



THE TWO KOREAS:
PROSPECTS FOR
ECONOMIC COOPERATION
AND INTEGRATION

MARCUS NOLAND

The two Koreas have embarked on a process of national reconciliation, but the starting points are not auspicious. South Korea is still grappling with the aftershocks of the 1997–98 financial crisis, while North Korea’s economy has experienced a decade of decline. Both governments are officially aiming for a “one nation, two systems” outcome, but the North could collapse before this is completed (or one side or the other could attempt a forcible unification). Central to the prospects for peaceful coexistence are three questions: is North Korea willing to change, is it capable of successfully managing change, and to what purpose would it apply the fruits of change?



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SUMMARY

After nearly a half century of strident adherence to the principles of socialism and self-reliance, North Korea may be on the verge of opening itself to outside aid and advice. Motivators include a decade of economic trouble punctuated by declining output and famine as well as underdeveloped infrastructures and reduction in foreign trade and material support. The limits of national self-sufficiency may finally have become admissible in North Korea, as evidenced by recent diplomatic negotiations and cooperative commercial projects with capitalist nations.

South Korea, meanwhile, is struggling to regain ground lost in the financial crisis and to correct faults in its own political and economic systems. Among these is a history of military dictatorships and extensive government involvement in economic planning. Free elections supplanted the dictatorships in 1987, and South Koreans subsequently have had the benefit of an increasingly open political forum. As for government involvement in the economy, there has been a slow but steady disengagement over the last two decades in favor of market-driven controls, although the trend may have abated recently due to the uncertainties accompanying progress toward reconciliation.

Hindrances to further progress include North Korea's reliance on military exports for revenue and its reluctance to accept "capitalist" aid. Free exchange of information and reliable indications of intent are still the exception to the rule in North Korea. Ideological volatility in both nations presents another obstacle. Each involved nation has a vital interest in peaceful, expanded relations, but competing ideologies and old animosities must be overcome in the interest of mutual advancement.

Surprisingly, current prospects for reconciliation, and perhaps reunification of the two Koreas, seem better than ever. This can be attributed in part to new leadership in both nations. South Korean President Kim Dae-jung has called for peaceful coexistence. He also has supported the provision of aid and establishment of diverse bilateral economic projects. North Korean President Kim Jong-il seems to have been accepted by party leaders, the military, and the citizenry. In this more stable environment, denunciations of non-socialist nations have lessened, both from Kim and the North Korean media. Kim has also overseen the normalization of relations with other nations, while North Korea's foreign minister has said his nation could consider a "one country, two systems" model similar to Hong Kong and China.

In this light, South Korea's investment strategy should emphasize tax incentives rather than state-directed investment in the North to assure that efficiency guides decision-making. Further progress will be best served if North Korea allows expansion and diversification of cooperative projects, now few and tightly controlled; the ideal would be free investment throughout the North by South Korean firms.

KOREAN RECONCILIATION: RECENT DEVELOPMENTS AND PROSPECTS

North and South Korea have embarked on a process of national reconciliation, but the starting points are not particularly auspicious. South Korea continues to grapple with the aftershocks of the financial crisis that shook the country in 1997 and 1998. For a decade the economy of North Korea has been in a state of decline. Its political system experienced a shock with the 1994 death of founding leader Kim Il-sung and the accession to power of his son Kim Jong-il. In the face of these problems, North Korea has pursued two coping strategies. The first has been stand-alone projects meant to generate foreign exchange without affecting the systemic organization of the economy. These would include the Rajin-Sonbong special economic zone and the Mt. Kumgang tourism project. The second has been the use of implicit or explicit threats in developing nuclear weapon and missile capabilities in order to extract resources from the rest of the

world. The 1994 Agreed Framework between North Korea and the United States has resulted in the establishment of a multinational consortium to build the North two light-water nuclear reactors and provide heavy fuel oil during the period prior to completion of the reactor project. Brinkmanship has been used to extract additional resources from the world community in the guise of humanitarian aid for the North's food problems.ⁱ Indeed, North Korea is now the largest recipient of U.S. aid in Asia.

This strategy of minimal economic reform combined with opportunistic resource extraction may have begun to change in the aftermath of North Korea's missile non-test in 1999.ⁱⁱ In August 1998, North Korea fired a multistage rocket over Japan. Ironically, this missile test, together with the proactive reconciliation policies toward Japan pursued by South Korean President Kim Dae-jung, contributed to a greatly strengthened trilateral relationship among the United States, Japan, and South Korea. This was manifest in the September 1999 policy review

North Koreans walk through the Suck Jang Moon gate during a sightseeing tour of Changdokkung Palace in Seoul, South Korea, August 17, 2000. They are among 100 North Korean people selected for a four-day reunion with family members in South Korea. The reunion resulted from the historic inter-Korean summit in June 2000.



Both North and South Korea have expressed a desire for consensual unification of the peninsula

led by former U.S. Defense Secretary William Perry, and in a series of self-reinforcing actions by the three allies beginning in August 1999, when the North Koreans began a buildup to a second missile launch while demanding compensation from Japan. The Japanese did not blink, refusing to pay what amounted to an extortionist's ransom. Having been stiffed by the Japanese, the North Koreans in essence chose their next best option: to re-engage in negotiations with the United States over their missile program. Those negotiations yielded a North Korean moratorium on testing in return for a lifting of U.S. economic sanctions—but no significant monetary compensation. Having failed to extract significant financial commitments from either Japan or the United States, the North Koreans were forced to turn to South Korea, restarting the lapsed North-South dialogue, which the United States had made a precondition for normalization of relations in the 1994 Agreed Framework.

The last several months have witnessed a flurry of North Korean diplomatic activity, including normalization of relations with a number of countries, culminating in the June 2000 North-South summit. These developments raise three questions. First, having consolidated power internally, do the events of the past year herald a fundamental strategic reorientation on the part of a newly confident Kim Jong-il, or is this simply an elaborate tactical maneuver? If the answer is affirmative—that is, these developments signal a fundamental change on the part of the North Koreans—are they capable of successfully reforming their system? Finally, suppose the North Koreans do successfully reform their economy. What are their ultimate intentions? To what purpose would the gains from economic reform be applied—to the pressing material needs of the North Korean people, or to other purposes such as military modernization?

Issues of economic integration and cooperation cannot sensibly be discussed without answering these questions, and to preview this report's conclusions, it will be argued that the available evidence is ambiguous and, as a consequence, the circumstances under which economic integration and cooperation could take

place are quite varied. For the sake of concreteness, this report will focus on two possibilities. The first is national reconciliation through a protracted negotiated process yielding some kind of confederation, or "one nation, two systems" outcome. This is the official preference of both the North and South Korean governments as reaffirmed in the June 2000 summit.

The other option, of course, is the collapse of North Korea and its absorption into South Korea along the lines of the German experience. These two options are neither exhaustive nor mutually exclusive: The two states could enter into a consensual process of reconciliation and the North could collapse before this was completed, or one side or the other could attempt a forcible unification. Nevertheless, the dichotomy is useful for illustrating the effects of unification, as well as some alternative conceptions of the economic precursors to unification.

The Dream of Consensual Unification

Both North and South Korea have expressed a desire for a consensual unification of the peninsula. Kim Dae-jung has repeatedly indicated his disinterest in undermining the Democratic People's Republic of Korea (DPRK) and has instead called for peaceful coexistence.¹ In his 2000 New Year's message, he called for commencement of installation of the core components of the promised light-water reactors, development of industrial estates on North Korea's Yellow Sea coast, expansion of the Mt. Kumgang tourism project, increase in processing on commission trade (the primary modality for inter-Korean trade),² and improvement in transportation systems linking the North and South.

Three months later in his "Berlin Declaration" of March 2000, President Kim indicated that the South Korean government was willing to directly support the economic rehabilitation

¹ Kim's engagement policy is not without its detractors in South Korea. In a recent survey done by the Ministry of Unification, almost 60 percent of respondents indicated that progress on inter-Korean relations has been "on the fast side." Presumably, Kim's October 2000 receipt of the Nobel Peace Prize will strengthen his hand domestically, at least in the short run.

of the North. Prior to the June 2000 summit, South Korea sent to the North 200,000 tons of fertilizer, valued at roughly \$60 million,³ and afterward sent another 100,000 tons. "Economic cooperation" was identified as one of the priorities for action in the June summit declaration, and working-level groups, operating along the lines specified in the 1991 Basic Accord and Supplemental Agreement, have begun negotiations relating to settlement of payments, investment protection, avoidance of double taxation, and arbitration of disputes. South Korea put forward a plan for federation at the summit; this unification plan is gradual in the extreme, envisioning a process of unification lasting two generations.

For its part, North Korea has proposed a Confederal Republic of Koryo to be governed by a national assembly consisting of an equal number of representatives from North and South Korea.ⁱⁱⁱ The statement in a 1999 meeting at the Council on Foreign Relations by North Korean Foreign Minister Paek Nam-sun that North Korea could consider a "one nation, two systems" model along the lines of Hong Kong and China could be interpreted as a signal that North Korea was open to this kind of engagement. South Korean National Intelligence Service head Lim Dong-won told a press conference in June 2000 that the Korean Workers Party intends to remove the section of its charter stating that "our party's immediate objective is to complete national liberation under a revolutionary people's democracy and to build a *juche* society under communism."⁴ Lim's comment signaled a symmetric scaling back of unification ambitions.

South Korea's unification plan is gradual in the extreme, lasting two generations

² Processing on commission, common globally in industries such as apparel, electronics, and packaging, is used to exploit cheap labor costs. It occurs when a firm supplies a factory (in this case a South Korean firm and North Korean factory) with all inputs, and the factory simply assembles (processes) the product. Because North Korea so severely circumscribes foreign managers' contact with North Korean workers, processing, rather than more complex fabrication activities, is about all that has occurred to date.

