

# Response to “North Korea Inside Out: The Case for Economic Engagement”

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# Response to "North Korea Inside Out: The Case for Economic Engagement"

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## I. Introduction

The following are comments on the essay, " [North Korea Inside Out: The Case for Economic Engagement](#) " produced by an Independent Task Force convened by the Asia Society's Center on U.S.-China Relations and the University of California's Institute on Global Conflict and Cooperation, which appeared as Special Report 09-083 on October 23rd, 2009.

This response includes comments by Georgy Toloraya, Director of Korean Programs at the Institute of Economy of the Russian Academy of Science.

The views expressed in this article are those of the author and do not necessarily reflect the official policy or position of the Nautilus Institute. Readers should note that Nautilus seeks a diversity of views and opinions on contentious topics in order to identify common ground.

## **II. Comments by Georgy Toloraya**

### **Transcending the North Korea Impasse**

The timely and sober report "North Korea Inside Out: The Case for Economic Engagement" by this impressively composed task force is an rare example of a sound approach, charting out realistic targets vis-à-vis North Korea and suggesting practical channels for real productive actions, not repeating the idealistic and absolutely unpractical theory of "denuclearization first, cooperation later". The report therefore provides a key clue to answering the question which the world community faces with regard to North Korea: is there any real way to induce the DPRK to give up its nuclear weapons and embark on the road to progress, peace and transparency? The common approach that NK should be "rewarded" by economic assistance and strategic reassurances *after denuclearization* will never work. The sequencing should be reversed, if the opportunity to achieve the goal of de-weaponization of the DPRK is not to be lost. That means that engagement, both political and economic, should precede phased denuclearization.

This approach has long been advocated by experts in member countries of the Six-Party talks, including Russia, and sometimes served a basis for practical policies. Those policies usually were moderately successful in freezing and at times even halting the DPRK nuclear program, although so far it has always been a false start due to a variety of reasons, the most important one being absence of a genuine commitment by the opponents of North Korea to coexist with the regime. It should be noted that insincere and half-hearted "partial" engagement with an underlying intention for a regime change does more harm than good. Sanctions alone do not work either.

The current cycle of tensions leading to emergence of DPRK as a de-facto nuclear possessor state started when the North Koreans became disappointed with the lame-duck Bush administration's true intentions in the Six Party Talks. North Koreans became frustrated as their actual gains from the diplomatic process were marginal -they did not come much closer to getting substantial security guarantees. Even a largely symbolic (and easily reversible) "delisting" of DPRK as a terrorist state caused much controversy in the US and abroad, and new concessions were demanded in exchange from North Korea, which they saw as a breach of trust. As to a modest economic assistance, promised when the accord was sealed, it was only the US and Russia that carried out their obligations (200 thousand tons of heavy oil), while other countries either totally abstained (Japan) or dragged their feet. On the other side the DPRK felt that her concessions were not fully recognized and valued. "Hawks" in Pyongyang might have suspected these concessions were perceived in the West as a sign of weakness and testimony to Pyongyang's pressing need to normalize relations. Implementing the proven strategy of increasing deterrent capabilities became imminent.

At the same time the leadership, frightened by Kin Jong Il's sudden illness, followed the familiar pattern of closing up and tightening the screws as demanded by the military and ideologues. But these efforts were not equally successful in every sphere of life. The attempts (noticeable from 2005 but reinforced since 2008) to limit the economic aspects of "marketization from below" which became evident after the economic crisis of 1990s, actually failed. Strangely political restoration of Kim Il-Song era governance methods augmented by militarization (songun ideology) proceeded, as well illustrated in the report, against the background of grass-root economic liberalization, which

tends to become irreversible. Especially if assisted- which I believe the report proves persuasively and that can be its major impact, such a development would be for the DPRK's own good. A transformation, "conventionalization" is needed for Pyongyang elites unless the North Korean leaders would risk cornering the country into a geopolitical impasse and eventually a catastrophe.

