

North Korea in the 1970's and 80s and the Collapse of the Socialist Block

North Korean Society

Clark W. Sorensen

January 23, 2018

Initial Northern Unification Policy

- Capital to P'yöngyang in 1972
- 1946 ideology—North Korea a “democratic base” 민주기지 in a country undergoing revolution—anti-imperialist, anti-feudal
 - Strategy—to unite with anti-government critics in the South to seek unification under northern rule
 - DPRK assumed south would collapse under its own contradictions
- DPRK authorities thought the 1960 student revolution would be the opportunity for uniting with a left-wing South Koreans
 - Leaders of South Korea's student revolution were as much motivated by interest in democratic process as by interest in socialism and unification
 - i.e. the DPRK authorities misread much of the nature of the 1960 student revolution
 - DPRK occupation of Seoul and the south in 1950 had soured many South Koreans on the DPRK system
 - Park Chung Hee coup in 1961 scotched any further revolutionary potential
- By 1972 with Park Chung Hee firmly in power the DPRK no longer thought ROK would collapse

Breaking Out

- Armstrong in Chapter 6 calls the seventies a period of “breaking out”
 - Search for capital in Western investment
 - Participation in nonaligned movement
 - Juche in Africa
 - “Victory” at the UN in 1975
- Failure?
 - Juche an attitude rather than development model
 - North Korea was proving a relative economic failure
 - Juche diplomacy was designed for domestic consumption

Analysis of Economic Systems

- Ownership of means of production, coordination mechanism, organized economic institutions
- Capitalism
 - Private ownership of means of production
 - people act in terms of self-interest
 - markets coordinate “insatiable demand with limited resources” through the pricing system
 - private property and contract protected by law
- Socialism
 - State ownership of the means of production
 - People supposed to act according to state incentives and the public good (non-material incentives such as mass mobilization programs)
 - Bureaucratic mechanisms coordinate production and consumption (like the PDS and the central plan that provides resources and quotas for firms)
 - Contract not protected by law

Inefficiencies of Socialism

- Without a true pricing system set by the market, there is not enough information to coordinate the economy efficiently
- Socialists argue that through trial and error they can allocate inputs in the most efficiency manner
 - This assumes that all actors (state, firms, households) have the same interests and information, but in real life this doesn't happen
 - Shortages caused by retail price subsidies (leading to hoarding), and “siphoning” (overpurchases by firms)

Households

- Households operate side businesses to make ends meet
 - Over-buy things in stock to later trade for scarce items
 - Leave work to buy things in stock (or line up)
 - Use household production for the gray market
- This creates a “second economy” outside central planning (NB we will be using the term “second economy” for other purposes in this course, and instead will call this the “informal economy”)
- Once the informal economy is in place workers have an incentive to shirk work in the formal economy in favor of the informal economy

Firms

- Planners determine firm's quotas by looking at past production
 - High production in one period will lead planners to “ratchet up” quotas, so managers have an incentive to underproduce
- Soft budget constraints (Kornai)
 - Firms generally can't go broke, so if they run out of money the state is forced to give them more
- Diverting production into the informal economy
 - Since state-set prices are often low, firms have an incentive to divert production from the state sector to the informal economy where prices are higher

Reform or Collapse?

- Reform to increase efficiency
 - Improve the coordination method by introducing markets and a pricing system
 - Hard budget constraints can lead to bankruptcy of inefficient firms—but this leads to unemployment
- Collapse
 - Partial reform can lead to collapse as state firms divert more and more of their production to the informal economy
 - Neither plans nor the market coordinate the economy
- Difference between China and Russia
 - Russian perestroika did not discipline state firms—informalization led to corruption and organized crime (firm management had autocratic power)
 - Chinese reforms allowed a market sector to grow while holding SOEs to the central plan, keeping crime and corruption at lower levels

DPRK's problems of recognition

- Internationally DPRK and ROK competed for recognition
 - No country could recognize both
- UN initially an obstacle for DPRK because it recognized only ROK as legitimate
 - In sixties and seventies with the admission to the UN of many newly freed colonies (3rd World countries), the situation began to change
- DPRK began to look to new countries in Southeast Asia, South Asia, Middle East, and Africa as sympathetic partners

US Intervention in Vietnam and the Sino-Soviet split became a concern in the 1960s