³ All uses of "\$" or "dollars" in this report refer to U.S. currency.

In a formal sense, one can imagine a series of progressively deeper steps of cooperation and integration that the states could undertake. The first steps presumably would be completion of the aforementioned agreements to create a legal framework for exchange between the two countries, and perhaps some state-led "economic confidence-building measures." In the latter category, Kim Dae-jung has already expressed interest in opening two rail lines (one along the east coast and one along the west).⁵ In economic terms, South Korea today is effectively an island, and the successful opening of trans-North Korea rail links would allow South Korean firms to transport goods to continental Asia, and ultimately to Europe, over land. These developments would promote economic exchange led by the private sector and economic integration between the two economies, and would contribute to regional integration more generally.

Once basic economic exchange has been regularized between the two countries, the next formal step in economic integration would be formation of a free trade area, liberating trade between the two Koreas but permitting each to restrict trade with third parties according to their own interests. This would be equivalent to the North American Free Trade Agreement (NAFTA) in which trade is unencumbered among the United States, Canada, and Mexico, but each country maintains its own trade policies with respect to nonmembers. Even this first step would appear to be far beyond anything that can be seriously expected in the medium term. The next step would be formation of a customs union, which would involve applying a common policy to trade conducted with third parties. This would be akin to the European Economic Community.

⁴ *Juche* is a political philosophy espoused by North Korean founding leader Kim Il-sung that emphasizes national autonomy in all matters, including economics.

⁵ Discussions reportedly have already begun with respect to clearing mines from the demilitarized zone in order to establish the rail links. It also has been reported that at the Okinawa G8 summit, Russian President Vladimir Putin asked Japanese Prime Minister Yoshiro Mori to cooperate on the east coast rail line, which could link Russia and South Korea.

A South Korean K1 army tank shows off its landmine-clearing capabilities in a demonstration staged in Paju county, South Korea, close to the Demilitarized Zone. Mines will have to be removed before North and South Korea can re-link a railroad line and build a road across the DMZ, something the two sides agreed to do following the June summit.



Economic union would be a deeper form of integration, permitting the free movement of factors (labor and capital) as well as goods across borders, as exists today in the European Union (EU). A monetary union would involve adoption of a single currency, as is taking place in some EU member states today. A social union would involve adoption of common labor and social welfare policies in the two states. The final stage would be political union and the surrender of independent claims to sovereignty. The EU has managed to create an economic union and is in the process of forging social and political union. Within this schema there are differing degrees of surrender of local authority to central governments. Indeed, given the highly centralized nature of the governing systems of both North and South Korea, issues of local autonomy and control would presumably be very contentious under any unification scheme.^{iv}

Compromise and Reform Required

Thus the prerequisites for consensual unification would be maintenance of two independent

states and a sufficient degree of convergence of economic and political practices to make the outcome plausible. In the case of the two Koreas, this would mean generating sufficient reform in North Korea's economic and political systems to make some degree of integration with the South sustainable.

The April 2000 North-South summit announcement stunned the world. The timing—three days before the South Korean national assembly elections in which Kim Dae-jung's party trailed in the polls—raised questions about whether this rapprochement was genuine, or whether it might be no more than a tactical move on the part of the North Koreans timed to extract maximal concessions out of an electorally weak Kim Dae-jung, and to buy some insurance against a possibly harder-line U.S. administration taking office in January 2001. Skepticism was fed by North Korea's history of extorting resources from foreigners to secure its participation in diplomatic activities, and by South Korea's history of "checkbook diplomacy," most notably in the process of normalizing

relations with the Soviet Union. Given the Berlin Declaration and Kim Dae-jung's willingness to directly underwrite economic rehabilitation of the North, many continue to speculate about what Kim Dae-jung may have promised the North in order to secure the pre-election summit announcement.⁶

In this light, the first question is whether the North Koreans are serious about pursuing, at a minimum, economic reform or whether the diplomatic activity of recent months amounts to an elaborate feint undertaken, in effect, to diversify the nation's aid donor base.

The evidence on this point is mixed, but one indication can be adduced from North Korean statements. For the past decade the North Koreans in general (especially in writings or statements attributed to Kim Jong-il) have been absolutely scathing in their denunciations of the reforms undertaken in Eastern Europe and the former Soviet Union, which have been likened to "germs," "mosquitoes," and other vermin to be kept at bay and as "honey-coated poison."

In 1994, the North Koreans went so far as to call the Chinese "traitors to the socialist cause" until their own worsening situation and growing dependence on China made it prudent to tone down the rhetoric. During the 1999 visit to Beijing by Supreme People's Assembly leader Kim Yong-nam, the two countries adopted an "I'm OK, you're OK" formulation in which they agreed to pursue socialism according to their respective national characteristics.

The language used during Kim Jong-il's May 2000 pre-summit visit to Beijing was very different, however. In remarks widely broadcast in China and reported in the international press, Kim noted the "great achievements of opening up the country" by Chinese reformer Deng Xiao-peng, and announced that North Korea "supports the reform policy pursued by the Chinese side." These comments suggest not only a new receptiveness to economic reform on the part of the North Koreans, but also the

possibility of the Chinese assuming their natural role as mentors in this regard.

That said, Kim's remarks have not been reported in the North Korean press and, indeed, the week after Kim returned from China, North Korean television rebroadcast the "opening" as "a Trojan horse tasked with destabilizing socialism"^v editorial, which some have interpreted as indicating that Kim's Beijing remarks were insincere and/or made under economic duress. This evaluation may be too harsh. It is probably naive to project onto Kim Jong-il the belief that a firewall can be maintained between statements widely broadcast in China and elsewhere, and statements that reach the North Korean elite. Moreover, politically it is hard to imagine that Kim could travel onto foreign soil and then, in effect, announce that the economic policy undertaken by his deified father over the previous 50 years was flawed. Rather, it is more likely that the North Koreans are searching for a face-saving way to introduce these ideas into domestic discourse. Admittedly, however, this is speculation. All we know for sure is that Kim Jong-il traveled to Beijing and made a series of statements at odds with longstanding North Korean positions, and these remarks have not been reported by the North Korean media.

Another indication of North Korea's intent can be adduced from North Korean actions. The most prominent example of North-South economic cooperation has been a contract that Hyundai signed with Pyongyang to develop the tourism potential of Mt. Kumgang and to build an industrial park. Although the Mt. Kumgang tourism project understandably has attracted the most attention, the provision for Hyundai to construct an industrial park may have more economic significance in the long run. Establishment of the industrial park has been delayed by a dispute over the proposed location. Kim Jong-il reportedly has expressed a preference for Shinuiju over Haeju, despite the latter's greater attractiveness as an economic hub. Some have argued that the choice between Haeju and Shinuiju will signal whether economics or politics are driving policy.^{vi} The announcement in August 2000 that the facility would be located at Kaesong would seem to suggest that economic

North Korea wants a face-saving way to introduce the idea of reform into domestic discourse

⁶ South Korea has indeed been generous with assistance since the summit, providing the North with 500,000 tons of food aid in October 2000, and reputedly also with cash.

Spin Meisters Keep Up With the Times

In one of the world's odder attempts to make friends and influence people, the Korean Central News Agency (KCNA), North Korea's official news agency, maintains a website (www.kcna.co.jp) providing English translations of North Korean news pieces, the tone of which might be described as "retro-Maoist." For example, even as the North Koreans solicited investment from the South, Kim Young-sam, the former president of South Korea, was regularly denounced as an "abominable flunkeyist traitor," "the puppet of imperialists," and a "dyed-in-the-wool, pro-American stooge," among other things.

The December 1997 election of former dissident Kim Dae-jung as president of South Korea created a dilemma for the North Korean spin masters. Kim Dae-jung had previously been upheld as a martyr of the South Korean "fascist regime," so it would have been difficult for them to vilify him in the same way they had his predecessors. The North Korean press went largely silent on the new South Korean president, instead focusing on other longtime nemeses. Japan on multiple occasions was accused of preparing a military invasion of North Korea. A trilateral meeting among U.S., Japanese, and South Korean defense officials was

described as a "confab" between "Japanese militarists" and "crazy war maniac" U.S. Defense Secretary William Cohen at the "imperial governor's residence," a.k.a. the U.S. embassy in Seoul.

Northern propagandists, however, have not been the only ones thrown off balance by events on the peninsula. In the South, criticism of the North has become dramatically muted in the wake of the June 2000 summit, with the exception of the right-wing daily newspaper *Chosun Ilbo*, which the North Koreans threatened to "blow up" in July 2000 for its "impudent" editorials. The editorial shift in the South Korean press may reflect a genuine reappraisal of Kim Jong-il and the situation in the North, but there are other possibilities as well. Much of the South Korean mass media is financially connected to the *chaebol*, which are interested in developing businesses in the North, and the firewall between the business and editorial sides of the media may not be as strong in South Korea as in some other countries. As Scott Snyder, the Asia Foundation representative in Seoul put it, "Old habits die hard. It was little more than a decade ago that the government was telling the [newspapers] which pictures to run. Everybody knows who is in charge, and the people are aware of how instruments of state power are available for use in certain contexts."

rationality is beginning to assert some predominance over political symbolism. The possibility of a second Hyundai-developed special economic zone, located at Tongchon on the east coast near Mt. Kumgang, also has been reported.^{vii} The North Koreans also have begun to relax their opposition to Japanese tourists visiting Mt. Kumgang, which would have obvious implications for Hyundai's bottom line.⁷

Challenges of Large-Scale Reform

Only time will tell what the North Koreans' intentions are. It is hard to argue, though, that recent developments reduce the likelihood of consensual integration.

