



**NAVAL  
POSTGRADUATE  
SCHOOL**

**MONTEREY, CALIFORNIA**

**THESIS**

**THE IMPROBABLE STATE: THE PROSPECTS FOR A  
DEVELOPMENTAL TURN IN NORTH KOREA**

by

John D. B. Fine

September 2014

Thesis Advisor:  
Second Reader:

Naazneen Barma  
Robert Weiner

**Approved for public release; distribution is unlimited**

THIS PAGE INTENTIONALLY LEFT BLANK

<b>REPORT DOCUMENTATION PAGE</b>			<i>Form Approved OMB No. 0704-0188</i>
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.			
<b>1. AGENCY USE ONLY (Leave blank)</b>	<b>2. REPORT DATE</b> September 2014	<b>3. REPORT TYPE AND DATES COVERED</b> Master's Thesis	
<b>4. TITLE AND SUBTITLE</b> THE IMPROBABLE STATE: THE PROSPECTS FOR A DEVELOPMENTAL TURN IN NORTH KOREA		<b>5. FUNDING NUMBERS</b>	
<b>6. AUTHOR(S)</b> John D. B. Fine		<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>	
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b> Naval Postgraduate School Monterey, CA 93943-5000		<b>10. SPONSORING/MONITORING AGENCY REPORT NUMBER</b>	
<b>9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b> N/A		<b>11. SUPPLEMENTARY NOTES</b> The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB Protocol number ___N/A___.	
<b>12a. DISTRIBUTION / AVAILABILITY STATEMENT</b> Approved for public release; distribution is unlimited		<b>12b. DISTRIBUTION CODE</b>	
<b>13. ABSTRACT (maximum 200 words)</b>  This thesis examines the prospects of North Korean economic reform. It provides a comparative analysis of Chinese conditions that led to the economic reforms implemented by Deng Xiaoping and the conditions that are present in North Korea today. This thesis argues that reform is, in fact, possible in North Korea and that China provides it a viable model with which to do so; however, there are certain criteria that must be fulfilled. This argument takes place in two parts. First, it explores theoretical models of predatory and developmental states. Second, it applies these theories to China and North Korea in order to establish their parallels and determine the prospects for North Korea to become a developmental state.  This thesis establishes that North Korea is not inherently doomed to failure, as many seem to claim. Rather, it is entirely possible for the state to survive and even prosper with the right inputs. Unfortunately, this is an improbable outcome because the leadership continually refuses to provide these inputs. This fact has important policy implications. For, if policymakers can negotiate in pursuit of the common benefit of the regime and the people, it provides greater incentive for cooperation.			
<b>14. SUBJECT TERMS</b> North Korea, China, developmental state, predatory state, economic reform			<b>15. NUMBER OF PAGES</b> 75
			<b>16. PRICE CODE</b>
<b>17. SECURITY CLASSIFICATION OF REPORT</b> Unclassified	<b>18. SECURITY CLASSIFICATION OF THIS PAGE</b> Unclassified	<b>19. SECURITY CLASSIFICATION OF ABSTRACT</b> Unclassified	<b>20. LIMITATION OF ABSTRACT</b> UU

THIS PAGE INTENTIONALLY LEFT BLANK

**Approved for public release; distribution is unlimited**

**THE IMPROBABLE STATE: THE PROSPECTS FOR A DEVELOPMENTAL  
TURN IN NORTH KOREA**

John D. B. Fine  
Lieutenant Commander, United States Navy  
B.S., California State University, Sacramento, 2003

Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES  
(FAR EAST, SOUTHEAST ASIA, THE PACIFIC)**

from the

**NAVAL POSTGRADUATE SCHOOL  
September 2014**

Author: John D. B. Fine

Approved by: Naazneen Barma  
Thesis Advisor

Robert Weiner  
Second Reader

Mohammed Hafez  
Chair, Department of National Security Affairs

THIS PAGE INTENTIONALLY LEFT BLANK

## **ABSTRACT**

This thesis examines the prospects of North Korean economic reform. It provides a comparative analysis of Chinese conditions that led to the economic reforms implemented by Deng Xiaoping and the conditions that are present in North Korea today. This thesis argues that reform is, in fact, possible in North Korea and that China provides it a viable model with which to do so; however, there are certain criteria that must be fulfilled. This argument takes place in two parts. First, it explores theoretical models of predatory and developmental states. Second, it applies these theories to China and North Korea in order to establish their parallels and determine the prospects for North Korea to become a developmental state.

