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Western Aid:
The Missing Link for North Korea's Economic Revival?

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Western Aid: The Missing Link for North Korea's Economic Revival?

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Abstract: In the months and years ahead, it is plausible, perhaps even likely, that the issue of renewed Western economic assistance for the DPRK, or North Korea, will return once again to policymakers' agendas. We should therefore ask: Could major inflows of Western aid lead to an economic revitalization of the DPRK? Could they even be the key to jump-starting the North Korean economy? The US provided massive economic assistance to South Korea after the Korean War, and subsequently entered into a sustained spurt of dazzling growth that transformed the country into an affluent and highly productive society. Could massive Western aid spark a corresponding of transformation for the DPRK?

This paper will address these questions by examining a number of separate but related issues: 1) the record of North Korea's economic performance in recent decades; 2) the relationship between DPRK policies and practices and the country's economic performance; 3) the international record of Western aid's influence on economic growth and development; 4) the rationale or logic behind current DPRK policies and practices bearing on economic performance; 5) the history of US aid to, and economic development in, South Korea; and 6) some of the prerequisites for sustained economic growth (and aid effectiveness) for the DPRK.

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Introduction

As the leadership of the Democratic People's Republic of Korea (hereafter DPRK, or North Korea) looks to the future, economic development figures centrally in its officially proclaimed agenda. This year, as it has done every year over the past decade, the government's joint New Year editorial stressed the imperative of economic construction, broadly outlining the sorts of improvements that are to be achieved over the remainder of the current calendar year, and intoned that "The present grand onward march for the improvement of the people's standard of living demands that a full-scale offensive be launched in the overall economic front."¹ But economic growth and development has just taken on a whole new importance in North Korean policy, one that extends beyond rhetoric: this past January, for the first time in over two decades, Pyongyang has formally unveiled a new multi-year economic plan: a 10-year "strategy plan for economic development" under a newly formed State General Bureau for Economic Development. The new economic plan is intended not only to meet the DPRK's longstanding objective of becoming a "powerful and prosperous country" [*Kangsong Taeguk*] by 2012 (the 100th anniversary of the birth of Kim Il Sung), but also to promote North Korea to the ranks of the "advanced countries in 2020."²

Details on the new 10-year economic plan are as yet sketchy. South Korean analysts report that the plan envisions massive amounts of new investment in North Korea: up to \$100 billion, by some accounts.³ But even if the investment target is more modest than such rumors suggest, North Korea will be counting on more than just domestic capital accumulation to secure this funding. It will have to rely upon major inflows of both foreign private capital—and foreign aid.

No less than eliciting domestic economic revival and development, commanding large and steady transfers of economic aid from abroad has been an abiding priority of the DPRK government. In Pyongyang's official narrative, indeed, these two quantities are instrumentally and inseparably related. By this official narrative, North Korea's economic woes after the end of the Cold War were the direct consequence of the loss of the economic assistance and (subsidized) trade from the erstwhile Soviet Bloc. By that same narrative, North Korea's economy continues to suffer largely as a result of America's "hostile policy" of economic sanctions—which limit not only trade, but also aid, for the DPRK.

In the era of Seoul's "Sunshine Policy" and Washington's "Perry Process," Western diplomats and their North Korean counterparts seriously discussed the prospect of a \$10 billion payment to Pyongyang by Japan in the event of a comprehensive settlement of the nuclear and other security issues under discussion in the late 1990s and early 2000s.⁴ Though the Sunshine Policy and the Perry Process are dead, the vision of a \$10 billion aid payment from Japan may still be very much alive in the eyes of North Korean policymakers—to say nothing of additional and continuing transfers from other Western countries (and perhaps additional benefits accruing not from aid, but from the opening of certain essentially closed foreign markets in Western countries).

¹ Korea Central News Agency [hereafter KCNA], Pyongyang: "Joint New Year Editorial," January 1, 2011, available electronically at <http://www.kcna.co.jp/index-e.htm>; accessed March 5, 2011.

² KCNA (Pyongyang), "State General Bureau for Economic Development To Be Established," January 15, 2011.

³ Yonhap News Agency (Seoul), "N. Korea draws up 10-year development plan: state media," January 15, 2011.

⁴ The \$10 billion figure did not come entirely out of thin air—it was a population-scaled, exchange-rate and inflation-adjusted number based on Japan's economic assistance to South Korea in 1965, when relations between the two countries normalized.

Leave aside for the moment the likelihood of a major and sustained upsurge in Western aid for North Korea, or the conditions under which such aid commitments might be arranged: if such an upsurge were to occur, could this lead to an economic florescence in the DPRK? Could Western aid flows be the key to jump-starting the North Korean economy? North Korean officialdom is keenly aware of the massive economic assistance the US provided to South Korea in its poor and hungry years after the Korean War; South Korea, of course, subsequently entered into a sustained spurt of dazzling growth that transformed the country into a society enjoying Western levels of affluence and productivity. Could massive Western aid spark the same sort of transformation for the DPRK?

To address this set of questions comprehensively, it is necessary to examine a number of separate but related issues: 1) the record of North Korea's economic performance in recent decades; 2) the relationship between DPRK policies and practices and the country's economic performance; 3) the international record of Western aid's influence on economic growth and development; 4) the rationale or logic behind current DPRK policies and practices bearing on economic performance; 5) the history of US aid to, and economic development in, South Korea; and 6) some of the prerequisites for sustained economic growth (and aid effectiveness) for the DPRK. We will examine these issues in sequence in the following pages.

The DPRK's Economic Performance over the Past Generation

There is no way to state this diplomatically: the DPRK's economic record over the past two decades has been abysmal, among the very worst of any population on the planet.

The DPRK was founded in 1948, and although this important fact has been widely forgotten, the North Korean central planning system functioned tolerably well for about a generation after its inception. Indeed: the North Korean economy appears to have outperformed its South Korean competitor for several decades; there is reason to believe that both per capita output and per capita exports were higher in the North than South as late as 1970.⁵ But in the 1970s and 1980s the North Korean economy veered off toward stagnation while South Korea's soared—and since the Soviet collapse, the North Korean economy suffered a catastrophic slump from which it has yet to recover fully.

Reliable data on North Korea's economic and social trends are, of course, notoriously scarce. It may suffice, however, to consider this single fact to assess the overall performance of the DRPK economy in the post-Soviet era: North Korea is the only literate and urbanized society in history to have undergone a famine in peacetime.⁶ And the Great North Korean Hunger of the 1990s was not a once-only event, attributable to natural disaster or *force majeure*: quite the contrary, it reflected fundamental new structural realities for the DPRK economic system. From the mid-1990s to this day, North Korea has relied on “temporary” international emergency humanitarian food aid donations—but on a permanent basis (the latest appeal being

⁵ For a detailed recounting and analysis of this saga, see Nicholas Eberstadt, *Policy and Economic Performance In Divided Korea During The Cold War Era: 1945-1991*, (Washington, DC: AEI Press, 2010).

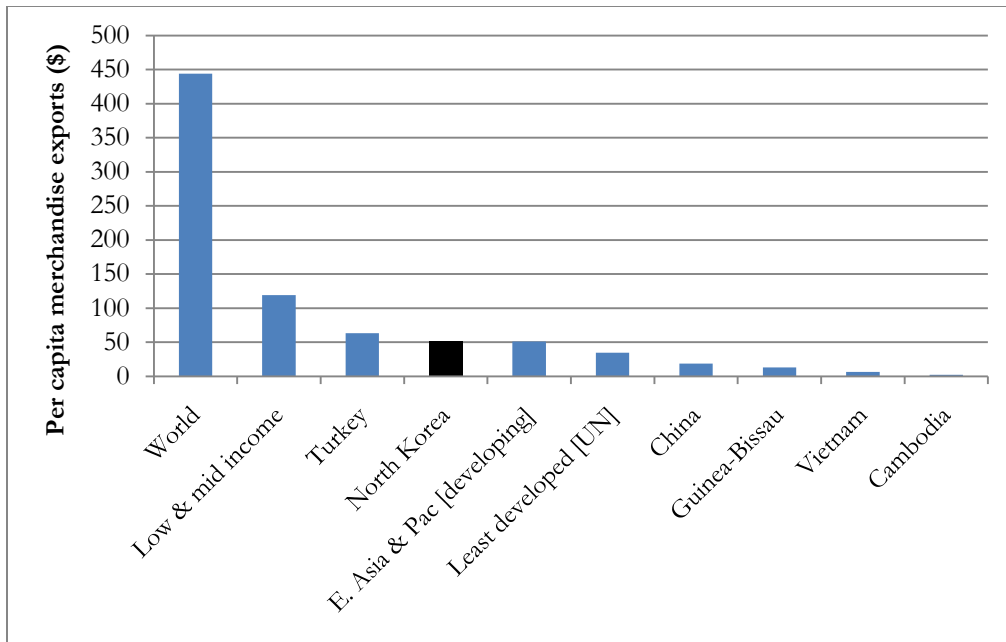
⁶ Pyongyang has never divulged the toll of the Great North Korean Hunger of the 1990s; some Western demographers, nevertheless, have speculated that the total count of excess deaths may have run on the order of 600,000 to 1,000,000—or roughly 3% to 5% of the country's population at the time. Cf. Daniel Goodkind and Loraine West, “The North Korean Famine and its Demographic Impact,” *Population and Development Review*, vol. 27, no. 2 (June 2001), pp. 219-238. For comprehensive treatments, see Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid and Reform*, (New York: Columbia University Press, 2007), and also Andrew S. Natsios, *The Great North Korean Famine: Famine, Politics and Foreign Policy*, (Washington, DC: Institute of Peace Press, 2001).

issued earlier this year⁷). Evidently, North Korea’s has lost its capacity for feeding its own people (by growing it domestically or purchasing it from abroad). The DPRK is the only once-industrialized society in economic history to have “accomplished” such a fateful retrogression

Virtually the only uninterrupted economic time-series data related to the DPRK’s economic performance comes from “mirror statistics”: purchases and sales of merchandise, as reported by a country’s trading partners. These are by no means free from flaw: but to the extent they can be trusted, they depict North Korea as an economy that has not only been falling behind, but perhaps falling backwards, over the past generation.