Assuming that the North Koreans have made the decision to undertake economic reform, the issue then is whether they are capable of successfully managing reform. The experiences of other transitional economies over the past decade

suggest that relative success in making the transition from central planning to a market economy is strongly affected by idiosyncratic factors. Among the few systematic determinants of success and failure in this process are the degree of macroeconomic stability when reform is initiated, the existence of a functioning commercial legal system in the pre-socialist period, and the extent of a labor-intensive agricultural sector. North Korea does not appear to be particularly well placed with regard to either of the first two criteria.^{viii}

⁷ North Korea and Hyundai have a continuing disagreement over Hyundai's desire to increase the flow of tourists to Mt. Kumgang. The vast majority of tourists have been and likely will continue to be South Korean, but their numbers are insufficient. Though the Japanese appear ready to visit, until recently they have been singled out for exclusion, the result of North Korea's lingering hostility over the colonial and wartime experiences.

Table 1. Percentage distribution of labor force at time of reform

Country	Year	Agriculture	Sector Industry	Service
Czech Republic	1989	11	39	50
Slovakia	1989	15	34	51
Poland	1989	7	37	56
Hungary	1990	15	36	49
Soviet Union	1990	19	38	43
Ukraine	1990	20	40	40
Belarus	1990	20	42	38
Romania	1990	28	38	34
Bulgaria	1989	19	47	34
North Korea	1993	33	37	30
China	1979	71	15	14
Vietnam	1989	71	12	17

Source: Noland (2000), Table 3.7.

The agricultural reform that worked for China and Vietnam may not be available to North Korea

The last indicator is particularly salient. In Asia, one all too often hears the following syllogism. There are two ways of reforming centrally planned economies: the unsuccessful European big-bang approach, and the successful Asian gradual approach. North Korea is an Asian country, ergo it will adopt the successful Asian gradual approach and begin growing 10 percent annually upon commencement of reforms. This view is gravely mistaken, conflating the issues of speed and initial conditions.

Two large Asian countries have experienced relatively successful transitions from central planning to market economies, namely China and Vietnam. Both had more than 70 percent of their labor forces in the agricultural sector when they began reforms (see Table 1), and the relative success of their reforms was strongly affected by the existence of this large pool of extremely low-productivity labor in the agricultural sector. The authorities could liberalize agriculture, generating a relatively rapid supply response, and then release surplus labor from the agriculture sector into the nascent non-state-owned light manufacturing sector. In theory one could then tax the light-manufacturing sector to generate financial resources with which to restructure the old state-owned heavy industry sector.

This agriculture-led reform process simply may not be available to North Korea due to its very different initial conditions. Economically,

North Korea more closely resembles some countries of Eastern Europe or the former Soviet Union than it does China or Vietnam. Vexing issues such as the restructuring of state-owned industrial enterprises, which no country has handled very well, may play a much more central role in North Korea's transition than they have in the experience of China or Vietnam.

Another obstacle is political. Again, consider the cases of Vietnam and China. In the case of Vietnam, North Vietnam and its Viet Cong allies defeated South Vietnam in a civil war and unified the country. The government in Hanoi became the sole arbiter of what it meant to be Vietnamese. When the reform policy of *doi moi*⁸ was undertaken in the late 1980s, the ideologues in Hanoi could come up with justifications for why the new policy was really what Ho Chi Minh had in mind. Similarly, while China confronts the rump of Taiwan, perhaps until the recent defeat of the Kuomintang candidate for the presidency no one seriously believed that the government in Taipei presented an ideological threat to Beijing. When Deng spearheaded the Chinese reforms in the late 1970s, the ideologues in Beijing were free to come up with slogans rationalizing the new policy.

⁸ The overall policy of economic renovation set forth at Vietnam's Communist Party Congress in 1986.

The divided nature of the Korean peninsula presents prospective North Korean reformers with a very different ideological challenge. Reforms that bring North Korean society closer to South Korea could undermine the whole ideological justification for the regime: Why be a third-rate South Korean when one can head south and become the real thing? The dynastic nature of the North Korean regime makes this political task even harder, as the son will, in effect, have to disavow the policies of the father. However, this dynastic aspect also could convey certain short-term advantages; presumably Kim Jong-il will claim that in private conversations, Kim Il-sung expressed one view or another that conveniently will support the policy that Kim *filis* wishes to pursue.

Balanced against these challenges is one great advantage that other transitional economies have not had—namely the existence of a benefactor in the form of South Korea.

WHAT IS THE STATE OF NORTH KOREA'S ECONOMY?

Considerable uncertainty exists regarding the condition of the North Korean economy. There

is universal agreement that North Korea has experienced a decline in output since the collapse of the Soviet Union and the breakup of the Eastern Bloc, but precise estimates vary enormously.^{ix} There also is agreement that North Korea has experienced a famine, though disagreement remains as to the timing of the famine and its death toll.^x Thus there is no consensus to the current condition of the North Korean economy.

The most widely cited figures in public discussions are those produced by the South Korean central bank, or Bank of Korea (BOK); the BOK is given this task because it would be responsible for monetary policy in a Korea united under Seoul. The annual BOK estimate of North Korean national income is constructed by applying South Korean value-added weights to physical estimates of North Korean output obtained through classified methods. Ergo, this estimate may differ significantly from the true underlying figure due to the inadequacy of the calculation method; also, it is not subject to any verification by outside analysts. The BOK figure is then subject to interagency discussion, and once a consensus is reached, the figure is transmitted to the Ministry of National Unification, which announces it to the public.

A woman pulls a cart on the road between Wonsang and Pyongyang. Reports out of North Korea in recent years have often been about famine. It is estimated that two million people died in 1995–97, and famine was reported again in 2000. Despite that, several relief agencies have left North Korea, frustrated by a lack of access.



Table 2. North Korean growth, 1999

	Growth Rate	Contribution Share
GDP	6.2	100.0
Agriculture, forestry, and fishing	9.2	45.9
Mining and quarrying	14.1	14.5
Manufacturing	8.5	25.2
Electricity, gas, and water	6.8	4.4
Construction	24.3	20.7
Wholesale and retail trade	11.8	0.7
Transport, storage, and communication	7.0	3.1
Finance, real estate, and business services	0.6	0.7
Government services	-4.5	-17.3
Others (including Mt. Kumgang)	1037.5	2.1
Memorandum:		
Light industry	2.4	2.4
Heavy and chemical industry	11.6	22.8

Source: Bank of Korea.

The news that North Korea's economy had grown by 6% in 1999 was greeted with stunned disbelief

Normally, this figure is released in the spring. In the spring of 2000, however, the Ministry of National Unification did not release a specific figure, instead adopting the formulation that North Korean national income was approximately unchanged from the previous year. Then in June, just prior to the North-South summit, figures were released indicating that the North Korean economy had grown by 6.2 percent in 1999 (Table 2). This was surprising inasmuch as multiple sources had estimated that the volume of North Korea's international trade—probably the most accurate externally observable measure of the state of the North Korean economy—declined in 1999, with the notable exception of North-South processing on commission trade. The BOK announcement was greeted with universal disbelief by economists working outside the South Korean government.^{xi} One explanation for the timing of the announcement is that BOK statisticians had undertaken a rebasing of base years, and this contributed to a delay in releasing their estimate.

At least five possible explanations exist for the apparent divergence between the expectations of professional observers and the BOK's numbers. One that was plausible in the spring, before the release of the BOK's sectoral data in June, related to the domestic availability of food. Numerous observers reported increased food availability in North Korea in 1999, due

to large-scale international assistance and an improved domestic harvest made possible by international donations of fertilizer and other inputs, as well as better weather. In technical terms, food aid would contribute to increased consumption or availability of food, but would not contribute to domestic value-added, and hence national, income. (The fertilizer and improved weather could contribute to increased yields and this could add to national income properly measured.) The explanation for no change in output since 1999, which could be interpreted as a bottoming out of the decline, could therefore be rationalized as a misinterpretation of increased food availability together with legitimately improved circumstances in the agricultural sector. Indeed, it is argued that the BOK used high-end estimates of North Korean agricultural output to calculate its figures, and if it had used other existing official estimates, it would have concluded that there had been no growth at all in the North Korean economy in 1999.^{xii}

The problem, of course, is that the figures in Table 2 show increased output not only in agriculture, but throughout the economy. A more sophisticated version of this argument would be that:

- international assistance acts as implicit balance-of-payments support, permitting importation

of non-food items with hard currency that would otherwise have been used to purchase food; and

- observers have confused the increased availability of various products (made possible by aid) with increased domestic production.

The second possible explanation is a variant on this argument. International assistance acts as implicit balance-of-payments support, and the North Koreans have very wisely spent their implicit windfall on critical imported intermediate inputs that have allowed them to increase capacity utilization. The issue then becomes whether this is self-sustaining—that is, if food aid were cut off, would the apparent recovery of 1999 collapse?

A third explanation involves the reputed existence of a classified North Korean input-output table constructed by economists at the BOK. This secret input-output table presumably embodies a different set of input-output weights than the South Korean input-output table. Hence, if one took the same physical output data and aggregated it using the different value-added weights, one would obtain differing estimates for national income. The reported jump in North Korean output thus could simply be a statistical artifact created by concatenating two series produced using two different sets of value-added weights. If this was the case, one would expect to see a one-time discontinuous movement in the series. Put differently, if this explanation is correct then, other things being equal, one would expect next year's growth figure to fall into the range of figures prior to 1999. While this explanation seems plausible, economists at the BOK steadfastly deny that this is the case.