This thesis establishes that North Korea is not inherently doomed to failure, as many seem to claim. Rather, it is entirely possible for the state to survive and even prosper with the right inputs. Unfortunately, this is an improbable outcome because the leadership continually refuses to provide these inputs. This fact has important policy implications. For, if policymakers can negotiate in pursuit of the common benefit of the regime and the people, it provides greater incentive for cooperation.

THIS PAGE INTENTIONALLY LEFT BLANK

## TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	LITERATURE REVIEW .....	5
	A.    DEVELOPMENT, PREDATION, AND TRANSITION .....	5
	B.    THE DEVELOPMENTAL STATE .....	6
	C.    THE CHINA MODEL.....	7
	D.    A NORTH KOREAN COMPARISON.....	9
	E.    CONCLUSION .....	11
III.	DEVELOPMENTAL, PREDATORY, TRANSITIONAL STATES AND NORTH KOREA .....	13
	A.    DEVELOPMENTAL STATES .....	13
	B.    PREDATORY STATES.....	16
	C.    TRANSITIONAL STATES .....	18
	D.    NORTH KOREA .....	20
	E.    CONCLUSION .....	22
IV.	CHINA’S TRANSITION FROM PREDATORY TO DEVELOPMENTAL STATE .....	25
	A.    MAOIST PREDATORY FUNCTIONS .....	25
	B.    CAUSES OF CHANGE.....	28
	C.    DENGIST TRANSITIONS.....	30
	D.    CHINA TODAY.....	34
	E.    CONCLUSION .....	35
V.	NORTH KOREA’S COMPARATIVE PROSPECTS .....	37
	A.    POTENTIAL    NORTH    KOREAN    CAUSES    FOR TRANSFORMATION.....	38
	B.    PRECURSORS TO TRANSITION .....	42
	C.    LACK OF CHOICE, LACK OF PRESSURE .....	45
	D.    CONCLUSION .....	48
VI.	CONCLUSION .....	51
	A.    THE DICTATOR’S DILEMMA.....	52
	B.    TURNING UP THE PRESSURE .....	54
	C.    CONCLUSION .....	56
	LIST OF REFERENCES.....	57
	INITIAL DISTRIBUTION LIST .....	61

THIS PAGE INTENTIONALLY LEFT BLANK

## **LIST OF ACRONYMS AND ABBREVIATIONS**

BNDE	National Development Bank
CCP	Chinese Communist Party
CIECD	Council on International Economic Cooperation and Development
DPRK	Democratic People's Republic of Korea
EPB	Economic Planning Board
FDI	foreign direct investment
GNI	gross national income
KPA	Korean People's Army
KWP	Korean Workers' Party
MITI	Ministry of International Trade and Industry
PDS	Public Distribution System
PRC	People's Republic of China
ROK	Republic of Korea
SEZ	Special Economic Zone
TVE	Township Village Enterprise
USSR	United Soviet Socialist Republic

THIS PAGE INTENTIONALLY LEFT BLANK

## **ACKNOWLEDGMENTS**

For starters, there is no end to the amount of thanks that I owe my family, my wife, Martina, and my son, Jude, for their endless patience and incredible understanding of dates that were missed and playtimes that were skipped in pursuit of this thesis. Likewise, I cannot express enough gratitude to Dr. Naazneen Barma and Dr. Robert Weiner for their guidance and encouragement in this process. It was through their expert instruction and meticulous insight that they inspired and helped bring form to this thesis. Surely, without their help I would not have been able to complete this piece of work.

THIS PAGE INTENTIONALLY LEFT BLANK

## I. INTRODUCTION

On 23 August 2003, the Democratic People’s Republic of Korea (DPRK; known more commonly as North Korea) announced that it had nuclear weapons.<sup>1</sup> North Korea had long engaged in saber rattling and brinkmanship to garner concessions and aid from the international community. The introduction of nuclear weapons into this dynamic, later believed to be confirmed by two underground detonations in 2006 and 2009, only caused the geopolitical condition to become more acute.<sup>2</sup> One strategic study observed of Pyongyang, “[It] proceeded to do its utmost to make the international community, with the United States as the sole superpower, pay more attention to North Korea’s dire economic straits by taking its geopolitical posture more seriously.”<sup>3</sup> So successful was North Korea in this extortion of foreign aid that the United States supplied \$1.3 billion in aid to the hermit nation between 1995 and 2008.<sup>4</sup> This thesis focuses on the question of whether North Korea’s economy will continue to collapse, or whether it holds the potential ingredients to transition to a more developmental orientation, and it argues that North Korea does have the essential conditions for gradual Chinese-style reforms, despite the regime’s apparent lack of interest in enacting such reforms.

