization, despite its shortage of arable land and a short growing season. Nonetheless, Ky-Hyuk Pak and Phillip W. Lim take the position that agricultural growth has been stopped since the collective farm management system of North Korea has ceased efficient functioning. According to them, low material incentives to farmers brought about by state monopoly of agricultural products and the

cooperative ownership of farmers led to the decrease in farming productivity and resulted in the severe famine of the mid-1990's, which was compounded by inadequate supplies of agricultural inputs and mismanagement of North Korean agriculture. In relevant literature (e.g., P.S. Kim 1994; Trigubenko 1991), North Korea's initial excessive focus on heavy industries – linking with military industries – was another factor which imposed limitations on the overall efficiency of the economy. The heavy industry-first policy of North Korea has produced long-term structural imbalances between heavy and light industries and between industry and agriculture, all leading to negative growth of both light industry and agriculture in later years. In addition, disproportionate emphasis on heavy industry brought about serious shortages of consumer goods and food, which negatively affected not only North Korea's rationing system but also its state controlled distribution system.

In this vein, the majority of neo-classical economists found in the literature on the North Korean economy point to North Korea's self-reliant industrialization policy as another main source of its present economic problems. For example, taking the dichotomous classification of "outward orientation" versus "inward orientation," Sang-Chul Suh (1983) considered the North Korean economy as a good example of the shortcomings of inward-oriented development strategy. By calling attention to the weaknesses such as a small domestic market and limited competition of the inward-oriented development model – an emphasis found in many writings from neo-classical perspective – Suh viewed the economic stagnation of North Korea as originating from its pursuit of inward-oriented industrialization. Moreover, Noland argues that the seclusion

of the North Korean economy is greater in its extent than that of any other economy. He describes the North Korean economy as “the world’s most autarkic economy” (1997) and “autarky-within-autarky” (1998).

According to neo-classical perspective, the neglect of foreign trade and foreign investment, rising from North Korea’s pursuit of a self-reliant economy based on *Juche* ideology, insulated the North Korean economy from benefits of integration within the world market. As a result, the economy suffered from a shortage of industrial capital, technology and foreign exchange. Studying the economic situation of North Korea in the 1990’s, Hong-Tack Chun (1997), Seung-Yul Oh (1997) and Noland (1997) examine North Korea’s trade deficit and its effect on the balance-of-payments which led to a foreign debt problem. In their view, along with the chronic trade deficit derived from an inward-oriented development strategy, North Korea’s heavy reliance on CMEA trade, on a non-profit commercial basis, resulted in its foreign exchange deficiencies. This was because trade with non-convertible currency economies of other CMEA countries did not produce hard currency earnings. These economists lay the blame on North Korea’s excessive imports of new machinery and industrial plants from the West in the early 1970’s as the main reason for North Korea’s high foreign debt since the country acted without careful consideration of the export earning potential of the capital purchases. In addition, they surmised that North Korea’s debt defaults aggravated the isolation of the North Korean economy, viewing the poor credit ratings of North Korea in the international financial market as discouraging foreign investment, even though North Korea introduced some reform programs after the mid-1980’s in order to access foreign capital and technology.

With respect to North Korea's economic reform programs, harsh criticism has appeared in the literature. Critics (e.g., S. H. Je 1998; Y. Namkoong 1995, 1998) argue that North Korea's reform measures, including the enactment of a 1984 joint ventures law and its supplementary laws and the establishment of a special economic zone in 1991, were unsuccessful. The results of this economic opening policy, in the critics' opinion, were far behind North Korea's original target because of such unfavorable business environment issues as poor infrastructure, irrational exchange rate, restriction on domestic practices of foreign corporations and high investment risk. They thought that these limited reform measures were not enough to attract foreign investment in a highly competitive global market. Considering the economic ascent of China after Deng's market-oriented economic reform, Critics emphasize the necessity of comprehensive reforms, including rehabilitation of property rights, privatization of state-owned enterprises and trade liberalization, as the first elements in overcoming the current economic difficulties of North Korea. They also posit that fundamental reforms and the transition to a market economy, which may have jeopardized the existing socialist system, were hindered by political considerations during the leadership succession and the survival of the North Korean regime.

In this section, we have looked at the main propositions of neo-classical perspective and neo-classical interpretations of North Korean development found in the literature of North Korean studies. As mentioned in the section on problem setting, analysis of the North Korean development by neo-classical scholars has helped shed light on the characteristics of the North Korean economy. As the mainstream view on the North

Korean economy, the neo-classical explanation helps to clarify the economic mechanisms of North Korea's present economic situation. It is also noteworthy that studies done within this North Korean scholarship have greatly contributed to the advancement of a relatively underdeveloped literature of North Korean studies. Nonetheless, it should be recognized that the neo-classical perspective has focused principally on the structural problems of North Korea's economic and political system. The neo-classical perspective tends to examine the shortcomings of the central planning system and the inefficiencies of North Korea's autarkic system. Since this perspective deals in greater detail with domestic factors causing a deteriorating North Korean economy, it can be said that the neo-classical perspective pays too much attention to the internal aspect of North Korean development. Consequently, studies based on the neo-classical perspective seem to largely ignore the external (international) factors in the economic trajectory of North Korea. Also, regarding the heavy criticism for North Korea's inward-oriented development strategy, it can be argued that the neo-classical perspective overemphasizes the benefits of international trade and foreign investment. It can be said that this perspective views the international economic system as playing a mostly positive role in a nation's development.

Since mainstream scholars of North Korean studies assert that North Korea's domestic policy of self-reliance (*Juche*) has been attributed to the non-participation in international markets, their argument or assertion about the positive effects of international participation failed to address the important issue of how international and historical factors have affected North Korea's decisionmaking in pursuing an inward-oriented

development strategy and have influenced its internal process of economic development. In particular, this perspective largely ignores how the political support and hostility of the superpowers during the Cold-War influenced the development path of North Korea. In a broader aspect, neo-classical assumptions and prescriptions for the former socialist and Third World countries in recent years have also been criticized for the negative impact of economic liberalization such as falling living standards and social disruptions. Critics (e.g., Chossudovsky 1997) argue that neo-classical “reform programs” have contributed little to the recovery of these economies, proving this through the use of empirical evidence of deteriorating socio-economic conditions. Why some developing countries adopting the outward-oriented development strategy have not tangibly benefited from the international integration of their economic activities through trade and foreign investment, in contradiction to the predictions of neo-classical perspective, can also be questioned. Having recognized the problems in the dominant view of North Korean economy, it is necessary to survey alternative views.

## **2. Alternative Views**

Many perspectives on Third World development have evolved during the last five decades. But in order to establish an appropriate theoretical basis for the research questions, this thesis will review the presuppositions and main arguments of three perspectives that have focused on the role of external (international) factors for the development of a national economy.

## **The Neo-Marxist Perspective**

Originally a critique of modernization theory, neo-Marxist theory emerged from the radical intellectual tradition to describe the driving force behind the economic backwardness of the Third World and to explain why Third World countries have not been able to achieve the capitalist development of Western Europe and North America (Hunt 1989, 162-163; Packenham 1992, 7-14). Contrary to modernization theory, which points to internal (domestic) factors as the main causes of economic problems in the Third World, neo-Marxists emphasize that the underdevelopment and economic stagnation facing the Third World has been caused by such external factors as foreign domination in its economies and unfavorable international markets. Although strongly influenced by Marxism and Leninism, neo-Marxists differ from the early Marxists whose analysis was predicated on the idea that the imperialist penetration of Western capitalism would remove obstacles of capitalist development in the Third World and that, consequently, the colonial economies would develop themselves into fully-industrialized ones (Martinussen 1997, 85-86; Blomstrom and Hettne 1987, 28-29, 35-38). Neo-Marxists consider colonialism and imperialism as having blocked the possible economic development of Third World countries since the emergence of “a capitalist world economy” in the 16<sup>th</sup> century (Blomstorm and Hettne 1987, 68; Hunt 1989, 173). Since the colonial powers brought Third World countries into the capitalist world economy, advanced capitalist nations (especially Spain, Great Britain and the United States) have exploited the Third World for their continuous capitalist development and industrialization through various means of exchange and military enforcement. Thus, neo-Marxists focus on a range of unequal and

dependent relationship between two kinds of nations, generally described as center/periphery (or metropolis/ satellite). Neo-Marxists argue that Third World countries have suffered from economic underdevelopment because of the steady transfer of economic surplus – intended to be reinvested in the Third World to promote its economic development – from “the periphery” to “the center” within the framework of the world capitalist system.

Leading neo-Marxists, such as Frank, Emmanuel and Amin, generally share “the development of underdevelopment” notion, which suggests that development in Third World countries is directly inhibited by dependency on external powers. Frank, the pioneer of this notion, strongly refutes the notion that underdevelopment in the Third World is caused by internal economic conditions, stating that underdevelopment is not due to the survival of archaic institution and the existence of capital shortage in [underdeveloped] regions” (1972a, 8). He instead focuses on the surplus exploitation and appropriation from underdeveloped countries to advance capitalist countries, which has resulted in the continuous development of rich countries and the continuous underdevelopment of poor countries (Frank 1972a, 6-7; Larrain 1987, 116). To make things worse, the monopolistic and hierarchical structure of the global capitalist system explains that the maximization of surplus extraction by the advanced capitalist countries occurred through “unequal exchange” relations. Thus, Frank stresses that, despite the Third World’s political independence in the 20<sup>th</sup> century, a large portion of the economic surplus generated in the Third World continued to move to the monopolistic capitalists in developed countries:

When we examine this metropolis-satellite structure, we find that each of the satellites, including now underdeveloped Spain and Portugal, serves as an instrument to suck capital or economic surplus out of its own satellites and to channel part of this surplus to the world metropolis of which all are satellites. Moreover, each national and local metropolis serves to impose and maintain the monopolistic structure and exploitative relationship of this system....as long as it serves the interests of the metropolis which take advantage of this global, national, and local structure to promote their own development and the enrichment of their ruling classes (Frank 1969, 6-7).

For neo-Marxists, foreign trade and investment under dependency conditions are the key factors behind surplus exploitation in Third World countries. While criticizing Ricardo's theory of comparative advantages, neo-Marxists argue that the basic pattern of Third World production and export specialization – where labor-intensive primary commodities are exchanged for capital-intensive industrial products – has been adverse to the interests of Third World countries. As well, in their view, the foreign investments in primary commodities and the labor-intensive industries of Third World countries are largely associated with the outflow of economic surplus to advanced capitalist countries in such forms as profit repatriation, dividends, interest payments and royalties (Martinussen 1997, 91-92; Hunt 1989, 180-183; Larrain 1989, 133-134). Based on their observation of surplus exploitation, neo-Marxists raise a question about the role of a national bourgeoisie class in the midst of unequal and dependent economic situations. They conclude that the dominant economic class in the Third World – including landowners, merchants and other economic elites – is no longer an important social force in promoting autonomous national development because its members are more concerned with their traditional and monopolistic position, one tied to foreign forces (Frank 1972b, 5; Hunt 1989, 176). At this juncture, neo-Marxists believe that the capitalist system is unable to generate real development; instead it leads to stagnation and economic underdevelopment in the Third World. Because continuous contact with world capitalism is hindering future

development of Third World countries, Neo-Marxists recommend delinking from the capitalist world economy through a socialist revolution and an economic autarky policy in order to minimize foreign control of Third World industries and thereby achieve independent national development (Martinussen 1997, 89; Hunt 1989, 171). Although proponents of neo-Marxist theory did not provide a detailed description of socialist development strategy and self-reliant model in the Third World, some neo-Marxists insinuate that the Soviet-type system and industrialization is an apt model for harnessing Third World countries' capacity for autonomous and sustained development.

As a popular analytical approach on the causes and consequences of Third World development (or underdevelopment) in the late 1960's and throughout the 1970's, the neo-Marxist perspective contributed to theoretical debates in the academic study of development. During the heyday of the neo-Marxist perspective, and further influenced by the writings of neo-Marxists, a few scholars on North Korea took the position that North Korea had been able to achieve autonomous development through a radical socialist revolution and a delinking from the capitalist world economy. The contributions of Byong Sik Kim (1970) and Brun and Hersh (1976) were good examples of neo-Marxist application to the North Korean economy. Given the fact of North Korea's rapid economic growth until the mid- 1970's, both of these 1970's studies viewed the economic achievement of North Korea as proving that the self-reliant development strategy is possible. These studies also asserted that the elimination of foreign interests in the economy through the socialization of production means helped North Korea's economic

management systems – the *Chongsanri* Method and the *Daeam* Work System – to facilitate both agricultural and industrial growth.

However, during the last few decades, neo-Marxist propositions have received harsh criticism from both orthodox Marxists and non-Marxists. Critics have argued that the dependency analysis of neo-Marxists overemphasized exploitative and unequal relationships between “the center” and “the periphery” through ambiguous and insufficient analysis of the exchange mechanism. Since the neo-Marxist perspective placed a great emphasis on the role of external factors in shaping the development path of Third World countries, others blame neo-Marxists for overlooking the internal dynamics of national economies such as social class relations, the emergence of the entrepreneurial class, production relations and the possibility of indigenous capital accumulation. The neo-Marxist argument that unequal exchange in international trade and surplus exploitation by transnational corporations led to stagnation and underdevelopment in the peripheral countries became irrelevant because the East Asian NICs have undergone capitalist development through the use of foreign investment, technology and trade. Along with rapid economic growth of the East Asian NICs, the serious economic problems and the collapse of the socialist bloc countries at the end of the 1980’s raised a challenge to the neo-Marxist position: the impossibility of capitalist development in the Third World under the contemporary capitalist world system and the possibility of socialist development. Indeed, it can be argued that neo-Marxist ignored the problems of socialist development. Consequently, in the dependency debate of neo-Marxists, there is a neglect of the so-called “Soviet dependence” within the socialist bloc. The neo-Marxists advocating the

autarchy of the socialist countries ignored the political and economic support of the Soviet Union (and China) to its socialist allies during the Cold-War as well as the impact of the relationship of the capitalist countries on the internal process of socialist development. In sum, arguing that the economic problems in Third World countries are derived from the center-periphery relationships within the capitalist world system, neo-Marxist perspective helped to show the importance of external factors in the individual national development. Nevertheless, it is obvious that neo-Marxist took an extreme position. Their pessimistic determinism on the capitalist development of developing countries in hindsight can be seen to be misplaced. The neo-Marxist solution to Third World problems – autonomous and self-reliant socialist development – is problematic since the experience of former Soviet bloc countries have shown that they were heavily affected by such changing international situations as the world economic recession in the 1970's and the emergence of conservative leadership in the West in the early 1980's. Hence it is necessary to review moderate perspectives in order to grasp the interaction between the external and internal factors on Third World economic development.

### **The Dependent Development Perspective**

In the 1970's, contrary to the expectations of the earlier dependency theorists (neo-Marxists), some Third World countries, such as Brazil, Taiwan and South Korea, achieved rapid economic growth while pursuing the outward-oriented development strategy. In the wake of the emergence of Newly Industrializing Countries (NICs), the underdevelopment notion of neo-Marxists became problematic because it could not provide a theoretical framework for explaining the economic phenomenon of these countries. In the process of

interpreting the possibility of development in the Third World, two perspectives from the dependency tradition – dependent development and world-system perspective – began to appear in Third World development literature.

Cardoso is a key contributor to the formulation of the model of dependent development. He views dependency situation in a different way from neo-Marxists, rejecting the following main notions: that external forces cause underdevelopment and stagnation; that indigenous capitalists do not contribute to development; and that capitalist development is not feasible in the Third World (Cardoso in Kay 1989, 137; Martinussen 1997, 95). Considering that the dominant class alliance based on nationalism in some Latin American countries played a progressive role in achieving economic growth and industrialization, Cardoso argues that external forces are not a determining but rather a conditioning factor of Third World development. Varying degrees of dependence and development within the context of Third World economies exist because the internal political, social and economic reactions to the influence of external factors among Third World countries are diverse (Cardoso in Martinussen 1997, 94; Hunt 1989, 214). Thus, based on his observations of the different dependency experiences among Latin American countries, he attempts to examine, in more specific and empirical fashion, how the relationship between external forces and internal dynamics affect national development, opposing the idea of constructing “a general dependency theory” that applies to the entire Third World. Cardoso considers that the changes in the world capitalist system, such as increased competition among transnational corporations, “internationalization of consumption patterns” and the strengthened bargaining power of some developing states,

provide opportunities for a number of developing countries to undergo the process of “associated-dependent development.” Although this style of development does not necessarily take into consideration economic sustainability and the importance of income distribution, for Cardoso, increasing multinational capital investment to Third World countries that possesses the involvement of state and indigenous capitalists in capital accumulation could possibly lead to economic growth.

The mechanism and structural limitations of “dependent development” are discussed in detail in Evan’s analysis (1979) of Brazilian development. Evans argues that “dependent development is a special instance of dependency” (1979, 32). In his view, the emergence of the “triple alliance” among multinational corporations, the state and indigenous capitalists makes dependent development possible. The relations among the three partners in the alliance contain the mutual benefits, as well as internal tensions, because they pursue their own interests and objectives (1979; 34-50). Driven by new technological innovations and heightened competition, transnational corporations move much of their manufacturing production, from textile to electronics and automobiles, to some Third World countries in order to take advantage of cheap labor, raw materials and/or large domestic markets in these countries. Although the prime objective of their global strategy is the maximization of profits, according to Evans, transnational corporations share their profits with local partners to secure their local and global activities. However, transnational corporations use capital-intensive technology in export industries which is inappropriate to a host country’s industrial structure and creates a dual economic structure. They also invest mainly in consumer and luxury goods to be

consumed by the upper income classes (1979, 34-38). Although the exports of manufactured goods increases, there is large trade imbalance because trade basically relies on primary exports and the imports of capital goods. Therefore, Evans posits that the role of transnational corporations in Third World countries is both beneficial and problematic.

With respect to the state in the triple alliance, Evans considers the state in the Third World as the central actor in promoting economic development, saying that “If classic dependence was associated with weak states, dependent development is associated with the strengthening of strong states in the semi-periphery. The consolidation of state power may even be considered a prerequisite of dependent development” (1979,11). According to Evans, through strengthening their bargaining power with multinationals and domestic capitalists, strong states in the semi-periphery – many of them emerging out of military coups – start to take advantage of their political and economic position in the development process (1979, 290). Coming into power lacking political legitimacy, strong states, backed up by the military apparatus and the technocrats, commit themselves to “the normalization of the economy” in order to solidify their political power (O’Donnell 1979, 292). However, despite economic growth, dependent development also leads to undesirable consequences. To create a favorable climate for the activities of transnational and domestic corporations, severe political repression and labor control have accompanied dependent development. The experience of dependent development shows a reduction of real wages, increasing inequality in income distribution and large unemployment. More significantly, according to Evans, although the role that the state and indigenous capitalists play in creating conditions for economic development is very important, Third World

development is largely “conditioned by” the international economic system. Evans points out that economic growth under conditions of dependent development is strongly influenced by such external factors as the interests of transnational corporations and changes in international relations (1987, 220-223). Since capitalist development in the Third World is interrelated with the dynamics of external forces, Evans suggests that dependent development has inherent limitations:

Dependent development is viable only if it has support from the larger system of imperialism. The entire success of the dependent development is predicated on multinationals willing to invest, international bankers willing to extend credit, and other countries willing to consume an ever increasing volume of [Third World] exports. ... Like classic dependence, dependent development will eventually reach its limits ... (Evans 1979, 290).

### **The World-System Perspective**

Some important research questions of dependent development writers, such as the economic differences among nations and the mobility of a nation’s position within the world capitalist system, have been further developed and elaborated within the world-system perspective, which particularly highlights the dynamics of the capitalist world economy. The pioneer of this perspective is Wallerstein (1979, 1983), who developed the basic concepts of world-system analysis. At the heart of his contributions is the formulation of the semi-periphery concept. Questioning the bimodel framework of the earlier dependency school, Wallerstein divides the capitalist world economy into three zones: the “core,” “semi-periphery” and “periphery” (1979, 68-72). According to Wallerstein, semi-peripheral countries are located between the core, with its advanced economies, and the periphery, with its underdeveloped economies and technologies. Semi-peripheral countries contain complex features drawn from these two opposites

(Arrighi and Drangel 1986, 11-12). Within the capitalist world economy, semi-peripheral countries engage in economic activities found in the middle ground between the core and the periphery, specializing in certain labor-intensive industries, which compete against the high-wage production of the core, and in certain capital- and technological-intensive industries, which compete against the cheap labor-based products of the periphery (Wallerstein 1979, 70-71; Shannon 1989, 28-34; Chase-Dunn 1990, 2-3). Because of their “mix of core-peripheral activities,” semi-peripheral countries have benefited economically from using their comparative advantage.

The semi-periphery concept, which provided a theoretical base for the possibility of economic development in the Third World, was reinforced by another concept of the world-system perspective: upward and downward mobility within the world economy. Through increasing the economic and/or political power of states, new semi-peripheral countries (and core countries) can emerge from the periphery even though the possibilities for such upward movements are fairly rare. Wallerstein presents three strategies, any one of which a country can adopt, which can lead a state to achieve semi-peripheral status: “the strategy of seizing the chance, the strategy of promotion by invitation, and the strategy of self-reliance” (1979, 76). With respect to “the strategy of seizing the chance,” Wallerstein demonstrates that some peripheral countries with a rich natural endowment or a large domestic market, such as China, Mexico and Brazil, can attempt to accelerate economic development through “aggressive state action that take advantages of the weakened political position of core countries and the weakened economic position of domestic opponents of such policies” (1979, 77). The expansion of industrial production

through import-substitution in Latin America during the world depression of the 1930's is considered as a good example. With regard to "promotion by invitation," Wallerstein views that the favorable international environment created from the interests of core countries also allows Third World countries to achieve economic development through foreign capital investment and technology transfer (1979, 79-81). Along with the internationalization process of capital, rising labor costs in advanced capitalist countries has led to the global activities of TNCs and the tendency for "decentralization of production," which pressures many manufacturing industries to move toward peripheral and semi-peripheral countries in order to take advantage of lower-wage labor. As a positive consequence of new industries transferred by TNCs, some peripheral countries – for instance, the East Asian NICs - have rapidly expanded their industrial capacity during the last few decades. But, despite the benefits of foreign investments, in the world-system analysis, there is also the awareness of the negative consequences of foreign capital investment based on the international division of labor (e.g., Szentes 1982; Arrighi and Drangel 1986). One example of these phenomena is direct labor control by the state in order to maintain profitability and labor productivity. To encourage more foreign capital and technology investment, the state apparatus in the peripheral countries, in conjunction with their capitalist class, has been used to tightly control labor costs and to maintain socio-economic stability.

Regarding economic relationships in the world-system, Wallerstein, influenced by the notion of unequal exchange relations in neo-Marxist theory, argues that economic surplus in the Third World is transferred to core countries through trade and other forms of

capitalist exchange (1979, 98). At the same time, although they do not have sufficient power to overcome the core's exploitation, Third World countries implement regulatory policies to prevent domestic markets from being penetrated by the activities of transnational corporations (1979, 99). Sharing the core's interests in keeping regional order, semi-peripheral countries exercise a certain extent of political and military power toward peripheral countries within their regions. Thus, the world-system perspective of Third World development is generally neither pessimistic nor optimistic, but depends on the individual state's conditions and how it has chosen to act in international economic and political place (Wallerstein 1979, 73).

Based on their consideration of a long-historical time span and global scale analysis, Wallerstein and collaborators of his world-system analysis argue that "a single capitalist world-economy" has existed since the 16<sup>th</sup> century, when European merchant capital spread throughout all peripheral countries. Therefore, from the world-system perspective, although socialist states have come far in their pursuit of self-reliance, they remain part of "a capitalist world-economy." Indeed, socialist states belong in either the semi-periphery or the periphery, instead of delinking from the capitalist world economy or creating the socialist world-economic system. According to world-system perspective, socialist-developmental strategies has been heavily affected by external factors since socialist countries continuously participate in the capitalist world market through trade and capital investment. Wallerstein regards that the creation of the socialist economies in the 20<sup>th</sup> century was limited because the economic activities of the socialist states were circumscribed by the capitalist world market and the antagonistic Cold-War confrontation

(Wallerstein in Block 1990, 266). Furthermore, Wallerstein argues that “establishing a system of state ownership within a capitalist world-economy does not mean establishing a socialist economy” (1979, 90). In spite of some disagreements about the nature of state socialist economies within the world-system school, Wallerstein’s notion that socialist states in the 20<sup>th</sup> century remain in a single world-economy, which is dominated by capitalist states, has been supported and extended by Chase-Dunn (1982, 1990) and other world-system analysts. However, attempts by world-system analysts to situate socialist states within the capitalist world economy has been criticized for neglecting “actually existing socialism” in socialist states. The world-system perspective has also been criticized for simplifying the various differences among Third World countries and for ignoring the role of internal factors in development.