The fourth and fifth explanations are the most straightforward: everyone outside the BOK just got it wrong, and/or the BOK figure was fabricated. Neither of these explanations is entirely implausible. Even specialists on the North Korean economy have remarkably little access to conventional economic data, and it could well be that the community of North Korea watchers simply has gotten it wrong, and that the North Korean economy is doing far better than ex-

pected. Alternatively, the state of the North Korean economy has become a highly sensitive political issue in Seoul, and South Korean government statistics are not always above reproach.^{xiii}

Famine and the Difficulties of Accurate Evaluation

Even the more narrow issue of food availability remains subject to dispute. The conventional wisdom is that North Korea suffered perhaps two million deaths due to the famine that peaked in 1995–97, though due to lack of access, this figure is little more than a guesstimate.^{xiv} By 1999, the North Koreans were signaling that building up energy supplies, not food supplies, was their top priority. Nevertheless, during the summer of 2000, official relief agencies were once again reporting that the situation in North Korea was deteriorating, and North Korean officials requested \$250 million in aid through the World Food Program (WFP), claiming it would permit them to attain minimum human-needs self-sufficiency by 2002.

Nevertheless, the situation in North Korea in 2000 differed from that in the mid-1990s in three principal ways. First, even the relief agencies accepted that a long-term solution to North Korea's food problem would require strengthened trade performance that would both facilitate importation of inputs such as fertilizers and pesticides and allow the North Koreans to cover unexpected shortfalls on commercial terms.^{xv} A simple cross-national comparison might be instructive in this regard. At its peak, most observers believe that the North produced about 6 million metric tons of grain. This fell by roughly half by 1996.^{xvi} In comparison, Morocco also typically produces around 6 million metric tons, but bad weather in 1999 knocked domestic production down to around 1.5 million metric tons, a decline of roughly three-quarters—more than the drop experienced by North Korea. However, while times have been hard, there is no famine in Morocco. The Moroccan food shortfall has been closed by importing food on commercial terms.^{xvii}

Second, frustrated by lack of access and North Korean dissembling, a number of non-

If food aid were cut off, would the apparent economic recovery collapse?

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from Mt.
Kumgang's
development
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Macau bank
account***

governmental organizations including *Medicins Sans Frontieres*, World Concern, Oxfam International, Action Against Hunger, and CARE, have left North Korea. Third, while the U.S. government used the WFP humanitarian appeals as diplomatic cover for its political deals with the North Korean government, this fig leaf has grown increasingly frayed. Of course, the puzzle remains: If the North Korean economy experienced sustainable industrial growth of more than 6 percent last year, why would they need \$250 million in grant assistance?

North Korean Coping Strategies

Perhaps the answer to this question lies in the past behavior of the North Korean government and its counterparts. Pyongyang has pursued two strategies: isolated projects meant to generate foreign exchange, and extortion. The October 1998 agreement between Hyundai and Pyongyang is important in this regard. First, payments committed to by Hyundai dwarf anything that North Korea could plausibly earn in Rajin-Sonbong Special Economic Zone (SEZ), and second, the Hyundai agreement extends the possibility of construction of a new special economic zone.

Hyundai has guaranteed North Korea \$942 million over 75 months, with the payment schedule front-loaded for the first six months. Indeed, the North Koreans used brinkmanship to extract advance payments before the first tour visited Mt. Kumgang in November 1998. At \$300 per passenger, North Korea stands to make \$450 million per year off the tourism agreement alone, in the admittedly unlikely case that Hyundai is able to reach its target of 1.5 million visitors per year in 2005. To put this in perspective, this money, if properly deployed, would be enough to permit North Korea to cover its food gap on commercial terms. Unfortunately, it is believed that the funds are going into the Macau bank account of "Bureau 39," a party organization controlled by Kim Jong-il, to be used for "regime maintenance." If this is how the Mt. Kumgang tourism project plays out, it will amount to little more than a regime-preserving hard-currency earner with no real systemic implications for the organization of North Korea's economy or society. This con-

trasts with the Rajin-Sonbong SEZ, which also has no real systemic implications but has failed to earn much currency.

In this respect, the rest of the Hyundai deal might be more significant. The agreement also calls for development of a second special economic zone, which apparently will be located in Kaesong. This appears to have much better prospects than Rajin-Sonbong. First, the geographical location is far more auspicious. Second, it has the backing of Hyundai, and presumably the South Korean government. This is critical from the standpoint that it both provides the necessary infrastructure, which Rajin-Sonbong sorely lacks, and carries the imprimatur of Hyundai (and by extension the South Korean government). Thus, South Korean small- and medium-sized enterprises are far more likely to move light manufacturing operations to Kaesong than Rajin-Sonbong.

The second coping strategy is extortion, or brinkmanship, and North Korea has experienced some success in extracting resources from the international community through this tactic. Numerous times, for example, the U.S. government has provided North Korea with food aid to induce its participation in various diplomatic forums.^{xviii} Indeed, some would argue that North Korea has shown considerable diplomatic acumen in parlaying uncertainty about its nuclear program into a multibillion-dollar energy assistance program. Since 1994 the share of North Korean food imports obtained on concessional terms has risen from nil to more than 80 percent.

Elements and Effects of Economic Reform

Clearly, successful consensual unification would require a significant reorientation of North Korean policy. Cooperation could be expected to yield economic benefits to North Korea in the form of enhanced trade and investment, assistance from multilateral development banks, and settlement of postcolonial claims against Japan. At the same time, to obtain these benefits, North Korea presumably would have to forego its current revenues from exportation of medium-range missiles and other weapons of mass destruction, as well as drug trafficking and counterfeiting.

The Bumpy Road from Juche to an Open Economy

In keeping with its ideology of *juche*, and its general unease with foreigners, North Korea has emphasized projects that, literally and figuratively, could be fenced off from the rest of its economy. The first of these was a special economic zone (SEZ) built in the Rajin-Sonbong area. The second was the opening of Mt. Kumgang to tourism.

Rajin-Sonbong SEZ In 1991, North Korea established an SEZ in the Tumen River delta in the extreme northeast of the country. On paper, the terms for foreign investors in the SEZ were comparable to those available to investors in China and Vietnam. In reality, though, government policy in North Korea kept labor costs far higher. This cost disadvantage was compounded by inadequate infrastructure, bureaucratic interference in commercial operations, and investors' unease in dealing with North Korean enterprises due to the North's history of renegeing on commercial agreements. The practical result is that North Korea faces penalty rates when it trades—export prices are lower and import prices are higher because trade partners are not sure they will receive their money. The expected volume of investment has never materialized, and the zone is widely regarded as a failure—at least as originally envisioned.

The greatest potential for the zone now appears to be as a regional center of transshipment for trade. Already the bulk of activity at the Rajin port is transshipment; examples include South Korean construction materials and electrical goods bound for China, and North Korean abalone headed for export. The speed at which this activity grows will depend further on continued economic vitality in China's Jilin Province, as well as on infrastructural investment in Rajin-Sonbong, and competition from alternative Russian ports.

Geopolitical realities suggest that China (and by extension Hong Kong) will play a dominant role, at least in the short-term. China is building a four-lane highway right up to the North Korean border, a development likely to encourage growth in transshipment through Rajin-Sonbong. Unfortunately, this eventuality is hindered at present by the condition of the roadway in North Korea: it is still a rutted dirt road that becomes impassable much of the year. However, it is possible that the Chinese will solve this problem by paving the roadway themselves to improve access to coastal ports.

Mt. Kumgang Tourism Another attempt to earn foreign exchange without fundamentally altering the North Korean economy relies on the development of a North Korean tourist attraction. Mt. Kumgang (Diamond Mountain) is renowned for its scenic beauty, and since the project's inauguration in November 1998, around 250,000 visitors have boarded Hyundai's cruise ships to sail north for a tightly controlled tour of the mountain. Upon arrival in North Korea, tourists are shepherded onto buses for the trip to the mountain. The road they take has been walled off to prevent tourists and villagers from seeing each other or interacting and, once at the mountain, all paths are bordered with barbed wire to discourage "unauthorized exploring."

North Korea receives not only a fixed payment from Hyundai for the right to operate the tourism concession, but also a per-passenger payment. Nevertheless, Hyundai reportedly has been losing great amounts of money on the project, and has been in conflict with North Korean authorities over its desire to increase significantly the number of tourists it brings by including large numbers of non-Koreans. In September 2000, the two sides agreed to permit limited visits by Japanese tourists.

Furthermore, were it to reenter international capital markets, North Korea would have to settle private claims arising from past international loan defaults. Such a deal could involve the alteration or renegotiation of the 1994 Agreed Framework between South Korea and the United States, upon which much of North Korea's economic interaction with the rest of the world is conditioned.

Fundamental reform of the North Korean economy would have two profound effects. First, there would be a significant increase in exposure to international trade and investment, much of this with South Korea and Japan, two countries with which North Korea maintains problematic relations. Second, there could be tremendous changes in the composition of output, involving literally millions of workers changing

Food and energy are desperately needed for the survival of the North Korean people

employment. Both developments could be expected to have enormous political implications, and these implications could be thought to present significant, perhaps insurmountable, obstacles to reform under the current regime.

Food and Energy It is possible, nevertheless, that with help from abroad North Korea could attempt a less ambitious reorientation of its economic policies and practices. The North Korean economy desperately needs two things to meet the minimum survival requirements of its population: food and energy.

