Policy Memo

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RE: Realistic Engagement With North Korea

As the countries in the six-party talks work feverishly to turn the February 13 agreement into a concrete and workable plan that will lead to the denuclearization of the Korean peninsula and the integration of the Democratic People’s Republic of Korea (DPRK) into the international community, much will hinge on key decisions that policymakers in the DPRK will have to make on its nuclear program and the nature of its integration into the international community.

A great deal of uncertainty exists in the US policy community about decision making in the DPRK. To shed light on these issues, the Stanley Foundation and the University of California’s Institute on Global Conflict and Cooperation convened a workshop in Washington, DC, on February 22, 2007, entitled “Realistic Engagement: What Do We Know About Economic and Political Decision making in the DPRK?”

The workshop brought together academics, policy analysts, current and former government officials, journalists, and business executives from the Asia-Pacific region, Australia, Europe, and the United States who closely follow the DPRK to provide their insights into the opaque world of economic and political policymaking in that country. This memo provides a brief summary of recommendations offered by participants in the workshop.

Economic Conditions and Decision Making

The DPRK is caught in a tug of war between the maintenance of a command economy and the development of a market economy. The transition, which has been under way since 2002, has been difficult but is moving forward. While market forces are pushing up from below, in the prevailing top-down hierarchy this pressure is creating a clash of very different systems.

The economy is described as being fragmented into four distinct sub-economies that largely function in isolation and competition from each other. These different economies are controlled and serve different constituencies: the military, the party, the palace elite, and the state. In the competition for resources, little information is shared among them.

An absence of accurate and reliable statistics is a serious barrier to sound economic policymaking. Even senior DPRK state economic policymakers are said to have difficulty in obtaining statistics and DPRK Department of Statistics is among the most heavily guarded institutions in the country.

DPRK leaders from Kim Il Sung to Kim Jong Il have micromanaged the country’s economy. On-the-spot directives issued by the “Dear Leader” are taken as gospel and the requirement to go to the top for approval for nearly every economic decision has created internal bottlenecks.
The understanding of senior officials in charge of key economic portfolios is poor because of a lack of exposure to the outside world. This may make it very difficult for key decision makers to fully appreciate the nature of economic benefits offered in the six-party talks, or to undertake successful and beneficial negotiations on these issues. One participant said that the head of the DPRK’s Central Bank once asked for an explanation of the difference between micro- and macro-economics. Another example of nonsensical economic policy is the pegging of the official currency exchange rate with the US dollar to Kim Il Sung’s birth date.

This lack of economic expertise helps to explain why North Korea has one of the world’s worse track records for debt repayment and why inflation is eating up its money.

This is a grim picture, but there are a few bright spots. The traditional command/planned economy is being slowly superseded by a more reform-oriented process. At the beginning of this year, editorials in the DPRK media stated a willingness to engage in economic experimentation and emphasized the importance of focusing on economic welfare.

Other signs of economic opening up include the provision of community services by banks and the use of bank cards in Pyongyang for the first time. The DPRK’s economic reform process is about as far along as China was when it began its economic liberalization in 1978.

Top-level economic policymaking is in the hands of the Inner Cabinet, which comprises the prime minister, three deputy prime ministers, and five ministers from key economic institutions. Within the cabinet, there is a “Birobong” Executive Committee whose portfolio includes dealing with foreign investment and reports directly to the prime minister. This Birobong is a super-committee, and membership is limited to representatives from four “super-ministries”: planning, finance, trade, and labor ministries.

Participants who have had direct access to senior officials at the top of the economic decision-making apparatus said that the DPRK state leadership is “very committed to the economic transition, a term used in preference to ‘economic reform.’”

The military economy is said to be separate from the civilian economy and has many of its own mechanisms to generate economic activity and output. Many military units are said to be involved in civilian production, such as construction and resource mining.

Some participants pointed out that a crucial problem with the DPRK economy is not a lack of infrastructure or resources, but the administration of wrong policies. For example, distorted prices do not provide incentives for efficient growth. Energy, for example, is virtually free in the country, which prevents investment in this outdated sector.

**Political and Military Decision Making**

Panelists pointed to three distinguishing features about the political and military decision-making processes in the DPRK: their informality, compartmentalization of power and functions, and a highly traditional nature.

The leadership dynamics at the top of the DPRK elite are based on informal ties. The key measurement of an official’s status and clout is the official’s personal links to Kim Jong Il and
the official’s formal positions. The second generation of DPRK leaders have the closest associations with the “Dear Leader.”