#### **IV. Theoretical Framework for the Thesis**

We have reviewed various debates that have taken place in development literature. As mentioned earlier, among the reviewed four perspectives used to explain the dynamics of development, the neo-classical perspective has been given the most credibility by mainstream scholars on North Korea. Nonetheless, this thesis finds that the neo-classical explanations of the path of the North Korean economy remain incomplete because they give too much attention to the internal aspect of North Korean development. An alternative view based on the neo-Marxist perspective also appears to emphasize only certain aspects. Although the neo-Marxist perspective sheds light on the role of external (international) factors in the internal processes of development (and underdevelopment),

the North Korean style of socialism and its present economic problems do not seem to conform to the propositions of neo-Marxism. Thus, even though these two perspectives examined above are valid to some degree in their explanation of North Korea's development path, they do not sufficiently take into account the impact of the international system on the internal economic development of North Korea.

Given the inadequacy of the previous two approaches, this thesis finds that the dependent development and world-system perspectives are quite useful for examining the relationship between the economic performance of North Korea and the dynamics of the international system. In fact, the literature on the North Korean development as seen from the dependent development perspective is very rare since this perspective has emerged from the experience of Latin American countries, with a focus on the nature of dependency and the possibility of capitalist development in the Latin America context. Indeed, liberal scholarship on North Korea has been reluctant to interpret the economic trajectory of North Korea from a dependent development perspective, considering this perspective part of radical (Marxist) discourse. This thesis recognizes that dependent development perspective does not have enough relevance to analyze the socialist development experience in North Korea. It is clear that the theoretical issues raised by dependent development perspective are not designed for explaining a model of socialist development. Rather, it discusses the mechanisms and consequences of capitalist development. This perspective has also focused to a large extent on the internal-external linkages through transnational corporations (TNCs), the role of which has been minimized in North Korean development since the birth of the socialist regime. However, despite its

inherent limitations, the dependent development perspective provides several working ideas for the thesis; namely that the economic functions and structures of individual countries are conditioned by international (external) forces; and there exist diverse situations of dependence in the international system. Thus, this perspective helps to examine how changes in the international system have affected North Korea's development path in both negative and positive contexts. It helps to explain how North Korea achieved rapid economic growth during the early decades through heavy dependence on the Soviet Union and other socialist countries which were supplying military and economic aid. As well, the dependent development perspective is helpful for creating an understanding of the relationship between North Korea and the capitalist world economy after North Korea established economic links with non-socialist countries in the late 1960's. Nonetheless, it is clear that, at the theoretical level, the experience of the North Korean economy should be examined as a modified form of dependent development. This is because North Korea's "Soviet dependence" and relations with capitalist countries differ from the center/peripheral relationships among capitalist countries identified by the dependent development theorists.

In addition, the world-system perspective provides a theoretical basis for interpreting the position of North Korea in the international system. Although its overlooking of socialist modes of production and existing socialist features in socialist countries has been problematic, the world-system perspective does help support the argument the socialist path of North Korea has been profoundly influenced by the international (external) factors. Since the world-system perspective identifies the problems of socialist development in the

context of the capitalist world economy, it helps to illustrate how certain unfavorable factors in the international environment have hindered North Korea from pursuing its own development strategies. Also, this perspective contributes to the explanation of how the North Korean state reacted to the Cold-War environment and implemented its political/economic policies in response to changes in the international system. This perspective also requires an examination of how the political and military dynamics of the Cold-War superpowers' interests in the Korean peninsula contributed to the economic development and problems of North Korea. Drawing support from some propositions of the world-system perspective, this thesis can argue that the North Korean economy has not been able to function independently of the changing international situation even though North Korea pursued a self-reliant economy. The world-system perspective can be used to explain North Korea's trade relations with the West and its consequent trade imbalance and foreign debt default in the 1970's. This perspective is also useful in understanding the ongoing economic difficulties of North Korea following the collapse of the Soviet bloc countries. In conclusion, the purpose of this thesis is not to apply an existing development theory to the economy of North Korea. Although the two perspectives examined above do not fully explain the economic trajectory of North Korea, these ideas constitute the theoretical framework for our study and guiding principle for the thesis because they do provide several useful working ideas for interpreting the economic situation of North Korea.

## **V. Thesis Statement**

The development course of North Korea has been shaped by external forces. The changes in the international/regional system have been a determining factor in conditioning the North Korean development. Despite the North Korean regime's persistent emphasis on economic self-reliance, its economy has been greatly affected by the changing Cold-War environment. The impact of the changing international situations on the North Korean economy has been both beneficial and detrimental. North Korea took advantage of the early stages of Cold-War alliances and competition during the postwar rehabilitation period. However, some changes in international/regional system have resulted in negative effects to North Korea's economic development. In particular, the disruption of the North Korean economy in the 1990's is largely linked to the end of the global Cold-War.

## **VI. Methodology**

The basic approach and analytical framework for this thesis is based on a structuralist perspective on economic and political development. This thesis focuses on how the changing interaction between North Korea and the international political and economic system has affected North Korea's economic development in both a beneficial and detrimental fashion. Given the focus of the thesis, a structural analysis at both the national and international levels helps to elucidate the dynamic linkages between North Korea and world political and economic changes. As well, since international factors played an important role in shaping the development processes of North Korea during the

Cold-War, focus on the external dimension of North Korean development should move beyond the problematic analytical framework of mainstream North Korean researchers working with neo-classical assumptions.

Along with a structural approach, this thesis employs an historical research method in order to avoid the abstractions inherent in a structural approach. In this, the thesis adopts the perspective of Fernand Braudel and presents a combination of structural and historical analysis. The historical approach also prevents this thesis from becoming subject to the flawed interpretation that is occasionally found in the case studies that merely employ short-term perspective or pure econometric analysis. The historical approach, based on the contemporary context of North Korea, reduces the possibility of ignoring unique aspects of the economic trajectory experienced by North Korea during the last five decades. The weaknesses of historical analysis, especially subjective and less systematic description, are compensated for by the previously mentioned structural approach.

With respect to data collection on North Korean development, this thesis uses both primary and secondary materials dealing with the subject in both English and Korean. Statistical data of the North Korean economy are drawn from previous studies found in books, reports and journals. Since this thesis looks at the long-term performance and results of the North Korean economy, it has paid little attention to the growing literature dealing with such non-economic issues as human rights, environmental problems, culture and the nuclear issue.

When considering data-gathering tasks for North Korea, it should be noted here that there are some difficulties in studying and understanding the North Korean economy in depth. First, this thesis data lacks North Korea's official documentary sources. Until the mid-1970's, the North Korean government occasionally released detailed economic figures. However, it has not published national economic statistics since the late 1970's, when North Korea faced an economic slowing-down. Indeed, North Korea has not joined most international and regional economic organizations, such as the IMF, the World Bank and the Asian Development Bank, even though it became a member of the United Nations in 1991. In this connection, economic statistics and information on North Korea are not available through the official publications of these international organizations. As well, although there are several publications of government-affiliated organs in North Korea, such as the *Nodong Sinmun* (Workers' Newspaper) and the *Minju Choson* (Democratic Korea), it has been almost impossible to access these publications from this region.

Second, without North Korea's official documentary sources, this thesis is based instead on primary and secondary sources published in South Korea, Europe and North America. By referring to official North Korean statistical data, available until the mid-1970's, and making estimates of its economic performances, some scholars and researchers have examined North Korea's economic development and problems. In spite of a low issue rate, a few academic journals and magazines, including *Asian Perspective*, *Journal of Contemporary Asia*, *Korea and World Affairs* and *Far Eastern Economic Review*, have continuously included articles dealing with the North Korean economy and its development policies. Also, several governmental and corporate organizations, such as

the Bank of Korea, the National Unification Board of the South Korean government and the Economic Intelligence Unit in London, have provided estimates on the North Korean economic performance for researchers on North Korea. Under these circumstances, this thesis makes use of a few primary materials published by South Korean government and institutions in South Korea and abroad, while it refers to some official North Korean statistics found in secondary sources. In most cases, this thesis relies on secondary analysis of data collected and presented in documentary and academic studies.

However, this thesis finds that statistical data and economic estimates developed by researchers – both individuals and institutions – sometimes differ among themselves and from the official figures of North Korean government. Thus, it is unclear whether estimates from researchers outside of North Korea or official North Korean statistics accurately indicate the real economic situation in North Korea. Because of this, this thesis cannot be free from a question of reliability as to its data. However, notwithstanding the given limitation of gathering highly-reliable data, this thesis cannot be conducted without using the information and estimates found in the previous studies. Hence, this thesis pays careful attention to the data used in order to collect relatively accurate data dealing with the North Korean economy. This is achieved by careful cross-checking of data sources.

Third, along with the problems of data reliability, ideological bias in the literature on North Korean studies makes the task of this thesis - exploring the North Korean economy - difficult. In fact, under the Cold-War environment, it was difficult to observe the development path of socialist North Korea objectively. A number of previous studies on North Korea before the 1990's seem to have been published as an instrument for political

propaganda and economic race between North Korea and South Korea during the Cold-War era. Given the fact that previous studies were hampered by ideological constraint, it is coincidental that some proportion of the literature on North Korea is based on anti-communist and anti-North Korean consciousness, whereas some proportion reflects North Korean political propaganda. With regard to methodological tasks, therefore, it should be stressed that this thesis intends to avoid an analysis of the rivalry competition between two Korean states. In addition, this thesis approaches the topic with as much neutral objectivity as possible under the circumstances that include my own nationality (South Korean). In an effort to overcome ideological constraints, information that has been constructed for the purpose of political propaganda will be eliminated.

## **VII. The Outline of the Thesis**

This thesis is composed of five chapters. Chapter One introduces the problem setting, the literature review, the theoretical framework, the methodology and the thesis statement.

Chapter Two presents the conditions created in the Japanese colonial era and in the period of the Korean partition by the United States and the Soviet Union in order to demonstrate the influence of international factors on the early development process of North Korea.

Chapter Three examines the relationship between the economic performance of North Korea and the dynamics of the international system during North Korea's economic ascension period. The first section focuses on land reform and the nationalization of industries under Soviet auspices throughout the liquidation period, from 1945 to 1947.

The second section reveals how the North Korean regime laid the foundation for a socialist economy during the war-rehabilitation and socialization period, from 1948 to 1960. Indeed, this section addresses North Korea's dependence on Soviet economic and military aid in the 1950's. The third section discusses the heavy-industrialization and self-reliant policy during the first Seven-Year Plan period (1961-67) and its three-year extension, as well as the negative impact of increased military expenditures on economic growth. This section also shows how, in the 1960's, certain factors in the international environment, such as the Sino-Soviet conflict, the emergence of Park's military regime (1961-1979) in South Korea and U.S. intervention in the Vietnam War, influenced North Korea's economy.

Chapter Four explores how changes in the international system have affected North Korea's development path in negative ways during the period of economic decline. The first section highlights North Korea's trade relations with West during the early 1970's, while the second section discusses economic stagnation from the late 1970's in accordance with trade imbalances and foreign debt default. This section then presents North Korea's unsuccessful attempt at economic openness, as introduced by the joint ventures law of 1984. The last section endeavours to determine the economic difficulties of North Korea in the 1990's following its diplomatic isolation and the collapse of the socialist bloc. This section also examines North Korea's economic structural problems.

In Chapter Five the findings of the thesis are summarized and conclusions in relation to the thesis of the study are drawn.



## **Chapter Two**

### **Political and Economic Conditions Prior to the Inception of North Korea: the Impact of External Forces on Early Korean Development**

If Korea, at the end of the 19<sup>th</sup> century, had been able to overcome threats of imperialist powers with internal strength, and therefore escape 36 years of Japanese colonial rule, the development path of Korea throughout the 20<sup>th</sup> century would have been markedly different from what the two Koreas actually experienced under their respective development systems. Without going that far back into history, if the United States and the Soviet Union had followed a different course for safeguarding Korean independence and unification at the end of World War II, the Korean tragedy – the nation’s division and the formation of two hostile governments – could have been avoided, and a unified Korean state might have pursued entirely different political and economic patterns. It is clear that the value of hypothesizing about the past is, at best, questionable. No one knows whether Korea’s current situation would be better or worse if the two key events mentioned above had not taken place in the Korean history. Nonetheless, the reason for hypothesizing about events created by external forces is to show just how important the legacy of colonial rule and Soviet-American confrontation in Korea’s division were in shaping the political and economic systems of socialist North Korea. This chapter discusses the political and economic conditions created by Japanese colonial authorities and the two Cold-War superpowers prior to the formal inception of the two separate Korean states in order to illustrate the early influence of external factors on the development process that North Korea has experienced over the last five decades.

## **I. The Fall of the Choson Dynasty and the Emergence of the Japanese Imperial Power in Korea**

Korea existed as a single, independent and sovereign nation for many years since its unification in the 7<sup>th</sup> century, possessing a homogeneous race, language and culture. The last traditional Korean state – the Choson Dynasty (1392-1910) – was based on the doctrines of Neo-Confucianism. In its early period, the Choson Dynasty developed a centralized administrative system and strengthened Korean civilization through institutional innovation and technological upgrading (K.B. Lee et al. 1990, 135; Cumings 1997, 64-65). However, it became weaker in the course of the constant power struggle between the monarchy and the aristocracy (*yangban*) and the endemic factional strife among the aristocracy for dominant political power. Along with the Japanese invasions of the 1590's and the Manchu invasions in the middle of the 17<sup>th</sup> century, rampant bureaucratic corruption at both local and central levels exacerbated the declining capacities of the central government. Aggravated by these political problems, the Korean economy during the last two centuries of the Choson Dynasty was on the road to decline because of little investment and innovation. Although agricultural production grew through improved farming techniques and farm management (K.B. Lee et al. 1990, 161), feudal land ownership and heavy taxes deteriorated the life of Korean peasants, resulting in mass poverty, starvation and peasant uprisings. Indeed, because Confucian notions emphasized a hierarchical social structure and agricultural activity, social mobility was restricted and commercial functions were discouraged during the Choson period (B.P. Kim 1992, 55). Thus, one could argue, in the modernization sense, that the Korean economy prior to Japanese rule was traditional and did not bear such features of capitalist

development as entrepreneurial motivation, market expansion and capital accumulation. Suffering from political struggle and prolonged economic stagnation, the Choson Dynasty eventually revealed its difficulty in managing internal problems and maintaining the defense capabilities in the 19<sup>th</sup> century.

Prior to the arrival of the Western powers, China was the “Middle Kingdom” of East Asia. By accepting China’s superior status and its tribute-trade system, the Choson Dynasty secured its own sovereignty within the Chinese-centered international order. As a consequence of its close association with China, Korea’s foreign relationship with neighboring East Asian countries was not active; after the Japanese invasions at the end of 16<sup>th</sup> century, for instance, Korea closed its doors to Japan. In the beginning of the 19<sup>th</sup> century, its seclusion policy – which made Choson known as the “Hermit Kingdom” to Westerners – grew stronger when Western merchant ships appeared off the coast of Korea to demand trade.

Up to the early 19<sup>th</sup> century, Northeast Asia had not been a major target of the Western powers. Thus, China maintained its hegemony over the region and therefore interfered in Korea’s internal affairs. However, China’s dominant position, based on its military and cultural strength, soon became threatened by the intrusion of the Western powers. After its defeat in the Opium War of 1839-1842 and the Arrow War of 1856-1858, China faced a sudden eclipse of its power in the region. While China declined, Japan began to emerge as a military and economic power in East Asia. Although Japan experienced the humiliating history of gunboat diplomacy by American “black ships” in the middle of the 19<sup>th</sup> century, Japan successfully launched a modernization program

through the Meiji Restoration of 1868, adopting Western technology and institutions. In 1876, with its military strength increased, Japan succeeded in opening major Korean ports and forcing Korea to sign an unfair treaty. Similar treaties with the major Western powers, such as the United States, Great Britain, Russia and France, followed in the early 1880's. From this point on, Korea became the object of bitter rivalry among imperialistic nations.

Historically, by bordering on Manchuria and Siberia to the north and with the Sea of Japan to the south, Korea was considered as a buffer zone, one which could jeopardize the security of its neighboring countries if one of these neighbors managed to bring Korea into its sphere of domination (A.C. Nahm 1973,19). In the late 19<sup>th</sup> century, Korea's three big neighbors – Japan, China and Russia – engaged in a struggle for predominance in Korea along with several ambitious Western powers. China tried to maintain its traditional hegemony over Korea. Russia increased its interest in the Korean peninsula, since it was searching for warm-water ports in the Pacific region. Japan also sought a colony in order to set the initial stage for imperial expansion and secure agricultural supplies for its state-sponsored industrialization. Consequently, the growing imperial ambitions of Korea's three neighbors culminated in the Sino-Japanese War (1894-1895) and the Russo-Japanese War (1904-1905). As the victor of these two wars, Japan successfully eliminated China and Russia as rivals to Korea and at the same time obtained international consent from Western powers<sup>1</sup> for suzerainty over the peninsula (A.C. Nahm

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1973, 30; K.B. Lee et al. 1990, 238; Oberdorfer 1997, 5). In 1910, despite strong opposition from the Korean people, Japan forcibly annexed Korea into its dominion, thereby making Korea a Japanese colony. From that point on, as it responded to the demands of the Japanese Empire, Korea moved along the path of capitalist development during the colonial period, thereby beginning its integration into the international economic and political system.

## **II. Legacy of Japanese Colonial Rule**

During the colonial period, from 1910 to 1945, Japan created a strong colonial state in Korea. Little doubt exists that Japanese transplanted a modern and highly centralized administration in Korea, replacing the Confucian-oriented traditional government of Korea (H.K. Kim 1973; K.B. Lee et al. 1990). Like Western colonizers, the primary concern of the Japanese colonial government was to maintain political control and ensure the smooth operation of economic exploitation in the colonial territory. In keeping with the general imperial pattern, the Japanese colonial bureaucracy, following the imperial desires of the home state, forced the integration of the Korean economy with the Japanese economy. Nonetheless, as Gann (1984) and Cumings (1987) demonstrate in their respective

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<sup>1</sup> During and immediately after the Russo-Japanese War, Japan received diplomatic recognition for its hegemony over Korea through the second Anglo-Japanese alliance (1905) and the secret Taft-Katsura Agreement (1905). The origins of the Anglo-Japanese alliance (1902) are to be found in the common opposition against Russia's expansion in Asia. Through renewal of the Anglo-Japanese alliance in 1905, Great Britain approved Japanese control over Korea in exchange for Japan's approval on British privileges in India. The Taft-Katsura Agreement of 1905 was a secret pact signed by Japanese Prime Minister Katsura and American Secretary of War Taft. The United States approved Japan's colonization of Korea in return for Japan's recognition of American suzerainty over the Philippines (K.B. Lee et al. 1990, 238; Cumings 1997).

comparisons of Western and Japanese colonialism, Japan's colonial government in Korea, in regards to its state capacity, was considerably stronger than those of its Western counterparts. As shown in the slogan of the Meiji era – *fukoku kyohei* (rich country, strong army) – the Japanese government possessed militaristic and authoritarian characteristics (Takahashi 1968, 89; Fukui 1992, 202; A.C. Nahm 1973, 18). Despite little experience in colonial administration (in Taiwan in 1895), Japan was able to establish a powerful state apparatus in Korea unparalleled in European colonial systems, thanks to the home government's experience in consolidating political and military power through authoritarianism (S.P. Ho 1984, 351; H.K. Kim 1973). As well, unlike the colonial territories of the European imperial powers, Korea was in close proximity to Japan. The geographical location of Korean territory provided Japan with an opportunity to achieve a much greater degree of colonial authority (Cumings 1987). Aided by the authoritarian political culture of Tokyo and the geographical advantage, Japanese authorities rapidly expanded the state bureaucracy from the very start of colonial rule. Sources indicate that in 1937 about 246,000 Japanese bureaucrats (including Japanese army personnel) managed a Korea with a population of approximately 21 million (Cumings 1997, 153). In comparison to Western colonial bureaucrats, the number of Japanese colonial administrations in proportion to the Korean population is remarkably larger. Japanese colonial authorities were backed by a large military force in conjunction with colonial police (H.K. Kim 1973, 43). All governors-general were either generals or admirals who convincingly suppressed the Korean resistance movement through police-state methods. Thus, during the colonial period, Korean society was ruthlessly governed by Japanese

authoritarian rule<sup>2</sup>. Beyond the political and military control it had over the colony, Japan, based on its assimilation policy and the state-sponsored Shinto religion, tried to culturally amalgamate Korea into Japan in an attempt to erase the Korean identity. To achieve the rapid social and cultural amalgamation of Korean subjects, the Japanese implemented various assimilation programs, preventing social activities, banning the study of Korean history and punishing the use of the Korean language and Korean family names (see W.M. Dong 1973; T.S. An 1983, 25).

In Korean studies literature, a controversy has long existed about whether the Japanese colonial state had a modernizing or exploitative role. There is no doubt that Korea experienced considerable modernization and economic growth during the colonial period. Nevertheless, it is argued that Korea went through a typical dependency phase because its economy was designed to satisfy the demands of the Japanese Empire. In the early half of the colonial era, economically, Korea functioned as a supplier of staple food and industrial raw materials for Japanese industrialization (S.P. Ho 1984; C.W. Kang 1973). Taking advantage of industrial decline of Europe during World War I and the rapid capitalist expansion of the early 20<sup>th</sup> century, Japan was able to extensively develop its economy, shown in the four-fold growth in industrial production and trade from 1914 to 1918 (Takahashi 1968, 98). Japan badly needed sufficient supplies of inexpensive rice

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<sup>2</sup> To show their resistance to Japanese oppression and exploitation, many Koreans took part in anti-Japanese activities both at home and abroad. After the failure of the March First Independence Movement in 1919, the Korean Provisional Government-in-Exile was established in Shanghai. It headed the resistance movements to regain national sovereignty through Korean nationalist organization in Manchuria and the United States. However, the international community did not respond the Korean appeal for the world's help in fighting against Japanese militarism and colonialism and obtaining national independence because of its interest with Japan.

and other agricultural commodities to accelerate industrialization and to suppress the increase of urban labor wages through imported agricultural goods (S.P. Ho 1984). From the beginning of Korea's annexation, Japan concentrated on increasing grain production in Korea, particularly rice production, through increased material inputs and intensive cultivation. Japanese colonial authorities transferred new farming techniques and expanded rural infrastructure facilities, including irrigation and reservoirs, to increase farm production. In response to Japan's efforts, compound agricultural production grew at an average annual rate of about 1.6 percent from 1912 to 1936 (B.N. Song 1990, 39). Table I.1 shows that rice production doubled between 1910-12 and 1939-41, averaging about 2 percent per annum (Kuznets 1977, 14-16). However, the benefits of Korea's increased agricultural output went mainly to Japan. This is because a huge proportion of the increased grain products was shipped to Japan to solve its own food shortage caused by rapid population growth and increased incomes. As shown in Table I.1, rice exports from Korea to its metropolis increased dramatically. According to one estimate, rice exports to Japan, accounting for 14 percent of production in 1916-20, jumped to 48 percent in 1931-35 (Brun and Hersh 1976, 48; Kuznets 1977, 14-15). Almost 90 percent of Korea's exports to the Japanese market until the mid 1930's were foodstuffs and other primary commodities. The colonial policy of grain exports resulted in food shortage problems of Korea – found in an actual decline in per capita grain consumption among Koreans (Table I.1) – and exploited Korean peasants.