Figures 1 and 2 provide a glimpse of North Korea’s relative export performance in 1980 and 2007 (the last year before today’s ongoing global economic crisis), based on estimates of per capita merchandise exports in current US dollars drawn from the World Bank.

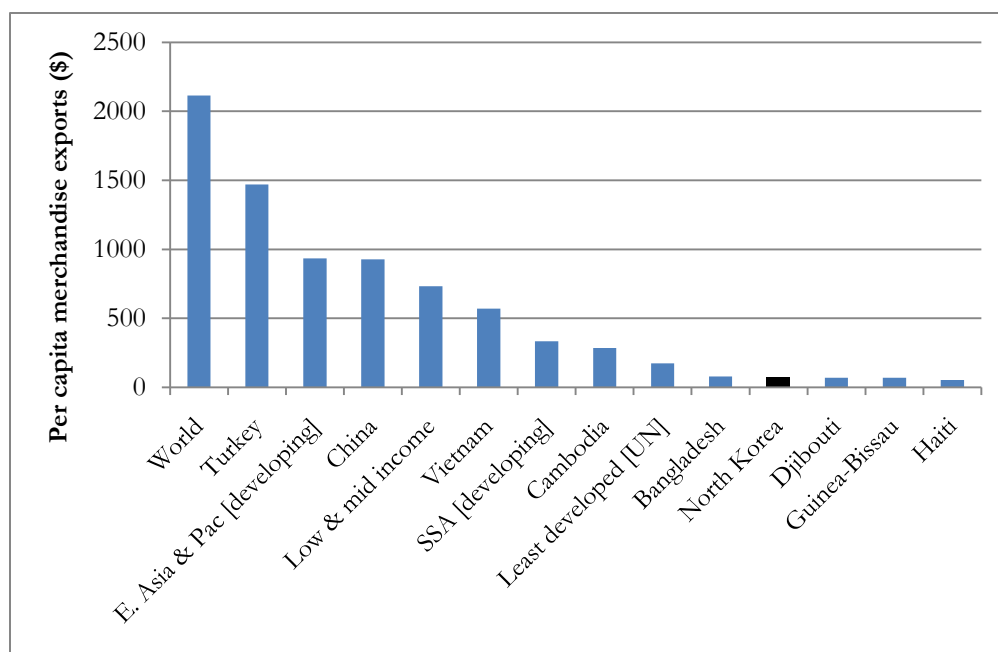
Figure 1. Estimated Per Capita Merchandise Exports for Selected Countries and Regions: 1980 (current US\$)



Source: World Development Indicators. World Bank, 2011.

⁷ Cf. “North Korea desperate for food aid,” *Korea Herald*, April 3, 2011, available electronically <http://www.koreaherald.com/national/Detail.jsp?newsMLId=20110403000248>.

Figure 2. Per Capita Merchandise Exports for Selected Countries and Regions: 2007 (current US\$)



Source: World Development Indicators. World Bank, 2011.

In 1980, North Korea's per capita merchandise exports ranked next to Turkey's, and were only a bit lower than the average for what the World Bank calls "Lower Middle Income Economies." In 1980, the DPRK's per capita exports were over twice as high as China's, six times those of Bangladesh, and over twenty times higher than in Cambodia: that year, in fact, North Korea's per capita merchandise exports were still comparable to (even slightly higher than) the average for developing economies in East Asia.

By 2007, North Korea's per capita exports were just one-twentieth of Turkey's, less than a tenth of China's, and barely a quarter of Cambodia's. They were also less than a quarter of the average for developing sub-Saharan economies, and less than half the average for the UN's classification of "least developed countries" (the world's most perennially distressed economies). Although North Korea's estimated level of per capita merchandise exports was slightly higher than the average for developing economies in East Asia back in 1980, by 2007 the average for the East Asian developing states was over thirteen times higher than for North Korea. By 2007, North Korea's "neighbors" in per capita merchandise exports were no longer the likes of Turkey, but instead countries like Guinea Bissau, Djibouti and Bangladesh (although Bangladesh's estimated per capita exports were somewhat higher than North Korea's).

In nominal terms (current, unadjusted US dollars), North Korea's per capita merchandise exports grew by less than 40% between 1980 and 2007—meaning that if inflation were taken into account, the DPRK's per capita export level would have been significantly lower in 2007 than nearly three decades earlier. In a world exploding with trade and trade opportunities, North Korea's capacity to generate revenues from merchandise exports has diminished markedly.⁸ And in a world where the composition of international trade is constantly

⁸ If we use the US Producer Price Index as the deflator (an arguably appropriate metric), dollar-denominated price levels would have been 89% higher in 2007 than in 1980—implying that per capita North Korean merchandise export revenues would have fallen by more than a fourth over that period. PPI data derived from US Bureau of the Census, Statistical Abstract of the United States 2010, available electronically at <http://www.census.gov/prod/2011pubs/11statab/prices.pdf>; accessed March 2, 2011.

evolving as a result of increasing income levels and technological innovation, North Korea’s export structure appears to be locked in a time warp: today the country relies for most of its legitimate reported export earnings on the very same half dozen relatively low-tech commodity groupings as a generation ago (sea products; textiles and clothing; iron and steel; cement, gold, and magnesite clinker).⁹

North Korean authorities maintain that their international trade performance is seriously impaired by America’s “hostile policy” toward their government.¹⁰ It certainly is true that the DPRK faces a thicket of restrictions—some of them Executive Orders, some of them Federal laws—that erect barriers or impose outright prohibitions on US-DPRK trade and finance.¹¹ In recent years Japan and South Korea have also restricted or curtailed various aspects of their commercial relations with the DPRK, a repercussion of increasing nuclear tensions and other security issues involving North Korea. But the fact of the matter is that most OECD countries do not impose any systematic restrictions on commerce with the DPRK—and those other countries offer a huge and steadily expanding market for exports for would-be exporters, including North Korea. In 1980 that OECD import market (excluding the USA, ROK and Japan) purchased over \$1 trillion in goods from abroad (in current US dollars); by 2000 that market had grown to \$ 3.2 trillion, and by 2007 it had reached \$6.8 trillion. Over this same period, however, North Korea’s share of the aforementioned OECD markets steadily and precipitously dropped: from 0.03% in 1980 to 0.01% in 2000 to a mere 0.002% in 2007. See **Table 1**.

Table 1. Estimated North Korean Exports to OECD Markets
(excluding South Korea, USA and Japan), 1980-2007 (current US\$)

	1980	2000	2007
OECD total imports from DPRK	\$330,719,598.00	\$349,825,364.00	\$177,110,376.00
Imports from DPRK as percentage of total OECD imports	0.0310%	0.0109%	0.0026%

Source: United Nations Commodity Trade Statistics Database (UN COMTRADE): <http://comtrade.un.org/>. Accessed March 2011.

It is worth noting, furthermore, that the nominal value of North Korean exports to these countries was only slightly higher in 2000 than it had been twenty years earlier—and was almost 50% lower in 2007 than in 1980. Adjusting for intervening price changes, real DPRK exports to this group of countries would have been about 30% lower in 2000 than in 1980—and about 70 percent lower in 2007 than in 1980. Real per capita

⁹ Note that mirror statistics, depending as they do upon voluntary reporting by a country’s trade partners, can only illuminate North Korea’s licit trade. Illicit trade—counterfeiting, drug trafficking, proliferation of nuclear goods and services, and the like—may figure importantly in North Korea’s current international trade export profile, but we have no way of tracking such transactions with any precision.

¹⁰ In the decade since April 2001, KCNA has published over 530 news items and editorials denouncing the “U.S. hostile policy” toward the DPRK—or roughly one a week.

¹¹ As of 2010, according to the US Congressional Research Service, a total of 32 separate legislative and executive strictures against commercial and financial relations with the DPRK were on the books, all but one of which (an Executive Order on state sponsored terrorism) were being enforced. Dianne E. Rennack, “North Korea: Legislative Basis for U.S. Economic Sanctions”, *Congressional Research Service Report R41438*, (October 29, 2010).

exports, for their part, would have been about half as high in 2000 as in 1980—and almost 80% lower in 2007 than in 1980. To judge by these numbers, a “hostile policy” by the US and/or her Asian treaty allies can hardly explain North Korea’s dismal international economic performance over the past three decades. Quite the contrary: these data would suggest instead that a steadily and sharply diminishing capability to generate export revenues under competitive world market conditions has in fact been the norm for North Korean economy over the past generation—and the bilateral trade relationships in which North Korea has registered rising real per capita export earnings over time are the exceptions that require explanation. Closer examination indicates that such exceptions are governed by politics rather than economics: that is to say, they are explained by a political determination on the part of given trade partners to subsidize their commerce with Pyongyang (viz. China and South Korea, the latter especially during the “Sunshine Era.”)

Human resources underpin a country’s potential for economic performance, which then in turn affects the evolving quality and stock of a nation’s “human capital.” International estimates of key social indicators, to the extent these can be deemed reliable, likewise indicate long term stagnation, if not outright retrogression, in human capital stock for the DPRK. The US Census Bureau’s analysis of the DPRK’s 1993 and 2008 censuses, for example, suggests that life expectancy in North Korea was lower in 2007 than it had been in 1993.¹² Very few other contemporary economies could claim the same.

