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### **Inside North Korea: A Joint U.S.-Chinese Dialogue**

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The signing of a joint statement of the Six-Party Talks laying out principles for resolving the nuclear issue on the Korean peninsula has proved to be a preliminary, yet important step toward the elimination of nuclear weapons.

Details such as the scope of inspections of North Korean nuclear facilities, the sequence of implementation of the commitments outlined in the agreement, and decisions on how the cost of energy aid will be shared have yet to be worked out.

Whether observers are optimistic or pessimistic about the prospects for the complete dismantlement of North Korea's nuclear weapons and its existing nuclear programs depends on many variables, including assessments of North Korea's intentions, which is inextricably related to its domestic political and economic situation. To better understand respective perspectives in the United States and China on internal developments in North Korea, the U.S. Institute of Peace and the Center for Strategic and International Studies, in partnership with the China Institutes of Contemporary International Relations, convened a daylong conference on July 15, 2005.

Although North Korea remains shrouded in secrecy, it is clear that changes are underway in its economy and society. What has been the effectiveness of reform measures initiated under Kim Jong-Il in July 2002? To what extent has North Korea succeeded in improving the economic situation? What are the negative byproducts of that effort? Is the current regime secure and confident in its rule? What is the likelihood of a regime transformation? What is the role of China in North Korea's economic reform and political developments? American and Chinese panelists addressed these questions on North Korea's internal environment and then examined the implications of their findings for the resolution of the nuclear crisis at this conference. This USIPeace Briefing summarizes key findings, cites agreements and divergences among panelists, and analyzes the implications of the discussion.

#### **The North Korean Economy: Alarming Plight or Hopeful Recovery?**

The reduction in subsidies and trade from socialist countries, resulting in widespread famine and negative growth rates, hit the North Korean economy hard in the late 1990s. The famine and continued autarchy led to widespread speculation about regime stability. Yet North Korea's regime did not falter and instead launched preliminary, yet broad-based economic reforms in July 2002 that affected agriculture, wages, management in enterprises, and the exchange rate. The reforms were a hopeful sign to many that North Korea might embark on a more liberal, market-driven economy, which might lead to the opening up of the economy and eventual relaxation of political control. Conference participants agreed that the reform was strategic at least in intent. Initial signs of change appeared in the 1990s although the reform did not begin in earnest until 2002. So far, reform has focused on agriculture and enterprise management practices, but Chinese experts also mentioned legal reforms, such as laws guaranteeing foreigners' property rights to real estate in Mount Kumgang, as confirmation of its wide scope. The government ceased issuing rationing

coupons for many consumer products, stopped setting production quotas for many factories, and allowed the market to determine prices for selected products. Radical changes in the incentives system transformed relations between the state on one hand and the household and enterprise on the other. In agriculture, the size of the basic production unit shrunk from about twenty people to three or five, which reminded experts of the early reforms implemented in China where they foreshadowed bolder steps.

The verdict is still out, however, on whether North Korea's reform measures improved or worsened the economic situation. The American presenter believed that the current reform measures fall far short of pulling North Korea out of the classic poverty trap, where the growth in income is insufficient to replace losses in existing capital stock. The reform has not stimulated real growth; on the contrary, it eroded purchasing power of the household and made the poor even poorer. The eased economic situation resulted primarily from the influx of international aid and increased trade with China and South Korea and only to a limited extent from the market-oriented reforms. The assessment offered by the Chinese expert, on the other hand, was considerably more positive, emphasizing the expansion of North Korean trade and new policies aimed at attracting foreign investment.

Although the two presenters differed in opinion on the overall efficacy of the reforms, panelists from both countries agreed the reform plan had failed so far to meet expectations. The reasons, according to Chinese participants, lie in a leadership largely distracted by security concerns and in cosmetic, technical reform measures designed merely to relieve the pressing food shortage, and not to address the fundamental ownership issue in agriculture. Relaxing distribution control but withholding ownership rights led to inflation. There was agreement that physical constraints, such a dearth of arable land, would limit the success of any agricultural reforms and an American scholar highlighted the tri-fold challenge faced by industries of inadequate training for managers, lack of access to financing, and an infrastructure bottleneck. American participants also expressed concern over the social dislocation resulting from the reforms, especially since many people are no longer protected by the traditional social safety net.

Countering a contention by the American presenter that the food situation has worsened, Chinese scholars pointed out that the chronic food shortage in North Korea, stemming from both policy neglect and a harsh natural environment, has abated and supplies have stabilized. Estimates consistently put North Korea's food shortfall at 1.5 to 2 million tons, but there are no longer reports of starvation. The strategic effect of the prolonged food shortage will be felt more acutely in a decade, when the malnourished children fill the ranks of the military and compromise its effectiveness.

The flourishing economic relationship between China and North Korea and shifts in the structure of bilateral trade spurred questions about Beijing's intentions. Chinese scholars explained that economic activities between the two countries consisted of both private-sector trade and investment as well as local and central government assistance in food and energy—the former driven solely by profit, and the latter to maintain the stability of North Korea. Most of the bilateral economic activities evolved on their own, to exploit the advantages of close geographical proximity and the opportunities presented to Chinese companies by North Korea's reforms.

Chinese scholars urged better coordination between China and the United States on their economic policies and approaches in order to help North Korea achieve sustained economic growth. Experts on both sides underscored the importance of outside assistance and investment for the economic recovery of the North and stressed the need for the trade and aid from Japan to North Korea to continue.