Moreover, by introducing a series of registration program such as “The Decree of Land Survey” of 1912, Japanese authorities took over much of the Korean farmland and

sold it under favorable terms to land-hungry Japanese settlers and private land companies. Helped by the Government-General of Korea and the Oriental Development Company<sup>3</sup>, the number of Japanese landowners increased rapidly, as did their land holdings. Because of increasing Japanese land ownership, more and more small Korean farmers lost their lands and became either pure tenants or semi-tenants. The proportion of pure tenants in total farm households rose from 29 percent in 1913-17 to 56 percent in 1938 (Alam 1989, 249). As other studies (J.S. Chung 1974, 4-5; S.M. Lee 1994, 28) on tenancy rates state, about 49 percent of total Korean peasants were pure tenants in 1943, while about 32 percent lived as semi-tenants (see Table I.2). In discussing the cadastral surveys and the land reforms conducted by the Japanese colonial administration, some studies based on the modernization tradition highlighted the weakening of the traditional landlord class (*yangban*) and the rationalization of the traditional land tenure system, which provided a degree of achievement motivation and economic incentive for Korean farmers to increase their productivity. In these studies, increased land and labor productivity helped to generate an agricultural surplus and domestic savings, accelerating the rate of capital accumulation for future industrialization in Korea. It is true that the royal family of the Choson Dynasty was forced to relinquish its land-ownership to the powerful Government-General of Korea. However, there was continuity in the traditional land-ownership

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<sup>3</sup> Japan established the Oriental Development Company as the key instrument of controlling Korea's land in 1908, before the formal annexation of Korea. The Japanese colonial government, along with the Oriental Development Company, initiated a national-wide land survey (The Decree of Land Survey) from 1910-1918. Through this process, Japan seized 354,000 hectares of arable land and 9,163,000 hectares of forests, which was state-owned land or properties of the royal family. A lot of uninformed or illiterate farmers lost their lands through unfamiliar reporting regulations during the land survey. As a consequence of farmland seizure, the Oriental Development Company became the largest landowner in Korea.

patterns that were based on feudalistic exploitation (Cumings 1997, 151). By cooperating with the colonial government, most Korean landlords kept their holdings and some even increased the size of their land through the gains of the traditional tenure system. Japanese authorities used traditional power of the Korean landlord class in rural society and allowed the exploitative relations between landlord and tenant to continue in order to achieve their primary objective of the colonial agricultural policy: an increase in agricultural exports to Japan (K.B. Lee et al.1990, 265; Cumings 1997, 151-152; S.P. Ho 1984). Under the exploitative nature of the feudalistic land system, Korean tenants had no choice but to pay high farm rents and land taxes to both Japanese and Korean landlords, as high as 50-80 percent of a farm's annual harvest (Kuznets 1997, 17; Brun and Hersh 1976, 45). Since most Korean peasants suffered severely under the colonial and feudalistic land system, many of them faced the undesirable situation of becoming agricultural laborers or migrating as laborers to Manchuria, Siberia and Japan to escape near-starvation at home.<sup>4</sup>

On the manufacturing side, it is said that Japan promoted considerable industrialization in Korea by heavily investing in such manufacturing sectors as metal, chemicals and machinery. To promote Korea's industrialization and economic development, it is also said that Japanese authorities contributed physical infrastructure, including port facilities, railroads, roads and bridges. The actual annual growth rate of the Korean economy during the colonial period is estimated to be about 4 percent, with the average actual growth of manufacturing net product estimated at approximately 10 percent

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<sup>4</sup> According to available data, by 1937, over one million displaced Korean peasants migrated to Manchuria and Siberia and over half a million Koreans moved on to Japan as a result of expansion of Japanese and Korean landlords. These emigration statistics are significant in consideration of total population of about 21 million in Korea at that time (B.Y. Song 1990, 40-41).

(Alam 1989, 248; B.N. Song 1990, 38; C.W. Kang 1973, 81). As shown in Table I.3, the structure of the Korean economy underwent fairly significant changes within the three decades of the colonial period. The proportion of the economy's agricultural sector, the traditionally dominant economic sector, dropped from 84.6 percent in 1910-12 to 49.6 percent in 1939-41, while the manufacturing sector increased its shares in total commodity product from 6.7 percent in 1910-12 to 29 percent in 1939-41 (Kuznets 1977, 19-21; K.S. Kim 1973, 105). Within the manufacturing sector, heavy and chemical industries accounted for 49.5 percent of total manufacturing production in 1943 (see Table I.4). Thus, in his historical analysis of Japanese colonialism in Korea, Cumings (1984,1987,1997) regards Japan as one of few imperial powers to inject heavy-industries into its colonial economy and demonstrates the consequences of Japanese industrialization during the colonial era on the economic ascent of both North and South Korea. Indeed, when considering broad macro-economic and social indicators, some commentators in development studies argue that the Japanese colonial administration introduced modern economic institutions to Korea, transiting Korea's economic structure from a precapitalist to a capitalist stage, and generated progress unmatched by colonial economies elsewhere.<sup>5</sup>

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<sup>5</sup> In discussing the impact of Japanese contributions to the colonial Korean economy on the rapid capitalist development of South Korea since its independence in 1945, M. Shahid Alam (1989, pp.248) has argued that: "The legacies of industrialization under Japanese occupation ... included a start in industrial entrepreneurship, a sizable accumulation of modern skills, and an industrial labor force. When examined from the perspective of economic development, [South] Korea's servitude under Japanese colonialism proved fortunate for her in more ways than one. Because of her integration into the Japanese economic imperium, the pace of modernization in Korea was quickened beyond the experience of colonial elsewhere. ... And through much is made of the enclave character of this industrialization and its domination by Japanese capital, the benefits that the Koreans derived from it in the long run were quite considerable." Bruce Cumings (1984, pp.481) has also suggested that the substantial growth of the Korean economy during Japanese colonial rule provided the conditions of the two Koreas' future development, saying that: "Both Koreas have been remarkably successful in economic development. ... The [Japanese] colonial

However, although the Japanese contribution to industrial expansion in the colonial territory was unlike that of other imperial powers, it should be noted that modern industrial development in Korea was chiefly toward Japan and Japanese-owned corporations in Korea. As well, it should be argued that industrial establishment in Korea was the result of the metropolis' needs. During the early period of colonial rule, because Korea was designed as the agricultural base for Japan's industrialization, Japanese authorities prevented the development of indigenous entrepreneurship and the accumulation of industrial capital by implementing a high degree of corporation regulation, the so-called Choson Company Regulations (K.S. Kim 1973, 102; S.P. Ho 1984). In this manner, the Tokyo government also discouraged industrial investment of Japanese corporations in Korea to protect the domestic market from new enterprises in its colonial territory. However, the Great Depression, which began in 1929, brought fundamental changes to Japan's colonial economic policies. Affected by the worldwide economic recession, Japan began to suffer from overproduction and low prices in both manufacturing and agricultural sectors. Therefore, Japanese conglomerates (*zaibatsu*) were encouraged to invest in Korea in order to ease excessive industrial production at home. To protect Japanese farmers from cheaper Korean agricultural products, the Tokyo government forced the Japanese colonial government in Seoul to reduce agricultural exports and change its economic priority from agricultural to manufacturing development, which meant that the rice production increase plan had to be abandoned. After that,

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period played an undesirable role in placing Korea above most Third World nations by 1945. ... It is more correct to emphasize that Korea's capitalist revolution began – and got a long running start – during the colonial period, and, like capitalism everywhere, it moved forward in waves of creation and destruction that transformed old Korea.”

Korean agricultural output stagnated for the rest of the colonial period. With the growing militarism in Tokyo, Japan began to invade Northern Chinese territory from the beginning of the 1930's, an action which later culminated in the Pacific War. After the so-called Manchurian Incident in 1931, Japan's interests in Korean manufacturing development also shifted from light- and cottage industries to large-scale heavy industries. Korea became a logical and military base and a supplier of war materials for the Japanese expansionist activities in East Asia. Japan began to develop heavy-industry, mining, transportation and communication for its military purposes (Brun and Hersh 1976, 55-59; K.S. Kim 1973). As well, based on its notion of the Greater East Asia Co-Prosperity Sphere, Japan attempted to build a self-sufficient economic bloc and integrated the Korean economy into the so-called East Asian Yen Bloc as a producer of raw materials and semi-finished goods. Thus, although the industrial sector in Korea grew rapidly, production was limited to industrial crude materials and semi-finished goods that moved to Japan for final processing. At this juncture, like European colonies in the Third World, Korea became an export market of Japanese manufacturers. Korea consistently imported finished manufactured goods, particularly consumer items, from Japan, with continuous trade deficits. The Korean production capacity of consumer goods also decreased rapidly at the end of the colonial period. At the end of colonial rule, the economic position of Korea, according to the "metropolis-satellite" structure prescribed by the dependency school, acted as an economic satellite within a Japan-centered economy.

It is not easy to identify the impact of Japanese colonialism on the development of Korea in a simple manner because it had characteristics of both exploitation and

development. Japan contributed considerable economic growth to Korea by investing in manufacturing and physical infrastructure. Although Korean industries operated by Japanese-owned companies accounted for 60 percent of the total number of companies in Korea and represented 90 percent of paid-in capital in 1938 (Kuznets 1977,22), the Japanese left a basic foundation for future industrial and commercial development in Korea. Nonetheless, the growth patterns of the Korean economy during the colonial period also showed the characteristics of the colonial exploitation found in many other colonies in the Third World. The benefits of Korea's increased agricultural and manufacturing outputs went mainly to Japan. The rapid growth of the industrial sector in Korea could be explained by the role of Korea within the Japanese policy regarding imperial expansion.

Hence, when observing the colonial administration in Korea, it is important to note that Japan left behind the tradition of a strong bureaucratic state, a legacy which influenced the political culture of later authoritarian regimes in both North and South Korea (Cumings 1984, 1997; Gann 1984; H.K. Kim 1973). Indeed, the bitter experience of 36 years of Japanese colonial rule obviously influenced North and South Korea in their pursuit of the inward-oriented development strategy – the import-substituting industrialization of the Rhee regime (1948-1960) in South Korea and self-reliant industrialization of North Korean regime - which attempted to minimize external dependence and foreign control of their economies. Given this historical basis, it is no coincidence that a high degree of sensitivity about political and economic independence exists in North Korea and that strong nationalistic features are to be found in the North Korean developmental perspective.

### III. Legacy of the North-South Division

Korea was a forgotten country in an international sense before the eruption of the Pacific War in 1941. During the Cairo Conference in December 1943, the legality of Korea's colonial status was considered by the leaders of the three Allied Powers for the first time since its annexation (A.C. Nahm 1988, 329; B.P. Kim 1992, 61). The heads of the United States, Great Britain and China discussed a postwar settlement in Asia and included in the Cairo Declaration the following determination: "The aforesaid three great powers, mindful of the enslavement of the people of Korea, are determined that in due course Korea shall become free and independent" (Berger 1968, 31). One year after the Cairo Conference, the three leaders of the Allied Powers – Roosevelt, Stalin and Churchill – met at Yalta in February 1945 over several issues, including Soviet participation in the Pacific War against Japan and the postwar East Asian order (A.C. Nahm 1988, 329-330; Zhao 1997, 84). The Yalta Conference played a very crucial role in shaping the course of Korean development because the Allied Powers present considered a multi-power trusteeship for Korea and the territorial division of the Korean peninsula. On August 15, 1945, the Japanese unconditionally surrendered to the Allied Powers, and Korea consequently became independent from 36 years of colonial rule. However, based on the above agreement of the Yalta Conference and the General Order Number One<sup>6</sup> that U.S. Army General Douglas MacArthur had issued, Soviet troops occupied north of the 38<sup>th</sup> parallel, while American forces occupied the southern half in order to force the surrender

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<sup>6</sup> As Supreme Commander of the Allied Powers in the Pacific, General MacArthur issued the General Order Number One for governing the conditions of the Japanese surrender. The General Order included the task of accepting the surrender of Japanese forces north of the 38<sup>th</sup> parallel by Soviet forces and south of the parallel by those of the United States." (M.K. Kim 1991, 16-19; Cumings 1997, 187)

of the Japanese in Korea (Berger 1968, 47-48; Clough 1987, 3). The end of Japanese colonial control turned into yet another national tragedy for Koreans: the territorial partition of the nation and the emergence of the American-Soviet hegemony over a divided Korea.

Along with the legacies of Japanese occupation, the division of the Korean peninsula and the establishment of two ideologically different de facto regime in 1945 created political disorder and economic deterioration, resulting in serious socio-economic problems in both the North and South during the early years of independence. Politically, upon the surrender of Japan, a self-governing Korean authority, the Korean people's Republic (*Choson Inmin Konghwaguk*), was organized through the collaboration of various political groups, including nationalists and socialists (Cumings 1997, 185; A.C. Nahm 1988, 332). Through the Korean People's Republic, the leaders of the independence movement who had remained at home at the moment of Japanese surrender kept social order and prepared to establish new self-government, while waiting for the arrival of the Korean Provisional Government-in-Exile from China and other leaders of anti-Japanese activities abroad (Berger 1968, 52-53; K.B. Lee et al. 1990, 330-331). However, American and Soviet troops landed in Korea not only as liberators, but also occupying armies. The two postwar superpowers treated Korea as a defeated enemy country and assumed that Koreans did not have the ability to establish their own government. The United States and the Soviet Union reached a decision on a multi-power trusteeship of Korea to last five years, during the Moscow Foreign Ministers' Conference in December 1945. The two superpowers were not interested in the rapid development of

self-government in the whole of Korea because of each country's respective interests in Korea's geographical importance in East Asia. Although the two occupation forces were supposed to maintain a neutral position within their military zones toward Korean political parties – which were based on diverse ideological differences – they became involved in strengthening the political groups favorable for each country's respective political and military goals in the Korean peninsula.

In the South, without understanding the political developments in Seoul, the United States instituted a military government (the United States Army Military Government in Korea) headed by Lieutenant General John R. Hodge. The American military government suppressed the Korean People's Republic, viewing it as a leftist organization (Clough 1987, 10; Berger 1968, 52-53; Gordenker 1959, 5). The American authority sponsored rightist group, led by wealthy landlords and businessmen, since it worried about the communist expansion into South Korea and Japan. Therefore, conservative and anti-communist political leaders, such as Syngman Rhee returned from the United States, obtained great support from the Americans and played dominant roles in establishing an anti-communist regime in the South during the earlier period of independence (Cumings 1997, 195; Clough 1987, 10; A.C Nahm 1988, 341-342). In the North, the Soviet Union did not establish a military government, like the United States had in the South, instead authoring a Korean administrative coalition of both nationalists and socialists (the North Korean Provincial People's Committee) from the very beginning (Cumings 1997, 227; A.C. Nahm 1988, 333). Notwithstanding, the Soviet Union, as the successor of Czarist Russia, which had lost its influence over East Asia after the Russo-Japanese War, was well

aware of the relationship between Korea's geographical position and its own security (Zhao 1997, 84; Cumings 1997, 226). Thus, it aimed at establishing a Korean state under the Soviet sphere of influence. The Soviet forces appointed socialists – particularly the Soviet-returned Koreans such as Kim Il-Sung – in top governmental positions, while eliminating the political activities of all non-socialist groups from early 1946. Under Soviet auspices, Kim Il-Sung and socialist groups began to dominate North Korean politics and took appropriate steps to establish a socialist regime in the North. Since then, a rivalry between the American-supported political groups in the South and the Soviet-sponsored de facto government in the North started growing along the line arbitrarily drawn at the 38<sup>th</sup> parallel. As the last step of permanent national division, the Korean unification question became an issue at the United Nations in late 1947.<sup>7</sup> Despite the

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<sup>7</sup> To deal with postwar problems, the Foreign Ministers of the United States, the Soviet Union and Great Britain met at Moscow in December 1945. At the Moscow Conference, regarding the Korean problem, the United States and the Soviet Union agreed to establish a Joint Soviet-American Commission to help in the creation of "a provisional Korean democratic government" and a four-power trusteeship of Korea (Higgins 1970, 154; Gordenker 1959, 7). In the light of the Moscow Agreement, the Joint Soviet-American Commission held meetings in 1946 and 1947 on the urgent issues of Korean unification and the establishment of self-government. However, negotiations between the two superpowers ended in an impasse due to widely different approaches to the problem. Faced with the failure of negotiations in the Joint Soviet-American Commission, the United States government submitted "the problem of the independence of Korea" to the United Nations General Assembly on September 17, 1947 (Goodrich 1956,28-29). The Korean unification problem moved from a bilateral negotiation between two superpowers to the United Nations in late 1947. Despite the Soviet Union's strong opposition, the General Assembly decided to place the Korean question on its agenda, sending the matter to the First (Political) Committee of the General Assembly for consideration (Higgins 1970, 155). After the Korean question became an agenda of the General Assembly, the Soviet Union proposed, to the General Assembly, a draft resolution for the withdrawal of all foreign troops by the beginning of 1948 to allow Koreans to organize their own government. However, the General Assembly rejected the Soviet draft resolution on November 14, 1947. At the same time, the General Assembly instead adopted a resolution proposed by the United States regarding the Korean question (Higgins 1970, 155). The resolution of the United Nations General Assembly called for a national election throughout Korea to create a Korean government under the auspices of the United Nations Temporary Commission on Korea (UNTCOK). The General Assembly's resolution on November 14, 1947 instituted, with representatives from the nine U.N. member nations, the United Nations Temporary Commission on Korea (UNTCOK) to observe elections in Korea. UNTCOK arrived in Seoul on January 8, 1948. However, the Soviet Union blocked the entry of UNTCOK into the Soviet-occupied North. This was probably because the Soviet Union feared that the South, home to two-

Soviet Union's opposition, the American proposal for holding an election in South Korea under the observation of the United Nations Temporary Commission on Korea (UNTCOK) was adopted with the support of West-bloc countries (Higgins 1970, 157; Goodrich 1956, 45-46; K.B. Lee et al. 1990, 343). As a result of the general election that took place in South Korea alone, two hostile Korean governments officially emerged and have engaged in a rivalry for ideological dominance in the Korean peninsula. In the South, The National Assembly adopted a constitution and elected Syngman Rhee as President of the Republic of Korea. The government of South Korea was formally inaugurated on August 15, 1948. Three weeks after this, the government of the Democratic People's Republic of Korea was formally set up in the North on September 9, 1948, with a constitution based on Marxism and Leninism.

Economically, North Korea was faced with the task of overcoming sudden changes in its economic circumstances as well as with founding a new economic system. As observers on Korean development comment (Macdonald 1988, 183; Halliday 1981,24), the economy of Korea was in an extremely injured state when the country was liberated in 1945. Along with the fact of being apart from the Japan-centered trade bloc, the main reason for economic disruption was the partition of the interdependent national economy

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thirds of the Korean population, would dominate a unified national assembly and government because of its greater population and consequently weaken socialism in the North. After failing to access North Korea, UNTCOK consulted with the Interim Committee of the General Assembly whether to implement the General Assembly resolution on November 14, 1947 in South Korea alone. When UNTCOK's question came to the Interim Committee, some countries, such as Canada, Australia and India, expressed concern that the election in South Korea would possibly create two rival governments in Korea and permanent national division (Goodrich 1956, 45). In spite of the possibility of permanent division, the United States advocated holding the election in South Korea alone under the observation of UNTCOK (Higgins 1970, 157). The American proposal was finally adopted by the Interim Committee with the support of west-block countries on February 26, 1948. Following the resolution of the Interim Committee, a general election was held in South Korea on May 10, 1948, directed by UNTCOK.

that had resulted from the political division of Korea. After complementing each other during the colonial era, North and South Korea inherited an unbalanced and distorted economic pattern. The Japanese colonial planners had mainly located heavy-industries and large-scale mining industries in the northern part of Korea because of such geographical advantages of the North as abundant natural endowments and proximate location for continental invasion. In contrast, based on the South's abundant labor forces, traditional commercial establishments and favorable land and weather conditions for agriculture, the Japanese authorities had developed agriculture, light-industry and the service sector in the southern area. According to available data, about 80 percent of heavy-industries and 90 percent of hydroelectric power was concentrated in the North (see Table I.5). The South, occupying about 45 percent of Korean land, represented about 70 percent of light-industries, including 85 percent of textile manufacturing, and 75 percent of rice production at the time of the division (Halliday 1987, 19-24; E.G. Hwang 1993, 18; Clough 1987, 5). Within Korea's complementary economic system, the North had relied on the South for staple food and consumer goods before liberation, while the South depended on the North for the chemical fertilizer, mineral resources and electric power. As a consequence of the national division, one highly integrated economy became split into two disintegrated parts. Therefore, soon after independence, the North faced a food problem and a shortage of basic consumer materials. The South also suffered from low manufacturing facilities operation due to the lack of raw materials and a shortage of electric energy.

In conclusion, the Cold-War conflict between the two superpowers played a major role in the division of the Korean peninsula. Although a unified state was essential for later self-run Korean development, the United States and the Soviet Union pursued their own national interests in Korea. They preferred keeping Korea divided to taking the risk of a unified Korea that would be either a Soviet- or American-friendly country, a state that might threaten each superpower's interest in the postwar security of East Asia (Goodrich 1956, 15; Cumings 1997, 186; Oberdorfer 1997). Validating the above idea, Cumings (1997) has laid great emphasis on the Soviet-American confrontation responsible for the Korean division: "There was no internal pretext for dividing Korea.... The political and ideological divisions that we associate with the Cold War were the reasons for Korea's division; they came early to Korea, before the onset of the global Cold War." In light of these circumstances, it is clear that the division of the country, which cemented the antagonistic Cold-War confrontation on the Korean peninsula, has been a determining factor in shaping the development patterns of both North and South Korea to a large extent. It should be realized that there is a strong connection between the decision North Korea made regarding heavy industry-led development and the location of industry and infrastructure at the time of national division. As well, it is becoming apparent that the development path of the North Korean regime during the last five decades cannot be fully understood without examining North Korea's relationship with the international system, because of the profound influence of hegemonic powers on the political system and economic policies of North Korea since the time of its birth (Cumings 1987, 1997; Clough 1987, 24).



## **Chapter Three**

### **The Cold-War and Its Influence on the North Korean Development from 1945 to the Late 1960's**

#### **I. Liquidation and Reform**

Even though North Korea had become an independent country, the production (and ownership) pattern in the economic sector remained in the form of the feudal and colonial system. Thus, the de facto North Korean regime carried out a series of radical reforms under the aegis of the Soviet occupation forces throughout the early post-independence period (E.G. Hwang 1993, 33). Among these comprehensive reforms, the nationalization of major industries and agrarian reform initiated in 1946 were crucial for North Korea to liquidate the remnants of the old economic system and to lay the foundation for subsequent economic development. This section discusses the economic changes taking place at the time the new socialist regime implemented the initial reforms.

##### **1. Land Reform**

In 1945, although there was an industrial and commercial base developed by the Japanese, the economy of North Korea was primarily agricultural like other former colonial countries in the Third World. Despite its decreasing share in the gross economic output, the agricultural sector absorbed about 70 percent of the population. With respect to the agricultural proportion in total national employment and production, it was the most important sector of the North Korean economy at the time of liberation. However, agricultural production in Korea had been stagnant since the mid-1930. The vast majority

of Korean peasants suffered from poverty caused chiefly by the landlessness or the small size of land holdings. The landlord class (Japanese and Korean landowners), representing only 4 percent of the farming population, controlled 72.5 percent of the rice-paddy lands and 53.8 percent of the dry-field farming areas at the end of colonial rule (J.S. Chung 1974, 4-5). Out of the larger holdings in excess of 100 *chongbo* (245 acres), Japanese landlords accounted for the lion's share (Y.S. Kim 1979, 17; Kuznets 1977, 16-17). Under such circumstances of concentrated ownership, the feudal pattern of tenancy, high farm rents and indebtedness were the main causes of low farming productivity. As well, the heavy burden of tenancy conditions on the poor peasants led to the establishment of numerous tenant organizations as well as an increasing number of landlord-tenant disputes during the Japanese occupation<sup>1</sup>.