Why has the DPRK Economy performed so badly over the Past Generation?¹³

In a world and time where long-term economic progress is the norm, how are we to understand the woeful aberration of prolonged economic failure for the contemporary DPRK?

The explanation cannot lie in the “Korean-ness” of the DPRK, or analogous “cultural” hypotheses. The economic record of the Korean population just across the DMZ attests to this. Between 1980 and 2007, South Korea’s nominal per capita exports rose over sixteen-fold (see **Figure 3**); over those same years, real per capita GDP in the ROK more than quadrupled (from \$5544 to \$25,021 in constant 2005 international dollars)¹⁴. By the same token: between 1993 and 2007, a period over which North Korea’s life expectancy is estimated to have fallen, South Korea’s life expectancy at birth is reckoned to have jumped by five and a half years.¹⁵ If anything, the strikingly discordant performance of the North and South Korean economies over the past generation should prompt us to ask just how a people so obviously capable of economic success were organized and managed into “achieving” sustained and catastrophic economic failure in the DPRK.

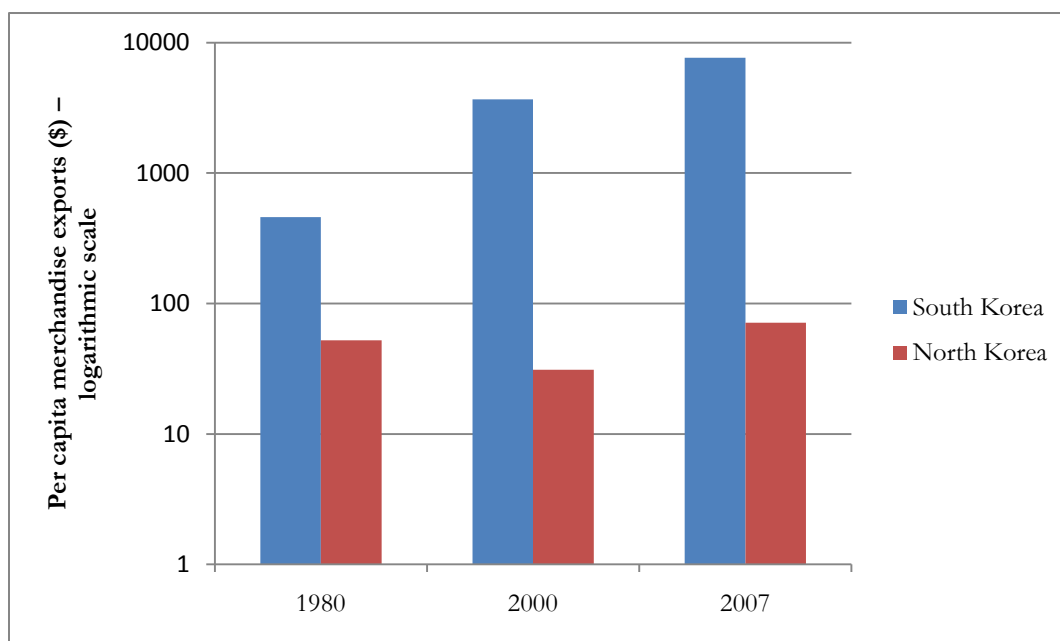
¹² US Census Bureau International Data Base, available electronically at <http://www.census.gov/ipc/www/idb>; accessed March 1, 2011.

¹³ This section draws upon Nicholas Eberstadt, *The North Korean Economy Between Crisis and Catastrophe*, (New Brunswick, NJ: Transaction Publishers, 2007), Ch. 9.

¹⁴ World Bank, *World Development Indicators 2011*, available electronically at <http://data.worldbank.org/data-catalog/world-development-indicators>; accessed March 1, 2011.

¹⁵ US Census Bureau International Data Base, available electronically at <http://www.census.gov/ipc/www/idb>; accessed March 1, 2011.

Figure 3. Estimated Per Capita Merchandise Exports: North Korea and South Korea, 1980-2007



Source: World Development Indicators. World Bank, 2011.

Another hypothesis might be that North Korea was subject to communist central economic planning, and that central economic planning always fails. Such an answer might seem plausible in the aftermath of the collapse of the Soviet empire, but the suggestion is challenged by both theory and fact. In terms of theory, Nobel Economics Laureate Friedrich Hayek and his mentor Ludwig von Mises demonstrated in the 1920s and 1930s that central planning systems suffered from an irresolvable “socialist calculation problem,” that is, an inability to determine scarcity relationships for the purpose of allocating resources efficiently.¹⁶ But this insight by the Austrian school merely criticized centrally planned systems for mounting inefficiencies and unnecessarily heightened costs, rather than for sharp and prolonged economic decline. From the empirical standpoint, estimates by eminent western economic historians suggest that the Soviet bloc economies and Mao-era China did in fact experience considerable and long-term material advances,¹⁷ even if their “total factor productivity” suffered, and their command mobilization and technical innovation forced output up for many successive decades. Furthermore, the DPRK itself seems to have achieved a considerable measure of material progress under its first generation of command planning—successfully effecting a forced-pace transformation from an agrarian to an industrial and a rural to an urban economy: not only re-attaining pre-war or colonial levels of per capita output for key agricultural and industrial output, but far exceeding them.

A third hypothesis, perhaps the most plausible on its face, would be that a socialist Asian economy that had been heavily dependent upon Soviet Bloc aid and (subsidized) trade should suffer serious long term

¹⁶ Cf. Ludwig Von Mises, *Socialism*, (New Haven, CT: Yale University Press: 1951) and Friedrich A. Hayek, *The Fatal Conceit*, (Chicago: University of Chicago Press, 1989).

¹⁷ See Angus Maddison, *Monitoring the World Economy: 1820-1992*, (Paris: OECD, 1995), and subsequent updates of this work. By Maddison’s estimates, for example, per capita output in the USSR rose from US\$1,386 (in 1990 Geary-Khamis dollars) in 1929 to US\$7032 in 1989—a fivefold increase over six decades, implying an average growth rate of 2.7 percent per year over that period; by Maddison’s estimates, even Maoist China managed to double its per capita output between 1950 and 1975, rising from US\$614 to US\$1250, implying a long-term per capita growth rate of nearly 3 percent per annum.

adjustment problems if those erstwhile economic ties were suddenly sundered, as with the sudden and widely unexpected collapse of Soviet and Eastern European socialism. Yet disruptive as they clearly were, such economic shocks need not consign former beneficiary states to long-term economic distress. Vietnam provides an “existence proof” of this. Like the DPRK, Vietnam was heavily dependent upon Soviet economic ties in 1990—then, just as with the DPRK, those ties suddenly evaporated. But Vietnam neither starved nor tumbled into long-term economic decline. According to World Bank estimates, Vietnam’s per capita GDP was in fact over 150% higher in 2007 than it had been in 1990 (\$2455 vs. \$902, using constant 2005 international dollars); for their part, Vietnamese per capita merchandise exports, in nominal dollar terms, were over 15 times high in 2007 as they had been in 17 years earlier.¹⁸ (One may argue of course that Vietnam benefitted from highly positive “neighborhood effects”, situated as it is in economically dynamic Southeast Asia—but the same argument should also obtain for the DPRK, given its land borders with China and South Korea.)

The DPRK’s conspicuous economic failure, then, must be explained not in the failings of the Korean population, or the generic economic shortcomings of command socialism, or even the disruptive reverberations of the Soviet Bloc collapse on a heavily dependent socialist economy, but instead in terms of the particularities of “socialism with Korean characteristics” as it evolved in the DPRK over the past generation—what North Korean officialdom terms “our own style of socialism” [*Urisik Saboejumi*]. North Korea’s current “own style of socialism” is a grotesquely deformed mutation of the initial DPRK command planning system, from which fatefully devolved over time. Simply stated, the quality of Pyongyang’s economic policies and practices are distinctly more hostile to growth and development nowadays than they were 30 or even 40 years ago.

What are the particular factors contributing to modern North Korea’s disastrous economic record? We can identify some of the more obvious elements succinctly, below.

Breakdown of the DPRK statistical system. The DPRK is notoriously secretive: it has never published a statistical yearbook, and only episodically releases even the most mundane statistical tidbits about social conditions or economic performance. There are reasons, furthermore, to suspect that some of those data that have been released are heavily doctored or even falsified. This may not be just a matter of deceiving the outside world. Since the early 1970s, there have been continuing signs that the DPRK statistical apparatus was becoming increasingly incapable of transmitting accurate and comprehensive information to the country’s decision-makers—a critical danger for any centrally planned system.¹⁹

Breakdown of the DPRK central planning apparatus. The North Korean economic planning system remains opaque to outsiders, but there are indications that the process has become increasingly compartmentalized, irregular, and ad hoc since the early 1970s, and that it may have ceased to function in a systematic, long-range manner altogether since then, i.e. after the end of the last completed plan (1993). Professor Mitsuhiko Kimura terms the current North Korean approach “planning without plans.”²⁰

¹⁸ World Bank, *World Development Indicators 2011*, available electronically at <http://data.worldbank.org/data-catalog/world-development-indicators>; accessed March 2, 2011,

¹⁹ Pyongyang’s 1999 “Law on Socialist Economic Planning” can be seen as an implicit acknowledgement that the statistical apparatus necessary for centrally planning had effectively broken down; for a full evaluation of available DPRK statistics, and details of earlier signs of trouble in the DPRK statistical system, see Nicholas Eberstadt, *The North Korean Economy between Crisis and Catastrophe*, (New Brunswick: Transaction Publishers, 2007), Chapter 1.

²⁰ Kimura, Mitsuhiko, *A Planned Economy without Planning: Su-ryong's North Korea*. Discussion Paper F-081. Faculty of Economics. Tezukayama University (1994).