- 1961 Non-aligned movement organized in Belgrade
 - Tito (Yugoslavia), Nehru (India), Nasser (Egypt), Nkrumah (Ghana), and Sukarno (Indonesia)
- 1961 US begins intervention in Vietnam
 - 1965 ROK sends troops to Vietnam at US request
 - DPRK responds with modest aid to DRVN
- 1967 DPRK-ROK border clashes
- 1968.1.21 Commando Raid on Blue House
- 1968.1.23 USS Pueblo captured by DPRK

Reconfiguration of East Asia in wake of Shanghai Communique

- 1965 KIS and KJI to Indonesia for KIS honorary degree
- 1968—DPRK estranged from China due to the Cultural Revolution, but not willing to fully join the Soviet camp
- 1969.11.3 Nixon Guam Doctrine
- 1971 relations with Yugoslavia
 - DPRK had condemned Yugoslavia through 1966 as revisionist (following SU)
- 1972 Shanghai Communiqué
- 1973.6.23 President Park proposes simultaneous entry to the UN

DPRK Turn to the Non-Aligned Movement

- 1975 KIS invited to Algeria for honorary degree
 - Algeria had held NAM summit in 1963
 - Later that year—KIS visited China, Rumania, Algeria, Mauritania, Bulgaria, Yugoslavia
- 1975 DPRK joins nonaligned movement (along with DRVN and PLO—ROK rejected)
- 1975 Pro-DPRK UN resolution
- 1976.8.16-19 Colombo Summit of NAM
 - DPRK too aggressive, electronic equipment anchored in harbor an issue
 - 1976.8.18 Ax murders of US soldiers at P'anmunjŏm
 - 24 written objections to pro-DPRK Colombo resolution
- By 1981 NAM no longer viable for DPRK
- 1983.6 KJI secret tip to China as Seoul awarded Olympics

Visit Diplomacy to DPRK

- 1970 Zhou En-lai
- 1971 Sihanouk
- 1975 KIS to China, Rumania, Algeria, Mauritania, Bulgaria, Yugoslavia
- 1977 Pol Pot, Honeker, Tito
- 1978 Ceausescu
- 1986 Castro

2nd 7-Year Plan 1978-1984

- Had been sent to SPA without extensive KWP CC discussion
- No particularly notable new initiatives
- Target goals for electricity, coal, steel, cement, minerals, fertilizer, grain, fabric, etc.
- West Sea Barrage (KJI initiative)
- But continued problems with foreign credit and oil shocks

Panorama of West Sea Barrage 1991



Locks of West Sea Barrage in 1991



New Cold War?

- 1979 Soviet invasion of Afghanistan + Ronald Reagan 1980 election
- From Juche to Kim Il Sung-ism 김일성사상
 - >Armstrong→”Juche in ideology, independence in politics, self-sufficiency in the economy, self-reliance in defense” + ideology and Suryŏng (KJI 1974)
 - Later 1982—inheritance of KIS revolutionary movement
 - End of anti-imperialist solidarity—DPRK wants to deal with Russia, China, and the US

South Korean “Nordpolitik”

- Seoul Olympics in 1988 in which East European countries participated
- Seoul announced it would like ties with any country and would not require breaking ties with the DPRK
 - Hungary February 1st 1989 (Poland also 1989)
 - 1991 Russia, Estonia, UN (China didn't veto so DPRK consented to joint entry of DPRK and ROK)
 - 1992 China, Vietnam, rest of CIS

Signs of Economic Stress

- Three year adjustment period announced after end of 7-year plan in 1984
- North Korea formally refuses to pay foreign debts
- Accounting reforms 1984
 - Money accounting, firm autonomy 독립채산제, direct sales outlets 직매점 for factories and cooperatives
- Joint Venture Law 1984
 - DPRK institutions allowed to participate in joint ventures with foreigners with limited liability (aimed at Rajin-Sŏnbong)
- August 3rd [1984] Consumer Goods Production Movement
 - KJI visits light goods factory 1984.8.3
 - Local areas to use surplus goods and workers to produce consumer goods outside state plan
 - In reality, redundant (often female) labor used to produce consumer items by factories and businesses

3rd 7-Year Plan 1987-93

- 1987.4.21 adopted by 8th SPA
 - Specific targets for 1993 equal to or smaller than for 1989
 - “material and technical foundation for the complete victory of socialism”
 - 주체, 근대화, 과학화 Juche, modernization, scientificization
 - Emphasis on independent accounting system, but equal emphasis on ‘political work’
 - Trade with Soviet Union and Choch’ŏngnyŏn critical
- 1987 DPRK first country to be formally declared in default on foreign loans

Economic Response?