Reflecting the problems of the tenancy system and the awareness of land reform, at the time of liberation, agrarian reform and tenant rent reduction were the most popular demands of the rural population in North Korea. Thus, the de facto North Korean regime gave its first priority<sup>2</sup> to land reform in order to create favorable conditions for consolidating public support towards the new socialist regime in the North and for

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<sup>1</sup> Among various peasant movements, the Red Peasant Union (*Choksek Nongmin Chohap*) emerged in the late 1920's and expanded its activities throughout the country in the 1930's. According to Se Hee Yoo (1974), this peasant union movement, led by socialist groups, was particularly popular in the northeastern part of Korea (the *Hamgyong* provinces). In his analysis of the relationship between Korean peasant movements and socialism, Yoo posited that part of the reason for the success of the radical peasant movement in this area was geographical location of the *Hamgyong* provinces – sharing borders with the Soviet Union – allowed peasants of this region to be relatively well informed about the socialization process in the Soviet Union (1974, 73-75). Based on Yoo's work, therefore, it can be argued that the peasantry in the northern part of Korea had better knowledge of the redistribution of land and the collectivization of agriculture taking place in the Soviet Union, than did peasants of the southern area of Korea.

<sup>2</sup> Kim Il-Sung stated: "After liberation, the solution of the land problem in the countryside was our most urgent revolutionary task. The feudal relations of land ownership prevailing in our rural area had not only...." (Kim Il-Sung Selected Works, Vol.2, p.284. cited in Y.S. Kim 1979. p.16.)

increasing agricultural production. In March 1946, the North Korean Provisional People's Committee officially proclaimed "the Agrarian Reform Law." In contrast to South Korea's land reform, based on "confiscation and distribution with payment" (put into place by the United States Military Government in Korea in 1948 and the Rhee government in 1950 for opposing the popular reforms of North Korea), North Korea's land reform featured "confiscation without compensation and free redistribution" (J.S.Chung 1974, 5-10; Kuznets 1977, 30-31). All Japanese-owned land and the arable land owned by Korean inhabitants with holdings in excess of five *chongbo* (one *chongbo* equals 2.45 acres) were confiscated during the 1946 agrarian reform. These confiscated lands were redistributed to land-poor farmers, landless tenants and agricultural laborers according to an assigning formula. As a result of land reform, 1,000,325 *chongbo*, accounting for approximately 53 percent of the country's total land under cultivation, was reported to have been confiscated by the North Korean state. Out of this figure, 981,390 *chongbo* was redistributed freely to 724, 522 households (more than 70 percent of the total farm households)<sup>3</sup>.

When looked at in comparison to other land reform attempts around the world, North Korea's action in 1946 was successful. After the Second World War, many governments of newly-independent nations viewed agricultural surpluses as the prime sources for industrialization and emphasized agricultural modernization in order to increase both land and labor productivity. Considering the existing pattern of land ownership as an obstacle

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<sup>3</sup> The ensuing figures on North Korea's agrarian reform shown here originally coming from several North Korean official sources, which were quoted in Brun & Hersh (1976), p.130-132; Y.S. Kim (1979), p.19-22; S.M. Lee (1994), p.28; J.S. Chung (1974). For details on the 1946 agrarian reform, see above references.

to the process of socio-economic development, this government consequently implemented major land reforms. However, except for a few cases, a large majority of the postwar land reforms faced a deadlock because of the strong opposition of a powerful landlord class and/or the intervention of former colonial powers. In comparison with the relatively slow process of agrarian reform implementation in other developing countries, the North Korean land reform was very quick – completed in a period of about 20 days – and peaceful. Halliday (1981, 25), in examining the North Korean economy, presented his opinion on the achievement of the North Korean land reform: “This was the most peaceful and the fastest land reform in Asia (or, to my knowledge, anywhere in the world).” Given the historical record of the violence that accompanied land reforms carried out under Soviet auspices in Eastern Europe, the successful North Korean case also can be compared favorably with the experiences of these socialist countries.

The success of the North Korean agrarian reform can be attributed to the following three reasons. The most important factor was that the de facto North Korean regime implemented land reform on the basis of nationalist sentiment and with widespread support of the peasant population. The basic feature of North Korea’s land reform was not radical socialization (collectivization) but rather the changes in the ownership pattern based on a reformist strategy. Another factor was that the political position of the Japanese landlords and rich Korean collaborators had become very weak after independence from Japan, thereby preventing them from sabotaging the reform program. Indeed, the territorial partition of the Korean peninsula created a situation whereby the landowners who lived in the South were separated from the physical control of their land

in the North and at the same time landlords who lived in the North were able to flee to the South, effectively preventing the landlord class from presenting coordinated opposition to the reform (Cumings 1981, 416). The third factor that made conditions favorable for the North Korean land reform could be the presence of the Soviet occupation forces. Although little information on the role of the Soviet troops during the land reform is available in the literature, it would be reasonable to assume that the Soviet occupation forces, with 40,000 soldiers, undoubtedly had an influence on the resistance of the landlord class and therefore affected the process of the North Korean land reform. At least, implied pressures would have been felt by the landowners. By the middle of 1946, North Korea, through the redistribution of land, reportedly eliminated a powerful landowning class from its economic and political base in rural areas and created a new peasant class, one that fully supported the new socialist system. Moreover, by abolishing the previous system of landownership based on feudalistic obligations, the agrarian reform provided economic incentives and opportunities for individual peasants. In the late 1940's, despite the inefficiency of small-scale farming and low material inputs, highly motivated farmers increased agricultural productivity and output through more labor inputs for cultivation (J.S. Chung 1974, 8-9; Y.S. Kim 1979, 31; S.M. Lee 1994, 29).

## **2. The Nationalization of Industry and Commerce**

As mentioned in the previous chapter, the Japanese administration prevented the development of large-size Korean enterprises and held little interest in indigenous capital accumulation. At the end of the colonial rule, almost all major businesses, including

manufacturing, transportation, communication, banking and foreign trading, were either owned or controlled by the Japanese. According to available statistics, the Japanese (including state-owned enterprises) commanded 94 percent of manufacturing capital and some 80 percent of commercial capital (S.M. Lee 1994, 29; Halliday 1981, 26).

Under these circumstances, the *de facto* North Korean regime was faced with the task of transferring industrial production from foreign (Japanese) to national (Korean) controls. Thus, the North Korean Provisional People's Committee nationalized former Japanese-owned enterprises and industrial assets by enacting a "law on the nationalization of industry, transport, communication, banks, etc." About 1,000 Japanese-owned enterprises – accounting for about 72 percent of North Korean industrial output – were initially confiscated at the end of 1946 (S.M. Lee 1994, 29-30). As a consequence of the nationalization of major industries, North Korea exterminated the existing colonial structure of industrial production within its economy. By 1947, the nationalization program brought approximately 80 percent of the industrial capacity into state hands (B.S. Kim 1970, 33; Halliday 1981, 26). Therefore, the North Korean regime laid the foundations of direct intervention in the economy by completely controlling the functions of state-owned industry.

## II. Post-War Rehabilitation and Socialization Process

North Korea's early economic construction and development during 1945-50 was halted by the Korean War (June 1950 – July 1953). In regard to the heavy fighting during the three-year of the Korean War (with the American and Chinese military intervention), the cost of human and material destruction was beyond description. Over 1 million North Koreans, including 500,000 military casualties, were reported to have died in the war. The American bombing campaign against North Korea seriously damaged the agricultural facilities, industrial infrastructure and manufacturing base. The dislocations caused by the war reportedly reduced gross industrial production in 1953 to 64 percent of its 1949 level, with grain production at 12 percent and electric power generation at 26 percent of its prewar level (T.S. An 1983, 33; Y.S. Kim 1979, 34).

Paradoxically, in spite of its human and economic costs, the war served to consolidate the position of Kim Il-Sung and his supporters within the political system. Economically, the conflict precipitated the socialization process in both the agricultural and industrial sectors of North Korea. During and immediately after the Korean War, Kim Il-Sung and his followers purged some important figures of the rival factions, such as Mu Chong, Ho Kai and Park Hon-Yong, from North Korean politics<sup>4</sup>. Kim Il-Sung and his

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<sup>4</sup> After independent from Japanese rule, most of the outstanding political leaders and various organized groups of the independent movement – including Kim Gu, the head of the Korean Provisional Government-in-Exile – started their political activities and contended for power in Seoul, the traditional capital of Korea. Therefore, in Pyongyang, the capital of the North, only two main political groups emerged in 1945. One was the non-socialist nationalist group, led by Cho Man-Sik, a Christian and prominent nationalist, and the other was the socialist group. The socialist group consisted of four factions which had different backgrounds within the socialist movement: the domestic faction (socialists who operated within Korea during the colonial era), the Chinese (Yenan) faction (the Korean who served in the Chinese communist military), the Soviet-Korean faction (the returnees from the Soviet Union) and Kim Il-Sung's faction. To eliminate nationalist activities in the North and consolidate the political base of the

clique seem to have used wartime conditions to strengthen their political power, by suppressing the other factions that had, together with Kim Il-Sung's faction, dominated North Korean politics since 1945 in the form of a communist coalition. All leading members of socialist groups seen as competition to Kim Il-Sung's leadership were eliminated from the party and governmental hierarchies by 1958 (K.W.Nam 1974, 84-120; D.S. Suh 1988, 149-157). After all the internal power struggles were settled, Kim Il-Sung maintained the leadership until his death in 1994, during which time he completely controlled the government and the military.

To rehabilitate the war-torn economy and strengthen the material foundation needed for the socialist transformation after the Korean War, the North Korean regime launched the Three-Year Plan (1954-56) and the First Five-Year Plan (1957-61). During the period of these two plans, the North Korean regime, inspired by the Soviet development model, implemented two key orthodox economic policies of state socialism: the collectivization of agriculture and the cooperativization of industry. In searching for explanations as to

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socialist regime, these socialist factions cooperated on the basis of a political coalition. A good example of this socialist coalition was the merger of the New Democratic Party (of the Chinese faction) and the North Korean Communist Party (of Kim Il-Sung) into the North Korean Workers' Party in 1946. However, during the Korean War, Mu Chung (the military leader of the Chinese faction), Ho Kai (a Soviet-Korean, the first secretary of the party) and a few political figures were purged. As well, Park Hon-Yong, the leader of the domestic faction and Vice-Premier, was executed immediately after the war under the pretext of being an "American spy." With the purge of Park, the domestic faction was broken and expelled from the party. Kim Il-Sung and his clique completely ousted the members of the Chinese (Yenan) faction and the Soviet-Korean faction from the party and governmental positions that they held between 1956 and 1958, accusing them of being "enemies of the revolution" (D.S. Suh 1988, 74-157; S.S. Cho 1969, 143-166; Gills 1992, 110-113). As Dae-Sook Suh has pointed out in his influential contributions (1981, 1988) on the North Korean leadership, Kim Il-Sung and his faction, with their political capability and solidarity, skillfully purged their political rivals from North Korean politics. Nonetheless, it is undeniable that the Korean War provided Kim Il-Sung and his followers a political opportunity to eliminate their opponents. For a detailed discussion of the power struggles during this period, see Dae-Sook Suh's KIM IL SUNG: The North Korean Leader (New York, Columbia University Press, 1988) and Sung Chul Yang's The North and South Korean Political Systems, Chapter 8 "the Ruling Elites and Their Political Vicissitudes" and Chapter 9 "Kim Il Sung's Rise and Retention of Power" (Seoul: Seoul Press, 1994).

why the North Korean government aggressively attempted to adopt orthodox Soviet policies of economic socialization immediately following the 1953 armistice, two reasons appear that had an influence on North Korea's decision-making. The first reason seems to have been scarce labor resources, a shortage of workers caused by war death and the exodus to the South. Even though there is no agreed-upon figure for population losses<sup>5</sup>, the extraordinary population losses of North Korea during the three-years of the war certainly contributed to demographic problems in the labor force in both the agricultural and manufacturing sectors. North Korea's economic improvement during the pre-war period of 1945-50 was mainly based on the increased productivity of individual workers. The reduced population after the war raised the difficulty of supplying essential workforces and of supporting labor-intensive programs in agricultural and industry. Along with serious damage to irrigation and transport facilities, the relatively lower land-labor ratio in North Korea after the war left agriculture relying on individual-based farming unable to supply enough staple food and other agricultural products to match the growth in demand (Halliday 1987, 26-27; Foster-Carter 1978, 120-121). The second reason<sup>6</sup> why the North Korean government embarked on the rapid socialization of

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<sup>5</sup> According to available estimates (Halliday 1987, 26-27; T.S. An 1983, 33), the North Korean population fell from 9,622,000 in 1949 to 8,491,000 in 1953, which means an 11.76 percent population decrease between 1949 and 1953.

<sup>6</sup> This seems closer to the official reasoning of the North Korean government. The reason for North Korea's collectivization of agriculture from pro-North Korean scholars' perspectives can be found in the work of Byong Sik Kim (1970), as follows: "Even though land reform had been completely carried out, such a process of class differentiation in the country necessarily was greatly restricted. Whatever the case may be, where private commodity economy prevailed, it was impossible to improve radically the living standards of farmers or to eliminate the sources of exploitation and poverty in the countryside. Further, where there were small-scale, scattered private farms, it was impossible to develop agricultural production in a planned way, nor was it possible to achieve expanded reproduction. ... it was possible to solve this contradiction only by transforming private farms into socialist cooperatives." (Kim, Byong Sik. Modern Korea: The Socialist North, Revolutionary Perspectives in the South, and Unification. New York: International Publishers. 1970; 50)

production relations was because the government tried to increase agricultural and manufacturing production through strong state control based on “administrative planning.” After introducing a series of progressive reform laws during the prewar period, the North Korean economy functioned under a mixed ownership of the means of production between private and state. Although the regime became heavily involved in the economy by nationalizing Japanese-owned property and taking control of the state sector, by 1953, the private sector, including individual farmers, merchants and private enterprises, played an important role in the North Korean economy. Perhaps, the North Korean central authorities felt that the dual economic system caused by the survival of the capitalist means of production (practiced in the private sector) would complicate their economic planning and would hinder North Korea’s postwar reconstruction efforts.

Beginning in 1953, major changes in the production and distribution systems took place in North Korea: agriculture was collectivized, all private ownership in industry was eliminated and the market function was abolished. As a result of the collectivization process, the proportion of arable land under the control of collective and state farms rapidly increased from 0.6 percent in 1953 to 48.6 percent in 1955, to 77.9 in 1956 and to 100 percent in 1958 (Y.S.Kim 1979, 47; J.S. Chung 1974,11. see details in Table II. 1). As well, through cooperativization, the private production mechanisms in the manufacturing sector reportedly disappeared completely from the North Korean economy by 1958. In other words, the socialist regime succeeded in eliminating all capitalist mode of production and controlling all production activities by 1958.

The performance of the North Korean economy between the end of the war in 1953 and 1960 was very impressive. Two years after introducing the Three-Year Plan (1954-56), the North Korean regime had achieved, beyond most observers' expectations, its short-term objective of postwar economic reconstruction. It was reported that North Korea recovered to its prewar economic levels, marking the starting-point of rapid industrialization and socio-economic changes. In 1959, the government claimed that the principal targets of its First Five-Year Plan, originally covering the period between 1957 and 1961, had been completed two years ahead of schedule. As Table II.2 shows, gross industrial output during the Three-Year Plan period (1954-56) grew at an average annual rate of 42 percent and, under the First Five-Year Plan from 1957 to 1960, at an average of 37 percent (Korean Central Yearbook [*Choson Chungang Nyongam*] of 1961, 326-28 cited in J.S. Chung 1983, 172-173; S.M. Lee 1994, 118). Although the growth in the agricultural sector was relatively slower than that in industrial production, the period of 1954-60 produced an increase in agricultural output, reporting an average annual growth of about 10 percent.

Whether or not North Korea's official figures for annual growth rates in 1950's (mentioned above) are reliable, it is clear that North Korea achieved a very high rate of economic growth and North Korea's progress in industrial production cannot be compared to most Third World countries over the same period. Perhaps, its high growth rate in industry can be understood in comparison with that of Japan in the 1950's or those of South Korea and Taiwan in the 1970's. The indicators of economic growth raise a question of what helped to bring about North Korea's rapid economic expansion in the

1950's. An answer to the question can be the state's efforts and capabilities in creating internal conditions conducive to economic development. Faced with the task of post-war economic reconstruction, the North Korean regime implemented a series of measures in an attempt to organize and mobilize domestic resources. Based on a high degree of political stability, the regime continued to commit itself to improving the economic situation. The overall development strategies, including centralized economic management and mass mobilization, also contributed to high rates of growth in North Korea's early stage of development. Nevertheless, it is difficult to argue that such significant economic growth was automatically led by the development effort of the North Korean state and its mobilization of domestic economic resources. It is hard to deny that external resources from the Soviet Union, China and Eastern European countries played a critical role in North Korea's economic recovery. During the postwar reconstruction period of the 1950's, a considerable amount of economic aid in such forms as grants, long-term credit, technical assistance and military assistance relieved domestic constraints on economic development, while enhancing the North Korean regime's capability to undertake various industrial projects. With respect to the economic aid provided by these socialist countries to North Korea, it was at a higher level than their normal international economic assistance.

Beginning at the end of the 1940's, the Cold-War confrontation intensified on a global scale. The Soviet control over East European countries led to the emergence of NATO (North Atlantic Treaty Organization) in 1949. The socialists' takeover of the Chinese mainland in 1949 and the outbreak of the Korean War in 1950 caused a change in

American policy toward East Asia. The United States aggressively pursued the so-called containment policy in order to stop the expansion of the socialist sphere of influence, while increasing economic and military aid to its allies (Cumings 1990, 326-327). Based on the Mutual Security Act of 1951, the United States signed a mutual security treaty with Japan in 1951, South Korea in 1953 and Taiwan in 1954. The United States also established economic sanctions against China in 1949 and North Korea in 1950. At the same time, the Soviet Union and China became extremely hostile to the United States. Despite a long-history of emotional dislike between China and the Soviet Union, the two socialist powers found themselves allied against American hegemony and military intervention. Consequently, the degree of hatred and hostility between the two Cold-War blocs continued to rise. The international order was extensively politicized by the national interests of the dominant powers. In this context, the Korean peninsula was one of the regions where the tension between Cold-War powers was intensively demonstrated. The Korean War was the first international conflict that involved most Cold-War powers. Following the 1953 armistice, the primary concern of American policy toward the Korean peninsula was not only maintaining status quo but also preventing a socialist advance through the entire Korean peninsula, which would threaten Japan's security and the American interests in East Asia. Aside from its military buildup in Japan, the United States located more than 60,000 troops in South Korea (under U.N. command). The importance of North Korea to China and the Soviet Union was at the same level as South Korea to the United States and Japan in terms of containing the spread of their rival's influence in the region. In the face of American activities against Chinese communists in

the early 1950's, which included economic blockade, nuclear threat during the Korean War and the U.S. Seventh Fleet's patrol in the Taiwan Strait, Mao's Chinese government felt threatened by American involvement in East Asia and, therefore, tried to preserve its socialist neighboring state. For the Soviet Union, North Korea was the first (and only) Asian state that the Soviet army liberated from colonial rule after World War II. With a suspicious outlook about its future relationship and alliance with Mao's China (see Goncharow et al. 1993), the Soviet Union felt the existence of North Korea under its sphere of influence was critical for them to not only counter the American predominance in East Asia but also maintain its national interest in the Pacific region (Cumings 1990, 327-331). Under these circumstances, the Soviet Union and China were willing to provide North Korea with military and economic aid during the war, and continued to commit a substantial amount of money during North Korea's post-war reconstruction. Since this assistance took place within the framework of the Cold-War confrontation, the economic and military aid provided by the socialist bloc was based on strategic (and ideological) reasons rather than economic (commercial) reasons.

Although complete data on the total amount of economic assistance that North Korea received is lacking (since North Korea and socialist donors did not release exact data), some observers estimate that North Korea received over US\$ 900 million in grants and loans from the socialist bloc from 1954 to 1956 (C.W. Chung 1978, 23). According to Dae-Sook Suh (1988, 140), North Korea received grants of one billion rubles from the Soviet Union and eight trillion Chinese yuan from China, after Kim Il-Sung's visit to Moscow and Beijing in 1953. Youn-Soo Kim (1979) also highlights the contribution of

economic and technical assistance from the socialist bloc during the post-war rehabilitation period. Based on Russian and Japanese sources, Kim estimates that Soviet economic aid during the Three-Year Plan (1954-56) amounted to more than three billion rubles. In the same period, the Soviet Union was responsible for building various industrial plants and infrastructure, such as *Supung* power plant and *Kim-Chaek* steel mill, while continuing to supply military materials and equipment. According to Youn-Soo Kim, China forgave all North Korean debts to China including military aid during the Korean War, while providing such raw materials as coal and crude oil. Other socialist countries – even economically poor Albania and Mongolia – also provided North Korea with grants. At this juncture, it was reported that foreign aid from these socialist countries between 1953 and 1956 accounted for more than 35 percent of the government's annual budget (Y.S. Kim 1979, 42). Since economic assistance from the socialist bloc helped to ease financial constraints and investment difficulties, it must be considered one of the principal external factors and as such played a critical role in North Korea's economic recovery and rapid industrialization in the years following the war. Even though large amounts of reconstruction investment was mobilized from domestic sources, North Korea's development was to a large extent dependent on the economic aid received from the two socialist powers, the Soviet Union and China. Therefore, the activities of North Korea during the 1950's in regional/international affairs had some of the characteristics of peripheral states. Confronted with the Western economic embargo and the presence of American forces in South Korea, the North Korean regime could not but become dependent on powerful socialist nations for the regime's survival. The political consolidation of the

socialist bloc in the initial post-war decade helped North Korea to acquire investment capital and advanced technology. In spite of the cost of withdrawing from and confronting the capitalist world economy, it can be argued that North Korea, during the rehabilitation period, benefited from the struggle between the two antagonistic blocs. The patterns of economic relationship between North Korea and the socialist donors differed from the standard model of dependent development – the mechanism which occurred between capitalist core and peripheral countries – which is described from the world-system and dependent development perspectives. Nonetheless, North Korea's development during the 1950's was a dependent one. There can be little doubt North Korea's internal economic condition in this period was shaped by the early stages of Cold-War international alliances and competition.

### **III. Heavy-Industrialization and Increased Military Expenditure**

As has already been noted, throughout the postwar period of the 1950's, the North Korean regime successfully rebuilt and restructured the war-devastated economy, recording an impressive growth in industrial and agricultural production. At the same time, is also completed the socialization of production relations through collectivization and cooperativization. Upon accomplishing the goals of its initial phases of economic development, the North Korean government aggressively pursued heavy-industrialization and self-reliance in the economy during the 1960's. However, North Korea experienced slowdowns in its economic growth over the same period.

## **1. Heavy-Industrialization and Economic Self-Reliance**

The government introduced the First Seven-Year Plan with the two major goals of heavy-industrialization and economic self-reliance. The principal target of the plan from 1961 to 1967 was an annual industrial growth rate of 18 percent, with a 2.7 times increase in national income, a 2.4 times increase in agricultural production and a 3.2 times increase in industrial output based on the 1960 level (E.G. Hwang 1993, 37-41; J.S. Jung 1974, 165). North Korea's economic strategy of emphasizing heavy-industry had already appeared in the "priority development of heavy industry with simultaneous development in agriculture and light-industry" in the goals of the Three-Year Plan (1954-56). Nonetheless, the so-called "heavy-industry first" strategy, which places excessive concentration on the development of heavy-industry at the expense of agricultural and light-industry, was not adopted by the North Korean government during the Three-Year Plan. Influenced by a theoretical debate and power struggle between Malenkov and Khrushchev in the Soviet Union after the death of Stalin in 1953, some prominent political figures - including Park Chang-ok (Vice-premier and Chairman of the State Planning Commission) and Cho Chang-ik (Minister of Finance) - advocated Malenkov's economic policy of emphasizing the production of consumer goods and, therefore, opposed Kim Il-Sung, who favored the rapid expansion of heavy-industry to achieve high economic growth rates (Okonogi 1994). Because of this opposition, the North Korean government throughout the Three-Year Plan adopted a policy of stressing simultaneous development of heavy-industry and the consumer goods' sector (agriculture and light-industry). However, after the fall of Malenkov in 1955 and the consequent purge of the consumer-

goods advocates from North Korean political hierarchy, heavy-industrialization became the first priority in North Korean economic policy, which would later lead to lower productivity in agriculture and the serious sectoral imbalances.