Hyper-militarization of the national economy. In the early 1970s, in the classic study of North Korean Communism, Robert Scalapino and Chong-Sik Lee described the DPRK as “perhaps the most highly militarized society in the world today.”²¹ In the years that followed, North Korea’s policy tilted to an ever higher degree of militarization—full-throttle militarization, without respite. By the late 1980s, according to analysis of the DPRK’s own demographic statistics, the country was supporting a cadre of over 1.2 million non-civilian males: over 6 percent of the national population, a mobilization equivalent to America’s in the year 1943.²² If North Korea is operating on something like a total-war footing, it is allocating an enormous share of its resources to the defense sector and the allied defense industries. Under such circumstances, there is likely to be an extraordinary and continuing drain of potentially productive resources into activities that produce little or no economic “value added.” A total-war footing may have limited long-term economic consequences if the mobilization is for relatively short period periods of time,²³ but North Korea’s hyper-militarization has been in progress for almost four decades.

Relentless war against the consumer sector. All Soviet-type economies have unnaturally small consumer sectors, but North Korea’s tiny consumer sector is strangely compressed, even by the standards of Stalinist planning. Even before the hyper-militarization of the 1970s, the estimated share of the consumer sector within the DPRK economy was much lower than for counterpart economies within the Soviet bloc.²⁴ Extreme suppression of the consumer sector inhibits productivity and growth by reducing the consumption of goods and services contributing to “human capital,” and by eliminating the sort of “inducement goods” whose attractiveness would otherwise be motivating workers to earn and save money.

Demonetization of the national economy. Complex modern economies cannot function efficiently on a barter basis. Nevertheless, money has played an amazingly limited role in the DPRK’s economic activities over the past generation. In the late 1980s, the DPRK’s wage bill apparently amounted to only a third of its “net material product,” and therefore, to far less than a third of its GNP.²⁵ Even for a communist economy, this was a remarkably low ratio—one which presumably declined still further over the 1990s. With the July 2002 economic measures, Pyongyang effectively re-introduced money into its consumer sector—a welcome event—but that sector accounts for only a small share of the overall national economy. And in any event, with the “currency reform” of late 2009, North Korea’s government has once again resumed its campaign to suppress the role of domestic currency in the allocation of goods and services.

Lack of financial intermediation. As has by now been well established in the economics literature, financial intermediation (banking, credit markets, etc.) plays a direct and positive role in the growth and development of national economies. North Korea has virtually no officially approved mechanisms for such intermediation in its domestic economy.

Defiant nonpayment of international debts. The DPRK has been in virtual default on its Western loans since the mid-1970s. Although many other debtor governments from low-income areas have experienced performance problems on their loans over the past generation, Pyongyang has adopted an almost uniquely pugnacious and hostile posture of non-repayment toward its creditors. Consequently, the DPRK’s international credit rating is approximately zero. (It is worth noting, incidentally, that North Korea’s stance on foreign debt to Western

²¹ Robert A. Scalapino and Chong-Sik Lee, *Communism in Korea*, (Berkeley, CA: University of California Press, 1972), vol. 2, p. 919.

²²Cf. Nicholas Eberstadt and Judith Banister, “Military Buildup in the DPRK: Some New Indications from North Korean Data,” *Asian Survey*, vol. 31, no. 11 (November 1991), pp. 1095-1115.

²³ See Alan S. Milward, *War, Economy, Society: 1939-1945*. (Berkeley, CA: University of California Press, 1977).

²⁴ Eberstadt, 2010 loc. Cit.

²⁵ *Ibid.*

countries does not seem to betoken a particular “anti-imperialist” animus: Cold War era archives from erstwhile Soviet Bloc states now reveal that Pyongyang likewise routinely refused to repay the principal and often the interest on its loans from fraternal Socialist governments during the 1950s, 1960s, and 1970s²⁶.)

Allergy to licit international trade. Despite huge and steadily expanding opportunities to earn export revenues from commercial import markets around the world, North Korea has exerted virtually no effort at penetrating or cultivating these lucrative markets over the past generation. To the extent that Pyongyang’s policies have been concerned with generating export revenue, much of the DPRK’s energies have been concentrated on securing streams of illicit or even criminal revenue. The fact that North Korea has come by now regularly to engage in international drug trafficking, currency counterfeiting, insurance fraud rackets and other “Soprano state”²⁷ activities is by now well established, and beyond debate. This “highwayman” approach toward international trade and finance is largely informed by Pyongyang’s continuing apprehension about what it terms “ideological and cultural infiltration” (about which more later)—but it assures the marginalization of North Korea in the international economy.

Exceptionally inhospitable institutional landscape. Although Soviet-type economies are always characterized by a problematic “business climate,” the North Korean setting is perhaps uniquely unfavorable for spontaneous economic activity or independent enterprise. Some of the factors worth mentioning: a) pervasive restrictions against and penalties on private initiative for both individuals and enterprise—recent “reforms” notwithstanding; b) highly opaque and unpredictable application of existing economic measures, regulations, and laws toward DPRK citizens; c) often severe extra-legal intervention in business activities of the domestic population; d) unattractive economic legislation governing foreign enterprises; e) lack of consistency between existing legislation and actual government decisions concerning foreign business activities; and f) pervasive government opposition to the generation and/or repatriation of profits by foreign businesses.

When one considers this imposing array of economically wasteful—or positively destructive—policies and practices, the explanation for North Korea’s prolonged and severe economic decline becomes clear enough. North Korea’s political economy is the proximate explanation for the country’s current, precarious economic straits—no additional external or internal factors need be adduced to explain this dismal record.²⁸

Western Aid, Aid Recipients’ Policies, and Economic Growth

²⁶ For background here, consult the North Korea the translated Soviet-bloc archives on North Korea International Documentation Projected, an initiative promoted by the Woodrow Wilson International Center for Scholar’s Cold War International History Project, available electronically at http://www.wilsoncenter.org/index.cfm?topic_id=230972&fuseaction=topics.home.

²⁷ See Sheena E. Chestnut, “The ‘Soprano State?’ North Korean Involvement in Criminal Activity and Implications for International Security,” Stanford University Honors Thesis, May 20, 2005, and David L. Asher, “Pressuring Kim Jong Il: The North Korean Illicit Activities Initiative, 2001-2006,” in David L. Asher, Victor D. Comras and Patrick M. Cronin, *Pressure: Coercive Economic Statecraft and U.S. National Security*, (Washington, DC: Center for New American Security, 2011); on North Korea’s insurance fraud racket, see Blaine Harden, “Global Insurance Fraud By North Korea Outlined: Government Has Collected Millions of Dollars on Large, Suspicious Claims,” *Washington Post*, June 18, 2009.

²⁸ For additional analysis and quantitative assessments regarding the failure of the North Korean economy, see the important work by Marcus Noland of the Institute for International Economics: especially Marcus Noland, *Avoiding the Apocalypse: The Future of the Two Koreas*, (Washington, DC: Institute for International Economics, 2000), and Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid and Reform*, *loc. Cit.*.

Western government have directly (through their own bilateral aid organizations) or indirectly (through multilateral organizations and international financial institutes like the World Bank, INF, ABD, UNDP, etc.) transferred the inflation-adjusted equivalent of well over \$2 trillion to recipient states over the past half century.²⁹ Perhaps curiously, given the staggering scale of these ongoing transfers, there is no consensus in the economics literature on the macroeconomic impact of development assistance on economic growth in recipient societies. Some studies identify strong positive benefits from development assistance, while others do not detect any appreciable impact on growth—the difference largely having to do with the countries, and time-horizons, under consideration.³⁰

However, that paradox seems to be resolved by disaggregation of recipient states according to the criteria of “policy and institutional environment” (or perhaps to put it another way, business climate). Over the past decade and a half, a series of path-breaking studies by economists at the World Bank have convincingly demonstrated that the growth effects of aid depend critically on the quality of institutions and policy in the countries to which these aid transfers flow.³¹ This research conforms with the commonsensical *a priori* notion that additional resources placed in the hand of any given government will permit that government to pursue its own objectives more easily—with economic consequences depending crucially upon the government’s objectives and intentions.

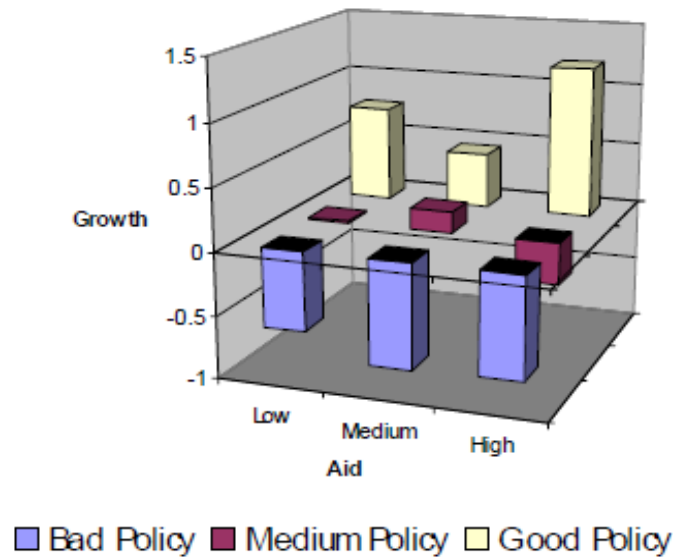
Figure 4 summarizes the findings of this research. In general, a more auspicious policy environment tends to elicit more economic growth from aid than a less favorable policy environment. But two more specific findings here are worth emphasizing in particular. First: aid can actually have a *negative* impact on growth when recipient states have poor institutional and policy environments. Second, and no less important: the negative impact of aid in economies with poor policies is actually *greater* when the volume of aid is *larger*.

²⁹ William Easterly and Tobias Pfuetze, “Where Does the Money Go? Best and Worst Practices in Foreign Aid,” *Brookings Global Economy and Development Working Paper No. 21* (June 2008).