The country has all the possibilities for economic advance. It is located at the very center of the world's most vibrant and dynamically developing region and has labor and mineral resources and a history of industrial and technological development (unlike, say African countries with a comparable national income). The changes [1] should start with gradual "marketization" of the DPRK economy first on the microeconomic level (already happening), later on a macroeconomic level under state control (a "guided market economy"), evolving multi-sectoral production and trade conglomerates (resembling South Korean *chaebols* ). This process should be assisted internationally and the country should feel the benefits of economic development and a more peaceful environment. Unconditional economic assistance is not the answer: it should be aimed at developing the marketized sector in the economy, which should not be perceived by DPRK leaders as a threat to their power. Rather, this sector should be brought out of the shadows and produce resources (via taxation, increased employment and incomes and corresponding growth in demand and in other forms) for the development of strategic industries, which the government wants to keep state-owned and controlled (they are typically unprofitable).

It could lead to a transformation of the structure of economy: decline of outdated and non-competitive branches and emergence of industries based on the country's comparative advantages - cheap and comparatively well-educated labor, mineral resources, and the location/transit potential thanks to foreign capital (chiefly South Korean, Chinese, maybe Japanese). Economic growth will diminish the outbound flow of refugees and bring about socio-political stabilization which, in parallel with alleviating DPRK's security concerns, will enable the authorities to soften their grip on the population. Communist ideology would slowly give way to "social-nationalism" and 'patriotism' (with sacral role of the founder of the state) as the foundation of societal mentality. The political system might evolve into a sort of 'constitutional monarchy' or a 'collective leadership' with much greater feedback from the grass-root level for Kim Jong Il's successor. Changing from totalitarian to authoritarian state at first stage will follow, and then the Oriental-style managed democracy could eventually develop (look at South Korean example, or contemporary royal regimes in Asia). A corresponding decrease in tensions and confrontation between the DPRK and the outside world would set the ground for military confidence-building measures and eventual creation of a multilateral system of international arrangements for Korean security (checks and balances cross-guaranteed by USA, Japan and China, Russia). Only then North Korea will no longer need the absolute strategic deterrent and will voluntarily abandon its nuclear and other WMD ambitions ('South African variant') and reduce militarization level.

The described option, however much time it might take (one or two decades at least), is actually the only realistic possibility to achieve the goals international community pursues and in correspondence with North Korea's interests as well. The responsibility to embark on this road largely lies on the USA. The Obama administration should take a bolder approach and spearhead these efforts without letting the unrealistic "prior denuclearization" theory block the way, although the results would be seen well outside Obama's term in office. The DPRK first must not only become reassured by the strategic commitment by the United States to coexist with the regime, but also feel the benefits derived from its cooperation with the world community, both political (normalization of relations without prior conditions) and economic. And economic assistance means not just getting aid, but being assisted to change the political economy of the country in a way to let her develop on her own basis using the advantages of international division of labor. These policies should not have a "hidden agenda" of undermining the regime. As a result the economic reality of the country would

change.

Strategic reassurances and international assistance may be granted, however idealistic that might sound, in exchange for a *promise* (probably a summit-level public commitment) to completely denuclearize by a target date, say 2012. By that time the Pyongyang leadership (maybe with a larger share of a new generation reformists and pragmatics, resulting from the above-mentioned changes) will have to face a choice: either to lose all the achievements and keep the nuclear weapons, or act the other way around. The 20-odd experience of half-hearted attempts to get the goods (denuclearization) first and pay later should prompt us to try this "deferred delivery" approach for a change. After all, 2012 is much closer than 1993 when the bargaining over nuclear issue started. And even if not totally successful such a policy (as it can easily be reversed if North Koreans would not keep their word) could at least keep a lid on North Korean military programs, including nuclear and missile ones.

### III. Notes

[1] For more details see: Georgy Toloraya. 'The Economic Future of North Korea: Will the Market Rule?' - *KEI Academic Paper Series on Korea* - vol.2, (Washington, 2007).

### 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](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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