

**THE STRUCTURAL CRISES AND THE SURVIVAL STRATEGIES  
OF NORTH KOREA**

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## EXECUTIVE SUMMARY

This paper analyzes North Korea's strategies for dealing with the country's domestic economic and political crises.

### *Main Argument*

Since the 1980s North Korea has been faced with severe crises—from food and energy shortages to an unbalanced economy and a drastic deterioration of foreign trade—that led to the growth of a “second economy” and the overall weakening of central governmental control over the rest of the nation. To resolve this impending crisis, the Kim Jong-II regime promoted the following strategies:

- *“Military-centered Politics.”* North Korea's central political power moved from the ruling party to the military. As such, the military is now the center of Kim Jong-II's regime.
- *The “July 1 Measures.”* These economic reforms included such measures as the adjustment of prices to reflect the value of commodities, the adjustment of wages to prevent workers from participating in the “second economy,” the enhancement of the decision-making power of businesses, and currency depreciation.
- *Nuclear Development and “Asymmetrical Determent.”* Nuclear development has become a bargaining card with the United States to obtain more direct or indirect aid. In addition, creating international tensions also serves to divert domestic attention from the internal crises.

### *Policy Implications*

- “Military-centered Politics” is merely a crisis management strategy, and it is uncertain whether it will be effective in resolving North Korea's structural crises.
- The success of the “July 1 Measures” directly depends on reducing the military's involvement in the North Korean economy and the transformation of military industries into civilian ones. This is unlikely, however, owing to the hostile international environment that faces Pyongyang.
- The abandonment of nuclear development would undermine North Korea's “Military-centered Politics.” Hence, although nuclear development hinders the success of the “July 1 Measures,” North Korea will likely continue its nuclear development program.

## **Introduction**

Since the 1980s, especially after the mid-1990s, North Korea was faced with severe economic and political crises, against the background of which such strategies as the July 1 Measures, the “Military-centered Politics” and the Nuclear Development Schemes came into being. This article aims to analyze the sophisticated relations where the three strategies reconcile and conflict with each other, so as to anticipate the possible direction for North Korea to step out of the structural crises.

## **Structural Economic Crisis**

### ***The General Economic Recession***

In the late 1950s, North Korea successfully overcame the devastation caused by the three-year war and primarily laid the foundation for the socialist economy. From the sixties to the seventies, the economy sustained a high –speed growth, which markedly slowed down during the mid-eighties, though without losing its momentum. However, since the eighties, the national economy began its comprehensive downfall, evidenced by a significant negative growth. During the nineties the North Korean economy was on the verge of collapse. Since 1999, the economy began to show a positive development, which was mainly due to the support and aid from abroad.

### ***Severely Unbalanced Economic Structure***

After the war, with a basic objective of building an independent national economy, North Korea has been adhering to the development strategy of “giving the first priority to the development of heavy industries and simultaneously promoting agriculture and light industries”. Therefore the heavy industries account for a rather high proportion of the economy; and within the heavy industries the sector of production equipment has a higher proportion. Agriculture accounted for 25% before the nineties, and rose to 30% or so in recent years; industries accounted for about 60% before but declined to around 26% recently. For the last two or three years, North

Korea has put its emphasis on the development of the third sector industries, whose proportion in the economic structure has been constantly on the rise.

### ***The Severe Grain Shortage***

Since 1957 North Korea has been implementing the grain ration system, which has been applied to all residents except the farmers. Under general circumstances, grain is supplied once every 15 days and residents buy their grain in designated grain shops. As stipulated every adult is provided with 700 grams of grain each day. Since 1973 the four-day rations of every adult shall be contributed to the government in the name of military preparation. Since 1987 another 10% of the stipulated ration has been reduced in the name of “thrift”, with the actual amount of ration being 547 grams.

After the nineties, the grain output of North Korea dropped drastically while the grain import steeply increased to about one million tons (including the aid of international community). The grain shortage has been expanding. Up to 1997, 2.8 million people have died of famine and the grain shortage in 1998 amounted to 1.34 million tons.

### ***The Drastic Deterioration of Foreign Trade***

Up to the year of 1990 the foreign trade of North Korea had been on the rise, with its volume reaching to 4.7 billion US dollars. But since 1991 the foreign trade has been rapidly down the hill. From 1983 to 1992 North Korea had remained in trade deficit with foreign countries, which greatly increased since 1991. According to the statistics provided by the Institute of Overseas Trade of South Korea, North Korea’s declining trend in foreign trade during the nineties was due to the termination or sharp reduction of trade with the former Soviet Union and the socialist countries in Eastern Europe. Since 1999 the foreign trade of North Korea began to recover in a small way.