³⁰ Cf. Carole Adelman and Nicholas Eberstadt, “Foreign Aid: What Works and What Doesn’t,” *AEI Development Policy Outlook*, October 2008, available electronically at <http://www.aei.org/outlook/28842>.

³¹ See for example David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn’t, And Why*, (New York: Oxford University Press, 1998); Craig Burnside and David Dollar, “Aid, Policies and Growth,” *American Economic Review*, vol. 90, no. 4 (September 2000), pp. 847–868; and Craig Burnside and David Dollar, “Aid, Policies and Growth: Revisiting The Evidence,” *World Bank Policy Research Working Paper* no. 3251, (March 2004).

Figure 4. Economic Growth, Foreign Aid and Recipient Country Policy: World Bank Estimates

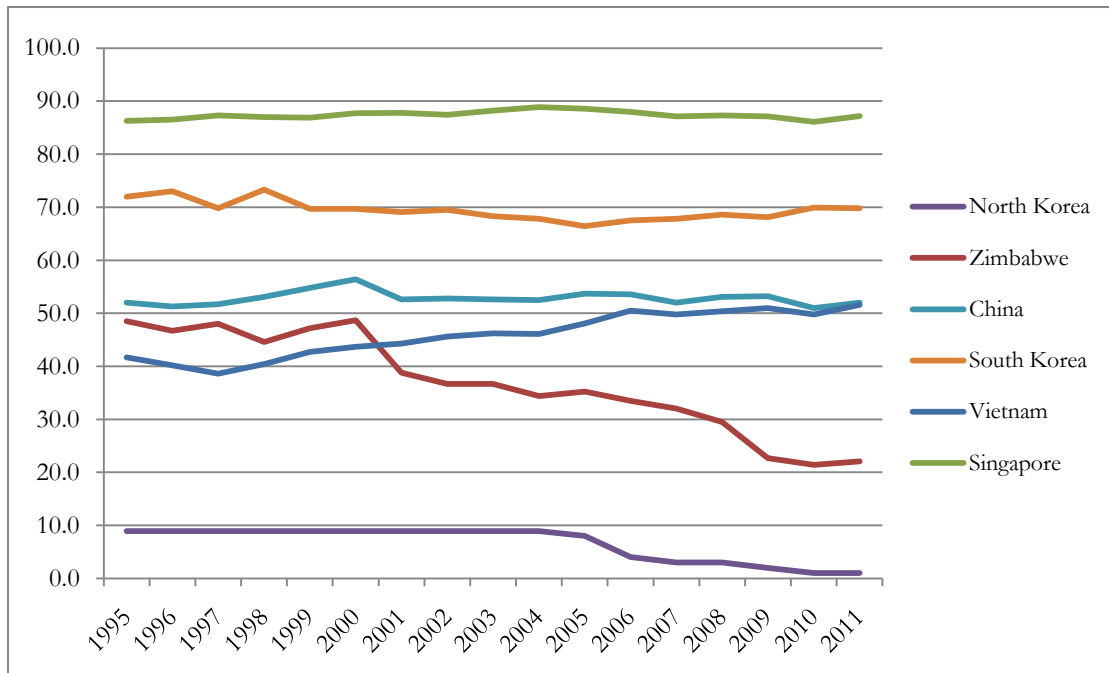


Source: Craig Burnside & Mark Dollar, “Aid, Policies and Growth: Revisiting the Evidence.” World Bank Policy Research Working Paper 3251, March 2004.

What does this all mean for hypothetically for Western aid for the DPRK and its prospective impact on economic growth in that country? As we just saw in the preceding pages, the DPRK has established an absolutely horrific “institutional and policy environment” regarding economic performance over the past generation. But this is not just a qualitative assertion: it is corroborated quantitatively by the reckoning of such indices as the annual “Index of Economic Freedom” compiled by the Wall Street Journal and the Heritage Foundation—an index which may be taken as a rough proxy for what economic research refer to as “institutional and policy environment.”

Figure 5 shows North Korea’s performance in the “Index of Economic Freedom” in relation to selected other countries. It is clear that “top grades” are not necessary for very rapid sustained growth: China, for example, has been a world leader in economic growth rates over the past fifteen years, yet its ranking on this Index is no more than mediocre. The same is true for Vietnam. North Korea, however, is in a league of its own: near the very bottom of the table, and losing score over time. North Korea, indeed, is consistently far below Zimbabwe in its ranking on the Index for Economic Freedom. Given the famously destructive nature of the Zimbabwean governments’ economic policies and practices in the late Mugabe era, this should give pause.

Figure 5. The Index of Economic Freedom, 1995-2011: Estimates for North Korea and Selected Countries



Source: Index of Economic Freedom, Wall Street Journal / Heritage Foundation (1995-2011). Accessed online at <http://heritage.org/index/explore>, 1 March 2011.

As it happens, furthermore, North Korea is not a “low aid” state. To the contrary: since the end of the Cold War era, Pyongyang has managed to procure enormous sums of economic assistance from the West. Between 1995 and 2007, North Korea received well over \$1 billion in concessional economic transfers from the United States. (See **Table 2** in appendix.) Over those same years, it obtained over \$4 billion in publicly acknowledged economic aid from South Korea. (See **Table 3** in appendix.) Together, this amounts to nearly \$5 billion—and that total excludes considerable additional aid from other Western sources (including the World Food Program, the Japanese government, etc.)—to say nothing about aid from China, and *sub rosa* payments to the North from “Sunshine era” South Korean government (such as the initially secret \$500 million transfer that was instrumental in securing the historic North-South summit of June 2000).

One way of understanding how important Western aid has been to the operations of the North Korean economy over the past decade and a half is to compare estimates of Western aid inflows to estimates of merchandise export revenues to assay the dimension of “aid dependence” for the North Korean economy. To go by estimates in Tables 2 and 3, and the estimates of DPRK licit merchandise export revenues from the World Bank from **Table 4**, North Korea’s “aid dependence” on America and South Korea in relation to merchandise export earnings was about 34% over the 1995-2007 period—that is to say, for every \$100 in merchandise export revenues it was thought to tally, it received \$34 in aid from South Korea and the USA. Compare this to the situation in Sub-Saharan Africa: between 1995 and 2007, the ratio of ODA to merchandise export revenue for that region was estimated by the World Bank at 17.6%—barely half the corresponding figure for North Korea! (See **Table 5** in appendix)

While admittedly aid from the USA and ROK to North Korea may not correspond exactly to the OECD’s definition of “development assistance” (utilized in World Bank estimates of ODA flows to sub-Saharan Africa), the point remains clear nonetheless—North Korea is an extremely aid-dependent economy, even by comparison with the notoriously aid-dependent economies of contemporary sub-Saharan Africa. And as we

have already seen, North Korea's "policy environment" has been virtually inimical to economic growth. The confluence of a poisonous domestic policy environment and high inflows of Western aid, to go by recent economic research, should in theory set back economic growth substantially—perhaps even more, indeed, than those poisonous policies would do on their own, unfinanced by assistance from abroad. This theoretical result, indeed, seems to be the real-life tale of Western aid and "development" as it unfolded in the DPRK over the past decade and a half.

The World Bank researchers who uncovered the aforementioned relationship between development aid, policy environment, and economic growth came to argue strongly in favor of what they called "selectivity" in the disbursal of foreign aid over what they called "conditionality." "Conditionality" is a term of art employed by aid donors to refer to the changes in policy and behavior they would require of beneficiary governments in order to obtain grants and subsidized loans. These World Bank researchers, however, concluded that such promises were essentially worthless—or at very best, highly unreliable. Once a recipient cashed the check, there was little the donor could do to enforce the implicit contract. These researchers instead advocated a "selectivity" approach—by which they mean financing countries that had *already* demonstrated their credibility by embracing sensible and pragmatic policy regimens *before* the aid subventions came under consideration.

By the criterion of "selectivity," the DPRK today is clearly not a promising candidate for development aid. To put the matter more plainly: it is one of the *least* promising candidates on the planet at the moment. North Korea has virtually the lowest ranking on the globe for the "Index of Economic Freedom"—and remarkable as this may sound, its ranking has actually fallen over the past decade and a half.

To be sure: the DPRK has attempted a number of half-hearted experiments in economic innovation over the past generation or so—the September 1984 "Joint Venture Law"; the Rajin-Sonbong "special economic zone" established in 1991; the July 2002 "Measures for the Strengthening of the National Economy," the September 2002 "Special Administrative Zone" decreed in Sinuiju, etc.—but all of these were ultimately abandoned, either quietly discarded as failures or explicitly acknowledged as such. No serious effort at what might be considered to qualify as "economic reform" in Western countries—or even in Socialist states such as China and Vietnam—has ever been broached in Pyongyang. Indeed: "reform" remains an absolutely impermissible word in the official DPRK lexicon—regarding to the North Korean system, that is. In 1998, the DPRK's party daily, *Nodong Sinmun*, declared that as "we have incessantly improved and are still improving economic management in our own style under the principle of *juche*, for us there is nothing to reform."³² To this very day, North Korea's official news service, KCNA, has never used the word "reform" in conjunction with any contemporary North Korean practice or policy.

In consequence, and by no surprise, despite the enormous aid flows that have piled into Pyongyang's state coffers over the past decade and a half, the country has remained economically destitute, and permanently on the brink of famine. One might go so far as to suggest that foreign aid inflows have been the *enabling condition* that has permitted the perpetuation of such economically devastating policies by the DPRK regime: absent those subsidies, after all, how could the North Korean government possibly have afforded to maintain such predictably destructive policies and practices?