- Marginal adjustments to improve system
- 1984 DPRK stops paying interest on foreign loans
- August 3rd (1984) People's Consumer Goods Production Movement
 - Makes local Party committees responsible for providing consumer goods
- Economic reforms
 - Firm autonomy
 - Money accounting
 - Foreign direct investment
 - Direct sales outlets allowed for factories and cooperatives
- 1987 North Korea declares bankruptcy and refuses to pay loans at all

Terrorist attacks on South Korea

- 1983.10.9 Rangoon Bombing
 - Chun Doo Hwan visiting Rangoon when a bomb went off at Mausoleum to Aung San (founder of independent Burma in 1947)
 - 21 killed, among whom 17 were ROK (though Chun was late and unhurt)
 - Two North Koreans captured, one confessed to being DPRK military who was aided by DPRK diplomats
 - Burma broke diplomatic relations with DPRK and China reprimanded
 - Joseph Bermudez says Kim Jong Il was in charge of military operations against the ROK at this time
- 1987.10.7 KAL 858 Bombing
 - Order reported to be from Kim Jong Il
 - North Korean put on State Department terrorist list

Timing of Diplomatic Initiatives

- With ROK?
 - 1972-3-- realignment in Northeast Asia due to US-China rapprochement
 - 1984-5--failure of 2nd 7 year plan and announcement of Seoul Olympics
 - Rangoon bombing and previous China initiative on 3 party talks but negotiations on Olympics failed by 1987
 - 1990-1--in the wake of the Gorbachev-Roh meeting, establishment of Russian-ROK Diplomatic relations 1990.9.30, joint admission to UN
- With larger world?
 - 1975-6--with NAM—in wake of foreign debt crisis and failure of “economic opening to West”
 - 1984--with Soviet Union—to get military and economic aid for failure of second 7-year plan in wake of debt abrogation

Meanwhile in China

- 1976 Mao Zedong dies
- 1978 Deng Xiaoping loosens control over rural markets and prices
- 1982 decollectivization becomes national policy and *getihu* (independent households) begin to emerge —'market socialism'
- 1989 death of Hu Yaobang and visit of Gorbachev led to Tiananmen protests put down on June 4, 1989
 - Result for China—*perestroika* but not *glasnost* (economic restructuring without political opening)
 - 1992 Deng's Southern Tour got economic reform rolling again

Meanwhile in Eastern Europe

- January 1989 Hungary voted for independent trade unions and multiparty democracy
- April 1989 Poland agreed to reforms and new elections in June
- May 1989 Hungary began dismantling fences with Austria
- By September 1989 more than 30,000 East Germans had fled via Hungary to the west
- Honecker of Germany wanted to use force, but Gorbachev visited in October and this precipitated a coup against Honecker
 - November 3, 1989 Berlin wall opened
 - October 3, 1990 East and West Germany united

Meanwhile back in the Soviet Union

- Demographic pressure (Russians barely 50.78% of Soviet Union population)
- ‘1989 elections of Congress of People’s Deputies, and 1990 of President of Russian Republic
- 1990-1 Baltic Republics declare independence
 - Lithuania March 11, 1990, Latvia April 5, 1990, Estonia August 20, 1991
- 1991 coup attempt thwarted by Boris Yeltsin and rest of USSR becomes CIS

Russia Recognizes ROK

- South Korean Nordpolitik strategy → sports, trade, diplomacy
- Gorbachev's new thinking" → improved relations with all of Asia-Pacific including ROK
 - 1986 Vladivostok, 1988 Krasnoyarsk speeches
 - South Korea wanted access to Russian natural resources
 - Soviet Union wanted trade and investment from South Korea
- 1990.6 Gorbachev meets Roh Tae-woo in San Francisco (Pres. Bush)
- 1991.9.30 Russian Federation recognizes ROK
 - Soviet Foreign Minister Eduard Shevardnadze visit to DPRK had ended with **DPRK threat to develop nuclear weapons** and they subsequently sped up their time table
 - ROK provided almost \$2 billion in loans to RF (some for ROK exports) and received arms in partial repayment
 - DPRK denounces Russia for selling out socialism for cash

PRC Recognizes ROK

- PRC attended 1986 Asian Games and 1988 Olympics
- By 1991 PRC trade with ROK 7 times that with DPRK
- 1991.5 Li Peng (PRC Premier) visits DPRK
 - Tells them PRC no longer opposes ROK admission to the UN
 - 1991.5.27 DPRK applies for UN membership
- 1991.9 ROK and DPRK both admitted to UN
- 1992.8.24 PRC recognizes ROK (which broke relations with Taiwan)

Two Decades of Crisis?