### ***The Severe Shortage of Foreign Exchange***

According to the research of the Ministry of Unification of South Korea, from the foundation of DPRK to the mid-seventies, North Korea had received foreign aid totaling 4.75 billion US dollars, in which the gratuitous aid totals 1.28 billion US dollars and the conditional aid totals 3.47 billion US dollars. And 43% of the aid received came from China and Soviet Union, the rest from the Eastern Europe. Up to the year of 2000 the unrepaid foreign debt of North Korea amounted to 12.46 billion US dollars. Based on the investigation conducted by Accounting Inspection Bureau of the US Congress, the national credibility of North Korea ranks the 167th among all the 170 countries investigated.

### ***The Severe Energy Shortage***

During the nineties the energy supply of North Korea had also rapidly decreased. North Korea's economy has always centered upon the heavy industries and the chemical industry, which are sectors of very high energy consumption. After the eighties the continuing decline of energy supply has heavily hit the industry development of North Korea.

In the energy structure of North Korea, coal accounts for 70%, electricity 16%, petroleum 10% and the rest 4%. Therefore, the energy scenario of the country is dominated by the coal supply. After the nineties the coal production has been decreasing continuously, from 33.15 million tons in 1990 to 23.10 million tons (a decrease of 30% compared with the amount of 1990). Electric power generation also decreased accordingly. The generated electric power was only 20.2 billion kilowatts, a decrease of 30% from the amount of 1989. The actual generated power was less than 25% of the generating capacity. The import of crude oil decreased from 2.52 million tons in 1990 to 0.58 million tons in 2001.

### ***The Severe Insufficiency of Raw Materials***

As indicated in the following diagram, after the nineties, the supply in North

Korea of such primary raw materials as iron ore, non-iron metals, steel, cement and fertilizer has been in continuous decline, though a modest recovery showed in 1999. In 2001 the actual supply of primary raw materials was only close to half of that in 1991.

The severe shortage of life necessities, the sharp decrease of life standards and the survival problem caused the general discontentment of the people, which thus led to the legitimacy crisis and therefore the political crisis.

### **Economic Crisis and Political Crisis**

#### ***Severe Shortage of Various Materials and Legitimacy Crisis***

From January to March 2000, the non-governmental organization “Good Friends” of South Korea conducted two questionnaire surveys of 1027 “Northern Escapists” in the Chinese provinces of Jilin, Liaoning and Helongjiang. The surveys indicated that most people are dissatisfied with the current regime and they don’t trust the officials of that country either.

#### ***The Formation of the “Second Economy” and the Potential Political Crisis***

From a macro point of view, the “Second Economy” refers to the economic activities outside the economic system. Since the eighties the signs of the “second economy” began to appear in North Korea. In the nineties the “second economy” extended rampantly into the whole society, severely damaged the former economic and social order, and therefore gravely impaired the political control capabilities, which may generate potential political crises.

The “second economy” of North Korea exists and operates mainly in three forms, namely, legal economic activities outside the system, illegal economic activities outside the system, and illegal economic activities within the system. The “second economy” plays a positive role in relieving the severe shortages of various kinds of materials, and in the meantime serves in effect as a “safety valve” for alleviating the

discontentment caused by the extreme material shortages. However the “second economy” also brings about a series of negative effects, for instance, the weakening of the central government authority, the weakening of the central government control of subordinate institutions, the weakening of the party and government control of officials of various levels, and the weakening of the governmental control of ordinary citizens.

### ***“Self Reliance” Weakens the Central Governmental Control of Subordinate Institutions***

The long-term economy of scarcity and especially the disappearance of the socialist economic bloc in the nineties rendered the former highly centralized planned economic system into a state of palsy. The central finance cannot satisfy the needs of local governments and has to decentralize its power to provinces and counties. The supply of raw materials by the central government accounts for less than 10-20% of the planned quantity, and the local governments must independently solve the problem of raw material supply. And gradually the local governments may independently conduct such economic activities as foreign trade or “activities of earning foreign exchange”, and even independently design new patterns of income and salary for the units under their control. The new pattern significantly impairs the controlling capabilities of the central government for the subordinate institutions.

### ***The “Second Economy” Leads to the Weakening of Political Control Capabilities***

With the spread of “second economy”, the society begins to separate from the state and forms an independent entity. As far as individuals and families are concerned, they have to shoulder the responsibility for their own life and cannot rely on the state any more. The people in the society separated from the state are not much concerned about the political life of the state, and they mainly focus on dealing in their own lives. This situation is wrecking the “all political” pattern that has merged the state and the society into one inseparable whole, thus impairing the political control capabilities of the state.