### **The Regime in Pyongyang: Demonstrably Resilient or Near the Tipping Point?**

Kim Jong-Il's rise to the position of supreme leader of North Korea was initially greeted with skepticism, yet his more than ten years in power have seemed secure. However, with external and internal pressures mounting, questions arise over the legitimacy of the regime as well as the likelihood of various scenarios for its future: will it remain isolated and totalitarian or edge toward liberalization? Will the regime undergo an internally driven transformation or forceful collapse? What implication do these outcomes cast

on the resolution of the nuclear crisis and the future of the region?

Both American and Chinese scholars repeatedly pointed out that, in many ways, North Korea's political stability and national security are inextricably intertwined with its economic policies. Not only is the continuing economic reform an encouraging sign that the regime may have already opted for greater liberalization, the economic deprivation of the state also presents a clear choice to Kim Jong-Il: either survive through reform and compromise, or face certain collapse. Regime survival will depend on economic reform and a resolution of the nuclear crisis, according to panelists on both sides.

Several scholars referred to North Korea's uniqueness to explain its seemingly intransigent policies. The country is small, weak, and poor, and has survived in isolation and oppression for so long that conventional rationality often fails to explain its behavior. At the same time, Chinese scholars noted that North Korea is no different than other countries when it comes to making strategic decisions. Kim Jong-Il cannot possibly fail to recognize that his own survival is at stake if present conditions persist.

Experts on both sides agreed that despite challenges on multiple fronts, the regime has demonstrated resilience and staying power and its short-term survival is all but certain. Kim Jong-Il secured his authority and rule through a combination of appointing trusted officials, dishing out personal favors to political and military elites, and controlling the people through political monitoring and cultivation of habitual loyalty. No credible opposition has formed in the government or society, and the military remains loyal to Kim. Given the many crises the government has weathered, current internal and external problems are unlikely to precipitate a collapse of the regime.

That is not to say, however, that the regime is free from worry. The measured economic reform already unleashed polarizing forces in society that challenged people's value systems, created schisms among the new rich and the new poor, and bred discontent in the form of sabotage and anti-government slogans. The military is now compelled to oversee more closely the operation of many factories and other economic units. The surge in escapees, numbering in the thousands in South Korea and as high as 300,000 in China according to some estimates, also indicates distress in the system.

Kim Jong-Il is keenly aware of these forces of instability and fearful of the impact greater relaxation of control may have on his rule. This fear explains his great sensitivity to remarks by U.S. officials that label North Korea an outpost of tyranny and call for human rights improvement in the country. A few experts noted that North Korea has foregone more extensive reforms and has opened up to the outside world precisely because Kim understands the fragility of the polity to the inflow of information, ideas, and people. In his eyes, a peaceful evolution campaign would render the same outcome as a direct military intervention by the U.S.—regime collapse. Both American and Chinese participants agreed that prolonged economic difficulties and external pressures could conceivably reach the tipping point in the future. It is premature, however, to identify a particular set of circumstances or timeline for this possibility.

So if North Korea is at a crossroads, what direction does Beijing want to see it follow? China seemingly provides the best model for North Korea to emulate, yet according to one Chinese expert, certain differences have prevented North Korea from choosing the Chinese model so far. North Korea does not enjoy the favorable relations China had with the U.S. and Japan at the early stage of its reform, nor does it have the experience of experimenting with different models of development as China did. North Korea also needs to overcome the fear of absorption by South Korea and the challenge of trying to catch up to an already highly globalized and integrated world. What China can do, and other countries can do in parallel, is to create a favorable environment for North Korea so it can confidently choose a better path. As the Chinese expert put it, China wants to see the regime transform to a socialist country with North Korean characteristics, but it will ultimately have to decide its future on its own.

Discussion of leadership succession was deemed premature, but several opinions were offered. For some Chinese experts, it seems logical that Kim Jong-Il will choose some form of collective leadership to succeed him, since his own legitimacy suffered from inheriting the throne from his father. Several American

scholars disagreed. They maintained that hereditary succession is neither as unusual nor ill-advised as one might think; for a country so used to one-man rule, opening up the succession process might plunge the country into chaos. Certainly, the debate on what form the succession might take has yet to take shape.

### **Whither the Six-Party Talks?**

The exchange of opinions on the state of the North Korean economy and politics led to a spirited discussion of Pyongyang's intention in creating and driving the nuclear crisis. Some Chinese experts believed that given the economic troubles of the state, the obvious recognition by the regime that its survival is at stake, and the security concerns holding back further reforms, North Korea sincerely intends to use its nuclear programs as a chip to be bargained away for economic compensation and improved relations with the west. Nuclear weapons may rally the people but not feed them, and North Korea is doing all it can to raise the stakes for the U.S. but also avoid self-destruction, which is inevitable if it proceeds to conduct a nuclear test. In the end, Kim Jong-Il has no option but to strike a deal that will maximize rewards for Pyongyang.

Others, however, were more pessimistic. One noted that the bargain might only be honored conditionally. If economic difficulties have brought North Korea to the negotiating table, what would happen if such difficulties were to ease and Pyongyang no longer had the pressing need for assistance? Pyongyang may then choose to withdraw from the bargain.

Now that the six parties have agreed on a joint statement of principles, the arduous talks will begin on the sequencing of North Korea's declaration, the dismantling of its nuclear programs, and the provision of assistance by the other five nations. Based on this discussion between American and Chinese experts, it can be anticipated that while some differences between the U.S. and China will persist, the two countries will nevertheless continue to cooperate to realize their shared goal of a nuclear-free Korean peninsula. Chinese participants emphasized that removing nuclear weapons as well as preserving stability on the Korean peninsula are critical priorities for Beijing, and they pledged to continue this dialogue with their American colleagues in an effort to enhance our mutual understanding of North Korea.

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