



THE NORTH KOREAN ECONOMY: BETWEEN CRISIS AND CATASTROPHE

By Nicholas Eberstadt

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Whether North Korea's economy is in a state of collapse, reform, or muddling though is central to the debate on American policy toward the hermetic regime in Pyongyang. If North Korea is undertaking meaningful economic and other reforms, then engagement and patience with Pyongyang will likely deliver a less belligerent, more stable regime. But if the North Korean leadership views all economic interactions as a means to sustain the totalitarian system overseen by "Dear Leader" Kim Jong Il and strengthen the army for the purposes of reunifying the peninsula under the North's terms, then the prospects for "peaceful" economic engagement with North Korea appear slim.

In *The North Korean Economy: Between Crisis and Catastrophe* (Transaction Publishers), AEI scholar Nicholas Eberstadt assesses the prospects of North Korean reforms and the implications for American security policy. In the book, Eberstadt traces the economic performance of the Democratic People's Republic of Korea, also known as the DPRK or North Korea, during the first decade and a half following the end of the Cold War. Over this period, the North Korean economy has literally been a disaster: in the 1990s, the DPRK became the first urbanized literate society in human history to suffer famine during peacetime at the cost of hundreds of thousands to millions of lives.

Yet even as the DPRK descended into mass famine, Pyongyang strove to distinguish itself through achievements in the field of mass-destruction weaponry. In 1998, Pyongyang launched a multi-stage ballistic rocket over Japan, entering the select club of states with long-range missile capabilities. In 2005, Pyongyang declared that it possessed "nukes" and indicated that it would not relinquish them "under any circumstances." Thus, North Korea today qualifies as a singularly troubled and troubling country, one that ranks not only among the declining number of contemporary societies permanently poised on the brink of famine, but also among the handful of countries whose governments claim to possess nuclear weapons and long-range missiles.

Perverse as this North Korean paradox may appear, it is the entirely logical consequence of deliberate DPRK governmental policies and actions, faithfully reflecting leadership priorities and the carefully considered strategies which devolved from them.

In theory, the task of relieving the desperate privation of the North Korean people should simply be a matter of *stopping* the many costly economic distortions that the Kim Jong Il regime currently

insists upon enforcing, so that DPRK policy might move along a more pragmatic and less destructive path. But DPRK policymakers have vetoed this option again and again. The state media has declared such policies as “reform” and “opening” to be “honey coated poison” on the lips of the capitalist West.

How can the North Korean regime expect to finance its own survival if it is unwilling to acquiesce to regular commercial interaction in the world economy? Pyongyang’s answers to the question are indicated by the two overarching political slogans that have been unfurled during the Kim Jong Il era: the imperatives of building “a powerful and prosperous state” (*kangsong taeguk*) and “military-first politics” (*songun chongchi*). North Korean media has spelled out the precise meaning of these slogans, explaining, “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.”

One might well wonder how *any* country could expect to become self-sustaining through its defense sector, much less use it as a vehicle for financing the development of other economic sectors. That scenario is only conceivable if a country’s military expenditures are deployed in such a manner as to generate tangible economic dividends, i.e., earn profits. Stated plainly, North Korea’s post–Cold War survival strategy is a policy of international military extortion. Opposed to economic reforms that may threaten their political rule, North Korea’s rulers have concluded instead that it is safer to finance the survival of their state through the international export of strategic insecurity and military menace.

Judged by its own lights, Pyongyang’s predatory post–Cold War economic strategy may actually be working. After all, the DPRK has neither vanished from the face of the earth nor sacrificed its unlimited domestic authority to economic reforms. The terrible famine of the 1990s has for now subsided. The North Korean state has managed to relieve itself of the international commitments that prevented it from amassing an arsenal of nuclear weapons, and has even paradoxically engaged South Korea and the great powers of the Pacific in “denuclearization” talks according to a schedule and an agenda very largely of Pyongyang’s own choosing.

Though the international military extortion program that Pyongyang has been perfecting over the past decade and a half may afford the country’s leadership a chance for regime survival—or at least, regime prolongation—it offers their subjects only continuing penury and privation.

This book demonstrates that North Korea’s current political situation does not offer any appreciable scope for broad-based productivity increases for this astonishingly distorted and sadly debilitated economy. Without fundamental change in the DPRK’s political economy, living standards in the DPRK are currently set—even under the most optimistic of prognoses—to fall ever further behind those in the rest of the Northeast Asian neighborhood, and eventually behind those of virtually all the rest of East Asia.

North Korea’s progression along this dangerous trajectory will continue to pose a vital challenge to both its immediate neighbors and the United States for the foreseeable future. Because the North Korean economic system can only be sustained through continuing subsidies from abroad, the future of the DPRK lies in the hands of those states whose official aid and sustenance is helping to keep that dangerous and dysfunctional regime alive.

Nicholas Eberstadt holds the Henry Wendt Chair in Political Economy at AEI and is senior adviser to the National Bureau of Asian Research in Seattle, Washington. He serves on the advisory board of the Korea Economic Institute of America, and is a founding member of the U.S. Committee for Human Rights in North Korea.