At the end of the Korean War in 1953, North Korea was more developed than South Korea. During the Japanese occupation, North Korea was built up with the most modern industrial complex in East Asia. When Korea was liberated seventy-six percent of the Korea’s mines, eighty percent of its heavy industrial capacity, and more than ninety percent of its electrical power plants were on the North side of the border. South Korea mostly contained scorched rice paddies.<sup>5</sup> However, the end of the cold war and

---

<sup>1</sup> CNN Library, “North Korea Nuclear Timeline – Fast Facts,” CNN, accessed 10 August 2014, <http://www.cnn.com/2013/10/29/world/asia/north-korea-nuclear-timeline---fast-facts/>.

<sup>2</sup> CNN Library, “North Korea Nuclear Timeline.”

<sup>3</sup> Edward Olsen, “U.S.-North Korea: From Brinkmanship to Dialogue; Strategic Insights: V2, Issue 4” (Naval Postgraduate School, 2003) 1.

<sup>4</sup> Mark E. Manyin and Mary Beth Nikitin, “Foreign Assistance to North Korea,” *CRS Report for Congress* (26 April 2012): 1.

<sup>5</sup> Victor Cha, *The Impossible State: North Korea, Past and Future* (New York: HarperCollins Publishers Inc., 2012), Kindle edition, 21–22.

warming relations between the People's Republic of China and the United States resulted in the loss of its two primary benefactors, the Soviet Union and China. Between the years of 1990 and 2009, gross national income (GNI) per capita in North Korea shrank nearly twenty percent, from \$1,146 to a paltry \$960 per annum, placing it in the ranks of the world's poorest countries. Over the same time span the country's gross domestic product growth measured in negative digits nearly sixty percent of the time.<sup>6</sup> During this same period, North Korea also became the only industrialized nation to experience a famine that wiped out ten percent of its population.<sup>7</sup>

Assuming that countries and leaders act in their own interest, in whose interest is this situation? South Korea does not prosper from having an irresponsible and petulant nuclear-armed neighbor to its north. The United States would undoubtedly prefer to spend its aid money elsewhere and would prefer not to reengage in open conflict on the Korean Peninsula. Similarly, China neither wants the threat of war on the other side of its border nor does it want millions of disaffected North Koreans flooding across it. Finally, the citizens of North Korea, while surviving, do so only just barely and they would glean more benefit should some kind of economic reform be achieved. Unfortunately, the only party that seems to be garnering any benefit from the status quo is the North Korean regime and the small group of elites it comprises. While their country is withering on the vine, the regime is funneling vast amounts of aid money, supplemented by illicit funds, to pay for a lavish lifestyle.

If this situation is allowed to continue, and the North Korean course is not changed, the United States will carry on investing billions of dollars in aid money, as will the South Koreans and the Chinese. Furthermore, aid will continue to flow in the shadow of nuclear plumes as North Korea continues to use its radioactive brinkmanship to make the rest of the world take it more seriously. Finally, from a strictly humanitarian perspective, should the circumstances in North Korea not change, sooner or later another disaster will occur, or another famine, and the human toll will again be devastating to the North Korean people due to a sheer lack of response capability.

---

<sup>6</sup> Cha, *The Impossible State*, 438.

<sup>7</sup> *Ibid.*, 9.

Therefore, if the status quo is unacceptable to everyone but the Kim regime, what are the possible alternatives? A first is forced regime change and a second is to wait for regime collapse; however, these two are untenable and even less palatable than the current situation. The lessons of Iraq and Afghanistan have clearly tainted any tolerance of occupation or military action on the part of the United States. This was no more clearly demonstrated than in the public sentiment against limited action in Syria in 2012. Should collapse, and subsequently unification, occur the bill would be even higher than all of the aid that the United States has given North Korea to date. Estimates are that the price tag of reunification could reach as high as \$1 trillion.<sup>8</sup> The United States and South Korea would, in all likelihood, inherit much of the burden of this cost considering that they are still allies and primed for a reigniting of conflict in the sixty year old civil war that never technically ended. China would likely also jump in on the bill in order to maintain its influence within the buffer state.