It may well be that the country obtains enough income through production or aid to attain its minimum survival requirement, but chooses not to (i.e., the regime has a strong preference for guns over butter). Taking these preferences as a given, how much additional income would the country need to attain its minimum survival requirement? Under current conditions, North Korea runs a structural food deficit of around two million tons. The cost of closing this gap through commercial imports would be on the order of several hundred million dollars, depending on prevailing global prices. For the past five years, this gap has been closed mainly through the provision of international assistance. This reflects North Korean political interests—why pay for something that can be obtained for free?—and the political interests of Western governments, most prominently those of the United States, which faces less domestic resistance to provision of in-kind “humanitarian relief” to North Korea than to provision of straight aid.

In addition to food, North Korea needs energy. It is reliant on imported oil to generate fuels and fertilizer for use in transportation and agriculture. Electricity is generated mainly through coal and hydropower. Generation has been hampered by difficulties in extracting increasingly inaccessible and low-quality domestic coal reserves. Beyond this problem, the power grid (largely underground for security purposes) is said to suffer from extraordinarily large transmission losses.

The 1994 Agreed Framework provides for the construction of two light-water reactors and the

provision of oil in the interim. The problem is that this is essentially a diplomatic agreement covering North Korea’s nuclear program and does not really address the true needs of the North Korean economy. From an economic standpoint, it would be better to renegotiate the Agreed Framework, scrapping the costly light-water reactors in favor of building more cost-effective electrical generating systems, refurbishing the existing electrical grid, and building the infrastructure that would allow North Korea to export electricity to South Korea and China, thereby earning foreign exchange.^{xix}

Nevertheless, if these estimates are correct and the Agreed Framework as negotiated is fully implemented, the cost of purchasing the estimated shortfalls in grain and energy inputs, as well as desperately needed supplies of fertilizers, pharmaceuticals, etc., might be less than \$1 billion.^{xx} Assuming no more interruptions in Hyundai’s Mt. Kumgang tours, the contract guarantees North Korea nearly \$150 million annually over the relevant time period. This is a minimum, as North Korea receives a payment per visitor, so if Hyundai were to sell out its tours, North Korea would stand to net approximately \$450 million per year, or enough to cover its grain deficit on commercial terms. Moreover, other South Korean firms have expressed interest in similar tourist ventures. If the North Koreans went through with the other projects in the Hyundai agreement, including the establishment of a new special economic zone at Haeju, this could generate additional revenues.

These figures refer to recurrent flow expenditures. In addition, there are one-time needs to rehabilitate the North Korean infrastructure, and a variety of organizations have come up with estimates of what this might entail. To use a Seoul metaphor, it depends to a certain extent on whether one takes the black (expensive) taxi or the silver (cheap) one. For example, it is estimated that a rural energy rehabilitation program would cost between \$2 billion and \$3 billion over five years. The estimated price tag for a more comprehensive economy-wide program is \$20 billion to \$50 billion over 20 years.^{xxi} The Construction and Economic Research

Missiles for Sale

In North Korea, a parallel military economy exists outside the central plan. This parallel economy has privileged access to technology and imports, and 95 percent of the North's weaponry is produced domestically. Much of what is produced is exported, and in the 1980s North Korea emerged as a significant player in the global arms market, with the U.S. Arms Control and Disarmament Agency (ACDA) estimating exports at more than one-half billion dollars a year at times, accounting for more than one-quarter of all North Korean exports.

The missile program started in the early 1960s with Soviet and Chinese assistance. The North Koreans have since entered into technical cooperation programs with a number of countries including Egypt, Iran, and possibly Pakistan. The North Koreans also allegedly employ foreign scientists and engineers on their programs, including a number from the Ukraine, and allegations of continuing Chinese involvement have been a source of friction between China and the United States.

The North Koreans produce a range of missiles. Single-stage missiles include the medium-range Scud-B, Scud-C, and Scud-D (a.k.a. Rodong-1), while long-range multistage missiles include the Taepodong-1 (tested in August 1998), the as-yet-untested Taepodong-2, and the Taepodong-3, which is still in development. The Rodong-1 missiles have a 1000 kg nuclear or chemical warhead and a range of 1000 km, putting them within striking range of both South Korea and Japan, while the Taepodong-1 is thought capable of hitting Guam and parts of Alaska. The Rodong-1 missiles are thought to have problems with their engines and guidance systems, limiting their military usefulness. Nevertheless, the properly armed missiles could present a significant deterrent to potential adversaries.

On 16 June 1998, the North Koreans admitted what the world had long suspected: North Korea exports missiles. Most observers believe that these exports began in the 1980s. Over the years, Iran and Syria have been among Pyongyang's most important customers, though the North Koreans also are alleged to have had dealings with Iraq, Libya, Nigeria, Pakistan, and Egypt.

Total revenues from missile sales are subject to dispute. Robert Einhorn, the chief U.S. negotiator at the missile talks, reportedly described North Korea as the world's number one exporter of missile equipment and technology (Washington Post, 1 April 1999). A highly placed U.S. official indicated that exports have averaged \$100 million annually, with around 40 percent of these revenues plowed back into the missile development program. However, a figure of \$1 billion a year, attributed to the U.S. Central Intelligence Agency, sometimes appears in press reports (Bill Tarant, Reuters, 1 September 1998; Washington Post, 1 September 1998; *JoongAng Ilbo*, 28 May 1999; and Reuters, 15 September 1999; see also Lim (1999)). The truly fantastic figure of \$5 billion in annual missile exports was attributed to unnamed South Korean intelligence officials in the 28 May 1999 *JoongAng Ilbo*. This surely is too high: It's well above both Israel's offer in its 1992-94 attempt to buy off the North Koreans, and the North Koreans' own contemporary demands of the United States. In addition, it would make North Korea the world's fifth largest arms exporter after the United States, United Kingdom, Russia, and France.

Instead it appears that exports have declined over time. The following have all depressed the market for North Korean goods: a lack of Cold War proxy conflicts, increasingly obsolete designs and inferior products (the Soviets stopped providing new designs and technology in 1990), shortages of necessary inputs, and fears of default on the part of shipping companies. The October 1999 moratorium on long-range missile testing, reached in negotiations with the United States, presumably further limits North Korea's ability to develop and market the Taepodong series.

Nevertheless, the fact that the military maintains its own trading channels outside the central plan is potentially of enormous policy importance. To the extent that the proceeds from arms sales are going directly to the military, the military may have a purely pecuniary incentive to continue selling missiles, even if other parts of the government would like to restrict sales for broader foreign policy reasons.

*The North's
infrastructure is
said to be com-
parable to the
South's in 1975*

Institute of Korea, a think-tank affiliated with the Ministry of Construction, has estimated that North Korea's infrastructure is comparable to South Korea's in 1975, and that it would cost more than \$6 billion to bring it up to South Korea's 1990 level. Indeed, it has been estimated that transfers on the order of 2–4 percent of South Korean GDP would be needed for an extended period to raise the level of North Korea's infrastructure to South Korea's 1980 level.^{xxii}

Overhauling the North Korean Economy For \$2 billion annually, one could undertake a fairly bare-bones reconstruction program in North Korea that would generate rising living standards, possibly reduce discontent, and contribute to political stability.⁹ Around half of this would be for recurrent flow consumption expenditures, and around half would be for industrial and infrastructural investments that could be self-financed through export revenues. Most of this trade would be with South Korea and Japan, with China and the United States playing smaller roles—even with the United States partially lifting its embargo against North Korea in June 2000. Thus the necessary recurrent external financing needs would be around \$1 billion annually. This assumes that liberalization in the

⁹ One should be careful about drawing too simple a causal link between material conditions and political change. There is no theory that reliably correlates deprivation with political change. Indeed, in his classic study of political change, Huntington (1968) argues that political change occurs more often in the context of material gains and rising expectations than it does in the context of stagnation. In particular, to the extent that political change has accompanied famine, it has usually occurred after famine conditions have sufficiently stabilized for responsibility to be assigned and blame to be assessed. During famines, populations typically are too focused on survival to engage in political activities. However, in the case of North Korea, Gertz (1999) reproduces a secret State Department cable that refers to "extensive evidence of a major coup attempt by elements of the VI Corps in 1995, which appears to have been crushed only with some difficulty" (p. 264). The State Department has not denied the authenticity of this cable. According to Oberdorfer (1997), after the uprising the Corps, based in the famine-stricken northeastern city of Hamhung, "was disbanded, its leadership purged, and its units submerged into others under circumstances suggesting disarray in the ranks" (p. 375).

North would be on a non-preferential basis. It has been shown that the formation of a customs union between North and South Korea would have a big impact on the North, but only a trivial impact on the South.^{xxiii} This union would represent a major trade liberalization on the part of the North, while the North's economy would be too small to have much of an impact on the South's economy (think of the impact of NAFTA on the United States, or the accession of a small central European economy on the EU). This story—big impact on the North, small impact on the South—would change considerably if integration were to come through collapse, as discussed in the next section.

Where could the aforementioned \$1 billion come from? There are many possibilities, but the single biggest potential source of additional financing would be the resolution of North Korea's postcolonial claims against Japan. This issue was raised by former U.S. Defense Secretary William Perry during his visit to Pyongyang last year. The Japanese government paid the South Korean government \$800 million in compensation for colonial and wartime activities when diplomatic relations were normalized in 1965; of this, \$300 million came in the form of grants, \$200 million in the form of development assistance loans, and \$300 million in the form of commercial credits. The North Korean government expects similar compensation. Adjusting the South Korean payment for differences in population, accrued interest, inflation and appreciation of the yen since 1965, one obtains a figure in excess of \$20 billion.^{xxiv}

An additional issue raised by North Koreans that was not included in the South Korean package is compensation for "comfort women" who were pressed into sexual slavery during World War II.