From the end of the 1950's, based on its assumption that establishing heavy-industry in the initial stage is an effective path towards rapid economic development, North Korea began to pursue the "heavy-industry first" development strategy. North Korean policymakers assumed that a self-reliant heavy-industry would have very positive impacts on the expansion of agriculture and light-industry (E.G. Hwang 1993, 43; Brun and Hersh 1976, 206-214). Consequently, the North Korean government primarily channeled state capital investment into such heavy-industries as machinery, chemicals and steel during the 1960's. At the same time, faced with a worsening Sino-Soviet dispute, which placed North Korea in awkward position between Moscow and Beijing, Kim Il-Sung and his regime began to develop *Juche* ideology, which articulates that political independence would not be secured without developing a self-reliant economy. As economic conditions rapidly improved through post-war rehabilitation, North Korean leadership attempted to increase economic autonomy in order to avoid external political pressure from the Soviet Union and China. Therefore, a heavy emphasis was given to economic self-reliance. The North Korean regime tried to create an industrial state, by utilizing more domestic resources, technology and capital.

Along with the strong emphasis on heavy-industrialization and self-reliance, the North Korean regime introduced new styles of economic management and planning systems at the beginning of the 1960's. The *Chongsanri* Method in agriculture and the

*Dae-an* Work System in the industrial sector<sup>7</sup> came to be used for promoting increases in production. While replacing individual management which stemmed from the early Soviet model, collective management in the form of the County Agricultural Management Committee and the Factory Party Committee emerged as an effort to improve the administrative methods in both agricultural and industry. Through new management systems, the *Chongsanri* Method and the *Dae-an* Work System, the North Korean regime attempted to strengthen direct administrative control of lower level organizations as well as prevent bureaucracy and over-centralization found in the economic management system (B.S. Kim 1970, 111-135; D. Kho 1982; S.L. Choi and S.K. Lee 1998).

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<sup>7</sup> In February 1960, when Premier Kim Il-Sung visited *Chongsanri*-cooperative farm in *Kangso* County, *Pyongnam* Province, a new agricultural management system was introduced, coming to be known as the "*Chongsanri* Method." After the agricultural sector was completely collectivized in 1958, it was decided to merge the small cooperatives (80-100 households) into larger ones of approximately 300 households each. The North Korean government set up the County Agricultural Management Committee at the county level, under the direct control and guidance of the County Party Committee. The County Agricultural Management Committee became primarily responsible for planning, managing and supervising all production and distribution activities within and between collective farms and state farms. In December 1961, on a visit by Kim Il-Sung to the *Dae-an* Electrical Machine Factory, a new industrial administrative system was announced, and was given the name of the "*Dae-an* Work System." Like the *Chongsanri* Method in the agricultural sector, decentralization of administrative power through the new management style was initiated in the industrial sector. A system of collective management in the form of the Factory Party Committee replaced individual management (one-man management system). The Factory Party Committee was composed of representatives of workers (60 percent), the party cadres, trade union members, military representatives and office employees (the remaining 40 percent). Under the decisions and guidance of the Factory Party Committee, managers and technicians created detailed planning for the technical and production process of state-owned enterprise. Following the introduction of the *Dae-an* Work System, the Factory Party Committee was given the predominant power of control over industrial management. (The above information on the *Chongsanri* Method and the *Dae-an* Work System is cited in Y.S. Kim 1979, 55-59; B.S. Kim 1970, 111-153; D. Kho 1982, 304-323; S.L. Choi and S.K. Lee 1998, 16-27)

## **2. The Changing International Environment in the 1960's and the Increased Military Expenditure**

Despite North Korea's vigorous efforts to fulfill its economic targets, the First Seven-Year Plan (1961-67), regarded as North Korea's first systematic economic plan, had to be extended for three more years. In contrast to the previous plans of the 1950's, the First Seven-Year Plan ended in 1970 without having achieved its planned goals. Even though North Korea made, through the "heavy-industry first" policy, impressive progress in industrialization during the 1960's, North Korea underwent an economic slow-down over the same period. North Korea's industrial growth rate over the 1960's is estimated to have recorded a 12.8 percent annual increase, which is much less than the approximately 40 percent reached between 1954 and 1960 (J.S. Chung 1983, 172; E.G. Hwang 1993, 43-44). In the literature on the North Korean economy, several of the internal factors have often been noted in order to explain North Korea's experience in the slowdown of economic growth during the 1960's: diminishing returns on investment, the rigidity of central planning, unrealistic economic plans, the shortage of advanced technology, economic bottlenecks and inefficient resource allocation linked to the emphasis placed on self-reliance and heavy-industrialization. These explanations could provide some clues to an understanding of North Korea's failure to fulfill the targets of the First Seven-Year Plan. Nonetheless, it can be argued that major factors behind the declining growth rate during the 1960's was the excessive expenses of the military budget and rapidly decreasing economic assistance from the socialist bloc, which occurred as a result of changes in international/regional system.

As already noted in a previous section, North Korea relied extensively on the Soviet Union and China for national security after the Korean War. Because of the importance of North Korea's strategic role against American hegemony in East Asia, the Soviet Union provided a substantial amount of military and economic aid to North Korea, accompanied by security guarantees. China also supported its small neighbor, basing Chinese troops in North Korea until 1958. Under these circumstances, North Korea could place a higher priority on rehabilitating the war-devastated economy rather than strengthening its military capacity (S.J. Han 1983, 146). In spite of a smaller number of military personnel than South Korea, North Korea did not increase the percentage of military spending within the annual national budget during the 1950's, spending only about 3-6 percent of its budget on military expenditures. However, the international environment surrounding North Korea changed dramatically from the start of the 1960's, which in turn affected the direction of the North Korean policy towards economic development. The reasoning behind the important policy shift originated from North Korea's socialist partners, while others were influenced by the actions of North Korea's perceived "enemies."

First, relations between the Soviet Union and China deteriorated rapidly from the start of the 1960's<sup>8</sup>. Although the Sino-Soviet tension evolved through China's opposition to Soviet policies such as Khrushchev's de-Stalinization campaign in 1956 and Soviet cancellation of agreement on nuclear weapons in 1959, the two socialist superpowers did

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<sup>8</sup> The general information of the Sino-Soviet dispute and its impacts on North Korea, in this thesis, is developed from the following publications: Ellison, Herbert J. ed., The Sino-Soviet Conflict: A Global Perspective. (Seattle: University of Washington Press. 1982). Day, Alan J. ed., China and the Soviet Union 1949-84. (New York: Facts On File Publications. 1985). Chung, Chin-wee. Pyongyang Between Peking and Moscow: North Korea's Involvement in the Sino-Soviet Dispute, 1958-1975. (Alabama: The University of Alabama Press. 1978).

not engage in open confrontation in the late 1950's. However, after the bitter debate in the Bucharest Conference and Soviet termination of technical aid in 1960, the Sino-Soviet conflict worsened – which finally culminated in military clashes on the Ussuri river in 1969 – and began to affect North Korea's relations with the Soviet Union and China. Initially, the North Korean regime tried to take a position of neutrality in order to enhance political independence and maintain economic assistance from both countries. Nevertheless, as the conflict intensified, the Soviet Union and China attempted to bring North Korea into their respective orbits. The strategic value of North Korea in the context of the Sino-Soviet conflict was well outlined by Chin-wee Chung (1983): “neither China nor the Soviet Union can undermine the importance of North Korea. For China, [North] Korea is the gateway to Manchuria and serves as a buffer zone to contain the Soviet thrust into Northeast Asia. For the Soviet Union, the Korean Peninsula will become increasingly important as Moscow tries to encircle China” (1983, 67). The Soviet Union – believing itself to be the leader of the world socialist movement – put particularly heavy pressure on North Korea and other Asian socialist states, including North Vietnam and Mongolia, in an attempt to isolate China. Contrary to the Soviet wishes, North Korea gradually moved toward a position critical of the Soviets during the early 1960's since it could not accept Khrushchev's denunciation of Stalin and his policy of peaceful coexistence with the United States. In 1962, the Soviet Union suddenly broke its promise of helping North Korea's new economic programs and cut off its military and economic aid in order to threaten North Korea's close relations with China (Y.S. Kim 1979, 62-63; Shapiro 1975, 339; Zagoria 1983, 352). It is quite evident that the sudden termination of Soviet

assistance affected the time line of the Seven-Year Plan by keeping it behind the original schedule.

North Korea's relations with the Soviet Union did not improve until the fall of Khrushchev. From the mid-1960s, Soviet-North Korean relations were restored since the Brezhnev regime resumed its economic and military assistance to North Korea as another way of attracting North Korea to the Soviet orbit. While Soviet-North Korean relations were improving, the friendship between North Korea and China began to deteriorate. China entered the stage of the Cultural Revolution in 1966, and it was reported that some Red Guards criticized North Korea's domestic and foreign policy. The North Korean journals also published articles attacking the Cultural Revolution (C.W. Chung 1983, 69; ). Although very little is known about the process of the border dispute between North Korea and China, in 1967, the armed forces of the two socialist countries confronted each other after China's claim of ownership of North Korean territory in the *Baekdu* mountain area. Therefore, the tensions between North Korea and China remained high during the late 1960's. It can be reasonable to assume that the widening Moscow-Beijing rift posed a security dilemma for the North Korean regime. Since the struggle between the Soviet Union and China continued on the basis of nationalistic ideals, the ideological consolidation and security alliance within the socialist bloc was gradually weakened in its stance against its rivals. The split of North Korea's two major protectors debilitated the military position of North Korea which was in sharp confrontation with the strong security ties of South Korea-the United States-Japan. Indeed, North Korea's awkward neutral stance toward the Sino-Soviet conflict – being in rapport with China in the early 1960's

and then the Soviet Union – could not satisfy either Moscow or Beijing, which situation undermined North Korea's close security cooperation with the two socialist powers during the previous decade. Probably, uncomfortable relations with Moscow and Beijing in the respective periods of 1960's moreover provided the North Korean regime with the concern of possible military action initiated against North Korea by socialist superpowers. The North Korean leaders might have learned of this possible threat from the Soviet invasion of Hungary in 1956 and Czechoslovakia in 1968. The dramatic change in relations between the two socialist powers in 1960's inevitably led the North Korean leadership to rethink its own military capabilities.

Along with the Sino-Soviet dispute, the Soviet foreign policy during the Khrushchev era seemed to have an impact on the rapid military buildup of North Korea. With the de-Stalinization movement, Khrushchev implemented a different Soviet foreign policy from that of Stalin. Advocating "peaceful coexistence among states," he tried to improve relations with the West as he did with his visit to the United States for rapprochement in 1959. However, confronted with its archrival South Korea and American military presence in both South Korea and Japan, North Korea could not accept Khrushchev's policy of détente with the United States. Given this situation, the North Korean regime had to think about the nature of its security alliance with the Soviet Union. The Soviet Union's withdrawal of missiles from Cuba in 1962 perhaps proved to the North Korean leaders Khrushchev's hesitation to unconditionally support the military requirements of its socialist allies against the United States. The North Korean regime might become suspicious about the Soviet commitment of maintaining North Korea's security as well as

its involvement in the case of a military emergency on the Korean peninsula in which American troops will become engaged (C.W. Chung 1973, 68-80; Zagoria 1983, 354-365).

Simultaneous with the sudden changes in the socialist bloc, it can be argued that the emergence of the military regime in South Korea and the United States' increasing involvement in the Vietnam War posed a potential threat to North Korea's security in the early 1960's. During the late 1950's, South Korea experienced economic deterioration and political instability. Following its failure of postwar reconstruction and economic development through the import-substitution industrialization and dependence on U.S. economic aid, the Syngman Rhee regime (1948-1960) ended up facing hyperinflation and excessive unemployment. The poor economic performance, aggravated by widespread corruption, resulted in unpopularity among the people and consequently eroded the political foundation of the Rhee government. In 1960, student demonstrations brought about the fall of the Rhee regime and the rise of a coalition government (the Chang administration) which operated under the Western parliamentary system. Nonetheless, political chaos and economic stagnation continued. Under these circumstances, a military coup d'etat, headed by Major General Park Chung-Hee, overthrew the civilian government which had failed to control socio-political disorder. The military takeover of the civilian government in 1961 meant the emergence of a strong anti-communist regime in South Korea. While stressing the need to build the nation's power through economic development, the military junta put forward anti-communism as the regime's first priority in order to legitimize its political activity. The military regime engaged in an anti-communist campaign in order to take advantage of the public's anti-North Korean

sentiment. In the name of economic stability and national security, this authoritarian regime used military and administrative muscle to suppress political action taken by pro-left and democratically-oriented groups. Indeed, the military regime, coming into power lacking political legitimacy, committed itself to solve the economic problems that had become political issues through the previous governments. Soon after seizing power in 1961, the military-backed Park Chung-Hee regime succeeded in achieving rapid economic growth and extending the nation's economic capacity through export-oriented industrialization and massive state intervention. For the North Korean regime, which pay careful attention to the domestic situations of its archrival, a political and economic change in South Korea in the early 1960's might have been a crucial moment to reexamine the basic assumption of its military strategy toward South Korea. Since the 1953 armistice, the South Korean military, which was largely trained and equipped by the United States, possessed over 600,000 personnel in their active service. The size of South Korean forces was roughly double than that of North Korea at the time of the military coup in 1961 (International Institute for Strategic Studies cited in Thomas 1991, 284). Notwithstanding the fact that South Korea had been relatively more advanced than North Korea in military capabilities, the North Korean leadership, before the establishment of the military regime in South Korea, seemingly did not place great weight on the possibility of offensive action by the South. Perhaps, from North Korea's viewpoint, the Rhee government of the 1950's had evident political and military limitations in initiating an armed attack against North Korea because of the United States' preference for the status quo in the Korean peninsula and the American authority over operations of South Korean forces. The following

explanations – found in Sung-Joo Han’s short article (1983, 148) – could be helpful in understanding North Korea’s strategic perception of the Rhee government: “North Korea could see that U.S. military measures in Korea were basically a part of America’s containment policy. Judging from the haste with which the United States concluded the truce negotiations in 1953 and the passive attitude it took toward the Indochina conflict in 1954, the United States could hardly be seen to be plotting a major military action against North Korea. .... As long as the United States retained operational control of the [South] Korean armed forces, a South Korean military provocation could be ruled out.” As well, in North Korea’s perspective, the weak political position of the Rhee government caused by economic stagnation and growing public opposition created an unfavorable situation, both economically and politically that would hinder the South Korean regime from considering an initiation of any form of military action against the North. However, the overthrow of the unpopular and inefficient civilian government and its replacement by a military-backed administration under the strong leadership in South Korea may have forced the North Korean leaders to consider the different circumstances. In contrast to the professional politicians, the young radical leaders of the military coup – calling themselves “revolutionary forces” – might be seen as offensive-minded and unpredictable to the North Korean regime. The new leaders of South Korea, who had already violated a chain of command and a democratic constitution, would be regarded by the North Korean leadership of being willing to increasing tension with the North in order to justify their military intervention into South Korean politics. More importantly, the superiority of the South Korean military capabilities, coupled with the rapid economic growth and the

improved political stability under the authoritarian Park regime during the 1960's might be thought of by North Korea as a warning signal that the strong leadership in the South, based on political consolidation and economic strength, had capabilities to carry on military action against their country. Thus, it may be argued that the North Korean regime became excessively sensitive to the emergence of a military regime based on strong anti-communist and anti-North Korean orientation.

These security concerns of North Korea seemed to be exacerbated by the explicit support of the United States for the South Korean military regime and American aggression in Vietnam from the beginning of the 1960's. The United States took an ambiguous attitude regarding the new political development in South Korea at the time of the 1961 military coup. However, since the military junta demonstrated its strong commitment to anti-communism and anti-North Korea, the Kennedy administration became fully supportive of the military regime and therefore continued to provide South Korea with military materials. While keeping its troops in South Korea and Japan, the United States started to aggressively become involved in the Vietnam War from the early 1960's. After sending its first military advisors in 1960, the United States began to station its own combat troops (reaching over 500,000 personnel by the end of 1960's) in Vietnam, taking the risks of heavy military casualties in a full-scale war. At the same time, South Korea, pressured by the United States, decided to participate in the Vietnam War and normalize diplomatic relations with Japan, which further increased the economic and military cooperation of the South Korea-Japan-the United States triangle. For the North Korean regime, the aggressive involvement of the United States in the Vietnam War

would carry serious implications possibly because of a shift in American policy from a defensive to a proactive attitude, which would increase American military presence in East Asia, thus changing the military balance in the region. In the same vein, the United States reaction to Vietnam in the early 1960's perhaps led the North Korean leadership to suspect that a revised American policy for active military engagement could attempt to expand the South Korean military capabilities. In sum, the rise of the anti-communist military regime in South Korea, coupled with aggressive American intervention in the Vietnam War, could be considered as a decisive factor that brought about changes in the North Korean military strategy.

With respect to these new situations which were affecting both North Korea's allies and rivals, it can be argued that the North Korean leadership, responding to the international/regional events at the start of the 1960's, might regard itself as being militarily vulnerable and focus on improvement of its self-defense capabilities. Given these circumstances, it is not surprising that the North Korean regime adopted a new military program based on a self-defense and self-reliance policy. In December 1962, the North Korean government announced the so-called "4-Military Lines" which consisted of the armament of the entire people, the fortification of the entire country, the training of all service men into a cadre force and the modernization of the army (S.J. Han 1983, 150). Needless to say, heavy emphasis on enhancing military capabilities affected the orientation of economic policies so did the North Korean regime engage in a "dual policy of economic development in parallel with military expansion." North Korea began to

commit limited economic resources to improving the military and developing defense-oriented heavy industries at the sacrifice of supporting various economic programs.

There are differences in North Korea's military expenditures among the relevant publications. And some observers of North Korea are doubtful about the official North Korean announcement of defense spending because, in their opinions, North Korea released reduced military budgets in order to hide their true military efforts. Whether or not the official figures are accurate, a trend became apparent in the relevant publications (even, the estimates of the South Korean government) that the military spending of the North Korean regime expanded rapidly in the mid-1960's. According to available data, the military spending within the annual government budget, averaging less than 5 percent between 1954 and 1963, reached 10 percent in 1965 and 30 percent in 1967 (S.J. Han 1983; B.C. Koh 1984; S.M. Lee 1994, 120. see Table II.3). It is said that North Korea's annual military expenditure was around 20 percent of GNP and amounted to approximately 30 percent of government budgets during the late 1960's. The rapidly increased military spending helped to slow down North Korea's economic growth. It is no coincidence that the drastic decrease of growth rates during the mid-1960's happened at the same time as the rapid expansion of defense expenditure. In 1966, the North Korean government announced the extension of the First Seven-Year Plan (1961-67) for three more years, acknowledging the unfulfillment of its targets due to the heavy defense burden. Since then, the North Korean economy has suffered from the costly military buildup. As some observers argue, it is obvious that the socialist regime of North Korea has militarized the nation and the excessive expense of the military budget has caused economic burdens.

It is also true that the North Korean regime in its later decades possesses a strong militaristic feature (since North Korea continued to increase its military spending until the 1990's and maintains more than 1 million military personnel – the sixth largest force in the world). Nevertheless, it is difficult to deny that the dramatic changes in the international environment surrounding North Korea during the 1960's played a decisive role in switching North Korea's policy priorities and embarking on its massive military buildup from the start of the 1960's when its economy was still at an immature stage of development. In conclusion, it seems reasonable to argue that large military expenditures led by unfavorable situations in both Cold-War blocs in the 1960's contributed in a large degree to economic slowdown which gradually hindered the economic development of North Korea. The external events of the international/regional system, such as the Sino-Soviet dispute, U.S. involvement in the Vietnam War and the rise of the military regime in South Korea, caused a reshaping of economic orientation in North Korea.



## **Chapter Four**

### **The Dynamic Role of International Factors in North Korea's Development Path during the Period of Economic Decline from the 1970's to 1990's**

#### **I. Unsuccessful Attempts at Integration into the World Economy**

In the previous chapters, we found that the North Korean economy was affected by the changing Cold-War environment. The fact that the North Korean regime shifted strategic goals of development and security in response to the changes in the international/regional system has also been addressed. Nonetheless, the experience of North Korea prior to the 1970's indicated that to a great extent North Korea's industrialization took place in isolation from the activities of the capitalist world economy. Because of North Korea's confrontation with the Western bloc and the Western economic sanctions it faced, North Korea's economic relations with Western countries was very minimal. However, in the early 1970's, there was a rapid trade expansion between North Korea and Western countries. North Korea attempted to integrate itself into the capitalist world market through improving trade relationships with Western countries. As a consequence, the North Korean economy began to be increasingly influenced by changes in the world economy. This section provides an analytical background of North Korea's trade expansion with Western countries in the 1970's and examines the resulting impact on the performance of the North Korean economy.

## 1. Trade Expansion with Western Countries in the Early 1970's

During the 1970's, the North Korean regime essentially followed the basic development policies set up in the previous decade. Its campaign of enhancing economic development in conjunction with the expansion of the military capacity was continued. Politically, as the result of continuous purges of Kim Il-Sung's opponents, the North Korean system became totalitarian (and/or dictatorial). Kim Il-Sung, whose political position had been unchallenged since the early 1960's, took further steps to promote himself to supremacy from the beginning of the 1970's, by extending his personality cult and taking over all the supreme positions in the party and government. The new constitution of 1972 – replacing the first constitution of North Korea which had existed since 1948 - justified Kim's single leadership (dictatorship)<sup>1</sup> through institutionalizing the presidential system (*Jusukje*). Kim Il-Sung became the President of North Korea in 1972, while simultaneously keeping the highest post in the party and military. In addition, this new constitution served for legitimizing Kim's *Juche* ideology as North Korea's official policy guideline. According to relevant literature, *Juche* ideology (Kimilsungism) first

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<sup>1</sup> Ironically, 1972 also marked an important watershed in the history of South Korea. The Park Chung-Hee regime adopted the *Yushin* (Reform) constitution, which proclaiming martial law and dissolving the National Assembly. The *Yushin* constitution removed the limited number of six-year presidential terms and direct presidential elections, which had been placed in the old constitutions. The *Yushin* constitution allowed President Park to hold extraordinary political power. After that, President Park exercised the dictatorship rule, criticizing Western-type democracy and advocating the Korean concept of democracy. South Korea then became a highly authoritarian state. Although South and North Korea underwent different developmental patterns under distinct political systems, the early historical experience of two Koreas suggests some similarities in the nature of the political structure and the process of power legitimatization and consolidation. Both the Kim-II Sung and Park Chung-Hee regimes shared authoritarian and nationalistic characteristics in political, economic and social control. For useful discussion on the nature of the two regimes from a comparative-analysis perspective, see the following references: Yang, Sung Chul. The North and South Korean Political Systems: A Comparative Analysis (Seoul: Seoul Press. 1994). Koh, Byung Chul. The Foreign Policy Systems of North and South Korea (Berkeley: University of California Press. 1984). Hwang, Eui-Gak. The Korean Economics: A Comparison of North and South (Oxford: Clarendon Press. 1993).

emerged in the mid-1950's as a method for consolidating Kim Il-Sung's political position through the elimination of Kim's rivals who were close to the Soviet and Chinese authorities. It was further developed during the 1960's and became the official ideology<sup>2</sup>, along with Marxism-Leninism, of the Korean Workers' Party and the North Korean government at the beginning of the 1970's. Since then, it is said that *Juche* ideology – which laid great stress on political independence, economic self-reliance and self-defense – has acted as a veritable ruling doctrine in North Korea's political and economic activities.