Ultimately, from an international perspective, the only option that would improve the current situation with North Korea would be a third alternative: some manner by which the regime is convinced that economic reform is a better option than the status quo and is then aided to achieve such reform. An economically viable North Korea would become more interdependent with its trading partners and thereby edge into a more regular and responsible position within the international community. Similarly, were North Korea able to produce its own reform and garner investment in its infrastructure, other nations could potentially profit from North Korean reform rather than merely spending significant portions of their GDP on it. Aiding the Kim regime may seem to be antithetical to recent U.S. policy. Yet convincing this member of the “Axis of Evil” that reform is in their best interest is a viable manner in which to improve the situation for the rest of North Korea and the international community while also avoiding conflict.

This discussion of economic reform in the DPRK clearly begs the question, how can the North Korean political economy best be described? Does the North Korean economic developmental trajectory have any characteristics that indicate it could

---

<sup>8</sup> John Larkin and Murray Hiebert, “Cost of Collapse,” *Far Eastern Economic Review* 166, no. 17 (May 01, 2003): 20, <http://search.proquest.com/docview/208229323?accountid=12702>.

transition into being an economically responsible and prosperous nation? In particular, what are the political economic similarities and dissimilarities with other countries that have successfully reformed? Assessing the similarities and prospects by which such a reform could occur is the goal of this thesis, through an analysis of whether North Korea has the potential to emulate its regional neighbors, in particular China, by becoming a developmental state.

This analysis takes place in two parts. First, it analyzes what makes a state predatory versus developmental state, and how states transition between these two categories. The framework for this analysis emerges from the academic and theoretical works of Peter Evans, Chalmers Johnson, and other relevant theorists. The thesis also argues that North Korea is, at present, a predatory state. For the accounting of North Korean institutions, the limited number of first-hand accounts is a challenge, but secondary sources from experts such as Victor Cha, Andrei Lankov, Marcus Noland, and Stephen Haggard have been invaluable.

The second part of this thesis is a comparative study between the developmental trajectory of the People's Republic of China and North Korea. The analysis of China's development first focuses on pre-developmental Maoist China, in order to establish what conditions were present that allowed for its later development, and second analyzes the Deng Xiaoping era and the various functional and institutional policies that caused the development. This exploration serves as the backdrop to which North Korean institutions and policies are compared in order to argue that the functions of development are present and possible in the hermit kingdom. This argument explores what conditions similar to China are already in place in North Korea to enable a transition from a predatory state to a developmental one.

## II. LITERATURE REVIEW

### A. DEVELOPMENT, PREDATION, AND TRANSITION

The North Korea experience so far appears to have primed it for collapse through predation. Yet it is worth asking whether there is the potential for future growth if the country transitions successfully to a more developmental orientation. To assess whether this potential exists in North Korea's economy, this thesis will rely upon the analytical framework established by Peter Evans in "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State."<sup>9</sup> Evans defines a developmental state as being "able to foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments," and that "the consequences of their actions promote rather than [impede] transformation."<sup>10</sup> If North Korea has the makings of a developmental state, there will be signs. There are certain functions that the state must fulfil and institutions that the state must build to foster such development. Furthermore, these signs will be recognizable because countries before North Korea have built these institutions, and they have fulfilled the functions of development.<sup>11</sup>

The other categorically opposed hypothesis is that North Korea is a failed state waiting to happen. Victor Cha uses the term "impossible state," and Evans refers to this as a "predatory state," but the theory is more or less the same. Institutionally, the state is incapable of supporting growth because it has been designed to feed the voracious appetites of an elite minority. Development is impossible not only because the upper crust leaches any and all wealth that could be poured into investment but also because the institutions themselves are designed to constrain rather than incentivize the population.<sup>12</sup>

---

<sup>9</sup> Peter B. Evans, "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State," *Sociological Forum* 4, no. 4 (1989): 562–63.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*, 572–73.

<sup>12</sup> Cha, *The Impossible State*, 7; Evans, "Predatory, Developmental, and Other Apparatuses," 562.