The Logic of the DPRK's Political Economy

In a sense, "fixing" the afflictions of the North Korean economy looks like a very simple proposition: all that would be necessary would be to cease imposing some or all of the positively costly or positively destructive state policies and practices enumerated just above. But it would be a mistake for us to ignore the degree to

³² *Nodong Sinmun*, September 17 1998.

which North Korea's aberrant and seemingly dysfunctional economic policy regimen today is actually a result of conscious purpose, deliberate design, and considered official effort. There is deeply-embedded *regime logic* in the DPRK's tangential and precarious relationship with the world economy. And far from being irrational, it is based on careful and cool-headed calculations about regime survival.

Ideological and Cultural Infiltration

Pyongyang's remarkably poor long-term performance in the advanced economies' huge markets is no accident. Rather, it is a direct consequence of official DPRK policy and doctrine, most particularly, Pyongyang's concept of "ideological and cultural infiltration" (sometimes also termed "ideological and cultural poisoning"). Official North Korean pronouncements relentlessly decry the dangers of this phenomenon, characterized as a technique by which outsiders attempt to undermine the foundations of established communist states. A classic declamation will give the flavor of the general argument:

It is the imperialist's old trick to carry out ideological and cultural infiltration prior to their launching of an aggression openly. Their bourgeois ideology and culture are reactionary toxins to paralyze people's ideological consciousness. Through such infiltration, they try to paralyze the independent consciousness of other nations and make them spineless. At the same time, they work to create illusions about capitalism and promote lifestyles among them based on the law of the jungle, in an attempt to induce the collapse of socialist and progressive nations. The ideological and cultural infiltration is their silent, crafty and villainous method of aggression, intervention and domination....

Through "economic exchange" and personnel interchange programs too, the imperialists are pushing their infiltration... Exchange and cooperation activities in the economic and cultural fields have been on the rise since the beginning of the new century. The imperialists are making use of these activities as an important lever to push the infiltration of bourgeois ideology and culture....

The imperialists' ideological and cultural infiltration, if tolerated, will lead to the collapse and degeneration of society, to disorder and chaos, and even to the loss of the gains of the revolution. The collapse of socialism in the 20th Century—and the revival of capitalism in its place—in some countries gave us the serious lesson that social deterioration begins with ideological degeneration and confusion on the ideological front throws every other front of society into chaos and, consequently, all the gains of the revolution go down the drain eventually.³³

DPRK party lecture notes published in South Korea late in 2002 put the point more succinctly:

The capitalist's ideological and cultural infiltration will never cease, and the struggle against it will continue, as long as the imperialists continue to exist in the world...

The great leader, Kim Jong Il, pointed out the following: "Today, the imperialist and reactionaries are tenaciously scheming to blow the wind of bourgeois liberalism into us"....

People will ideologically degenerate and weaken; cracks will develop in our socialist ideological position; and, in the end, our socialism will helplessly collapse. A case in point is the bitter lesson drawn from the miserable situations of the former Soviet Union and Eastern European countries.³⁴

Note that both of these disquisitions appeared *after* Pyongyang had announced its heralded July 2002 economic measures (widely misreported in the West as "reforms").

³³ *Nodong Sinmun*, April 20, 2003.

³⁴ Reprinted in *Chosun Ilbo* (Seoul), December 20, 2002.

Economic exchange with the capitalist world, in other words, is explicitly and officially regarded by Pyongyang as a process that unleashes powerful, unpredictable, and subversive forces—forces which ultimately erode the authority of socialist states. Viewed from this perspective, North Korea’s record of trade performance vis-à-vis the advanced market economies is not a record of failure—i.e., failure to integrate into the world economy—but rather a mark of *success*—i.e., effective containment of a potentially lethal security threat.³⁵

It is true that official directives from Pyongyang have from time to time discussed the desirability of significantly increasing the DPRK’s volume of international trade. Against such comments, North Korea’s extraordinary and continuing weakness in export performance may seem especially curious, insofar as it would be—at least in theory—so very easy to redress. But Pyongyang’s conspicuous neglect of the revenue potential from trade with advanced market economies is not to be explained away as a prolonged fit of absent-mindedness. Instead it speaks to fundamental and abiding calculations in Pyongyang’s strategy for state survival.³⁶

Military-First Politics

If staying out of the poisonous embrace of the world economy is viewed as an imperative for state survival by DPRK leadership, a corollary question about state survival inevitably arises: how then to generate sufficient international resources to forestall economic collapse? To date, Pyongyang’s answer has been to make non-market transactions. The DPRK has always pursued an “aid-seeking” international economic strategy, but in the post-Soviet bloc era, the particulars of that approach have perforce mutated. In the era of the “strong and prosperous state,” North Korea’s main tactics for generating international resources are viewed through the prism of the current state campaign for “military-first politics” [*Songun Chongchi*].

Like the concept of “ideological and cultural infiltration,” the theory and recommended practice of military-first politics have received a tremendous amount of air-time in the North Korean media over the past decade. Two exegeses may clarify some of the economic implications of this doctrine.

As a long, official analysis in March 2003 instructed, it was a renewed emphasis on military development that enabled North Korea to conclude its “Arduous March” and to step onto the pathway to power and prosperity:

Today, the peoples' struggle for their nation's independent development and prosperity is waged in an environment different from that of the last century.

...In building a state in our era, it is essential to beef up the main force of the nation and fortify the revolutionary base, and, in this regard, it is most important to build up powerful

³⁵ Moreover, it is worth recalling that the DPRK’s public misgivings about “ideological and cultural infiltration” are longstanding, almost precisely paralleling the state’s record of minimal export outreach to advanced market economies over the past generation. North Korean leadership had been highlighting the dangers of that tendency for at least a decade *before* the final collapse of the Soviet Union. In 1981, for example, Kim Il Song was urging North Korea’s “workers and trade union members” to “combat the ideological and cultural infiltration of the imperialists and their subversive moves and sabotage.”

³⁶ Additional characteristic features of the DPRK’s “own style of socialism” can likewise be understood as components of this same survival strategy: among these, the demonetization of the domestic economy, the repression of the consumer sector, and the suppression of financial intermediation, all of which reduce the economic influence and political power of non-state actors within North Korea and reduce the risk of “ideological and cultural poisoning.”

military might. In today's world, without powerful military might, no country can...achieve development and prosperity.

...During ... "the Arduous March" in our history, great Comrade Kim Jong Il firmly believed that the destiny of the people and the future of the revolution hinged on the barrel of a gun, and that we could break through the difficulties and lead the revolution to victory only by depending on the Army.... Through the arduous practice in which the Army was put to the fore and the unheard-of trials were overcome, the revolutionary philosophy that the barrel of a gun was precisely the revolution and the barrel of a gun was precisely the victory of socialism was originated....

Our theory on the construction of a powerful state...is the embodiment of the profound truth that the base of national strength is military might, and [that] the dignity and might of a country hinges on the barrel of a gun....In a powerful state, the defense industry takes a leading and key position in the economy....

Today, by firmly adhering to the principle of putting prime effort into the defense industry and, based on this, by developing the overall economy ceaselessly, our party is brilliantly resolving the issue of consolidating the national strength of a powerful state.³⁷

And how exactly does military power conduce to prosperity? The answer was strongly hinted at in a statement the following month:

A country's development and the placement of importance on the military are linked as one....

Once we lay the foundations for a powerful *self-sustaining national defense industry*, we will be able to rejuvenate all economic fields, to include light industry and agriculture and enhance the quality of the people's lives.³⁸ (emphasis added)

This is a fascinating, and revealing, formulation. In most of the world today, a country's defense outlays are regarded as a weight that must be shouldered by the value-adding sectors of the national economy—hence the phrase “military burden.” North Korean leadership, however, evidently entertains the concept of a “self-sustaining” defense sector, implying that Pyongyang views its military activities as *generating* resources, and not simply absorbing them. In effect, in the enunciated view of North Korean leadership, the DPRK's military sector is the key not only to unlocking the resources necessary to finance its own considerable needs, but to financing the recovery of the rest of the national economy as well.

It does not require a great deal of imagination to spell out the operational details of this approach. While forswearing any appreciable export revenues from legitimate commerce with advanced market economies, North Korean policy today seems to be banking on the possibility of financing state survival by exporting *strategic insecurity* to the rest of the world. In part, such dividends are derived from exports of merchandise, such as missile sales, or international transfer of WMD technology. But these revenues also depend heavily on what might be described as an export of services, or, in this case, military extortion services—might we better call them “revenue-sensitive threat reduction services”?—based upon Pyongyang's nuclear development and ballistic missile programs.

The export of strategic insecurity, in its different components, can arguably be said to explain much of the upsurge in North Korea's unexplained surfeit of imports over commercial export revenues since 1998,

³⁷ *Nodong Sinmun*, April 3, 2003.

³⁸ *Nodong Sinmun*, March 21, 2003.

especially to the extent that western aid policies in recent years can be described as appeasement-motivated.³⁹ In an important tactical sense, that approach has enjoyed a success, as it has facilitated state survival under imposing constraints. But the territory demarcated by “ideological and cultural infiltration,” on one side, and military-first politics, on the other, is also, quite clearly, a sort of no-man’s land, an inherently unstable niche in which survival is utterly contingent, and sustained development utterly unlikely.

The Quest for an Unconditional Korean Unification

A third keystone to the architecture and behavior of the North Korean state is its abiding insistence that it is the sole legitimate government in the Korean peninsula—and its apparent intention to effectuate an ultimate Korean unification on Pyongyang’s own uncontested terms.