The early 1970's saw an important change in North Korea's foreign trade and international relations: North Korea's trade with non-socialist countries rapidly expanded. Diplomatic relations with Western countries started. Also, the international status of North Korea was improved through its active involvement in the worldwide Nonaligned Movement. According to available data, North Korea dramatically increased its economic relations with non-socialist countries – particularly Western Europe and Japan (although not the United States) – in the early 1970's. Unlike a public image of North Korea as a country where the xenophobic manners of a closed society were likely to reduce contacts with foreign economies and international trade, the North Korean economy actually experienced a steady increase in both export and import areas following the postwar reconstruction period of the 1950's. Although the proportion of North Korea's foreign trade in its GNP never accounted for over 35 percent (S.B. Yoon 1986, 70), the value and

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<sup>2</sup> The new constitution of North Korea in 1972 included the following clause: "The Democratic People's Republic of Korea is guided in its activity by the *Juche* idea of the Korean Workers' Party, a creative application of Marxism-Leninism to the conditions of our country" (Article 4 of the 1972 constitution of North Korea, translated by and cited in Dae-Sook Suh's Korean Communism 1945-1980: A Reference Guide to the Political System, 1981, 502).

volume of North Korea's foreign trade constantly rose. As shown in Table III.1, the total value of North Korea's imports rose from US\$ 60.3 million to 434 million between 1955 and 1970, while exports went up from US\$ 45 million in 1955 to 308 million in 1970 (J.S. Chung 1986, 81-83). Over the same period, North Korea's foreign trade was heavily concentrated into the socialist bloc countries, which constituted over 90 percent of North Korea's total trade volume in the 1950's and approximately 85 percent by the end of the 1960's (Y.S. Kim 1979, 122-123; P.S. Lee 1991, 185). The Soviet Union and China were North Korea's major trade partners, even though there were some fluctuations in North Korea's trade with these two countries (for example, the considerable decrease in trade volume during the late Khrushchev era and the Cultural Revolution respectively). North Korea's trade relations with some developed capitalist countries began in the late 1950's after Japan, France and West Germany had decided to initiate economic relations with North Korea. Nonetheless, North Korea's trade with non-socialist countries was minor, accounting for about 10 percent of the total North Korean trade volume up to the late 1960's (Brezinski 1979, 202-203; J.S. Chung 1986).

However, a major change took place in the patterns of the North Korean foreign trade in the early 1970's: There was a rapid acceleration in the growth of North Korea's trade with Japan and Western Europe, whereas the proportion of the socialist countries in North Korea's total trade markedly declined. According to the statistics developed by Pong S. Lee (1991), trade with Japan (exports plus imports) increased from \$ 31 million in 1965 to 59 million in 1971 and to 361 million in 1974, which means about a twelve-fold increase in 10 years (see Table III.2). North Korea's trade with Western Europe also shot

up from \$ 18 million in 1965 to 47 million in 1971 and 378 million in 1974 (Brezinski 1979, 204. see Table III.3). As trade relations with Western Europe expanded, it is estimated that the share of North Korean foreign trade contributed by the West European partners rose sharply from below 5 percent before 1970 to roughly 25 percent in 1975 when the trade volume between the two areas peaked. Consequently, trade between North Korea and the non-socialist countries accounted for about half of North Korea's total trade volume in the mid-1970's (see Table III.4). North Korea's imports from the non-socialist countries, which shared approximately 60 percent of its total imports, exceeded those of the socialist-bloc partners (J.S. Chung 1986, 84; Y.S. Kim 1979, 122). Therefore, the Soviet share of North Korean foreign trade fell, even though the Soviet Union remained the largest trading partner of North Korea.

Examination of this clear change in the direction of North Korean foreign trade raises two primary question: What caused North Korea to become highly involved in foreign trade with Japan and Western Europe in the early 1970's? Considering the fact that about half of the total North Korean trade occurred with the non-socialist countries, is it accurate to describe the North Korean economy as either closed or fully self-reliant?<sup>3</sup> In assessing

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<sup>3</sup> Given the North Korean regime's consistent emphasis on economic self-reliance based on *Juche* ideology, the relationship between North Korea's practice of self-reliance and economic performance has been widely discussed in the literature for many years. Most scholars of the North Korean economy – including members of both liberal and radical camps – regard the self-reliant economic strategy within the broad context of *Juche* ideology as the most salient characteristics of the North Korean economic system. There seems almost a general agreement that this country has heavily depended upon domestic resources and technology, to a degree which was even incomparable to other socialist economies. However, there has been substantial disagreement on the economic result of North Korea's self-reliance policy. In general, two sets of interpretations appeared in the literature, both with a very different emphasis. While stressing the negative aspect of the self-reliant model, a group of analysts, who actually has dominated the discussions on North Korea, charge that the pursuit of self-reliance (and *Juche* ideology) hampered the opportunity of gaining the benefits from the participation in international markets. These analysts are likely to view the nation as being economically autarkic and being extremely isolated in an international context. The "Hermit Kingdom" – once used by Westerners in the 19<sup>th</sup> century to portray the Choson

the reason for the expansion of North Korea's trade with Western countries, several explanations have appeared in the literature. Notwithstanding the different areas of emphasis placed by researchers, technological improvement through importing industrial plants and machinery from some advanced capitalist countries seems the main reason for rapid rise in North Korea's trade with Western countries. The commodity composition of North Korea's foreign trade, along with the geographical distribution of its exports and imports, provides evidence that North Korea imported a great amount of heavy industrial machinery and transport equipment from Japan and Western Europe in the early 1970's. According to previous studies done by Joseph S. Chung (1986, 93-104) as well as other researchers, North Korea's major export products to Western countries in the 1970's were raw materials (such as nonferrous metals and iron), primary manufactures of metals and agriculture products whereas its major imports from these countries were machinery (such as electrical machinery and non-electric equipment), transport equipment, finished

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Dynasty – has been often found as a popular expression characterizing North Korea in their writings. On the other hand, a small group of writers (including the North Korean government) have asserted that North Korea attained the economic self-reliance following the effective guideline of *Juche* ideology. This group emphasized the importance of protecting the national economy from exploitation by imperialistic powers and international economic fluctuation. From the standpoint of this group, the North Korean economy is highly independent from external forces and North Korea's efficient utilization of domestic economic resources led to rapid industrialization and technological progress without integrating into the capitalist world economy. The North Korean government in the past manipulated the pro-North Korean opinion (its achievement of "an independent national economy") for political propaganda. However, despite their important contributions to understanding of the nature of the North Korean economic policies, both schools of writers seemingly do not develop an accurate analysis of the North Korean economy. This is because economic strategies and foreign trade policies which North Korea have actually pursued, in reality, are certainly more complex than the simple model of self-reliance which both groups of North Korean scholarship tended to treat as analytical framework. In particular, North Korea's theoretical guideline on the pursuit of self-reliance seems to have been modified. Despite its rigidity in foreign relationships, North Korea did not seem autarkic. Nor did North Korea become fully independent from the world economy, which argument contradicts North Korea's public announcement of having built a self-reliant socialist economy. A good example is North Korea's trade expansion with Western countries in the early 1970's. This issue will be further explored in detail in this section of the thesis.

manufactured goods and chemicals. With respect to the commodity composition in North Korean trade with the Soviet Union and China, North Korea in the 1970's mainly imported from the two socialist countries such non-capital goods as petroleum, oil products, crude materials (such as coking coals) and cereals, even though machinery and transport equipment ranged between 20 and 30 percent of North Korea's imports from the Soviet Union. The noticeable difference in the composition of North Korea's imports between Western countries and socialist countries proves that North Korea expanded business relations with Western countries for obtaining badly-needed advanced technologies which perhaps was not available from the socialist countries.

Data dealing with the structural changes of the North Korean economy helps us to understand why the country became interested in using Western technology, which outwardly contradicts a principle of *Juche* ideology, self-reliance in economies. Reflecting the rapid growth in industrial production throughout the 1950's and 1960's, there were substantial changes in the structure of both national output and employment. The share of industry in North Korea's national output went up from 23.2 percent in 1946 to 40.1 percent in 1956, and to 62.3 percent in 1965. In comparison, agriculture dropped rapidly from 59.1 percent to 26.6 percent and to 19.3 percent over the same period. A similar pattern took place in employment. The proportion of North Korean labour engaged in secondary industries increased from 12 percent in 1945 to 42 percent in 1965, while the agricultural sector having occupied three-fourth of the total labour force in 1945 only represented about 40 percent in 1965.<sup>4</sup> These changes continued in the 1970's. From

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<sup>4</sup> The figures on sectoral development are drawn from the works of Tai Sung An (1983, 118) and Eni-Gak Hwang (1993, 43).

the figures on the sectoral distribution of the North Korean economy, it is not difficult to assume that North Korea underwent the early stages of industrial development over a short period (the 1950's and 1960's). As a consequence of achieving a certain level of economic progressiveness, the country was destined to enter a new phase of industrialization in the following period. The fast expansion of the North Korean economy up to the 1960's perhaps required more advanced technology and more capital investment for further development. Indeed, technological improvement might become a necessary condition over the same period for increasing labour productivity and for maintaining economic growth because the heavy industries – the most important sector of the North Korean economy – are capital- and technology-intensive. As industrialization progressed, the North Korean regime also needed far-reaching changes in economic management and resource mobilization in order to enhance its production efficiency and sustain the socio-economic transformation.

As seen in the previous chapter, North Korea experienced slowdowns in its economic growth during the 1960's. One of the main reasons was the increasing military expenditures. Another important factor which contributed to slowing North Korea's fast economic growth could be the relative decline in economic efficiency and labour productivity of the North Korean industry. This decline was partly caused by the lack of up-to-date technologies and limited capital resources. As noted earlier, the intensive mobilization of domestic resources, associated with massive economic aid from socialist countries, made the North Korean regime able to supply capital and technology for the establishment of its industrial base during the early postwar period. The rate of domestic

savings and investment during the period of the 1950's and 1960's was very high. A study by the CIA (1978,7) estimated that the domestic savings rate of North Korea over the same period was between 25 and 35 percent of GNP. It is also argued that such high levels of domestic investment were made possible by the sacrifice of private consumption and a lion's share of economic resources went to heavy-industrialization (Okonogi 1994). However, after passing through the early stages of industrialization, North Korea might face an essential task of upgrading its existing industries through the introduction of advanced technology and utilization of more capital. North Korea, with its small geographic size and population, would find it difficult to meet the new needs of further industrialization by only mobilizing domestic capital and technology. Its strategy of achieving heavy-industrial development and technological progress by relying on internal resources seemed to fall into difficulties during the late 1960's. The difficulties might have been created by the gap existing between the level of North Korea's domestic investment that could be assigned to technological upgrading and the actual levels of technological requirements needed to accomplish further industrialization. As well, the large military buildup associated with the establishment of an extensive armaments industry acted as an economic obstacle, while reducing North Korea's capability of allocating domestic resources to technological development.

Another difficulty for North Korea's task of improving technologies in the industrial sector arose from the drastic reduction of foreign aid from socialist neighbors during the 1960's. In spite of the restoration of Soviet-North Korean relations following the end of the Khrushchev era, there was a continued decreasing trend in the economic and technical

assistance from the Soviet Union. Indeed, the forms of the economic aid that were given by the Soviet Union changed to a great extent from grants to loans. North Korea also failed to maintain the Chinese assistance since China was suffering from its own economic problems after the unsuccessful launch of the Great Leap Forward (1958-60). As a consequence of the limited utilization of internal resources and reduced foreign aid, the North Korean regime might become unable to finance the adequate capital necessary for upgrading industrial equipment and machinery which was badly needed. Thus, a shortage of new technology and equipment, essential for enlarging production capacities, led to a fall in industrial labour productivity as well as lower efficiency of production.

There is a clear limitation in quantifying North Korea's level of technological development. As well, it is noteworthy that no quantitative analysis on North Korea's labour productivity and industrial efficiency is available in the literature (as far as this study can determine). Nonetheless, the overall performance of the North Korean industry, with its declining annual growth rate during the 1960's, indicates the possibility that its technological development could not keep pace with the demand of changes in the country's industrial structure. The various empirical studies conducted to examine the correlations between the self-reliant model in developing regions and economic growth also support the view which has been made above. In addition, decreasing industrial productivity over the period, as a consequence of problems in upgrading industrial facilities, can be judged by the extent of North Korea's increased stress on technological innovation and its effort to raise economic efficiency through changing the management systems. During the 1960's, substantial reorganization in the systems of industrial

management and planning designed to promote production took place in North Korea; for instance, the introduction of the *Daeam* Work System in 1961 in an effort to restructure industrial management systems and the implementation of “unified and detailed planning” under the central authorities in 1964-65 in order to increase efficiency in the planned economy (S.L. Choi and S.K. Lee 1998, 24-27). As well, the North Korean regime began to lay a greater emphasis on the modernization and development of technology in this period. A good example was the introduction of the “three technical revolutions” initiative in the early 1970’s (although the regime announced that the aim of this campaign was to maintain a high standard of living without mentioning a word about increasing productivity). In spite of the criticism that the North Korean leadership neglected the role of technology in economic development, the North Korean leaders were seemingly aware of decreasing industrial productivity caused by technological constraints. Consequently, they appeared to emphasize more frequently the importance of strengthening technological foundations, as Kim Il-Sung, for example, delivered “the duty of scientists and technicians in carrying out the technical revolution” in 1963 and “some tasks in developing our country’s science and technology” in 1972 (D.S. Suh 1981, 141.184).

This section of the thesis is concerned mainly with North Korea’s need to introduce up-to-date equipment as the fundamental factor in changing North Korea’s direction of foreign trade. After examining North Korea’s trade expansion with Western countries from this approach, it seems necessary to consider the external factors that created conditions favorable to North Korea’s trade with Western countries. A few scholars including Pong S. Lee (1991) highlight the so-called East-West détente in the 1970’s as

the most important international event in respect to the change in the North Korean foreign trade. The end of the 1960's witnessed the gradual relaxation of the Cold-War confrontation on the global level. It is said that there was a transition in the political and economic structure of the global Cold-War system. Politically, the hegemonic powers of the postwar period – the United States and the Soviet Union – began to lose absolute control within their respective orbit. The United States began to withdraw its troops from Vietnam in 1969. Some socialist countries like China and Yugoslavia distanced themselves from the Soviet Union. The worldwide tension between two antagonistic blocs eased as shown by events such as the diplomatic normalization between the United States and China and Sino-Japanese rapprochement in 1972. In the economic realm, the successful economic recovery of Japan and West European countries from World War II created a challenge to the position of America as the dominant economic power in the world. As well, the emergence of new economic powers began to diversify world economic relations. Under these circumstances, economic and political relations between the two Cold-War bloc countries rapidly expanded from the late 1960's. In particular, the trade volume between West and East European countries grew significantly during this period. In this context, it is not difficult to think that North Korea responded to these changing circumstances by increasing political and economic contacts with the Western countries. It can be therefore argued that the relaxation of the Cold-War conflict to a limited extent helped to lead to the expansion of trade relations between North Korea and Western countries. In fact, this opinion has been given credibility by political scientists in

the field of North Korean studies. Previous studies provide sufficient background on this issue. Therefore, it is unnecessary to discuss it here in greater detail.

Another contributing factor behind North Korea's increased imports from Western countries could be that some items of industrial and transport equipment which were badly needed for industrial development were not readily available within socialist bloc countries. Even when available from socialist allies, some commodities were sold at costs over the average world prices or its quantities were not sufficient enough to cover North Korea's requirements. If North Korea had been satisfied with the imports from socialist countries, it would not have turned to Western countries to purchase industrial equipment. As is well known, the Soviet Union made significant technological progress up to the 1960's in industrial areas, particularly aerospace, nuclear and machine industry. However, since defense-oriented heavy industries occupied large share of the Soviet economy, development of technology was largely linked to the military production instead of for commercial use. Thus, technological progress in selected fields of heavy industries was not accompanied by development of other manufacturing sectors such as telecommunication, electronics, transportation and machinery for light industry. It is also said that a large proportion of industrial manufactures, based on advanced technology, were produced not for export purposes but for domestic use (Koves 1981). In addition, since North Korea achieved a certain level of technological progress throughout the two decades of industrialization, the technological gap between the advanced Soviet economy and the North Korean one narrowed, which meant reduced imports of outmoded machinery and industrial plants from the Soviet Union. It can be argued that the levels of

industrial development in North Korea around the early 1970's were not relatively lower in comparison to those of China, which underwent slow technical progress during the Cultural Revolution. The visiting report (1973) of Harrison Salisbury – dealing with the Asian socialist countries – shed light on the technology level of North Korea as compared to China. Along with the limited supply of technology-intensive goods from the socialist powers, the higher than world prices of some Soviet exports perhaps led the North Korean authorities to reexamine its heavy trade dependence on the Soviet economy. It was observed that in the 1960's the Soviet Union sold some export commodities to Western countries cheaper than it did to socialist countries. As shown in Table III.5, for instance, the prices of the Soviet crude oil and petroleum products to the socialist bloc countries (including North Korea) were higher than to the capitalist countries (Ebel 1970, 58-59). The North Korean leadership seemed to be well aware of this problem, which was revealed in the 1964 article of the *Nodong Sinmun* (Workers' Newspaper). When the relations between North Korea and the Soviet Union (the Khrushchev regime) reached their lowest level, the *Nodong Sinmun*, the main government daily organ, published an editorial covering "Soviet economic exploitation" (B.C. Koh 1969. 79). Under the above circumstances, North Korea began to pursue a somewhat flexible trade policy, while importing machinery and transport equipment from Western countries.

Thus, as regards to the decisive reason behind the dramatic improvement in North Korea's trade relations with Western countries, it becomes apparent, when the evidence is examined, that, in fact, the North Korean regime attempted to strengthen its foreign trade in order to improve industrial production through the importation of foreign technology

and capital. To cope with the problem of declining productivity in the industrial sector, the regime started to implement a somewhat pragmatic trade policy, while seeking to develop economic relationships with Japan and Western Europe. In other words, North Korea partially reintegrated itself into the capitalist world economy in the early 1970's after more than two decades of its pursuit of self-reliance and technological isolation. It is clear that the importance of foreign trade in the North Korean economy was far less than that of market economies such as North America and the East Asian NICs. But the development of trade relations between North Korea and Western countries illustrates that foreign trade became a crucial part of North Korea's national economy in the early 1970's. Thus, it is easy to guess that the changes in world economic conditions began to directly influence the development course of North Korea through its trade relations. In this connection, there is a question to answer in this thesis; how did North Korea's partial reintegration into the capitalist world market in the early 1970's affect the North Korean economy. It seems necessary to examine the impacts of North Korea's increased trade with Western countries on the economic performance of North Korea throughout the 1970's and 1980's. The above question will be discussed in the following section.

## **2. The Impacts of Economic Relations with the West on the North Korean Economy: Trade Imbalance, Foreign Debts and Unsuccessful Economic Openness.**

The period of the early 1970's covered North Korea's Six-Year Plan. This plan started in 1971 with the objective of achieving 180 percent growth in national income and 220 percent increase in industrial production during the plan period. Thanks to a flexible

trade policy and the introduction of Western machinery and industrial equipment, the overall performance of the North Korean economy during the early 1970's was markedly better than the experience of the preceding years during its economic slowdown in the 1960's. The government announced in 1975 that the Six-Year Plan fulfilled its targets one and a half years ahead of the scheduled time. According to official North Korean data cited in secondary sources, the industrial output registered an increase of 250 percent during the plan period, surpassing the targeted 220 percent. The recorded average annual rate of industrial growth was 16.3 percent, which was higher than the original target rate of 14 percent (E.G. Hwang 1993, 46-47; J.S. Chung 1987, 111; S.M. Lee 1994, 121-124). As a consequence of improved cereal production per hectare, helped by the diffusion of higher-yielding varieties and the increasing use of pesticides and machinery, the annual grain production also increased. North Korea harvested 8 million tons in 1976, an increase over the planned 7-7.5 million tons (J.S. Jung 1987, 111). Thus, it is reasonable to assert that the successful completion of the Six-Year Plan was largely attributed to the infusion of new machinery and industrial facilities from Western countries. In spite of little available information on how foreign technologies were absorbed by individual industrial units, the introduction of advanced Western equipment seemed to relieve management difficulty in maintaining industrial productivity and increasing production capacity. Considering the fact that there was no major change in the internal economic and political system over this period, it becomes more obvious that the infusion of Western technologies was the prime factor in reversing the downward economic trend of the 1960's to substantial economic growth during the early 1970's.

However, even though the import of capital equipment from the West had a positive effect during the early half of the 1970's, it also generated serious problems in North Korea's overall trade balances. As a result of the massive purchase of industrial products from the Western countries, without a corresponding increase in exports, North Korea faced a large trade deficit. This highly negative position in trade balances left North Korea unable to pay its hard currency borrowings from Western creditors and consequently the nation was caught in foreign debt problems. As Table III.6 shows, North Korea stood in trade surplus of US\$ 20.6 million with non-socialist countries in 1971. But North Korea's trade deficit reportedly reached US\$ 73.1 million in 1972, 232.4 million in 1973, 583.3 million in 1974 and 229.6 million in 1975. Among North Korea's trade deficits with non-socialist countries, a negative trade balance with Japan rose from US\$ 4.2 million in 1971 to 118.1 million in 1974 and to 138.6 million in 1975 (Eberstadt 1996, 530). With respect to the availability of foreign exchange for Western imports in the midst of a mounting trade deficit, North Korea was able to purchase industrial products from Japan and Western Europe with hard currency obtained by borrowings from these countries. In other words, North Korea's trade deficit during the early 1970's was to a large extent financed by the commercial loans of Western countries<sup>5</sup> (Brezinski 1979, 203; Eberstadt 1996, 530).

There is no exact figure on North Korea's foreign debt to Western countries during this period since the North Korean government has not released details on the use of

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<sup>5</sup> North Korea could not access any Western commercial loans until the end of the 1960's. Japan was the first country to provide medium-and long-term credits to North Korea for imports of Japanese products. Immediately after Japan's decision in 1972, North Korea also received commercial loans from some Western countries to be used for purchasing products of these countries (Brezinski 1973, 203).

Western credits. Moreover, North Korean literature varies in its estimates of the amount of the country's debt to the West. Nonetheless, it is said that North Korea's debt to Western countries by 1975 reached approximately US\$ 1.2 billion. Because of the rapidly growing trade deficit, North Korea began to suffer from the burden of repaying foreign loans with their additional interest from the mid-1970's. In 1976, North Korea failed to pay its loan commitments to Western countries at the scheduled time. It began to delay its repayment of foreign debts; a fact which would later lead North Korea's Western commercial bank creditors to declare that the country was in formal default on its debts. Due to debt rescheduling and defaults on repayment, North Korea's international credit rating remained at the lowest level. This poor credit rating consequently caused North Korea difficulties in accessing further commercial loans from Western countries from the latter half of the 1970's. The lack of access to additional foreign capital also made it difficult for North Korea to maintain its trade with Western countries. Thus, it can be argued that a rapid expansion of North Korea's trade relations with Western countries during the early 1970's had a highly negative effect on North Korean economic development in the long run because of the mounting trade deficit and the foreign debt problem.

With respect to North Korea's large-scale trade deficit with Western countries, North Korea's excessive imports of industrial product as compared to its ability to earn foreign exchange has been subject to harsh criticism. It is clear that North Korea did not treat international trade as the engine of economic growth as did the East Asian NICs. The North Korean regime mainly became involved in trade with Western countries during the

1970's in order to obtain new technologies and industrial equipment unavailable domestically or within socialist countries. North Korea's purpose of foreign trade was not to accelerate economic growth through rapid export expansion. In this context, it is said that during this period the North Korean regime overlooked the importance of balancing foreign trade and developing export industries based on comparative advantage. It is natural that the large purchase of foreign goods without a corresponding increase in export capability results in large-scale trade deficit and foreign exchange deficiency. Given these facts, the North Korean regime cannot avoid the blame for its mismanagement of the trade balance as well as its poor foreign exchange position. However, not all the problems of North Korea's balance of payments are attributable to its mismanagement of foreign trade. It seems unreasonable to confine the discussion of North Korea's foreign debt problems to an internal management issue because its trade deficit was directly and indirectly exacerbated by far-reaching changes in the international economic system.

As is well known, the world economy during the early 1970's experienced two major economic events: the breakdown of the Bretton Woods fixed exchange rate system in 1971 and the Oil Shock of 1973. The sudden depreciation of the U.S. dollar and a more than tenfold rise in world oil prices shook the high levels of stability in the international monetary system and stalled the sustained growth of the world economy after World War II. At the same time, many countries – both developed and developing ones – underwent a very high rate of inflation and slower economic growth. Worldwide inflation and the global recession of the 1970's is said to have had a harmful effect on the balance of payments of the most Third World countries. The majority of Third World countries in

the mid-1970's found themselves in a position of large trade deficits and serious debt problems. Many scholars have made valuable contributions to the literature on the above issue, through the conducting of case studies. But very little is known about the impact of the world economic change in the early 1970's on the socialist countries (more precisely, on what could be called "Third World socialist countries"). Similarly, the information on North Korea has been scarce. A few scholars who specialize in North Korea argued about the negative effect of worldwide inflation and recession on the North Korean economy. But they did not discuss it in great detail. It is, therefore, not clear to what degree such international events of the early 1970's affected North Korea's foreign trade and balance of payments in a detrimental fashion.