Reputedly, settlement figures on the order of \$5 billion to \$8 billion have been discussed within the Japanese government. In comparison, Yi Chong-hyok, vice chairman of the Korea Asia-Pacific Peace Committee, a Korean Workers Party organization, in remarks before a Washington audience in 1996, indicated that \$10 billion would be the minimum bound for compensation. Japan certainly will argue that its food aid

and its \$1 billion contribution to the Korean Peninsula Energy Development Organization should be counted against this charge. Indeed, Japanese negotiators are rumored to be valuing their food aid at inflated Japanese prices rather than at far lower world prices. Some have speculated that Japan will even try to claim credit for the costs of recapitalizing bankrupt financial institutions controlled by *Chochongryun*¹⁰—in Japan. In any event, such sums properly deployed could go a long way toward restoring North Korean creditworthiness and financing economic modernization.

International Aid If North Korea were to accept the terms of engagement detailed in the Perry review, another carrot that the United States, Japan, and South Korea could hold out would be membership in international financial organizations and the prospect of multilateral economic assistance. Pyongyang has periodically expressed interest in joining the International Monetary Fund (IMF), World Bank, and Asian

Development Bank (ADB). However, membership talks have never made much progress, for they have snagged on three issues:

- North Korea's unwillingness to permit the kind of access to economic data and information that is required for membership in these organizations;
- North Korea's position on the U.S. list of states supporting terrorism; and
- Japanese opposition to North Korea's admittance, resulting from unresolved political issues, most notably the alleged kidnapping of Japanese citizens by North Korea.

Under U.S. law, the U.S. executive directors at the development banks cannot vote in favor of extending loans to North Korea until it is removed from the list of countries engaging in state-sponsored terrorism. At the ADB annual meeting in May 2000, U.S. Treasury official Ted Truman said, "Our position on membership is unchanged. Both because our own legislation requires us to do so [and] because North Korea is an international terrorist state...as long as that situation prevails and the North Korean regime is one which is fundamentally incompatible with the principles of institutions such as the ADB, we would oppose membership."^{xxv}

Under normal circumstances, if North Korea were to join these organizations without considerable reorientation in domestic economic policies, it would be unlikely that the multilateral development banks would make significant loans. However, given the political importance of North Korea to the United States and Japan (both of which are influential shareholders in the World Bank and the dominant shareholders in the ADB), one would expect that North Korea might receive favorable treatment. World Bank President James Wolfensohn already signaled as much, writing in a July 2000 letter to South Korean President Kim Dae-jung that "We



Park Ok Ryun, a former "Comfort Woman," protests in front of the Japanese embassy, Seoul, during a demonstration. North Korea is negotiating with Japan for compensation for colonial and wartime activities, including the sexual enslavement of many North Korean women.

¹⁰ *Chochongryun* (*chosensoren* in Japanese) is an organization of ethnic Koreans living in Japan who are affiliated with Pyongyang.

An independent, poor North Korea would probably be able to access more lending than a unified middle-income Korea

at the World Bank stand ready to support inter-Korean economic cooperation. We hope to assist in the development of North Korea, within our capacity and mandate, whenever the North Korean authorities are ready to work with us." The North Koreans were invited to the September 2000 joint World Bank-IMF annual meetings in Prague, but declined to attend.

In any case, technical advice and assistance would really be more important than direct lending activities, which ultimately would only complement the activities of private investors. Working from the case of Vietnam (another Asian transitional economy in which the government undertook rapid economic reforms) and scaling down the multilateral development banks' lending program for the smaller size of the North Korean population, one obtains a lending scale of \$150 billion to \$250 billion annually. Not trivial, but not enough to finance even a bare-bones recovery program. More money might be available if the United States, Japan, South Korea, and others set up a special fund for North Korea at the World Bank or ADB.¹¹ Such a fund might be a particularly useful way of politically laundering Japanese reparations.

It is possible that under some circumstances North Korea could obtain loans from international financial institutions even if it were not a member.¹² The World Bank, for example, maintains a special program for peace and sustainable development in the Middle East through which it makes loans in areas controlled by the Palestinian Authority. It also has adopted a policy that allows it to assist countries emerging from crises even though they are not World Bank members in good standing. This policy was adopted after the bank was precluded from lending to Cambodia because of a problem with debt arrearage. The key attributes in these cases appear to have been a cooperative recipient government and strong support from major World Bank shareholders. Bank staff also has expressed

the view privately that an independent, poor North Korea would probably be able to access more lending than a unified middle-income Korea. Either way, the settlement of postcolonial claims with Japan would dwarf any assistance North Korea could expect from the multilateral development banks.

These developments might be thought of as necessary, though still insufficient conditions for consensual unification; even if they were to occur, they would get the two Koreas only part way down the road. Moreover, these developments do not necessarily imply progress toward consensual unification. North Korea could adopt a minimalist reform program and reject unification overtures from the South. Indeed, while implementing such a program, the North might feel compelled to limit discussion of unification precisely to prevent system overload and a loss of control.

Collapse is Possible

Of course, although this minimalist reform scenario appears relatively attainable, there is no guarantee that such an outcome will occur. It is possible, though unlikely, that North Korea will not undertake the policy changes necessary to ensure its own survival, and instead could collapse and be absorbed by South Korea. Such a development could greatly change the economic calculus on the Korean peninsula. Theoretically, it is also possible that a collapse of the Kim Jong-il regime would not result in the disappearance of North Korea as a state. Yet in reality it is hard to see how a North Korean government without Kim Il-sung could be much more than a transitional regime witnessing unification on essentially South Korean terms, much as was the case for the short-lived East German government of Lothar de Maizière.

In any case, the relatively cheap minimalist reform scenario depends on the stability of the North Korean state, and the consequent ability of all parties to maintain enormously different levels of income across the two parts of the Korean peninsula. A collapse would set in motion economic and political forces that would make sustained maintenance of such enormous disparities difficult, if not impossible.

¹¹ The possibilities of a Northeast Asia Development Bank or a Northeast Asia fund have also been mooted.

¹² An April 2000 statement to this effect by David T. Coe, the IMF resident representative in Seoul, was immediately denounced by Rep. James Saxton (R-New Jersey).

North Korea's large, poor, and young population will want to move south in the event of unification

Germany as a Point of Comparison Differences between the German and Korean situations may be revealing in this regard. For one thing, North Korea is larger; its population is roughly half that of the South, whereas East Germany's population was roughly a quarter of West Germany's population. Second, income disparities are far greater between the two Koreas than between the two Germanys. Although the whole notion of income is problematic in centrally planned economies, pre-unification per capita income was probably three to four times greater in West Germany than in East Germany; in the Korean case, the ratio is more likely to be on the order of twelve or fifteen to one. Finally, the population of North Korea today is younger than the population of East Germany at the time of unification. The relatively larger, poorer, and younger population of North Korea all points to migration as being a potentially more important issue in the Korean case than in the German case.¹³

Indeed, were Korean unification to occur, the government would face rising expectations among the populace of the North, as well as a desire to migrate south in search of better lives. It is possible, though unlikely, that the government could use the Demilitarized Zone to control population influx for an extended period while conditions in the North slowly improved—but the political imperative would be to improve conditions rapidly in the North.

The conventional wisdom is that the Germans made a fundamental mistake in setting the unification exchange rate, and considerable economic distress in East Germany was due to this avoidable error. However, a more careful analysis suggests that it was wage policies, not the exchange rate, that priced East German

labor out of the market. Moreover, misguided labor-market policies were compounded by mistakes in privatization and restitution policies, as well as competition (antitrust) policies, all of which combined to greatly reduce the demand for goods produced in East Germany.^{xxvi} Be that as it may, even under a relatively optimistic scenario of moderate, controlled, cross-border migration, and rapid convergence in North Korea toward South Korean levels of productivity, bringing the level of income in North Korea to half that of the South would require a decade and hundreds of billions of investment dollars—transfers larger in relative terms than in the German case.^{xxvii}

Though extensive, this investment would not be pure “cost,” and some in South Korea could arguably benefit in this scenario. Investment in the North would earn remitted profits to owners of capital in the South, and the process could be expected to shift the distribution of income away from labor and toward capital. At the same time, there would be changes in income distribution among different classes of labor, with the distribution shifting toward more highly skilled classes of labor. Another cleavage would be between sectors producing internationally traded goods such as manufactures, and non-traded goods such as construction, with the non-traded-goods sector doing relatively better. The bottom line is that if you were a South Korean construction magnate with savings to invest in unification bonds, Korean unification could be very good for you; conversely, if you were a low-skilled manufacturing worker, it could be a very different story.

PREPARING FOR REUNIFICATION—OR COLLAPSE

The question then arises: What, if anything, can South Korea, the United States, and others do to prepare for such a contingency? South Korea's need to prepare for the contingencies of unification with North Korea coincides with its need to strengthen its financial system in the wake of its own financial crisis. In the event of unification, there would be absolutely no reason to finance the construction of infrastructure out

¹³ See Noland, Robinson, and Liu (1999) and Noland, Robinson, and Wang (2000c) for modeling of cross-border factor flows in the Korean case. The latter paper finds that North Korea would be virtually depopulated before wage rates converged sufficiently to choke off the incentives for mass migration. The authors conclude that cross-border migration would have to be limited, or that opening of the border would have to be combined with hundreds of billions of investment dollars in the North.

Unification will be good for the South Korean construction magnate; not so good for the low-skilled worker

of current tax receipts; instead, the government would want to use both taxes and bonds to finance unification expenditures. Hence, it should be a priority to develop a robust government bond market prior to unification.