### ***The Weakening of the Central Government Control over Officials of Various Levels***

The “second economy” creates non-governmental sources of income for the officials, diminishes the inter-dependent relationship between officials and their superiors and their superior institutions, and therefore cripples the current political regime. More and more “nouveaux riches” emerge in the foreign trade activities through illegal income acquired by lowering grade, cheating in quantity, asking for commission and making false reports in expenses. A rather stable interest-related system of bribery and cooperation gradually comes into existence between the nouveaux riches and the interested personnel of relevant departments, and between the nouveaux riches and their superiors in the superior institutions. The above mentioned system poses a direct threat to the formal controlling regime.

### ***The Weakening of the State Control over the Society***

The long-term scarcity economy makes the ration system of North Korea a nominal existence only, and ordinary residents have to rely on themselves to solve the problem of life necessities, which causes a drastic increase of social mobility. According to statistics, around 70% of the floating population search for food, about 15 % for business, only 15% for official trips. And the situation again leads to a sharp increase of informal sources of income for ordinary residents, which weakens the ideological influence, cripples the political control regime, and disturbs the political system.

## **The “Military-centered Politics”: One of the Survival Strategies**

### ***The “Military-centered Politics” and the Replacement of Central Power***

In September, 1998 the Supreme People’s Congress of DPRK adopted a resolution to make Kim Il-sung President Permanent and abolish the post of president. And the National Defense Commission was elevated to become the actual supreme body of power, and the chairman of the Defense Commission the actual head of state.

More than half of the ten members of the Commission are active military servicemen, including the chief of staff and other top military leaders. This system has exceeded any limit of military regimes where military participates in politics, and it has become a systematic military political regime, called the regime of military-centered politics. Thus the central power of North Korea has been moved from the ruling party to the military, which becomes the center of Kim Jong-Il regime.

### ***The Logical Structure of the “Military-centered Politics”***

*The “priority of the gun” stands at the core of the “Military-centered Politics.”* “The priority of the gun” implies that the core power of the socialist revolution and construction lies with the military, not with the working class. The proposition is based on three basic judgments. *First, the politics is the power, the power is the gun.* Li Renyu pointed out in his “The Theory of Military-centered Politics of General Kim Jong-Il” that in a class society, only the military is the power to organize and direct the social activities of the people; that the class or group that controls the military can always implement politics according to their will. Therefore, the politics is the power, the power is the gun. *Second, the military is the core power of the revolution and construction.* Under the circumstances where the law of the jungle rules and the physical power dominates all, the working class and their spirit cannot defend socialism, cannot defend the nation and the country. *Third, the “extreme conflict” is the logical starting point of the “military-centered politics”.* North Korea believes that the basic stage has been transferred to the Korean Peninsula for the military and political rivalry between capitalism and socialism after the Cold War; that beginning from the termination of the Cold War, the scenario of North Korea-US rivalry has replaced the scenario of USSR-US rivalry and that of East-West rivalry. North Korea also believes that from the lesson learned of the collapse of Soviet Union and Eastern Europe, the loss of the military means the inability of suppressing counter-revolutionaries and defending the revolution; that the loss of the military is the loss of everything.

### ***Military-centered Politics Based on the Cult of the Leader***

The North Korean media hails Kim Jong-Il as the sun of all humanity, for all the socialist countries have collapsed due to the conspiring instigation of imperialism, capitalism and their domestic reactionary forces, but North Korea has been marching on the road of victory under the great leadership of Kim Jong-Il. The media claims that the American Imperialism is the greatest hegemonic power, and has crushed almost all countries hostile to US; that North Korea under the leadership of Kim Jong-Il is the only country bold enough to fight the US, and has won one victory after another; and that Kim Jong-Il is the number one general of the world. North Korean media also claims that after the termination the Cold War and especially the collapse of Soviet Union and Eastern Europe, the center of the world politics has been moved from Europe to Asia; that the North Korea-US rivalry has replaced the USSR-US rivalry and the East-West rivalry; and therefore the rivalry between North Korea and the US has become the center of the world politics, and Kim Jong-Il is the focus of the world politics.

In the information-starving North Korea, the official propaganda effectively reinforces the political legitimacy of the leader, effectively renews the political energy, and therefore provides effective political support for the survival strategy of the military-centered politics.