The DPRK Constitution lays claim to the entirety of the Korean peninsula (cf. Article 9)⁴⁰, and the preamble to the charter of the DPRK Korea Workers’ Party expressly calls for

the revolutionary goals of national liberation and the people’s democracy on the entire area of the country, with the ultimate goal of the indoctrination of the entire society with *Juche* philosophy...⁴¹

It is true, of course, that South Korea’s constitution likewise lays claim to the entirety of the Korean peninsula and its adjacent islands (Article 3)⁴²—but South Korea has not actively attempted to promote unification on its own terms for decades. North Korea’s commitment to unconditional unification, by contrast, is far from merely symbolic and vestigial. The only “South Korean” mission officially permitted in Pyongyang today, for example, is the “Anti-Imperialist National Democratic Front” (AINDF)—a fictitious construct that purports to be the voice of a revolutionary underground in the South dedicated to overthrowing the current dictatorship that controls southern Korea, in order to join their northern compatriots under the benevolent care of Kim Jong Il.⁴³ Further, consider this declaration by the late General Jo Myong Rok, then Vice Chairman of the DPRK National Defense Commission and the highest-ranking North Korean official ever to visit Washington, at a dinner in his honor at the US State Department in October 2000:

³⁹ Even ostensibly humanitarian food aid transfers to North Korea are informed by the reality of military extortion; think, in particular, of the 1999 “inspection fee” (as Pyongyang called it) of 600,000 tons of US food aid via WFP channels for access to the alleged underground nuclear site at Kumchang-ri, or, more generally, whether the opaque rules under which food relief is administered in the DPRK would be tolerated by the international donor community in any other setting.

⁴⁰ For an electronically accessible translation of the DPRK Constitution, see http://www1.korea-np.co.jp/pk/061st_issue/98091708.htm.

⁴¹ As translated in Sung-yoon Lee, “Engaging North Korea: The Clouded Legacy of North Korea’s Sunshine Policy,” *AEI Asian Outlook* (Number 2, April 2010), p. 5, available electronically at <http://www.aei.org/docLib/2AOLeeApril2010-g.pdf>; accessed March 7, 2011.

⁴² Cf. The ROK Constitution, accessible electronically at http://english.court.go.kr/home/att_file/download/Constitution_of_the_Republic_of_Korea.pdf

⁴³ For an example of the viewpoint attributed to this AINDF, see for example this portion of a longer AINDF letter to Kim Jong Il, as reported KCNA, October 10, 2010:

The Central Committee of the AINDF will cherish the unshakable faith that the reunification of the country and the dignity and prosperity of the nation depend on trusting and following you as the Heaven and consolidate as firm as a rock the organizational and ideological unity of the ranks based on the *Juche* idea and the *Songun* idea, causing the hot wind of worship for you and supporting *Songun* to sweep all over south Korea.

Chairman Kim Jong Il of the DPRK's National Defense Commission will certainly make the very important political decision to turn the current bilateral relations of confrontation and hostility into the new relationship of friendship and cooperation and goodwill, if and when the Democratic People's Republic of Korea and our leadership is assured, is given the strong and concrete security assurances from the United States for the state sovereignty and *the territorial integrity of the Democratic People's Republic of Korea*.⁴⁴ [emphasis added]

When one recalls what Pyongyang regards as the territory of the DPRK (see the DPRK Constitution and WPK charter's preamble above), General Jo's remarks to his American audience underscored the fact that North Korea's claim to dominion over Southern Korea remained an absolutely central concern to North Korean policymakers.

North Korea's pre-occupation—obsession is not too strong a term—with unconditional peninsular reunification has a number of practical corollaries. The most important of these is the North Korean war-footing economy and the DPRK's nuclear and ballistic weapons development programs—which are evidently regarded as the regime's most viable tools for promoting its own vision of unification—or at the very least, the regime's most effective tools for competing for unification against South Korea. (Given its ideology, it may even be that DPRK leadership would regard any North Korean government that did not embrace hyper-militarization and WMD buildup as fundamentally unserious about Korean unification.)

Foreign Aid and Economic “Takeoff”: The South Korean Example⁴⁵

In the prevailing narrative on the postwar institution of development assistance, South Korea is always adduced as one of the prime “success stories” underscoring the potentialities of economic aid. South Korea, after all, was a desperately poor country after partition; absorbed large inflows of US aid; and is now an affluent Western society—an aid-giver itself these days. (No doubt this narrative has made a deep impression on North Korean policymakers as well: to judge by official North Korean commentary, Pyongyang's position is that US economic assistance is what made South Korea rich.) The actual story of the interplay between aid and development in South Korea, however, is a bit more complex, and interesting, than today's narratives suggest.

Between 1946 and 1961, exclusive of its Korean War help, the United States provided the Republic of Korea with \$5 billion (in current dollars) of direct grants. This was a fantastic sum of money: probably equivalent to nearly a tenth of ROK GDP over that period. How did these transfers affect South Korea's material prospects?

Viewed in very broad terms, the impact of these enormous concessional transfers on the South Korean prospect can be described by two generalizations. On the one hand, one may be reasonably certain that these massive donations permitted the survival of the state; even in retrospect, it is difficult to imagine how the Republic of Korea would have sustained itself against domestic collapse or external aggression during those years without vast outside help. On the other hand, it evidently did not coincide with recovery to pre-partition levels of per capita output, much less spark an immediate economic “takeoff.”

The ROK's “First Republic”—the regime of Syngman Rhee (1948–60)—was, in the estimate of both his contemporary critics and some of his close personal advisers, quite content to treat U.S. aid essentially as an ongoing program of external relief. Some analysts have even termed Rhee's policies as “aid maximizing”: in

⁴⁴ As transcribed and translated on the Department of State archives; available electronically at <http://usinfo.org/wf-archive/2000/001011/epf302.htm>; accessed March 5, 2011.

⁴⁵ This section draws upon Eberstadt, “Policy and Economic Performance in Divided Korea”, *loc. Cit.*

effect, designed to require large and continuing inflows from its American ally to redress the precarious fiscal and financial conditions they engendered. Needless to say, such a strategy would not be predicted to excite rapid economic growth. In underwriting it, the United States seems to have purchased the possibility of rapid development in South Korea at a future date, even as its aid effectively precluded that possibility at the time.

Rapid economic growth in South Korea in the 1960s directly related to U.S. foreign aid, albeit in a somewhat unexpected manner. For South Korea's transition to outward-oriented growth was a consequence of a warning by Washington that it would be *terminating* its programs for Seoul.

By the late 1950s, the Eisenhower administration had become expressly displeased by what it saw as the Korean government's unhealthy dependence on and unseemly interest in U.S. aid. (Eisenhower is alleged to have complained about "pouring aid down a rat-hole": the "rat hole" being South Korea.) The incoming Kennedy administration shared the sentiment; its top policymakers questioned the aid arrangements they inherited in Korea—under which the ROK was, among other things, America's single greatest recipient of foreign assistance. With the military coup in 1961, the Kennedy administration's displeasure with Seoul increased further.

The new U.S. Agency for International Development's response to the Seoul's politics and economics was unambiguous—and completely unexpected by the recipient regime. Late in 1962 and early in 1963, the Park Chung Hee government was informed by Washington that an irreversible decision had been reached: although security assistance would continue, U.S. economic assistance would be terminated in an orderly but deliberate manner and would be phased out entirely by the second half of the 1960s.

This fact—central to any understanding of subsequent South Korean policies, yet seldom discussed in the development assistance literature—was nicely captured at the time by a front-page story in the *New York Times*:

The United States has quietly decided to reduce economic grants to South Korea, a country whose economy is mainly based on such assistance. The decision was taken considerably before the current political struggle between the military regime and civilian leaders. . . .

Leading South Korean officials have been told privately to expect reduced aid. For months they decided not to believe what Washington said, but now some of them believe it, and in the words of one American, are in a "dither" about it. Washington has decided it can no longer underwrite all the shortcomings of the South Korean economy. . . . Any future government, civilian or military, will find the flow of United States grants thinner and more carefully controlled.⁴⁶

It is easy to see why planners in Seoul would have been in a "dither" about this news. At the time, economic assistance from Washington was the principal vehicle for financing the operation of their state—in fact, those monies accounted for more than half of all the funds the central government raised. Radical adjustments in fiscal and economic policy would be required to compensate for this impending loss of revenue. The response to this American challenge was the package of "reforms" implemented between 1963 and 1966—which launched the rapid and sustained economic transformation which propelled the South Korean economy to where it is today. Washington's unwelcome announcement, thus, seems to have served as the proximate stimulus for the Park regime's decision to embark on an export-oriented development strategy.

North Korea, as it happens, was not the only (or perhaps even the first) of the Korean states to exhibit a "mendicant mentality" toward foreign aid: that stinging phrase was used by American policymakers to describe their counterparts in Seoul before the mid-1960s. And in the event, for a variety of reasons, American aid to Seoul did not cease as threatened, but continued on into the 1970s. But it was the credible

⁴⁶ A.M. Rosenthal, "U.S. will Cut Aid to South Koreans," *New York Times*, April 4, 1963, p. 1

announcement of the end of that aid that impelled South Korean policymakers to embark upon the “bold switchover” (to borrow a phrase Pyongyang deploys in a quite different context) in economic policies that ultimately led to that country’s economic ascent and enrichment.

What Would A Genuine Reform And Opening Look Like For North Korea?

Instead of sketching out the full contours of a DPRK transition to sustainable export-led growth, it may serve our purposes here to outline some possible “indicators” of serious economic reform in North Korea if and when that process is truly underway. In particular, we should dwell on three essential and inextricably linked features of any North Korean economy reform worthy of the name: an outward opening itself; military demobilization; and normalization of relations with the ROK.

