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# Policy Forum 09-053: Pyongyang Turns Back the Clock



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## Pyongyang Turns Back the Clock

Policy Forum Online 09-053A: July 1st, 2009

By Leonid Petrov

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### I. Introduction

Leonid Petrov, Research Associate at the Australian National University, writes, "the era of relaxation and experimentation, which prompted the beginning of inter-Korean cooperation, is well and truly over. North Korea is headed for a major retreat, back to military communism. Only those elements of market economy which are necessary to keep the country afloat are being preserved."

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## II. Article by Leonid Petrov

- "Pyongyang Turns Back the Clock"

By Leonid Petrov

On the heels of the recent UN Security Council Resolution, which pursued tough new sanctions against the Democratic People's Republic of Korea (DPRK) for blasting a long-range missile and detonating a second atomic bomb, North Korea has moved aggressively against the last remaining zone of inter-Korean economic cooperation, the Gaesong Industrial Complex (GIP).

On June 11, the North Korean Central News Agency (KCNA) announced the nullification of all contracts on rent, salaries and taxes adopted for industrial park in Gaesong. Pyongyang wanted the minimum monthly wage raised four-fold (from US\$75 to \$300) and demanded an immediate lump-sum land lease payment of 500 million.

Pyongyang asked Seoul to empty the industrial estate unless the money was paid. This notification came after the two Koreas were wrangling over the release of a South Korean worker who was detained by the North Korean authorities for alleged anti-DPRK statements and inciting and DPRK citizens to defect.

Even without salary increases, the 106 companies that invested in Gaesong have been in financial trouble and said that they are considering forsaking the South Korean government for support. Now they have started withholding wages to their DPRK staff in protest at the North's demand for increased pay and taxes.

What lessons can be drawn from the recent rise and fall of inter-Korean economic cooperation?

Pyongyang blames the South's "extreme confrontation policy" for destroying the foundation of the industrial park, adding that the future of the complex is up to the South. Restrictions imposed by the North on all jointly operated Special Economic Zones will inevitably lead to substantial losses for the South Korean government, which had guaranteed investors up to 90 percent of their capital in case of forced closure or military conflict.

North Korea will also lose a significant source of revenue, but since both Gaesong Industrial Park and Mt. Geumgang tourist resort are physically in North Korean territory, they will remain the property of DPRK government, even if closed or abandoned by investors.

There are no figures indicating the extent to which the South Korean side might have profited from these cooperation projects in monetary terms. Hyundai Asan and the companies investing in the GIP have always been subsidized by Seoul through direct and indirect channels, and the system of these subsidies was not particularly transparent. The South Korean government never wanted to tell taxpayers how much money it had spent on aiding the inter-Korean projects in Gaesong and Mt. Geumgang; moreover it must have had serious reservations about the future of these investments.

During the decade of Sunshine Policy (1998-2008) also known as the Policy of Peace and Prosperity, the Gaesong projects were frequently criticized by hawks in Washington and Tokyo, who saw them as yet another way to indirectly subsidize the North Korean regime. Indeed, Pyongyang was making good money out of economic cooperation in Gaesong, amounting to about 100 million a year.

So why did North Korea decide to close the projects so resolutely?

The North's official explanation about Seoul's "extreme confrontation policy" must be a pretext. Anti-DPRK propaganda can be disturbing and annoying, but it hardly constituted a direct threat to the

regime. After all, Pyongyang had not been influenced by the much larger South Korean propaganda efforts prior to 1998.

The real reason could be the Gaesong project itself.

It created a stage where large numbers of North and South Koreans worked together for the first time in 60 years since the division of the country. This project provided a rare opportunity for unauthorized exchanges. The North Koreans not only learned modern technical skills, but they also had a chance to see that their southern compatriots did not look or behave as they are normally portrayed by the DPRK propaganda. Cautious political discussions cannot be ruled out, which in the long run could have a great impact on the internal situation of North Korea.

Anticipating this detrimental development, the North started cooperation with the South on the precondition of switching workers once a year. But later they realized this was impossible for technical reasons. Inevitably, rumors about life in South Korea started circulating among Gaesong workers and their families. Illusion about the South became so uncontrollable among the people that the authorities could not bear this situation any longer. From Pyongyang's point of view, each worker in Mt. Geumgang and Gaesong was a poster advertising capitalism, damaging the socialist system.