The long-term shortage economy and especially the severe economic crisis since the nineties have posed a real and immediate threat to the political legitimacy. After the end of the Cold War, especially after the nuclear crisis, North Korea has been trapped in an extremely dangerous national security crisis. The so-called military-centered politics is only a survival strategy to get rid of the internal and external crises, utilizing the special function of the military.

The military is the last line of defense for the national security, and it may also be the most dangerous destructive power. Placing the military at the core and as the direct foundation of the political regime indicates that all other political systems except for the military have lost their normal functions. The military can only serves

the function of solidifying the political power without being able to function in the economy and social construction, for the military cannot effectively penetrate the various domains of the society. This power structure may well lead to the disharmony and even conflicts between the different power entities, thus causing the more profound political crisis.

### **“July 1 Measures”: the Economic Survival Strategy**

#### ***July 1 Measures***

On July 1, 2002, North Korea began to implement “July 1 Measures”. North Korea praises the “July 1 Measures” as the “epoch making reform measures, which include the following aspects.

*Greatly Adjust Prices.* The aim of price adjusting is to make prices reflect the true value of commodities. In the past the prices of commodities were based upon those of electricity and coal, and now are based on the prices of grain in stead. In the past the grain was purchased at 0.8 won (North Korean currency)/1kg and sold at 0.08 won by the government. Now the government purchases at 40 won, adds 4 won as the expenses of circulation and sell at 44 won. The current grain price is approximately in line with the market. The reform of commodity prices covers all products. For example, the price of corn is adjusted from 0.49 won/1kg to 20 won/1kg; 40 won for soybean; 110 won for pork (with bone); 170 won for boneless pork; 180 won for chicken. The price of coal is adjusted to 1500 won/ton, 44 times more than the original price; 2100 won/kw for electricity, 60 times of the original price. The prices of coke, steel plate and rubber are raised to 45 times of the original; gasoline and kerosene prices rise to 70 times.

*Greatly Adjust Wages.* The monthly wages of workers are raised 18 times from 110 won to 2000 won; the wages of researchers and government officials are raised 19 times more than the original. In the past when the monthly wage was 110 won and the grain price was only 0.08 won/1kg, the living expenses (for purchasing grain) only accounted for 3.5% of the monthly wage. One day’s wage may buy the grain for a

month. So when the grain crisis appeared, many workers left their units to do some small business. The price adjustment of this time has made the living expenses account for more than 50% of the monthly wage, and the workers have no other recourse but to rely on their wages. And besides, the formerly free housing, electricity and water all have to be paid for now.

*Initiate the Limited Self-reliance of Enterprises.* In the past, the basic criterion for enterprise performance was the output of production, but now it has been changed into the results of entrepreneurial management. The decision-making power of the enterprises is greatly enhanced in order to make them real independent entities. The enterprises may freely dispose the part of money that exceeds the planned revenue, and they may even grant bonus. The enterprises are entitled to making management plans with the complete independent accounting system. The enterprises are to be responsible for their own profit and loss; no subsidies shall be received from the state.

*Markets for Raw Materials Opened.* Markets for raw materials are opened in those hotels catering for foreigners, mainly dealing in construction materials and mechanical and electronic products. The types and scope traded in those markets are designated by the government, not by individual shops.

*Currency Depreciation.* The exchange rate is changed from 1 dollar: 2.16 won to 1 dollar: 150 won.

North Korea claims that the aim of the reform is to “break the equalitarianism and establish an economic accounting system pursuing real profits”. North Korea admits that its productivity cannot reach 50%, and the low productivity is due to the backward technology and the equalitarian distribution system. The equalitarian distribution system was practiced in the past because of the devastation caused by the war, the extreme shortage of labor and commodities. Equalitarianism was an inevitable political choice when no effective solution could be found for the shortages of various kinds.

### ***Special Regions Opened***

In September, 2002, Xinyizhou was designated by the North Korean government

as a special administrative region. In November of the same year, the standing committee of the Supreme People's Congress passed "Kaicheng Industrial Region Act" and "Jingangshan Tourist Region Act", designating the city of Kaicheng as a special industrial development area, and the region of Jingangshan as a special tourist area.

### ***The Relationship between the Central and Local Governments***

The State Planning Commission is only responsible for the military industries and the backbone industries. All other aspects, including planning, production, consumption and pricing, are to be determined by local governments.

*The above mentioned measures of reform have yielded preliminary results, but crises are lurking in many areas.* The financial burden of the state has been lessened, the productive enthusiasm of the workers and farmers alike has been picking up. Such products as coal have seen increased output, and the waste of public property has been somewhat reduced. However, the inflation and the structural problem of the macro economy are threatening or will threaten the undergoing reform.