Nonetheless, with available information, it is possible to develop the argument that the deteriorating terms of trade aggravated North Korea's balance of payments difficulties. The pattern of North Korea's trade with Western countries during the early 1970's was similar to that of many other Third World countries. The general trend in Third World's trade – exporting primary commodities in conjunction with importing manufactured goods – also existed in North Korea's trade pattern. As mentioned in the previous section, North Korea's imports from Western countries were exclusively concentrated in machinery and transport equipment whereas such primary goods as nonferrous metals, iron and foodstuff accounted for the greater share of its total exports. The commodity breakdown of imports and exports during the early 1970's shows the vulnerability of the North Korean trade to the fluctuations of the international prices. It is evident that hyperinflation in Western countries, caused by the oil price rise and the collapse of the pegged exchange rate system,

raised the costs of North Korea's imports of Western machinery and transport equipment in dollar value. In contrast to sharp increases in import prices, the prices of North Korea's main exports – such primary goods as metals and agricultural products – fell considerably in the world commodity market because the stagnation in Western countries reduced the purchasing power of primary commodities (Gills 1992, 116; P.S. Lee 1991, 190; T.S. An 1983, 132-135). This tendency – the deterioration in North Korea's terms of trade – also occurred in its relations with the Soviet Union. Affected by the changes in the international prices, the Soviet Union paid less for their North Korean imports whereas the price of Soviet crude oil and petroleum products exported to North Korea soared (P.S. Lee 1991, 190). In this context, it can be argued that North Korea, like many other countries in the Third World lost substantial amounts of foreign exchange due to the worsening terms of trade. Apparent evidence can be obtained from Table III.1 and Table III.6. These tables show that North Korea's trade deficit reached a peak in 1974, the time of the oil crisis and the consequent global recession (Eberstadt 1996, 530; J.S. Chung 1986, 83). The discrepancy between imports and exports dramatically widened between 1972 and 1974. And the size of North Korea's trade deficit in 1974 – about US\$ 720 million in total trade (J.S. Chung 1986) and US\$ 583 million in trade with non-socialist countries (Eberstadt 1996) - was the largest in North Korea's history (up to the 1990's). In this connection, the rapidly rising trade imbalance in 1973-74 can be partially explained by the falling prices of North Korea's exports and the sharp rise in price of North Korea's imports. Hence, it is possible to consider that North Korea's foreign debt problem in the 1970's was partly attributed to the deteriorating terms of trade cause by the changes in the

world economy. North Korea probably designed its plan to increase imports from Western countries based on the stable trade environment and favorable commodity prices of the 1960's. These conditions of the world economy in the 1960's might have encouraged North Korea to link its economy to the global market in the early 1970's. But North Korea faced the unexpected events in the world economy shortly after its trade expansion with the West and ended up with large-scale trade deficits and foreign debts. It seems likely that North Korea reintegrated into the capitalist world market at the wrong time. North Korea's attempt at improving industrial production through the import of Western technologies failed in the long run because the high economic growth rates of the early 1970's were not sustained.

From the late 1970's, North Korea underwent economic stagnation. Due to large foreign debts and default on payment, Western countries became reluctant to trade with North Korea. As well, a shortage of foreign exchange became a major obstacle to North Korea in accessing further purchase of advanced machinery and industrial plants from the West. In response to its balance of payments difficulties, the North Korean regime adhered more to the principle of self-reliance during the latter half of the 1970's. North Korea concentrated on the full-utilization of domestic resources and technology in an effort to prevent economic slowdowns and technological backwardness. The Second Seven-Year Plan was set in 1978 with the basic objectives of self-reliance and technical modernization (J.S. Chung 1987, 109; P.S. Lee 1991, 194). Under these circumstances, North Korea's foreign trade during the late 1970's was stagnant, while reaching a low in 1977. The share of Western countries in the total North Korean trade also declined since

North Korea shifted its trade back toward the socialist bloc and tried to enlarge economic relations with Third World countries. In 1984, without releasing the details of the economic performance, the North Korean government claimed the Second Seven-Year Plan had been successful through having achieved an average annual industrial growth of 12.2 percent during the plan period (E.G. Hwang 1993, 45). However, the North Korean claim of achieving a respectable level of economic growth over this time is doubtful. With respect to the reliability of the economic data from the North Korean government<sup>6</sup>, it was seemingly released for propaganda purposes. From the late 1970's, it was clear that the North Korean economy went into stagnation associated with several factors such as large foreign debts, worn-out production facilities and a shortage of capital and advanced technology. According to one analysis from *The Economist Intelligence Unit* (1997), it is estimated that an average annual rate of GNP growth between 1976 and 1980 was 4.1 percent and 3.7 percent between 1981 and 1985. When compared with an average annual growth of 10.4 percent from 1971 to 1975 (*The Economist Intelligence Unit* 1997, 65), these growth rates were very low. Other estimates in the literature also show a downward trend in the economic growth of North Korea. It is therefore certain that the North Korean economy after some recovery of the early 1970's began to suffer from poor performance.

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<sup>6</sup> In assessing North Korea's economic performance, some researchers have been doubtful about the quantitative economic data provided by the North Korean government. They argue that North Korea's official figures do not provide accurate information for observers of the North Korean economy. In his scholarly works on the North Korean economy, for instance, Joseph Sang-hoon Chung (1974, 1987, 1989) often questions the reliability of the North Korean figures. Considering that the official economic growth rates have been inflated, Chung points out the methodological problems in North Korea's statistics, such as omissions, overstatement and ambiguity. He also argues that problems of overstatement in North Korea's growth rates are related to the different concepts and methods of socialist and capitalist economies used when it comes to determining the national output levels.

Faced with economic stagnation, the North Korean regime in the early 1980's sought out new economic policies to resolve its economic problems. With regard to industrial management, the decentralization of decision-making was implemented within a limited scope. According to Pong S. Lee (1991), authority over the production, distribution and investment of enterprises moved from the central planning agencies to the provincial administrative organs and enterprise managers. More importantly, the North Korean government adopted the policy of encouraging foreign direct investment. Partly influenced by the success of China's economic opening, North Korea promulgated its first joint ventures law ("The Law of Equity and Contractual Joint Ventures") in 1984 in order to lure foreign capital and technology. The government also took some measures to support the joint ventures law, by enacting a number of supplementary laws including the Joint Venture Income Tax Law in 1985 and by establishing Korean International General Joint Company in 1986 and Department of Joint Venture Industry as a government ministry in 1988. The joint ventures law of North Korea included a number of preferential treatment clauses, such as reduced custom duties, profits remittance and relaxed ownership controls, in order to attract foreign enterprises. Seeking the possibility of economic openness, the North Korean regime also established a special economic area, the *Rajin-Sonbong* Free Economic and Trade Zone, in 1991. Further efforts, including the amendment of the joint venture law and allowing wholly foreign owned companies, were made to facilitate the inflow of foreign capital and technology.

However, despite its attempt at improving economic conditions through foreign investment projects, North Korea met with very disappointing results in attracting the

foreign partners from Japan and other Western countries. Unlike other East Asian countries where foreign investors aggressively channeled large amounts of capital during the 1980's, North Korea was largely ignored by international investors. Available data<sup>7</sup> shows that the number of foreign investment projects for which agreement had been reached totaled only about one hundred between 1984 and 1991. The total value of foreign investment projects under agreement was estimated at US\$ 150 million. Out of the total number of these projects, more than two-thirds were initiated by members of the pro-North Korean association of Korean residents in Japan (*Chochongnyon*). Therefore, the investment which came from Western countries was small. Most foreign investment projects were exclusively concentrated in small-scale light industries and service industries, such as textiles, food and hotels (Y. Namkoong 1995, 469-470). In considering the volumes and types of foreign investment after the 1984 joint ventures law, its contribution in relieving North Korea's shortage of capital and technology appears to be almost nothing. Such poor results become more apparent when the experience of North Korea is compared to that of Vietnam, a country – with similar problems attracting foreign investment – that adopted an open door policy (*doimoi*) in the same period. It appears to have failed completely if the experience is compared to that of China or the East Asian NICs.

There is little doubt that North Korea's attempt to induce foreign investments ended up in failure. A number of factors have been cited in the literature as explaining the failure of North Korea's economic opening policy. Young Namkoong (1995, 475), for

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<sup>7</sup> These figures are provided by the National Unification Board of the South Korean government and cited in S.H. Je (1998, 5) and Y. Namkoong (1995, 468).

example, points out five main factors as hindering the influx of foreign capital: the regime's unwillingness to make fundamental reforms, poor infrastructure, lack of institutional arrangements, a small domestic market and a bad reputation for the handling of foreign debt. Such other factors as political rigidity, heavy regulations on foreign private enterprises and the absence of the market mechanism have also been considered as obstacles to the entry of foreign investors. In evaluating the reason for North Korea's unsuccessful reform, these factors are relevant and cannot be ignored. It would be a mistake to argue that mounting foreign debt and poor international credit ratings, which had incurred in the mid-1970's, are solely responsible for the low level of foreign investment in North Korea. Nonetheless, they can be a part of the reason that discouraged foreign investors. How might the result of North Korea's economic reform differed if the country had avoided large-scale foreign debts in the mid-1970's is a question that could be posed. Better international credit standing of North Korea would have created more interest from foreign enterprises in any case. One clear fact is that North Korea lost an opportunity of using several favorable economic environments during the 1980's – lower interest rates in the international capital market, TNC relocation and a growing foreign direct investment in East Asian region – because of large foreign debts. Indeed, the country could not utilize Japanese capital that accounted for the largest foreign investment in most Asian countries. It can be argued that the economic opening policy adopted in 1984 was partly retarded by an unfavorable initial condition (foreign debt problem) which was closely related to the sudden deterioration of North Korea's terms of trade, which had occurred in the early 1970's. Another apparent fact is that the North Korean economy

after failing to attract foreign investors continued to slump badly during the latter half of the 1980's.

## **II. The Demise of the Cold-War and North Korea's Economic Breakdown**

As shown in previous sections, the pace of North Korea's economic growth slowed considerably after the late 1970's. The economic performance over the 1980's was much less satisfactory than in the first three decades of the regime. Nevertheless, North Korea's developmental achievement for almost a half century was quite respectable when compared with many other countries in the Third World (Pong S. Lee 1994). A considerable degree of industrialization took place. The countries reportedly achieved a certain level of self-sufficiency in grain production. In spite of stagnation, the shape of the North Korean economy over the 1980's was not like those of the LDCs (Less-Developed Countries) showing such problematic characteristics as extreme poverty, serious disruption in economies and political chaos. Indeed, it seemed likely that North Korea had not undergone famine and major political blood-shed during the socialist transformation, which occurred in a few socialist countries – for example, the Stalin era of the Soviet Union and China's Cultural Revolution. Some quantitative cross-national studies demonstrated clear improvement in the average living standard of North Korean people. The World Bank's 1986 *World Development Report*, for instance, placed North Korea in the category of "middle-income economies." North Korea's average standard of living did not seem far lower than that of South Korea and its living conditions seemed relatively higher than those of the Philippines and Indonesia in 1986. According to Eberstadt and

Banister's work (1992) on the demographic trends of North Korea, life expectancy at birth in North Korea rose from 49 years in 1960 to 68 years in 1986. Infant mortality rate decreased from 56.4 (per thousand) in 1955 to 22.7 in 1970 and to 9.8 in 1986. These figures indicate that the average living standard of the North Korean was consistently improving. However, the picture presented by the North Korean economy in the 1990's is totally different from what it was previously. North Korea faced serious economic problems from the beginning of the 1990's. The nose-dive of its economy wiped out the developmental achievement of North Korea throughout the past four decades. North Korea of the 1990's is connected with images of economic disruption and famine. Therefore, there is the need to critically examine the abrupt collapse of the North Korean economy during this period.

The end of the Cold-War ushered in the decade of the 1990's. More than four decades of the Cold-War confrontation between two blocs ended up with the disappearance of the Soviet Union, the socialist giant who had engaged in the creation and maintenance of a rivalry on the Korean peninsula from the North Korean side. As everyone is aware, the international order changed dramatically with the demise of the Cold-War. But the global Cold-War confrontation dissolved without resolving the Korean problem of national division where the Cold-War conflict structure still remains. The economic and security bond of the South Korea-Japan-the United States triangle was not challenged in spite of the changing international environment. The United States, the single global superpower after the fall of the Soviet Union, continued to station large-numbers of troops in South Korea and Japan. In contrast to South Korea's unchanged

relationship with its major Cold-War allies, North Korea's political and economic ties with its traditional supporters were eroded to a great degree. North Korea's position in the international/regional system at the end of the Cold-War was significantly weakened. The effect of the changing international order on North Korea was to isolate the country internationally. At the same time, it lost its military power balance on the Korean peninsula because of the loss of support of its traditional friends.

The deterioration of the North Korea-Soviet economic relations started before the sudden collapse of the Soviet Union in December 1991. It began with the meeting of Moscow's economics-oriented foreign policy and Seoul's *Nordpolitik* (Northern Policy). In July 1988, the new South Korean government, the Roh administration, adopted a foreign policy called *Nordpolitik* (Northern Policy) after observing Gorbachev's new policy of *perestroika* and *glasnost*. *Nordpolitik* was developed for normalizing diplomatic relations with the socialist bloc countries, which would provide South Korean enterprises with new markets as well as diplomatic isolation of North Korea (K.C. Kim 1994; Mazarr 1991, 68). South Korea's improved economic status in the world – such as having the world's fastest growing economy and the large volume of trade and foreign investment by the Korean *chaebols* – helped Seoul's new foreign policy become effective (Perry 1990, 173). Most of North Korea's allies including the Soviet Union and China participated in the 1988 Seoul Olympic games despite North Korea's wishes. Starting with Hungary in 1989, South Korea established formal diplomatic relations with most East European countries. The Soviet Union also shifted its policy priority toward the Korean peninsula from ideological considerations and security interests to economic benefits (S.H. Joo

1995). Faced with domestic economic difficulties, the Gorbachev regime became interested in South Korea's potential purchasing power of Soviet raw materials and the availability of South Korean consumer goods. It is said that Moscow also expected South Korean firms would invest in development projects in Siberia and Far Eastern Russia (S.H. Joo 1995, 31-32). Under these circumstances, there was a rapid commercial and trade expansion between South Korea and the Soviet Union within the short period of 1988-1990. These two countries formally normalized diplomatic relationship in September 1990 after South Korea showed its willingness of committing a credit of US \$3 billion to Moscow as economic assistance (K.C. Kim 1994). In contrast to the South Korea-Soviet relations, North Korea's political and economic cooperation with Soviet Union declined and deteriorated.

According to previous studies, the close connection between North Korea and the Soviet Union was maintained before the Soviet-South Korean rapprochement. The 1961 mutual security arrangement ("the treaty of friendship and mutual assistance"), including the provision of automatic military intervention, continued to remain in force. There was high-level military exchange in 1987 and 1988 (S.H. Joo 1995, 30; Zhebin 1995, 729-730). In particular, economic and political ties between the two countries were strengthened in the mid-1980's after the death of Brezhnev in 1982 (Eberstadt et al. 1995, 90; Zhebin 1995, 728). It was observed that the North Korean economy became increasingly reliant on the Soviet Union during the 1980's as a consequence of its trade failure with the West and its debt problems. The increasing dependence of North Korea on the Soviet Union is clearly shown in the fact that the Soviet share of North Korea's total trade volume

increased from about 25 percent in 1980 to about 60 percent in 1988 (Eberstadt et al. 1995, 91; Yakubovsky 1996, 452). North Korea especially depended upon the Soviet Union for refined oil, lubricants and some other minerals in order to support the industrial and energy sectors of its economy. The Soviet Union also committed itself to provide North Korea with oil and other raw materials at prices lower than the international price during the 1980's. However, because of its worsening economic condition and its adoption of a market reform, the Soviet Union suddenly broke the long tradition of barter-trade system and trade subsidies for North Korea in 1990. The Gorbachev regime demanded North Korea start bilateral trade based on hard-currency payments and world-market prices. But North Korea was not able to meet the new requirement of the Soviet Union due to its chronic shortage of hard-currency. Consequently, North Korea-Soviet trade, reaching a peak in 1988, started to drop in 1989 and then within a one year period of 1990-1991 plunged precipitously by more than one half. According to estimates of Eberstadt and his colleagues (1995) developed from Russian sources, North Korea's imports from the Soviet Union in 1991 plummeted to one-third of the 1987-1990 average level. After the collapse of the Soviet Union in December 1991, economic relations between Russia and North Korea did not recover and continued to deteriorate. In fact, a hostile atmosphere was created in the North Korean-Russian political relations. To make the situation worse, China, North Korea's largest trading partner from 1991, set up full-diplomatic ties with South Korea in August 1992. China, like the former Soviet Union, stopped its preferential barter-trade with North Korea, requiring the use of international exchange rates and hard-currency for bilateral trade (Hu 1995, 56; S.S. Kim 1994, 18-19). North Korea could not

but follow Beijing's new decision since there was no alternative after the demise of the Soviet Union. However, North Korea unexpectedly lost some of its foreign exchange in trading with China because, for instance, the import prices of Chinese crude oil rose sharply from US\$ 58 per ton in 1990 to US\$ 137 in 1992 (Y. Namkoong 1996, 233; H.T. Chun and S.K. Kim 1997, 15. see Table III.7). Although the Chinese share in the total trade volume of North Korea increased, North Korea's capability of importing materials such as petroleum and cooking coal from China was reduced because North Korea needed to pay more for the Chinese supplies after Beijing's abolition of favorable treatment to North Korea. Consequently, North Korea's imports from China (in terms of quantity, instead of monetary value) decreased and the trade deficit grew rapidly.

Taking into account the sudden changes in North Korea's economic relations with the former Soviet Union and China, it is clear that a major obstacle to the North Korean economy in the early 1990's arose from the changed international/ regional environment. As Mazarr (1991) described, North Korea at the start of the 1990's became one of the "orphans of *glasnost*." In this regard, it seems worth examining how the sudden disruption of North Korea's trade relations with the Soviet Union and China affected the North Korean economy. The immediate effect of trade disruption on North Korea was to drive the country into a vicious circle of lower material inputs-energy shortage and declining industrial production-and aggravation of foreign exchange earnings. As noted earlier, there was a conspicuous decrease in imported materials from the Soviet Union and China. In particular, North Korea's shortage of hard-currency reduced imports of petroleum and industrial and transport equipment. It is estimated that North Korea's

petroleum imports in 1994-1995 declined to two-fifths the level of 1990 (H.T. Chun 1997, 38; Y. Namkoong 1996, 228. see Table III.8). Soviet supply of oil to North Korea reportedly dropped by more than 90 percent between 1990 and 1991 (Eberstadt et al. 1995). Although it is blessed with many national resources, such as bituminous coal, iron and tungsten ore, North Korea has no petroleum and cooking coal of its own. Thus, considering that almost all the transportation sector in North Korea was operated by the imported fuel, this level of decrease in petroleum imports considerably constricted the function of the transportation system. The transportation bottlenecks directed hampered the production of coal – which accounted for about 80 percent of North Korea's power production – as well as hindered coal deliveries from coal mines to thermal power stations. The decrease in electric power production, largely caused by the limitations of the transportation infrastructure and the reduction in coal production, prevented the North Korean manufacturing industry, which already suffered from the insufficient imports of machinery and transportation equipment, from maintaining its normal operational ratio. As well, the decrease in imported raw materials like petroleum and coke curtailed North Korea's capacities in such industrial area as iron and steel production. With respect to such mentioned factors as the lack of raw materials, transportation bottlenecks and energy shortage, it was not surprising to hear that the manufacturing facilities operation rate in North Korea during the 1990's did not exceed half of its capacity (Newsreview June 1999; Y. Namkoong 1996, 224). The decline in industrial production consequently resulted in the reduction of North Korean exports and decreased foreign exchange earnings, which would further aggravate North Korea's constraints in the purchase of important materials

from abroad. North Korea in the mid-1990's probably found itself to have been caught in the difficult of escaping this vicious circle.

A similar phenomenon took place in North Korean agriculture. Before the late 1980's, especially considering its scarcity of arable land and its short growing season (160-180 days), North Korea seemingly achieved impressive progress in agricultural development. Aware of the historical legacy of widespread starvation among the population (particularly during the late Choson Dynasty and Japanese colonial period), the North Korean regime, following its inception, paid great attention to increasing grain production, while also attempting to achieve self-sufficiency in food. Structural imbalance between industry and agriculture has existed in the North Korean economy due to its long-term pursuit of heavy-industrialization like other socialist countries. But the extent of lopsided industrial development was not serious when compared to the Soviet Union and the East European countries where the agricultural sector was largely sacrificed to the needs of heavy-industrialization. It has been observed that there was a consistent growth in North Korea's agricultural production until the mid-1980's. The increase in agricultural output during the early period of the regime was largely attributed to such methods as land reform, collectivization, development of drainage and irrigation facilities, high mechanization, electrification and mass mobilization. Particularly in the 1970's, North Korea significantly increased productivity in the agricultural sector and grain production through the introduction of higher-yielding varieties and the frequent use of chemical fertilizers (H.S. Lee 1994; P.W. Lim 1997). According to North Korea's official figures quoted in several secondary sources, North Korea improved its annual grain

production from 2.6 million tones in 1949 to 4.8 million tones in 1961, to 8 million tones in 1976, and then reached 10 million tones in 1984. Some researchers outside of North Korea have raised questions about North Korea's claim of having achieved a grain production of 10 million tones in 1984, pointing out the possibility that the North Korean government inflated grain production figures. Nonetheless, most researchers specializing in the North Korean agriculture, including those who are doubtful of the official figures, seem to agree that North Korea's domestic grain production increased to a level high enough to keep abreast of the grain consumption of the population until the late 1980's.<sup>8</sup> Although North Korea's levels of grain production began to stagnate in the mid-1980's partly owing to inefficiencies in farm management and operational systems, there was no sharp decline in agricultural production. There was no evidence that would suggest a sharp decrease in agricultural production. If the production decline had been serious, it would have been apparent to outside researchers during the late 1980's in the form of serious food shortage.

However, the major factors behind North Korea's impressive progress in grain production were closely linked to the potential problems inherent in its agriculture. Because of its shortage of arable land, the intensity of land use in North Korean cultivation was extremely high. As well, the degree of mechanization and the chemical fertilizer application rate were very high. It is therefore said that soil fertility in farming areas had been almost exhausted after decades of intensive harvesting. High mechanization and

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<sup>8</sup> For a detailed discussion on the trend in North Korean food production, see Lee, Hy-Sang "Supply and Demand for Grains in North Korea: A Historical Movement Model for 1966-1993" (Korea and World Affairs, Vol. 18, No.3, 1994: 509-552).

increased use of chemical materials are considered as crucial factors in maintaining (and improving) North Korea's agricultural output. In other words, grain production levels in North Korea were heavily dependent on the use of material inputs. Given this nature of North Korean agriculture, it is not difficult to realize that if the material inputs, such as agricultural machinery, pesticides and chemical fertilizers, were to decline, the growth of agricultural production in the country would be jeopardized. This is the situation which seemed to develop in the early 1990's. As discussed earlier, there was a sharp reduction in North Korea's imports from the former socialist bloc countries after the deterioration of their relations. A shortage of foreign exchange reserves not only reduced imports of petroleum and industrial equipment but also dropped the import volume of such agriculture-related goods as pesticides and farm machinery. The decrease in imported petroleum and electricity limited operation of the petrochemical industry, the main source of fertilizers and pesticides in North Korea. It also lowered the operational use of agricultural machines, like tractors and rice-trans planters, whose production already lagged because of the decrease in electric power and steel production. In his work on North Korea's food shortage, Phillip W. Lim (1997) indicated the incidence of drastic decline in agricultural input. According to him, the annual import of pesticides is estimated to have decreased from 1,099 tones in 1991 to 146 tones in 1993. Amounts of chemical fertilizer production in 1996 only reached a level of about two-sevenths of the country's overall capacity. As a consequence of lower production, the per hectare consumption of chemical fertilizers declined from 1,000 kg in 1989 to 500 kg in 1995. A level of fertilizer application of 500 kg/ha looks like step back to the 1960's level of

fertilizer use since North Korea had reached 600 kg/ha in 1972. In this context, it seems likely that the sharp reductions in such agricultural inputs as chemical fertilizers, pesticides and farm machinery triggered poor agricultural performance in the early 1990's. In addition to these structural problems, and to make things worse, such natural disasters as floods in 1995 and 1996 and drought and tidal waves in 1997 aggravated North Korea's food situation. Consequently, since the mid-1990's, North Korea has been widely recognized by the international community as suffering from serious food shortage. It was reported that a yearly shortfall of about 2 million tones of food brought North Korea to a state of famine. And reflecting the disruption in both agricultural and industrial sectors, the North Korean economy during the 1990's was characterized as consecutive negative growth. North Korea, one of the few socialist nations left, faced the fate of simultaneously resolving economic hardships and international isolation.