At least 20 affiliates with Gaesong zone of cooperation came under questioning for talking positively about South Korea and capitalism. In 2007, there was a thorough cadre reshuffling in the Party to stop people talking about Gaesong or Mt. Geumgang. North Korea also purged key officials who had pushed for reconciliation with South Korea.

All this must have been a crucial consideration for Pyongyang, as the survival of the North greatly depends on maintaining the myths about the 'poor and desperate' South, starving under the yoke of American imperialism. In recent years, the spread of smuggled South Korean DVDs and first-hand communication with southerners in Special Economic Zones has made this propaganda image unsustainable.

In this context, Gaesong and Mt. Geumgang projects from the outset were a dangerous gamble. For some 10 years, the top bureaucracy tolerated cooperation with the South because the monetary rewards were handsome and political risks were manageable. Perhaps, when the principal decision was made in 1989 for Mt. Geumgang and 2002 for Gaesong, they also wanted to check whether the spread of dangerous information could be contained.

At that time North Korea was going through a period of unprecedented political relaxation and experimentation with reforms. However, the period of relaxation ended with the beginning of nuclear crisis in October 2002.

Since 2003, North Korean leaders have worked hard to turn back the clock. All news coming recently out of North Korea has been about greater control and tougher restrictions. Busy markets are a nightmare for Pyongyang retrogrades. The DPRK government is now confiscating land from individual tillers, and Japanese-made buses and trucks are taken from small businesses. The sale of many consumer goods at the markets is restricted, while the Public Distribution System, which dominated the country's economic life before 1996, has been reintroduced.

In the last couple of years, several instances of public unrest made the North Korean government nervous, but it managed to retain control and prevent mutiny from spreading. The November 2008 Cabinet Decision No. 61 stipulated that in 2009 all markets across the country should work only three days per month, similar to how they worked in medieval Korea. Currently, there are reports

about the government plans to close down the Pyongsong Market, the largest wholesale market in the country.

Ruediger Frank and Sabine Burghart, in their recent report, "Inter-Korean Cooperation 2000-2008", compare inter-Korean cooperation with the Eastern European experience.

When analyzing South Korea's Sunshine Policy and describing its dangers for the North Korean regime, they remind us that 'everyone who has lived under socialism in Europe can confirm how this slow ideological poison spreads like cancer, how these cells grow and how they finally unfold their destructive, lethal power, hollowing out the system from within'.

Frank and Burghart cite Kim Jong-il himself, who is recorded as saying in 1995 that 'the most serious lesson of the collapse of socialism in several countries is that the corruption of socialism begins with ideological corruption.'

North Korea cannot afford to emulate the success of China in transforming its economy as this would require a considerable relaxation of domestic police control. China has survived such a relaxation, but there is a great difference between North Korea and China. The PRC leaders did not have to deal with the existence of a rich and powerful 'other', where people speak the same language but enjoy significantly higher level of freedom and prosperity. The DPRK leaders believe that political unrest is unavoidable if their citizens learn how prosperous South Korea really is.

Over the past few years all this made Gaesong and Mt. Geumgang something of an anachronism. These two projects, which could function only with a greater level of openness and transparency than in the rest of North Korea, became too dangerous for Pyongyang to be tolerated and were put under direct control of the People's Army.

The era of relaxation and experimentation, which prompted the beginning of inter-Korean cooperation, is well and truly over. North Korea is headed for a major retreat, back to military communism. Only those elements of market economy which are necessary to keep the country afloat are being preserved. It already looks as if the government turned back the clock, restoring the system that existed before the 1990s.

Conservatives in Seoul might hope that this decision will deprive the North Korean regime of revenue and bring about its end. But the truth is that the regime can survive much longer in isolation because poor and weak people do not have the energy or weapons to rebel. Therefore, by closing the borders and shutting down the zones of inter-Korean cooperation, the North Korean elite is buying extra time to stay in power at the expense of the common people's suffering.

The complexity of regional politics and the current state of global economy also contributed to the early demise of inter-Korean economic experiment.

Nevertheless, the last 10 years of the Sunshine Policy did make a difference and changed the Korean people's perceptions of each other, making a new attempt at cooperation possible.

### **III. Nautilus invites your responses**

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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