A second priority would be the rejuvenation of South Korea's flagging privatization program: There is no reason why the privatization agenda in the North should be more aggressive than the one that now exists in the South.^{xxviii} Finally, once the current crisis in South Korea is surmounted, the nation will want to return to a policy of fiscal rectitude, and salt away some reserves for this potential rainy day. A strong government financial position would allow it scope for immediate expenditures in the event, and would facilitate the issuance of "unification bonds."

Fiscal, Military, and Social Considerations

At the moment of collapse in this scenario, there will be a critical need for close coordination among the militaries of the United States, South Korea, and China, since presumably they will be central to maintaining order, handling refugee flows, etc. This cannot be overemphasized, though further discussion is really beyond the scope of this paper. Once the situation on the ground has stabilized, longer-run political and economic policies come to the fore. As indicated earlier, there is extensive literature on the lessons for Korea from German unification, and the South Korean government has devoted considerable resources to studying this topic.

At the time of unification, the South Korean government will have multiple (and potentially conflicting) policy objectives. On the one hand, maintenance of market-consistent economic activity in the North will be the top priority. At the same time, the government should seek to effect a one-time-only wealth transfer to the North Korean people since they will have to adjust to market institutions with virtually no household wealth. One can imagine a multi-pronged approach:

- adopt dual-rate monetary conversion, aiming for slight undervaluation of the North Korean won to maintain competitiveness (making

North Korea an attractive location for investment), and converting personal savings at an overvalued rate (effecting a wealth transfer);

- deed land to farmers and housing to occupants, contingent on continued use for some specified period of time; and
- maintain some kind of temporary, emergency, nonmarket social safety net in the North.

Having given the land to farmers, one must confront the issue of property rights claimed by past owners or their descendants, and the more general issue of assignment of property rights to commercial or industrial entities. Lessons learned from the experience of Germany, and other former centrally planned economies, would be instructive in this regard:

- avoid the policy of restitution for seized assets—monetary compensation for seized assets might be considered, though even some South Korean analysts have argued that this would be a mistake;
- privatize quickly and avoid the cash-on-the-barrelhead model;
- abolish inter-enterprise debts;
- emphasize investment transfers, not consumption transfers; and
- accept assistance from foreigners, including the Japanese.

Privatization, Chaebol, and Reparations

With respect to privatization, the experience of East Germany and other centrally planned economies suggests that it would be best to move quickly and avoid the cash-in-advance model, since it would severely restrict potential buyers. Attempts to restructure these enterprises before privatization should also be avoided; this would be better left to the market. Inter-firm debts, which are a legacy of irrational policies under the centrally planned regime, should be written off. Debt-equity swaps could be used to pay off external debt and at the same time create a stake for South Korean or foreign firms in the viability of North Korean enterprises.

Given these considerations, there appears to be one institution in South Korea ideally suited for the task of making North Korea competitive: the *chaebol*. Unfortunately, one policy goal (to get the North Korean economy functioning as rapidly as possible) will conflict with another policy goal (to clean up business-government relations in South Korea). It goes without saying which would receive the greater weight. The *chaebol* are probably ideally suited for refurbishing the North Korean economy; however, saddling them with unproductive North Korean enterprises would have an economic price (in terms of reducing *chaebol* competitiveness internationally, and possibly encouraging anti-competitive behavior domestically), as well as a political price (in the form of the quid pro quo that the *chaebol* would be expected to extract).

With respect to the other actors, many of the policies that one would want to see in place in the event of collapse (for example, those regarding North Korean involvement with interna-

tional financial institutions) really are not contingent on collapse. Indeed, if a collapse is to occur, it would make sense for the multilateral development banks already to have been involved, so they would possess some country-specific knowledge and expertise prior to the event.

The big-money issue would be how to resolve postcolonial claims against Japan if this had not already been done; if this issue is not resolved prior to collapse, it would be essential that Japan and the North Korean government quickly reach an accord so that resources could begin flowing into Korea. In the case of the United States, its role probably would be to provide political leadership (like that of the Korean Peninsula Energy Development Organization) rather than direct financial assistance. One could imagine, for example, the United States leading a multilateral effort to provide additional financial assistance, possibly through a special window at one of the multilateral development banks.



One joyful celebrant at a reunification rally at Han Yang University in Seoul gets to be President Kim Dae-jung in a depiction of Kim and North Korean President Kim Jong-il.

NORTH KOREAN INTERESTS AND INTENTIONS

How this all plays out, and indeed whether unification via any of the modalities examined in this paper is likely in the near future depends, at least in part, on the intentions of the North Korean elite. A necessary condition for consensual unification would be willingness on the part of this elite to countenance reform of current practices. It could be that members of the Kim Jong-il regime have calculated that the best way to preserve their own power and perquisites within the North Korean system is to constructively engage South Korea and the rest of the world, and that moving down the path of economic reform, though risky, presents them with the highest likelihood of success in preserving themselves within the system.

It also could be that North Korea intends, essentially, to adopt the techniques of economic reform without adhering either to the ethos of

market economics or to the dominant values of the international system. In this case, the United States and South Korea could be confronted with a strengthened adversary on the Korean peninsula.

Difficulties of Prediction

How can we predict? In spite of the reported stabilization of the economy (or even its revival if the BOK is to be believed), and enhanced revenues from the Hyundai deal, North Korea has increased its reliance on international food assistance. The share of food imported into North Korea has risen from nil in 1994 to more than 80 percent today. In other words, concessional assistance has almost completely crowded out imports on commercial terms. Food is fungible, and food aid acts as an implicit balance-of-payments support—funds that would otherwise have been expended on food can be spent on other items. The issue then is the preferences of the regime, and in the case of North Korea in

North Korean leader Kim Jong-il, left, and South Korean President Kim Dae-jung, right, shake hands as Kim Dae-jung arrives June 13, 2000 at the Sunan International Airport in Pyongyang, North Korea. Kim Dae-jung won the Nobel Peace Prize October 13, 2000 for his work towards peace and reconciliation with North Korea.



South Korea's goal should be to domesticate the North, defanging the military and rebuilding the economy

the past year, there is reason for unease.

According to the South Korean National Defense White Paper (1999), North Korea has increased its reserves of chemical weapons, boosted manpower in the Korean People's Army (KPA) by 10,000 troops, created a missile division, and added 10 submarines to its fleet. In August 1999 it was revealed that North Korea had purchased roughly 40 aging MiG-21 fighters and eight military helicopters from Kazakhstan. It was subsequently reported that North Korea was also trying to obtain the more advanced MiG-29 and SU-30 fighters.

In September 1999, a classified U.S. Air Force report was leaked to the press; the report alleged continued work on the Taepodong missile by North Korea. In October, Gen. Thomas Schwartz, the newly appointed commander-designate of U.S. Forces Korea, said in testimony before the U.S. Senate Armed Services Committee that North Korea had accelerated its arms buildup and was forward-deploying artillery and rocket-launchers in underground facilities. In March 2000, Adm. Dennis Blair, commander-in-chief of U.S. Pacific Forces, indicated that North Korean military exercises during the winter of 1999–2000 had been the most extensive in recent years. Other U.S. military sources indicate that the 2000 summer exercise cycle also was the most extensive in years.

One might regard the analysis of the South Korean and U.S. militaries with a certain degree of skepticism—they do not have any incentive to underestimate the North Korean threat. Nor does the purchase of additional armaments by the North Koreans necessarily signal any aggressive intent. Instead, it could be a simple bureaucratic outcome in which the KPA spends its export revenues on items that it desires, or it could be that increased military spending is a sop thrown to the KPA by Kim Jong-il's government in anticipation of future reforms to which the military will object. We simply do not know.

Policy Implications

So what are the policy implications? From the standpoint of South Korea, Kim Dae-jung is fundamentally correct that the focus of policy should be supporting constructive transforma-

tion of the North. Militarily, North Korea already holds Seoul hostage with its forward-deployed artillery. The South Koreans might as well engage North Korea in an attempt to reduce tensions and achieve reconciliation and unification, because the marginal increase in North Korea's threat capability that might be achieved through economic reform is relatively small. The South Koreans are over that Rubicon already.

Therefore, the goal of the South Koreans should be to domesticate North Korea, pursuing a two-track strategy of trying to defang it militarily while rehabilitating its economy. The problem from the standpoint of South Korea is the impact that increased integration with North Korea could have on its economy. The South Korean financial crisis has at least temporarily 20 years of diminishing direct state involvement in its economy.

As a consequence of its increased presence in the financial sector and other, more indirect levers on power, the South Korean government has a bigger influence on strategic decisions by the chaebol than it did in 1996 on the eve of the crisis. The difficulty is that, despite the good intentions of the South Korean government, politics and economics are inseparable in the North, even in theory. Any significant interchange with the North will be highly politicized, and South Korea inevitably will be tempted to directly intervene in the economy to promote its foreign policy goals.

A good example of this would be Hyundai's Mt. Kumgang tourism project which, according to South Korean press reports, is losing more than \$100 million annually. The fear, of course, is that the South Korean government will be tempted to reward Hyundai or other firms with preferential treatment for doing its bidding in the North. For example, there was some apprehension that the government would be tempted to steer Daewoo Motors to Hyundai (effectively giving Hyundai a monopoly on the South Korean passenger car market) as a kind of reward for its activities in the North. It is a good sign that this appears unlikely to occur. Other forms of compensation could take the form of bailouts for troubled subsidiaries or regulatory forbearance

with respect to questionable or illegal intra-group financial transactions.

