



Policy Forum 10-019: The Stability of North Korea and a Long-term Strategy for Transformation



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The Stability of North Korea and a Long-term Strategy for Transformation

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By Rudiger Frank

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I. Introduction

Rudiger Frank, Professor of East Asian Economy and Society at the University of Vienna, writes, "The government in Seoul is yet in a position to develop strategies for the future. A law on property

rights in North Korea, on tax breaks, other investment incentives, the fate of the elite and welfare benefits for the weak is overdue. There still is time for a discussion and for finding the best option, but the clock is ticking. Once events start to follow in quick succession, politicians and chess players alike either act according to their prepared strategy, or they simply react. At least in chess, the latter often leads to defeat."

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II. Article by Rudiger Frank

- "The Stability of North Korea and a Long-term Strategy for Transformation"

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Strategy games have been popular among leaders all over the world for centuries. Go or paduk was played in East Asia, chess was called the "game of the kings" in the West. They all have one thing in common: to win, one needs a forward-looking strategy, must anticipate the developments in the next few rounds, and prepare in time to be able react properly.

The situation on the Korean peninsula is even more complex than these games. There are more than two players, each is strongly heterogeneous, and they play a number of other big and small games simultaneously. It would hence be unrealistic to demand that politicians foresee every move of the other side and prepare for each possibility. However, as the signs of an imminent change in North Korea increase in quantity and quality, time might be running out to bring our stones into position.

Having witnessed as an insider the suddenness and the vehemence of the changes in East Germany in fall of 1989, I am more than careful to make any predictions as to when exactly North Korea is going to undergo a major transformation. However, in particular the German example shows how much damage could be prevented with an appropriately early preparation as long as the situation is still relatively stable. Once a chain reaction of any kind has started up North, the scarcest resource will be time. Major decisions will have to be made in days; huge transitions will take place in weeks. The effects will be felt for decades.

Lee (2010) suggests starting "thinking the unthinkable" and prepare for a dramatic change in North Korea. Indeed, it is high time, although we should be fair enough to admit that this has in fact been done for many years. The point is, however, who had been thinking, about what, and to what effect. Academics have been writing about the coming collapse of North Korea ever since the dominoes started to fall in Eastern Europe. The fact that this has not happened yet is no reason to discard the many good arguments that have been raised to this effect. Academics are no fortune tellers, and only few if any claim such abilities. Yet they are often mocked if their educated guesses are misunderstood as predictions that do not occur. However, this is not always a sign of the writer's incompetency but rather indicates a lack of understanding on the recipient's side.

Furthermore, most analysis or at least the part of it that gained broader recognition by politicians (i.e., the chess players) has been related to security and military issues. Economics is usually only considered in the context of the costs of unification, which instantly results in a knee-jerk reaction like "oh, this is going to be expensive - let's not hurry". Society is the least considered field, although the growing number of refugees from North Korea, no matter if you call them by the friendlier "saet'omin" or the more neutral if not slightly pejorative "talpukcha", has helped to develop an understanding of how massive and painful social problems after a quick unification will become. Again, Germany is a case in point; two decades after unification, the nation is still invisibly divided.

This is so although separation had lasted only 40 years, there was no civil war between both sides, and the levels of technological, intellectual and cultural development were much more similar than is the case in the two Koreas.

Obviously, it would be good to be prepared, but is a dramatic change really imminent north of the 38th parallel? The leadership in Pyongyang seems to think so. Otherwise they would not have taken the huge risk of the recent currency reforms and started to promote what seems to be a half-baked succession model.

The currency reforms (Frank 2009a, 2009b, 2010) indicate a new quality in the North Korean state's attempts at reintroducing orthodox, neoconservative our-style socialism. After a few years of trying to gradually reign in to the private economic activities that had emerged after the July 2002 economic measures, the state resorted to much more direct and brute action. How else can we describe the expropriation of owners of large sums of domestic currency, and the ban on the use of foreign currency inside of North Korea? The aim is a de-monetization that will shift the power to distribute food, labor and anything else back to the state.

Such a move is not without its logic. Money, and the independent power that comes with it, has been the ideological Achilles heel of all socialist economies. Who needs a benevolent fatherly (or motherly, to paraphrase Myers 2010) leader with his gifts of food, liquor, and clothes on the occasion of his birthday when all this, and much more, can simply be bought in a shop or on a market? Who will embark on a tiresome career in the Party or the military if social prestige, good education for one's kids, enough food and even some luxury can be acquired by earning money the one way or the other?

Even worse, as soon as money and the concept of material wealth that come with it are broadly accepted, how long would North Koreans value their proud but poor nationalist life higher than the sheer abundance of their Southern peers? How long will it take until the propaganda machine's explanations that the latter are rich but ideologically degenerated sound hollow?