Economic Opening. If Pyongyang were to embark upon a genuine move toward an economic opening, what initial signs would outsiders be able to see? Some of these might include: 1) meaningful departure from old economic themes, and new dialogue about economic issues, in DPRK propaganda and guidance organs; 2) doctrinal reorientation regarding the treatment of profit-generating transactions in official DPRK pronouncements—and especially profits involving transactions with foreign concerns; 3) an attempt on the part of the DPRK to settle its longstanding international debt default problems; 4) a move toward greater economic transparency, i.e. the publication of economic and social statistics describing the North Korean domestic situation; and 5) serious attempts to promulgate a legal framework for potential foreign investors that might assist in attracting profit-seeking overseas entrepreneurs to North Korean soil. Although some observers may see glimmers of conditions 1) and 2), none of these “blinker lights” are flashing brightly and consistently in North Korea today.

Military Demobilization. Military demobilization would represent a critical aspect of a North Korean program for “reform” and “opening” insofar as a) a dismantling of Pyongyang’s WMD programs would indicate that North Korean leadership was committed to earning its living from activities other than international military extortion, and b) reallocation of resources from the hypertrophied military to the civilian sectors would permit much more potentially productive economic activity in the DPRK.

To this date, of course, there is little evidence that North Korea has ever, at any point in its more than five decades of existence, voluntarily abjured any new instrument of military force that might possibly lie within its grasp. (Today, indeed, such a renunciation would seem fundamentally inconsistent with the state’s established policies of *Kangsong Taeguk* and “Military-First Politics.”) Moreover, North Korea’s commitment to developing weapons of mass destruction has been implicitly and explicitly reaffirmed repeatedly since the resumption of the North Korean nuclear drama in late 2002, and even during the period of “Six Party Talks” that commenced in 2003.

Normalization of DPRK-ROK Relations. The DPRK cannot execute a successful economic opening unless it demobilizes, and it cannot demobilize unless it comes to terms with the right of the Republic to coexist with it on the Korean Peninsula. Consequently, one important and indeed indispensable marker of movement toward reform and opening would be a change in North Korea’s official stance concerning the legitimacy of the ROK.

If North Korea were to evidence a new attitude toward the legitimacy of the ROK, the indications of this change would be direct and unmistakable: its highest figures and its official media would simply disclose that they were prepared to accept the existence of the South Korean state, that they recognized the ROK’s right to conduct its own foreign policy, and they respected (even if respectfully disagreeing with) Seoul’s decision to maintain a military alliance with the United States.

Concluding Remarks

In the months or years ahead, it is not only plausible but likely that the issue of economic assistance for the DPRK will return to the agenda for policymakers in Washington, Seoul, Tokyo and other Western capitals. So to return to the theme of this paper: is effective international economic assistance to the DPRK conceivable?

The answer to the question depends upon one's definition of "effective." Clearly, international humanitarian aid has not been effective, at least to date: despite a decade and a half of these charitable inflows, North Korea remains on the verge of another eruption of mass hunger. Security aid will remain utterly ineffective, so long as the objectives of the DPRK government remain diametrically opposed to those of the prospective donor states. And absent a "bold switchover" in DPRK priorities and policies, development aid is most unlikely to promote what Western donors understand "development" to entail.

There is one way, however, in which international economic assistance to the real existing North Korean regime can indeed be effective: this is in helping the North Korean government stay in power, resist system-threatening reform, and augment its military capabilities to threaten both its own population and populations abroad. The point here is not just that international Western aid *could* be effective in such an effort: for nearly two decades—since the end of the Cold War—this is exactly what international economic aid to the DPRK *has* done.

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Appendix. Tables 2-5.

Table 2. U.S. Economic Assistance to North Korea, 1995-2010 (current US\$)

Table 1. U.S. Assistance to North Korea, 1995-2010
As of early March 2010

Calendar or Fiscal Year (FY)	Food Aid (per FY)		KEDO Assistance (per calendar yr; \$ million)	6-Party Talks-Related Assistance (per FY; \$ million)		Medical Supplies & Other (per FY; \$ million)	Total (\$ million)
	Metric Tons	Commodity Value (\$ million)		Fuel Oil	Nuclear Disablement		
1995	0	\$0.00	\$9.50	—	—	\$0.20	\$9.70
1996	19,500	\$8.30	\$22.00	—	—	\$0.00	\$30.30
1997	177,000	\$52.40	\$25.00	—	—	\$5.00	\$82.40
1998	200,000	\$72.90	\$50.00	—	—	\$0.00	\$122.90
1999	695,194	\$222.10	\$65.10	—	—	\$0.00	\$287.20
2000	265,000	\$74.30	\$64.40	—	—	\$0.00	\$138.70
2001	350,000	\$58.07	\$74.90	—	—	\$0.00	\$132.97
2002	207,000	\$50.40	\$90.50	—	—	\$0.00	\$140.90
2003	40,200	\$25.48	\$2.30	—	—	\$0.00	\$27.78
2004	110,000	\$36.30	\$0.00	—	—	\$0.10	\$36.40
2005	25,000	\$5.70	—	—	—	—	\$5.70
2006	0	\$0.00	—	—	—	\$0.00	\$0.00
2007	0	\$0.00	—	\$25.00	\$20.00	\$0.10	\$45.10
2008	148,270	\$93.70*	—	\$106.00	—	\$0.00	\$199.70
2009	21,000	\$7.10*	—	\$15.00	—	\$4.00	\$26.10
2010	—	—	—	—	—	—	\$0.00
Total	2,258,164	\$706.75	\$403.70	\$146.00	\$20.00	\$9.40	\$1,285.85

Source: Compiled by CRS from USAID; US Department of Agriculture; State Department; KEDO (Korean Peninsula Energy Development Organization).

Source: Mark Manyin and Mary Beth Nikitin, "Foreign Assistance to North Korea," CRS Report R40095, 12 March 2010

Table 3. South Korean Aid to North Korea, 1991-2008 (current US\$ in millions)

Year	Total Assistance	Total Humanitarian	Food Aid	Fertilizer	Assistance through NGOs	Road & Rail	Mt. Kumgang Tours	Aid to ROK Business	Kaesong Industrial Complex	Family Reunions	Other
1991	0										
1992	0.71									0.71	
1995	236.6		236.6								
1996	12.89		3.76		3.07						6.06
1997	20.05				20.05						
1998	14.29				14.26					0.01	0.02
1999	28.88			28.53						0.35	
2000	180.99	163.1	76.69	83.42	2.99	12.89		0.44		2.75	1.81
2001	196.86	90.29	14.68	49.47	26.14	69.6	34.86	0.83		1.2	0.08
2002	278.71	175.37	84.63	66.6	24.14	53.5	26.71	2.2		20.56	0.37
2003	370.84	256.93	159.21	70.13	27.59	94.09	5.03	10.66		3.47	0.66
2004	340.35	196.31	98.25	84.46	13.6	96.55	6.2	27.78	6	3.68	3.83
2005	636.38	357.26	193.79	123.44	40.03	193.17	0.01	28.62	25.65	16.67	15
2006	483.83	226.65	10.65	125.66	90.34	93.06	1.28	50.16	80.75	15.91	16.02
2007	770.31	395.71	157.34	103.49	134.88	68.33	0.5	60.95	82.89	30.8	131.13
2008	209.56	54.11	3.91	0	50.2	14.38	1.52	9.79	52.22	19	58.54
Total	3784.29	2,221.99	1,039.51	735.19	447.29	695.57	76.11	191.45	247.5	115.12	236.55

Source: As appearing in Dick K. Nanto and Emma Chanlett-Avery, "North Korea: Economic Leverage and Policy Analysis," CRS Report RL32493, 22 January 2010.

Table 4. Estimated Merchandise Exports by North Korea, 1995-2007 (current US\$)

Year	Merchandise exports (current US\$)
1995	\$ 959,000,000.00
1996	\$ 909,000,000.00
1997	\$ 1,098,000,000.00
1998	\$ 651,000,000.00
1999	\$ 637,000,000.00
2000	\$ 708,000,000.00
2001	\$ 826,000,000.00
2002	\$ 1,008,000,000.00
2003	\$ 1,066,000,000.00
2004	\$ 1,278,000,000.00
2005	\$ 1,338,000,000.00
2006	\$ 1,465,000,000.00
2007	\$ 1,685,000,000.00
Total DPRK exports	\$ 13,628,000,000.00
Total aid from USA and South Korea to DPRK, 1995-2007	\$ 4,634,070,000.00
US/S. Korea aid as % of DPRK exports	34.00%

Source: World Development Indicators. World Bank, 2011.

Table 5. Merchandise Exports From, and Development Assistance To, Sub-Saharan Africa, 1995-2007

Year	Merchandise exports (current US\$)	Official development assistance (current US\$)	Development assistance as percent of exports
1995	\$ 75,607,885,249.31	\$ 18,682,550,000.00	24.71%
1996	\$ 85,159,112,455.24	\$ 16,426,060,000.00	19.29%
1997	\$ 86,126,221,378.22	\$ 14,939,390,000.00	17.35%
1998	\$ 71,779,320,891.69	\$ 14,500,950,000.00	20.20%
1999	\$ 78,437,784,336.49	\$ 13,259,640,000.00	16.90%
2000	\$ 93,405,605,655.86	\$ 13,067,110,000.00	13.99%
2001	\$ 87,996,818,493.25	\$ 14,278,840,000.00	16.23%
2002	\$ 93,295,280,266.11	\$ 19,321,950,000.00	20.71%
2003	\$ 114,000,905,855.49	\$ 24,965,080,000.00	21.90%
2004	\$ 153,447,607,266.99	\$ 26,536,210,000.00	17.29%
2005	\$ 191,452,018,443.66	\$ 32,797,100,000.00	17.13%
2006	\$ 225,853,439,780.69	\$ 40,872,100,000.00	18.10%
2007	\$ 266,848,080,389.39	\$ 35,747,920,000.00	13.40%
Total	\$ 1,623,410,080,462.39	\$ 285,394,900,000.00	17.58%

Source: World Development Indicators. World Bank, 2011.