Imperatives for South Korea

In this light, South Korea should promote two goals in its dealings with the North: transparency and the transformation of the North Korean system. With regard to the first goal, economic integration between the North and South may convey positive externalities to South Korea, and the social rate of return on South Korean investment in the North may exceed the private rate of return. As a consequence, there is a public policy justification for encouraging investment in the North. It would be better, though, to introduce broad tax incentives for investment in the North than to use state influence over the financial system to encourage investment on an ad hoc basis. The notion behind a tax-based policy would be to divorce the overarching societal goal of investment in the North from state influence on particular investment decisions. The advantage of this approach is that it would preserve the microeconomic efficiency of private firms selecting investment projects on the basis of expected rates of return, while taking into account the broader social imperative to encourage such investment.^{xxix}

It should be noted that Kim Dae-jung has expressed the opposite concern (namely that a “gold rush” mentality might generate excessive investment in the North) and has floated the idea of government coordination. Although there is little evidence that any such gold rush would occur, such a coordination mechanism could facilitate state meddling in the South Korean economy.

With respect to the second goal, of systemic transformation, one can imagine a hierarchy of modalities of engagement. The worst would be projects such as the Mt. Kumgang project, which literally and figuratively can be fenced off from the rest of the North Korean economy and society, offering little prospect for structural transformation. Given the historical enmity and distrust between the North and the South, the Mt. Kumgang project may have been a necessary first step to build confidence and trust. But having successfully made that step, future projects

should be evaluated with a more critical eye.

Marginally preferable to the Mt. Kumgang project would be mining concessions or special economic zones in remote areas such as Rajin-Sonbong. These are classic enclave economies with little prospect for spillover into the broader society.

Industrial parks, bonded warehouses, and other preferential urban investment zones would be preferable, and free investment by South Korean firms throughout the country would be best of all. The latter would not only maximize contact between North and South Koreans and promote educational spillover about operation of a market economy, it would create competition between local authorities to attract investment.

The bottom line is that South Korea has been traumatized by its financial crisis. Although the economy is experiencing a cyclical recovery from the depths of 1998, continuing labor unrest and the travails of Hyundai are reminders that the country has not put its financial crisis completely behind it. Hopefully, the crisis has dealt only a temporary setback to the process of constructive disengagement of the state from the economy. The continuation of disengagement and structural reform is a difficult process for any country under any circumstance, but the existence of the North adds a tremendous additional layer of complexity to the challenge that South Korea faces.

CONCLUSION

North Korea faces a fundamentally supportive international environment; South Korea, Japan, China, even the United States want to see a less belligerent North Korea survive until reconciliation and unification can take place on the Korean peninsula. The three questions are whether North Korea is willing to change, whether it is capable of successfully managing change, and to what purpose it would apply the fruits of change?

I am hopeful on the first question, skeptical on the second, and wary about the third. I believe that the most likely outcome is a kind of muddling through, in which the North Korean regime makes a series of ad hoc adjustments while

*It is good
public policy
to encourage
investment in
the North*

Among those who want to see a less beligerent North Korea survive are South Korea, Japan, China, and the U.S.

supported by external powers that would rather see a struggling, less antagonistic regime than instability or collapse.^{xxx} The outcome could well be what I have described elsewhere as “apparatchik capitalism” in which the political elite would use their control over state power to channel to themselves the lion’s share of rents generated by a partially marketized and non-transparent economy.^{xxxi}

ENDNOTES

- ⁱ On North Korean brinkmanship, see Snyder (1999) and Noerper (1998). An alternative interpretation of North Korean behavior is provided by Kim (1999) who argues that North Korean military expenditures are a rational response to the threat from the United States and South Korea.
- ⁱⁱ These events are described in greater detail in Noland (2000).
- ⁱⁱⁱ For details of this proposal, Han and Choe (1995) and Yu (1997). For highly informative interpretations of North Korea’s unification policy, Park (1993) and Eberstadt (1998).
- ^{iv} See Steinberg (1998) for some thoughtful reflections on issues of regionalism and central control in the context of the political integration of the two Koreas.
- ^v See Noland (2000) for specific references to these formulations.
- ^{vi} Moon (2000).
- ^{vii} Analyses of the industrial park and railway projects by the Center for Reunification Economics (2000).
- ^{viii} See Noland (2000) Chapter 7 for a more extensive treatment of this issue, and citations to relevant literature.
- ^{ix} See Noland (2000) Chapter 3 for a discussion of the hazards of estimating North Korean national income and a summary of alternative estimates.
- ^x See Noland (2000) Chapter 5 for a discussion of the famine.

- ^{xi} For example, *Oxford Analytica*, 9 May 2000 and Eberstadt (2000).
- ^{xii} Eberstadt (2000).
- ^{xiii} Eberstadt (1995).
- ^{xiv} See Noland (2000) Chapter 5 for an extensive analysis of food availability and an assessment of alternative estimates of mortality associated with the famine.
- ^{xv} See FAO (2000) for its statement on North Korea; and Noland, Robinson, and Wang (2000b) for a more complete analysis of famine recovery strategies.
- ^{xvi} Noland (2000) Table 5.1.
- ^{xvii} See Kim, Lee, and Sumner (1998), Smith (1998), and Smith and Huang (2000), for further analyses of the North Korean food situation.
- ^{xviii} Noland (2000) Table 5.3.
- ^{xix} Von Hippel and Hayes (1998).
- ^{xx} Michell (1998).
- ^{xxi} Williams, Hayes, and Von Hippel (1999).
- ^{xxii} Hong (2000).
- ^{xxiii} Noland, Robinson, and Liu (1999) and Noland, Robinson, and Wang (2000c).
- ^{xxiv} See Manyin (2000) for alternative estimates and additional discussion of compensation issues.
- ^{xxv} Agence France Press, 7 May 2000.
- ^{xxvi} See Sinn and Sinn (1996), Noland (1997), Watrin (1998), Wolf (1998), Noland (2000), and references therein for more extensive discussions of the German “lessons” for Korea.
- ^{xxvii} See Noland, Robinson, and Wang (2000c) for a detailed assessment.
- ^{xxviii} See Bae (1996) for recommendations on how to improve tax collection; Bae also raises the possibility of privatizing South Korean government assets as a means to finance unification.
- ^{xxix} See Cheong and Lee (1996) for such a proposal.

xxx See Kim (2000) for a similar conception of a "limited reform strategy."

xxxi See Noland (2000) Chapter 9 for further elaboration on this theme, and a comparison to the Romanian case.

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Porpoises Among the Whales: Small Navies in Asia and the Pacific, by Joseph R. Morgan. No. 2. March 1994. 48 pp. \$7.00.

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Challenges Met, Opportunities Seized
Andrew Mason, ed.
Forthcoming 2001, 450 pp. est.
0-8047-4303-7 cloth \$65.00
0-8047-4322-3 paper \$29.95

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Capital, Coercion, and Crime

Bossism in the Philippines
John T. Sidel
1999, 316 pp., illus.
0-8047-3745-2 cloth \$55.00
0-8047-3746-0 paper \$18.95

Local bossism exists when local power brokers achieve monopolistic control over an area's coercive and economic resources. The entrenched provincial warlords and political clans of the Philippines have long made it a striking case of this phenomenon. John T. Sidel's insightful com-

parative historical analysis argues that the roots of bossism in the Philippines lie in the inauguration of formal democratic institutions at a relatively early stage of capitalist development.

"A superb piece of scholarship Probing beneath the superficialities of election rituals, Sidel discovers the dynamics of a political-economic process of systemic coercion and corruption that may trouble the democratic transition in many newer nations and regimes for decades to come. These conclusions should command wide attention from the many scholars and policy specialists concerned with the recent wave of democratization across the globe."

—Alfred W. McCoy,
University of Wisconsin–Madison

Making Majorities

Constituting the Nation in Japan, Korea, China, Malaysia, Fiji, Turkey, and the United States
Dru C. Gladney, ed.
1998, 350 pp.
0-8047-3047-4 cloth \$55.00
0-8047-3048-2 paper \$19.95

Majorities are made, not born. This book argues that there are no pure majorities in the Asia Pacific region, broadly defined, or in the West, challenging the thesis that civilizations are composed of more or less homogenous cultures. Analyzing discourses of majority and minority, the fourteen contributors argue that emphasis on minority/majority rights is based on uncritically accepted views of purity, numerical superiority, and social consensus.

"Contains a wealth of empirical and historical materials, as well as analytic insights, about the dynamics of ethnicity and cultural identity and their historical evolution in this vast region of the world.... It should be valuable to political analysts, cultural theorists, scholars, as well as educated readers who are generally interested in the social and political dynamics of the region."

—Journal of Asian Studies

Chiefs Today

Traditional Pacific Leadership and the Post-colonial State
Geoffrey M. White and Lamont Lindstrom, eds.
1997, 343 pp.
0-847-2849-6 cloth \$49.50
0-847-2851-8 paper \$18.95

The chiefs who operate within modern Pacific states figure significantly in attempts to fashion national identities and manage the direction of political and economic development. The contributors to this important volume present detailed analyses of the accommodations between chiefs and states in Pacific societies—the Federated States of Micronesia, Fiji, Marshall Islands, Rotuma, Solomon Islands, Tana Toraja (Indonesia), Tonga, Vanuatu, Western Samoa, and New Zealand—providing a window into the course of social and political transformation in postcolonial states today. The chief is a focus for cultural struggle in the border zones of local, national, and transnational politics.

"This is a valuable book, with much to offer to scholars of comparative social sciences focusing on the Pacific Islands."

—Journal of Pacific History

Political Legitimacy in Southeast Asia

The Quest for Moral Authority
Muthiah Alagappa, ed.
1995, 446 pp. (second printing, 1998)
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