*The First Threat is Inflation.* The stable supply of food and other life necessities is the foremost pre-condition for the success of the reform. The backward production facilities and the severe shortage of raw materials render North Korea unable to meet continuously the demands of the market. The sign of inflation has appeared and is increasing due to the shortage of commodities and the fact that the money (savings) in the hands of the people has flowed into the market. For example, the price of a roast chicken in the market has reached 1250 won. The monthly wage of an ordinary worker is not enough buy two roast chickens.

*The Second Threat comes from the imbalance between the Military Industries and the Overall Economic Structure.* At the present, the military industries (direct and indirect) of North Korea account for too big a proportion in the overall economy. Therefore, the success of North Korea's economic reform depends on the transformation of the military industries into civilian industries; otherwise the macro economic structure will not be able to conform to the objective of the reform. The

civilian transformation of the military industries shall not compromise the national security. And the international environment North Korea is faced with makes it impossible to transform its military industries into civilian ones, which is the basic restrictive factor of North Korea's reform.

### **Nuclear Development and “Asymmetrical Determent”: International Survival Strategy**

#### ***The Nuclear Development is the Strategy of Asymmetrical Determent***

After the Cold War, North Korea was reduced to a state of seclusion for various reasons. North Korea chose the way of nuclear development to get out of the crisis. In December, 1985, North Korea promised to the former Soviet Union to join the Treaty on the Non-Proliferation of Nuclear Weapons under the condition that the Soviet Union should provide four light water nuclear reactors. In January, 1991 the Soviet Union established diplomatic relations with South Korea. And North Korea indicated that the former triangular system of North Korea, Soviet Union and China has been threatened, and it has no other recourses but to seek special weapons to protect its safety which can no longer be secured from the existent friendly countries. So the nuclear development is the major means to deter the US from threatening its national security and system. Without exclusion of the threat to its national security and system, North Korea will not give up its nuclear development plan.

#### ***The Nuclear Development is one of the Measures to Survive the Economic Crisis***

The large scale nuclear development coincided with the strategy of opening to the outside world.

After the nineties, North Korea implemented attentive reform measures of its system with a view of revolving the economic crisis, and introduced competitive mechanisms into its system. What North Korea is most short of is capital and technology. Since the nineties, especially after North Korea declared its withdrawal from the Treaty on the Non-Proliferation of Nuclear Weapons, the nuclear

development has become a bargaining card with the US to get more direct or indirect aid.

### ***The Internal Crises and the Asymmetrical Determent Strategy***

The basis of political legitimacy has been faced with grave threats due to the long-term shortage economy and the severe economic crisis since the nineties. To a certain extent, creating international tensions deliberately has become an important method to divert the domestic attention and relieve the internal crises.

The nuclear crisis provides so-called reasons for the military-centered politics, which in effect is a basic means to overcome the potential domestic political crisis.

### **To Survive or to resolve the Crises: Conclusion and Discussion**

Can the three survival strategies-the Military-centered Politics, the July 1 Measures and the nuclear development-resolve the crises facing North Korea?

*The “Military-centered Politics” is only a crisis management regime during special periods of time, and it is not the basic political system that North Korea claimed for the period of the socialist revolution and construction.* “The “military-centered” politics must prove effective before it can acquire legitimacy. The political stability and the all round opening to the outside world are the basic political prerequisite before capital and technology can be introduced from the outside in a short term. However, the “extreme conflict” is the logical starting point of the “military-centered politics”, which means the key problem the country faces is the threat to its security and system from the reactionary power both home and abroad. Under such logical pre-conditions, it is impossible for North Korea to open up and introduce capital and technology in a short term from the outside in order to improve its economic situation. And besides, the all round opening up to the outside world may directly impair the supreme status of the military and therefore the military-centered politics.

*The July 1 Measures contain a fundamentally restrictive factor: at present, the*

*military industries (direct and indirect) of North Korea account for too big a proportion in the overall economy. Therefore, the success of North Korea's economic reform depends on the transformation of the military industries into civilian ones; otherwise the macro economic structure will not be able to conform to the objective of the reform. The civilian transformation of the military industries shall not compromise the national security. And the international environment North Korea is faced with makes it impossible to transform its military industries into civilian ones, which is the basic restrictive factor of North Korea's reform.*

The nuclear development creates obstacles for the opening to the outside world, directly hinders the introduction of capital and technology, and prevents the July 1 Measures from being continually pushed forward. On the other hand, the abdication of nuclear development will destroy the legitimate basis for the “military-centered politics”. For the “military-centered politics” is based on the pre-conditions of “tensions of foreign relations” and “external pressures”.