- And then the world changed (Lankov p77)
- DPRK response?
- Fate of Katya Sintsova (Lankov p82)
 - Seduced by capitalism and an “American” whom she later finds out is a descendant of an old Russian landlord family seeking to get its land back
 - (notice themes of “religious apostasy” and “evil landlords” behind it all)

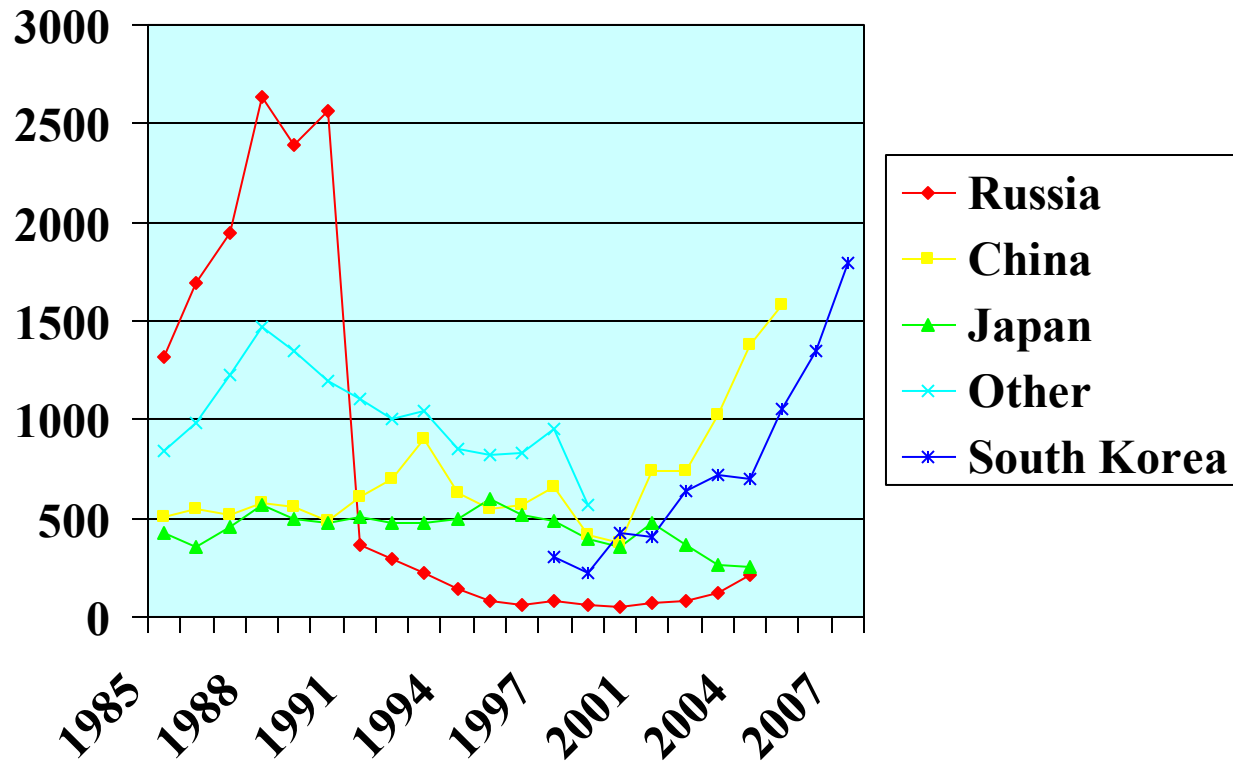
Economic Disaster Begins

- 1991 Russian Federation announces DPRK must pay for goods in hard currency
 - Trade with Russia, DPRK's most important trade partner plummets
 - By 1992 DPRK economy begins to nosedive due to lack of raw material and spare parts
- 1991 Najin-Sŏnbong SEZ announced
- 1992 China also asks for hard currency
- 1991-1999 DPRK economy contracts 40%

Najin-Sonbong SEZ



Changing Trade Patterns



Economic Collapse of the 1990s