We have reason to believe that this kind of ideological decomposition has been taking place in North Korea. The reforms following the example of China, aimed at utilizing the energy of a monetized and marketized economy for the advance towards building socialism and eventually reaching communism, slowly stopped halfway since around 2005. If a group of people jumps into a river and reaches the middle, they have only two options: keep swimming until they reach the other shore, or return. Simply staying where they are will eventually result in drowning.

After having swallowed a lot of water, the North Korean leadership has decided to give up and order its people to swim back. In the short run, it will be interesting to see whether everyone will reach the shore. In the long run, we will have to pay attention to those who wanted to keep swimming forward but were not allowed to do so, and to those who remained on dry ground but observed the scene. All we know from other socialist countries (see Frank and Burghart 2009) suggests that once the option of reforms has been discovered and the other side of the river had been in sight and reach, it won't be long until the next attempt at a crossing takes place. In other words, economic reforms in North Korea may be stopped, but only for the time being.

In addition, there is the unresolved leadership succession issue that can serve as a catalyst to speed up events in case of a destabilization. For a country and a political system that rests so heavily on the leader, even an orderly transition is risky. But no matter how trustworthy speculations about the next generation are, one thing is obvious: Kim Jong-il has much less time to properly prepare for succession than his father had. True, Kim Jong-il was officially made heir in 1980, when his father was 68 years old just as Kim Jong-il is now. But by then he was 38, not 27, and his father was

healthy.

So there is enough reason to at least consider the possibility that the domestic stability of the monolithic North Korean system is slowly but steadily weakening. A not-watertight solution of succession can act as the spark that lights the fuse and leads to an eruption of North Korea's society. Unless China comes to the rescue, South Korea has good chances to be faced with a sudden de facto unification. The German example has been studied extensively, but what are the real lessons?

The costs of unification will be high, probably too high, but Seoul will not have a real choice. Among scholars and bureaucrats, calculating these costs is a popular exercise, but not necessarily a useful one. We know that speed is crucial if both Korea's are to grow together under the above said circumstances. The economy in the North must be resuscitated and modernized within months to reduce the necessary inputs from the South and to calm social problems. This sounds like common sense; however, building up the necessary institutions is absolutely crucial for this to happen. There is no doubt that South Korean banks, supermarkets, gas stations will quickly open branches in the North. A currency reform will give the new citizens some real money to survive the first weeks, and social welfare will be extended to keep them going for a few more months. Clearly, this is not sustainable.

Property rights are the key to any successful market economy. In East Germany after unification, it took more than a decade to figure out who owns what - even though by 1945, Germany had been an advanced economy with a well-developed system of documenting property rights. Conflicts emerged after 1990 but there was at least some paper based on which these could be resolved. But what about former Northern landowners whose descendants now live in the South? Can they really prove their claims? And how will North Korean farmers react when their village is taken back by a family they know only from tales of their grandmother and the state's propaganda?

Even worse will be the problems in industry. Most factories have been built after 1945 or were previously owned by the Japanese, so restitution will not be a major issue here. But what about the ground on which these were built? And how will North Koreans respond to the idea that what they built up with their hands will first be taken over by the new state and then given at a nominal price to some dubious businessman from Pusan who sells the valuable parts and then disappears? Or to a chaebol that buys up a potential competitor and then closes it down? This happened in Germany hundreds of times, and there is no reason to believe that it will be any better in Korea.

The experience of Eastern Europe suggests that people will for a while be ready to accept a transformational recession, even a painful one. But the longer it lasts, the less patience they will have. The results ranged from mild protests to outright attempts at restoring the old order.

A not less pressing issue is how to deal with the Northern elite. We can expect that those who have committed crimes will be persecuted, but what exactly does that mean? Which law will be applied? Unified Germany had huge problems to call even the top leaders of East Berlin to account. The military and the Party in North Korea are much too big to allow a blanket assumption of guilt based on membership, but how to differentiate between culprits and mere followers?

In many Eastern European countries, a majority of the old elite has transformed itself and is now still in control of the state and the economy. In East Germany, the top part of the elite was replaced by second-tier executives from the West, which created the feeling of occupation. Full-time members of the secret police and its unofficial informants have been banned from jobs in the public service. Still, many people believe this is not enough - and others believe it is too much.

A decision on how to deal with the elite is not only crucial after unification. It can also have a

massive impact on unification itself. If the officers in the North Korean military would know that most of them will be, like it happened in East Germany, allowed to keep their jobs in a unified country, they would be less likely to turn a peaceful revolution into a blood bath. It would be a smart move to issue such legislation now and to disseminate information broadly.

This is just the tip of the iceberg. The government in Seoul is yet in a position to develop strategies for the future. A law on property rights in North Korea, on tax breaks, other investment incentives, the fate of the elite and welfare benefits for the weak is overdue. There still is time for a discussion and for finding the best option, but the clock is ticking. Once events start to follow in quick succession, politicians and chess players alike either act according to their prepared strategy, or they simply react. At least in chess, the latter often leads to defeat.

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IV. 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 . 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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