Evans also points out a third possibility. It is what he calls the intermediate state. It is a state that he claims “[offers] combinations of Zairian ‘kleptopatrimonialism’ and East Asian ‘embedded autonomy.’”<sup>13</sup> These intermediate states fall somewhere in the middle of the spectrum between predatory states and developmental ones. Evans notes of these intermediate states, “Intermediary state apparatuses are most vulnerable to the negative consequences of neoutilitarian policies,” but it needs to be noted that if these intermediate states are in danger of becoming predatory, that means that there is still the possibility of becoming developmental. It is thus possible that a state can be predatory, developmental, or in transition from one to the other.

## **B. THE DEVELOPMENTAL STATE**

Few works have been as formative in the area of East Asian political economy as Chalmers Johnson’s writings on the developmental state. Originally written in 1982, his book *MITI and the Japanese Miracle* initially coined the phrase “Japanese developmental state.”<sup>14</sup> His argument was essentially that Japan’s system was fundamentally different from either the United States’ or the USSR’s. The U.S. system he argued was “market rational,” focusing simply on the rules of economic competition but not interfering further with the market. The USSR on the other hand was what he called “plan ideological,” in which state ownership was essentially the goal unto itself absent any rational developmental ambitions. Japan, he argued, was plan rational. Developmental goals were set by the state but development was still influenced and created by market forces.<sup>15</sup>

Johnson furthered his seminal work when he published “Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan,” in which he expanded his description of the Japanese developmental state to South Korea and Taiwan. The Japanese developmental state became the capitalist

---

<sup>13</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 576.

<sup>14</sup> Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982), 264.

<sup>15</sup> *Ibid.*, 271.

developmental state.<sup>16</sup> It is in this transition that Johnson identifies the conditions that enable the state to act as an arbiter between those that benefit from growth and those that do not.<sup>17</sup> Similarly, it is this form of state that is able to implement large scale changes, employ a cohesive plan for growth, and enable that growth to be the economic tide that lifts all boats.<sup>18</sup>

Johnson does an admirable job of describing a system that produces significant growth, but he spends little time talking about why a government would put such a system in place. He, in essence, presupposes the desire of the governments he describes to achieve economic growth. Other theorists pick up this line. Stephan Haggard notes of countries such as South Korea, Taiwan, and Singapore that the decision to implement aggressive economic reform is usually a result of some sort of external influence.<sup>19</sup> Robert Wade expounds on this point of external pressure further by identifying the external factors that elevated these countries prioritization of economic growth. They are a looming external threat, causing economic failure to potentially be tied to the risk of invasion, considerable pressure from the United States, and the third factor was an available and viable economic model by which to achieve such economic growth. As Wade notes, “As the rulers came to see their survival as dependent on economic success, they strengthened the hand of the economic technocrats within the state.”<sup>20</sup>

### **C. THE CHINA MODEL**

In analyzing the prospects of North Korean economic reform it is necessary to not only look at theoretical models but to also look at comparable states that have made such a transition. China, like North Korea, was an ideologically legitimated state before the

---

<sup>16</sup> Chalmers A. Johnson, “Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan,” in *The Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press, 1987), 140.

<sup>17</sup> Ha-Joon Chang, “The Economic Theory of the Developmental State,” in *The Developmental State*, ed. Meredith Woo-Cummings (Ithaca: Cornell University, 1999), 183.

<sup>18</sup> Chang, “The Economic Theory of the Developmental State,” 198.

<sup>19</sup> Stephan Haggard, *Pathways From the Periphery: The Politics of Growth in the Newly Industrialized Countries* (Ithaca, Cornell University: 1990), 268.

<sup>20</sup> Robert Wade, “East Asia’s Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence,” *World Politics* 44, no. 2 (1992): 314–15.

death of Mao, but Deng Xiaoping was able to shift the regime's legitimacy from one of ideology to one of economic success, and China has successfully transitioned from a faltering command economy, which North Korea still is, to the second largest economy in the world.<sup>21</sup> It is for this reason that China presents a most compelling model for North Korean development, but how do the basic tenets of the developmental state come together in China? Some economists have simply been happy to use a definition of the developmental state that encompasses any policies that achieve rapid and sustained economic growth.<sup>22</sup> China would certainly fit this bill, as it has maintained close to ten percent growth annually for years, but as established above, Chalmers Johnson was describing a specific set of functions being fulfilled by the state that geared it for development. When he first wrote about the developmental state Johnson identified it as a capitalist system, and China claims itself to be a communist country. Therefore, it is necessary to explore the unique ways that China fits this model. After all, as John Knight noted, "There can be differences among developmental states and over time in the degree of democracy or dictatorship, the nature and extent of state intervention in the economy, and the strength of industrial policy."<sup>23</sup>