## **Chapter Five**

### **Conclusion**

This study started with the theme of exploring the relationship between the dynamics of the international/regional system and the development process of North Korea throughout the last five decades. The main reason that this thesis examines the economic trajectory of North Korea in the international context is because the theoretical discussions which took place in the literature on the North Korean economy in the past largely lacked an analysis of the internal-external linkages of North Korean development. In the beginning, the thesis recognized the problems in the mainstream view of the North Korean economy: Followers of the neo-classical perspective have focused exclusively on internal economic and political systems of North Korea. This perspective failed to appreciate the beneficial and detrimental effects of the changing international environment on the economic performance of North Korea. Coupled with the North Korean regime's salient emphasis on self-reliance, the theoretical orientation of the neo-classical perspective emphasizing market superiority and the benefits of the participation in the capitalist world economy blinded some mainstream scholarship on the North Korean economy from assessing the impact of unfavorable changes in the international political and economic system on North Korea's development path. After finding the limitations of the dominant view, we reviewed the propositions of three alternative perspectives and then obtained several working ideas from the dependent development and world-system perspectives. Aided by these two perspectives, this thesis explored how changes in the international/regional system affected the internal economic development of North Korea

in both negative and positive contexts. Consequently, research on the several phases of North Korea's economic growth since the 1945 inception of the socialist regime has made it apparent to us that the development course of North Korea has been profoundly shaped by external factors. The evidence found through this study suggests that despite its pursuit of inward-oriented socialist development strategy the North Korean economy has been neither closed nor fully independent from the capitalist world economy. In this connection, this thesis has shown that some changes in the international/regional system during the Cold-War era created conditions unfavorable for the North Korean economy. It is also argued that the economic breakdown of North Korea in the 1990's was directly or indirectly related to the changing international order.

Through the discussion in the preceding chapters, this study has identified the role of international (external) factors during both North Korea's economic ascension period and economic downturn period. Some notable findings of the study are summarized as follows in order to conclude and defend the argument of this thesis.

(1) The early development process of North Korea was to a great extent influenced by the legacy of the Japanese colonial rule and the territorial partition of the Korean peninsula, which closely linked with the Soviet-American confrontation. The foundation and nation-building process of North Korea were inseparable from the national interests of three hegemonic powers – Japan (before independence), the Soviet Union and the United States (after independence). Moreover, the division and rivalry structure of the Korean peninsula, which started to appear in the late 1940's, has always been a crucial factor in determining the development strategies and economic policies of North Korea. It would

be no exaggeration to state that the research on the present economic system of North Korea cannot be completed without grasping the initial conditions created by these foreign forces in the early 20<sup>th</sup> century.

(2) North Korea's early economic construction and development was relatively successful. Despite its human and material destruction during the Korean War, North Korea achieved an impressive economic growth in the 1950's. At the same time, the regime brought about the socialist transformation of the economy, taking the steps of agrarian reform, the nationalization of Japanese-owned assets, the collectivization of agriculture and the cooperativization of industry. There is no doubt that great efforts were made by the North Korean state during this period in order to facilitate the early stage of economic development. Nonetheless, North Korea's experience throughout the postwar reconstruction period of the 1950's possessed the features of the dependent development process. Although North Korea could not participate in the capitalist world economy after the establishment of the socialist regime, a considerable amount of economic aid from the Soviet Union and China helped the North Korean regime to be able to supply capital and technology for industrialization. The strategic interest of these two socialist powers in North Korea created a condition favorable to North Korea's economic recovery in the 1950's. In other words, North Korea benefited from the consolidation of the socialist bloc in the broad context of the global Cold-War conflict. However, there was a rapid decline in the amount of the Soviet economic assistance in the early 1960's. North Korea's security alliance with the Soviet Union and China was weakened in the wake of the Moscow-Beijing rift and North Korea underwent uncomfortable relations with two

socialist giants during the late Khrushchev era and the Cultural Revolution respectively. Consequently, North Korea was caught in a security dilemma that was further compounded by the emergence of the military regime in South Korea and aggressive American intervention in the Vietnam War in the early 1960's. In response to the new situation, the North Korean regime began to place a high priority on strengthening military capabilities and it dramatically increased its military spending up to about 30 percent of government budgets. As a result of the excessive expenses of the military budgets, North Korea experienced slowdowns in its economic growth during the 1960's, while failing to fulfill the goals of the First Seven-Year Plan.

(3) In the early 1970's, North Korea attempted to link its economy with the capitalist world market through developing its trade relations with Western countries. In order to obtain advanced technologies and industrial equipment that were needed for further industrialization, North Korea adopted a somewhat pragmatic trade policy and increased economic relationships with Japan and Western Europe. As a consequence of its rapid trade expansion with Western countries, North Korea's economic performance during the early 1970's was considerably better than the previous decade. However, the long-term effect of Western technology importation on the North Korean economy was negative. Starting in the mid-1970's, North Korea began to suffer from a large trade deficit and foreign debt problems. In previous chapters, this thesis tried to find the link between North Korea's balance of payments difficulties and the unexpected changes of the early 1970's in the international economic system. It was argued that the pattern of North Korea's trade during the early 1970's was vulnerable to the fluctuations of international

prices. As well, North Korea's rapidly rising trade deficit was partly caused by the sudden deterioration of North Korea's terms of trade, which related to the 1970's stagflation in Western countries. The thesis also argued that large-scale foreign debt became an obstacle to North Korea in its attempted importation of additional machinery and industrial equipment from Western countries. Moreover, foreign debt problems eventually played a partial role in hampering North Korea's effort at attracting foreign direct investment in the 1980's.

(4) Finally, this thesis examined how the sudden changes in the international order at the end of the Cold-War have negatively affected North Korea's development course. We found that North Korea's economic relations with the Soviet Union and China sharply deteriorated following the diplomatic normalization between South Korea and these countries. North Korea became isolated in the international arena after it lost the support of its major Cold-War allies. It was also observed that the abrupt reduction in North Korea's imports from the Soviet Union and China, which was caused by these countries' abolition of preferential trade, led to the disruption in both industrial and agricultural sectors. In this context, it was argued that the sudden breakdown of North Korea's trade relations with the former Soviet Union and China at the start of the 1990's contributed a serious blow to the already troubled North Korean economy. The fact is that North Korea's economic problems in the 1990's were to an extent attributable to the drastic changes in the international/regional system with the termination of the global Cold-War.

Since its independence, North Korea has come a long way in its pursuit of expanding economic, political and military strength, while passing through several important phases

of national development. In some respects, North Korea made progress in achieving its national objectives. The North Korean regime, in some cases, used the Cold-War confrontation and the changing international/regional environment in order to maximize its own national interests and economic development. Nonetheless, as is the case in most developing countries, the development strategies of North Korea during the last five decades have not always been successful. It is difficult to deny that North Korea's present economic hardships are interconnected with the shortcomings of the central planning system and the inefficiencies of inward-oriented development strategy. Indeed, there can be little doubt that the movement of North Korea towards economic development is impacted by such internal factors as levels of technological innovation, the availability of domestic investment, the system of economic management and political dimensions. There is no intention in this thesis to underestimate the role of internal factors in the North Korean development and to compete against the views criticizing the structural problems of North Korea's economic and political system. The issues which were discussed in this work are not about internal factors versus external factors. What this thesis attempted to do was to approach the nature of the North Korean development with a comprehensive perspective. The reason that this study was carried out was to show the need of interpreting the economic trajectory of North Korea from an alternative perspective because the dominant view has appeared to focus on the internal aspect. For this reason, the thesis has dealt mainly with the interactions between the North Korean economy and the changing international environment. In exploring North Korea's development process and economic problems within this focus, we found that North Korea's development path

has been profoundly influenced by external events. It was also demonstrated that North Korea since the birth of its socialist regime reacted to a great extent to the changing Cold-War situation. We realize that some obstacles to North Korean development arose from outside and consequently this understanding requires us to consider new insights into the present economic situation in North Korea. So, the discussion in this thesis reaches its conclusion with the final remark that North Korea has never been divorced from the dynamics of the international system.

## Tables

(Table I.1)

**Korean Rice Production, Export and Consumption.**

Year	Rice Production Indices (1929-31 = 100)	Rice Export Indices (1929-31 = 100)	Annual Per capita Rice Consumption within Korea
1910--12	67.4	4.0	0.78 koku (1912)
1914--16	82.1	21.6	0.74 koku (1915)
1919--21	85.9	37.7	0.68 koku (1918)
1924--26	88.8	76.3	0.60 koku (1924)
1929--31	100.0	100.0	0.45 koku (1930)
1934--36	110.8	118.6	0.41 koku (1933)
1939--41	142.8		

Sources: Rice Production and Export Indices (Kuznets. "Economic Growth and Structure in the Republic Korea." P.14). Annual Per capita Rice Consumption within Korea (Halliday. "The Economies of North and South Korea." P.20). Korea's Rice Production and Exports to Japan (Kim, Kwan Suk. An Analysis of Economic Changes in Korea." P.104.). One *koku* = 5.12 U.S. bushels.

(Table I. 2)

**Farm Ownership Pattern (in 1943)**

	North Korea		All Korea	
	Number of Households	% Share	Number of Households	% Share
Owner-Farmers	251,261	25.0	536,098	17.6
Semi-Tenants	309,143	30.67	984,415	31.94
Pure-Tenants	435,789	43.38	1,481,357	48.63
Farm Laborers	8,316	0.95	44,231	1.83

Sources: Chung, Joseph Sang-Hoon. "The North Korean Economy: Structure and Development." P.5. Lee, Sang Man. "A Study on the North Korean Economy and Economic Integration between South and North Korea" P.28. Original Sources: The Bank of Korea. "Korea Economic Yearbook", 1948.

(Table I.3)

**Changes of Industrial Structure in the Korean Economy during Japanese Rule**

Year	Agriculture	Forestry	Fishing	Mining	Manufacturing	Total
1910-12	84.6	5.3	1.9	1.5	6.7	100.0
1919-21	78.6	2.7	3.0	1.4	14.3	100.0
1929-31	63.1	6.6	5.8	2.2	22.3	100.0
1939-41	49.6(42.8)	7.2(4.9)	6.3(7.3)	7.9(5.9)	29(39.1)	100(100)

Sources: Kuznets, Paul W.. "Economic Growth and Structure in The Republic of Korea" P.19.

Figures in parentheses provide another estimate from Kim, Kwan Suk. "An Analysis of Economic Change in Korea." P.105.

(Table I.4)

**Changes of Production Value within the Manufacturing Sector**

	1930	1936	1939	1943
<b>Heavy and Chemical Industries</b>	16.5	27.9	47.0	49.5
Iron and Steel	5.8	4.0	9.0	4.6
Machinery	1.3	1.0	4.0	5.6
Chemical	9.4	22.9	34.0	39.3
<b>Light Industries</b>	83.5	72.1	53.0	50.5
Food Processing	57.8	45.2	22.0	19.0
Spinning	12.8	12.7	13.0	16.8
Lumber	9.4	2.7	1.0	5.4
Others	3.5	11.5	17.0	9.3
<b>Total</b>	100.0	100.0	100.0	100.0

Sources: Kim, Kwan Suk. "An Analysis of Economic Changes in Korea" P.106.

Original Sources: Grajdanzev, Andrew J. "Modern Korea" (New York: John Day Co., 1944).  
Bank of Korea. "Korea Economic Yearbook" (1948).

(Table I.5)

**Regional Distribution of Resources in Korea (in 1940-1945) (%)**

Sector	North Korea	South Korea
Heavy-Industry	80	20
Chemical	82	18
Metal	90	10
Machine	31	69
Light-Industry	30	70
Textile	15	85
Food Products	35	65
Agriculture	37	63
Commerce	18	82

Sources: Hwang, Eni-Gak. "The Korean Economies: A Comparison of North and South." P.18. Halliday, Jon. "The Economies of North and South Korea." P.19.

(Table II.1)

**North Korea's Agricultural Collectivization Process**

Year	Arable Land		Households	
	<i>Chongbo</i>	% Share	Number	% Share
1953	11	0.6	11,879	1.2
1954	576	30.9	332,662	31.8
1955	885	48.6	511,323	49.0
1956	1,397	77.9	864,837	80.9
1957	1,684	93.7	1,025,106	95.6
1958	1,791	100	1,055,015	100

Sources: Lee, Sang Man. "A Study on the North Korean Economy and Economic Integration between South and North Korea" P.31. Kim, Youn-Soo. "The Economy of the Korean Democratic People's Republic 1945-1977" P.47.

(Table II.2)

**The Performance of the North Korean Economy, 1947- 1960**

(Rates of growth per annum)

	1947-49	1954-56	1957-59	1959-60
Gross Industrial Output	49.9	41.7	44.0	36.6
Producer Goods Sector	53.3	59.4	46.5	37.7
Consumer Goods Sector	42.3	28.0	42.2	34.9
Gross Agricultural Output		11.6		8.8

Original Sources: Korean Central Yearbook [*Choson Chungang Nyongam*] of 1961.

Korean Central News Agency: cited in J.S. Chung (1983) 172-173.

S.M. Lee (1994) 118. E.G. Hwang (1993) 41.

(Table II.3)

**North Korea's Estimated Military Expenditure**

(Percentage of the Annual Government Budgets)

Year	% Share	Year	% Share
1953	15.2	1964	7.5
1954	8.0	1965	10.0
1955	6.2	1966	12.5
1956	5.9	1967	30.4
1957	5.3	1968	32.4
1958	4.8	1969	31.0
1959	3.7	1970	31.0
1960	3.1	1971	31.1
1961	2.5	1972	17.1
1962	.	1973	15.0
1963	.		

Sources: Lee, Sang Man. "A Study on the North Korean Economy and Economic Integration between South and North Korea" P.120. Han, Sung-Joo. "North Korea's Security Policy and Military Strategy." P. 149.

Original Sources: Korean Central Yearbook [*Choson Chungang Nyongam*] *Pukhan Chonso*, vol.2, p.51.

(Table III.1)

**The Total Value of North Korea's Foreign Trade (Estimates)**

(Million US Dollars)

Year	Exports	Imports	Total Value	Trade Balance
1946	.	.	22.8	.
1949	76.3	106.0	182.3	-29.7
1953	31.0	42.0	73.0	-11.0
1955	45.0	60.3	105.3	-15.3
1956	65.8	74.5	140.3	-8.7
1960	154.0	166.0	320.0	-12.0
1961	160.0	166.4	326.4	-6.4
1962	224.0	128.5	352.5	95.5
1966	244.2	219.2	463.4	25.0
1967	260.2	239.6	499.8	20.6
1968	265.4	433.9	699.3	-168.5
1969	306.7	402.0	708.7	-95.3
1970	307.7	434.1	741.8	-126.4
1971	314.9	640.0	954.9	-325.1
1972	403.5	753.6	1157.1	-350.1
1973	489.3	989.7	1479.0	-500.4
1974	694.3	1414.2	2108.5	-719.9
1975	806.3	1256.0	2062.3	-449.7
1976	570.5	1106.6	1677.1	-536.1
1977	767.7	891.9	1659.6	-124.2
1978	1184.6	1085.4	2270.0	99.2
1979	1457.9	1469.4	2927.3	-11.5
1980	1528.0	1806.2	3334.2	-278.2
1981	1068.5	1529.0	2597.5	-460.5
1982	1236.2	1620.0	2856.2	-383.8

Sources: The figures for 1946-1969 are drawn from Kim, Youn-Soo. "The Economy of the Korean Democratic People's Republic 1945-1977." P.116 and Koh, Byung Chul. "The Foreign Policy Systems of North and South Korea." The figures for 1970-1982 are from Chung, Joseph S. "Foreign Trade of North Korea: Performance, Policy, and Prospects." P.82.

(Table III.2)

**North Korea's Trade with Japan**

(Million US Dollars)

Year	Exports	Imports	Total Value	Trade Balance
1956	0.5	1.1	1.6	-0.6
1960	3.1	1.9	5.0	1.2
1961	4.0	4.9	8.9	-0.9
1962	4.6	4.8	9.4	-0.2
1965	14.7	16.5	<b>31.2</b>	-1.8
1967	29.6	6.4	<b>36.0</b>	<b>23.2</b>
1968	34.0	20.7	<b>54.7</b>	<b>13.3</b>
1969	32.2	24.2	<b>56.4</b>	<b>8.0</b>
1970	34.4	23.3	<b>57.7</b>	<b>11.1</b>
1971	30.1	28.9	<b>59.0</b>	<b>1.2</b>
1972	38.3	93.4	<b>131.7</b>	<b>-55.1</b>
1973	72.3	100.2	<b>172.5</b>	<b>-27.9</b>
1974	108.8	251.9	<b>360.7</b>	<b>-143.1</b>
1975	64.8	180.6	<b>245.4</b>	<b>-115.8</b>
1976	71.6	96.1	<b>167.7</b>	<b>-24.5</b>
1977	66.6	125.1	<b>191.7</b>	<b>-58.5</b>
1978	106.9	183.8	<b>290.7</b>	<b>-76.9</b>

Source: Lee, Pong S. "Economic Development Strategy and Prospects for Reform in North Korea" P.187. 191. Shin, Jung Hyun. "North Korea's Relations with Japan: The Possibilities for Bilateral Reconciliation." P 255.

Original Sources: JETRO (Japan External Trade Organization) "The Kita Chosen Kenkyu , June 1979, no.60.p.77 and *Kita Chosen no Keizai to Boeki no Dembo* , May 1983, p.89-90.

(Table III.3)

**North Korea's Trade with Western Europe**

(Million US Dollars)

Year	Exports	Imports	Total Value	Trade Balance
1965	4.7	12.9	<b>17.6</b>	<b>-8.2</b>
1970	26.9	20.0	<b>46.9</b>	<b>6.9</b>
1971	30.4	17.0	<b>47.4</b>	<b>13.4</b>
1972	38.6	28.2	<b>66.8</b>	<b>10.4</b>
1973	53.6	132.7	<b>186.3</b>	<b>-79.1</b>
1974	71.0	308.9	<b>379.9</b>	<b>-237.9</b>
1975	102.0	264.0	<b>366.0</b>	<b>-162.0</b>
1976	69.7	142.0	<b>211.7</b>	<b>-72.3</b>
1977	46.9	71.2	<b>118.1</b>	<b>-24.3</b>

Source: Brezinski, Horst "International Economic Relations between the KDPR and Western Europe." P. 204.

(Table III.4)

**Estimates on North Korea's Trade with Socialist Countries and  
Non-Socialist Countries (North Korea's Trading Partners)**

(As % of Total Trade of North Korea)

Year	Non-Socialist Countries			Socialist Bloc Countries		
	Exports	Imports	Total	Exports	Imports	Total
1949	.	.	16.6%	.	.	83.3%
1955	.	.	0.2%	.	.	99.8%
1956	.	.	0.3%	.	.	99.7%
1960	3.7%	3.7%	3.7%	96.3%	96.3%	96.3%
1962	3.0%	5.1%	3.8%	97.0%	94.9%	96.2%
1963	6.3%	6.0%	6.2%	93.7%	94.0%	93.8%
1967	15.1%	12.1%	13.7%	84.9%	87.9%	86.3%
1969	28.4%	26.4%	27.3%	71.6%	73.5%	72.7%
1970	29.8%	13.5%	20.7%	70.2%	86.5%	79.3%
1971	27.7%	13.2%	18.0%	72.3%	86.8%	82.0%
1972	29.1%	29.7%	29.3%	70.9%	70.3%	70.7%
1973	36.3%	47.4%	43.5%	63.7%	52.6%	56.5%
1974	44.1%	69.9%	61.9%	55.9%	30.1%	38.1%
1975	42.1%	61.3%	54.5%	57.9%	38.7%	45.5%

Source: The above figures are drawn from Kim, Youn-Soo. "The Economy of the Korean Democratic People's Republic 1945-1977." P.122 and these data are developed from various sources such as the IMF's "International Direction of Trade (1977)"

(Table III.5)

**A Comparison of the Prices of the Soviet Crude Oil to Socialist and Non-Socialist Countries, 1955-1967**

(US Dollars Per Barrel)

Year	Average Prices to Socialist Countries	Average Prices to Non-Socialist Countries
1955	\$3.38	\$2.16
1956	\$3.30	\$2.17
1957	\$3.28	\$2.55
1958	\$2.97	\$2.08
1959	\$3.01	\$1.88
1960	\$3.01	\$1.57
1961	\$2.54	\$1.26
1962	\$2.52	\$1.26
1963	\$2.55	\$1.43
1964	\$2.57	\$1.41
1965	\$2.42	\$1.40
1966	\$2.18	\$1.39
1967	\$2.10	\$1.50

Source: Ebel, Robert E. "Communist Trade in Oil and Gas: An Evaluation of the Future Export Capability of the Soviet Bloc." P.58-59 (New York: Praeger Publishers, 1970)

(Table III.6)

**Estimates on North Korea's Trade Balances with Non-Socialist Countries from 1970 to 1982**

(Million US Dollars)

Year	Japan	Other Industrialized Countries	Third World Countries	Total
1970	5.6	-6.3	1.9	1.2
1971	-4.2	16.3	8.5	20.6
1972	-67.9	-8.7	3.5	-73.1
1973	-44.0	-125.2	-63.2	-232.4
1974	-118.1	-475.4	10.2	-583.3
1975	-138.6	-211.4	120.4	-229.6
1976	-40.5	-154.3	21.2	-173.6
1977	-77.0	-91.4	26.0	-142.4
1978	-105.5	-104.7	6.6	-203.6
1979	-175.0	-92.3	37.2	-230.1
1980	-249.0	44.2	-6.3	-211.1
1981	-193.8	-119.4	-4.9	-318.1
1982	-207.0	-88.7	-50.7	-346.4

Source: Eberstadt, Nicholas (1996). "Financial Transfers from Japan to North Korea." P.530.

(Table III.7)

**North Korea's Crude Oil Import Prices from the Soviet Union and China**

(US \$ / Ton)

		1987	1988	1989	1990	1991	1992	1993
The Soviet Union	to North Korea	98	82	73	57			98
China	to North Korea	63	63	60	58	126	137	135
	to World	115	98	113	142	131	128	124

Sources: Namkoong, Young. "Trends and Prospects of the North Korean Economy." P.233

Chun, Hong-Tack and Sang-Ki kim (1997) P.15.

Original Source: Dechio, Murouca. "Uncompromisable Economic Relations between China and North Korea." Chinese Economy (March 1993). Korea Energy Economics Institute, "World Energy Market, 1994."

(Table III.8)

**The Estimated Amount of North Korea's Imports of Crude Oil**

(Unit: 1,000 tons)

		1980	1985	1986	1990	1991	1992	1993	1994	1995
Imports of	Cruid Oil	1,680	2,590	3,119	2,520	1,890	1,430	1,340	910	1,100
From	China				1,100	1,100	1,010	1,030	830	
	Iran				980	750	220	210	n	
	Russia				440	40	n	n	n	
	Others				n	n	200	100	80	

Source: Namkoong, Young. "Trends and Prospects of the North Korean Economy." P.228.

Original Sources: Korea Energy Economics Institute, "World Energy Market 1994." Korea Trade Promotion Corporation (KOTRA). "North Korea's Trade Trend, 1995."

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