Another feature of this informality is the ad hoc nature of political decision making. Kim Jong Il lacks a long-term vision. One consequence is a lack of long-term consistency in policies, which are subject to major shifts.

Decision making on political and military issues is less formalized than on economic policies and the overwhelming focus is on regime survival.

A narrowing window of opportunity exists in eliciting change in the DPRK before the country is consumed by the question of the political succession of Kim Il Jong. It is so far unclear who will succeed Kim. His sons are regarded as figureheads and a military leader could emerge as a contender, although this would be a divisive issue.

Kim is currently in his mid-60s. It is estimated that the DPRK has another five years before the succession process begins in earnest. As the international community seeks to build a durable and sustainable nuclear deal, the uncertainty over leadership succession calls into question the long-term commitment of the DPRK to any agreements signed in the near term.

A rigid compartmentalization of the system means there is little interaction and fierce competition between bureaucracies within the DPRK. The military, for example, is largely cut off from the rest of the civilian sector.

There is also strong competition among state ministries for power, influence, and access to resources. Examples of intense bureaucratic rivalries among agencies include those between the Foreign Ministry and Foreign Trade Ministry as well as between the Ministries of Culture and Education.

The “military first” ideology continues to be dominant, and the Korean People’s Army (KPA) wields enormous influence in policymaking. The KPA leadership is seen to be inward-looking and has a hostile perspective toward the outside world. The National Defense Commission is regarded as one of the key decision-making bodies in the country, although it has become increasingly dysfunctional in recent years. The military, not the Communist Party, is the core constituency of the DPRK political leadership.

The DPRK is viewed to be more of an imperial system rather than a modern revolutionary socialist state. There is considerably more deference to the paramount leader in the DPRK than in other authoritarian systems. One panelist compared the DPRK to a South Korean Chaebol (major conglomerate) in which the head of the company enjoys absolute power.

Another panelist described the DPRK as a “mixture of red Confucianism with extreme nationalism.” The regime was viewed not as a dynasty but as a clan and there was little association with Marxism.

The importance of the Korean Workers Party has steadily declined; its role has been diminished to that of a mass party whose key purpose is to mobilize the country to support the leadership.
**Workshop Recommendations**
A number of recommendations were put forward at the workshop:

- Help the North Koreans to help themselves. The quality of DPRK economic decision making must be elevated if the nuclear agreement is to be sustained so DPRK decision makers can make informed choices and better understand the potential benefits being placed on the table.

- Support continued economic transformation. An economic package negotiated at the six-party talks should not undermine transformation but provide greater incentives to comply with denuclearization and “give the DPRK an alternative vision they can believe in.”

- Take a more diplomatic approach. “Diplomatic relations is not an award, it is the way countries do business,” said one participant. Technocrats would have more weight if the United States had a more diplomatic approach as it did before 2001.

- Shift the focus and context of external aid from humanitarian support to development assistance.

- Provide technical assistance. The DPRK needs technical assistance that will allow them, for example, to establish a proper statistics system and improve their ability to price their goods and services. It is possible to do this without using computers or violating sanctions.

- Lay the groundwork for engagement from the International Monetary Fund (IMF). In terms of investment and economic support, the IMF is more critical to the DPRK than the World Bank.

- Beware of stovepipes. Efforts by outsiders to engage with the DPRK are often captured by, and end up benefiting, just one department of the country’s structure and not the whole system.

- Encourage the DPRK to study and make use of the economic success stories of its neighbors. South Korea offers one of the best economic models for North Korea to follow, as does China.

- Develop modalities for military transparency. Consider restoration of the Missing in Action program abandoned by the Bush administration. This program, which was to account for US military personnel missing during the Korean War, provided some limited contact between the DPRK and US militaries.
This policy memo provided top-line results of the major trends, challenges, and policy recommendations intended for US policy on North Korea developed at a February 22, 2007, workshop in Washington, DC, entitled “Realistic Engagement: What Do We Know About Economic and Political Decision Making in the DPRK?” The workshop was convened by the Stanley Foundation and the University of California’s Institute on Global Conflict and Cooperation.

The analysis and recommendations included in this memo do not necessarily reflect the views of the Stanley Foundation, the University of California’s Institute on Global Conflict and Cooperation, or any of the workshop participants, but rather draw upon the major strands of discussion put forward at the workshop.

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