In the early years, under Mao, China was a plan ideological state, guided entirely by its ideology and focused on replicating the soviet model.<sup>24</sup> The Mao era brought things like the Great Leap Forward and the Cultural Revolution, and with them significant civil unrest and mass famine, and it seriously undermined the legitimacy of the Chinese Communist Party.<sup>25</sup> The result was a looming threat of regime collapse. No longer would ideology alone hold up the regime. So, in the post Mao years under Deng Xiaoping, China was able to gradually shift its emphasis away from ideology and towards rational economic growth as a new source for its legitimacy. Knight thus claims that

---

<sup>21</sup> "GDP Ranking Table," The World Bank, last accessed December 18, 2013, <http://search.worldbank.org/data?qterm=gdp%202012&language=EN>.

<sup>22</sup> John Knight, "China as a Developmental State," *CGC Discussion Paper Series*, No. 14 (2012), 3.

<sup>23</sup> *Ibid.*, 5.

<sup>24</sup> Carl Riskin, "China and the (Human) Developmental State" (Working paper, Columbia University, 2007), 3.

<sup>25</sup> *Ibid.*, 5.

China is a developmental state because it placed great emphasis on growth.<sup>26</sup> Works from the likes of Doug Guthrie, Yingyi Qian, and Dani Rodrik meticulously explore the many gradual reforms that China implemented in order to make their transition to a developmental state and will be invaluable for this exploration.

#### **D. A NORTH KOREAN COMPARISON**

Once the baseline of overarching economic theory and its application to China are established, it is necessary to assess their applicability to North Korea. Are there substantive enough similarities for North Korea to achieve even marginally similar growth as China? Superficially, China can appear to be a great comparison. Hilary Jan Izatt encapsulates this viewpoint, arguing, “the Chinese developmental experience exemplifies sustainable economic reform in a socialist system ... it is reasonable that North Korean leaders will look to China for inspiration.”<sup>27</sup> Izatt clearly recognizes many similarities between China and North Korea beginning with the inciting event of reforms in both: famine. China was wracked by mass starvation after the ill-conceived Great Leap Forward, which starkly mirrors Kim Il-Sung’s calls for unrealistic grain production in the 1970s and 80s and North Korea’s subsequent starvation in the 90s. Both China and North Korea relied on a strict rationing system that failed to equitably distribute rations to its population.<sup>28</sup> Izatt further recognizes that there are similarities in China’s and North Korea’s implementation of Special Economic Zones (SEZs).<sup>29</sup> Sung-Hoon Lim and Kang-Taeg Lim further the exploration of North Korean SEZs recognizing that, as with China, their competitive labor wage should attract international investment.<sup>30</sup> SEZs, as mentioned above, were instrumental in establishing one of Johnson’s key instruments of the developmental state in China. Ultimately, there seems to be relative consensus that, for a time, North Korea was showing signs of some level of socialist marketization.

---

<sup>26</sup> Knight, “China as a Developmental State,” 17.

<sup>27</sup> Hilary Jan Izatt, “Can North Korea Develop? Developmental Dictatorship versus the China Reform Model,” *Asian Politics & Policy* 2, no. 2 (2010): 179.

<sup>28</sup> *Ibid.*, 179–80.

<sup>29</sup> *Ibid.*, 181.

<sup>30</sup> Sung-Hoon Lim and Kang-Taeg Lim, “Special Economic Zones as Survival Strategy of North Korea,” *North Korean Review* 2, no 2 (2006): 58.

Sujian Guo and Gary Stradiotto recognize this in the emergence of what they called a “dual structure” that combined state and market roles. Remarkably, this description is notably similar to the Deng Xiaoping’s dual track system which was mentioned earlier.<sup>31</sup>

Ultimately, all of these authors recognize parallels between the development of China and the marginal attempts of North Korea at reform. Yet, in the end, they are all skeptical of the applicability of the Chinese model to North Korea. Part of the skepticism concerning this model’s relevance to North Korea is that some of its reforms have already been attempted with negligible results. North Korea instituted numerous SEZs and eliminated the public distribution system—but neither created meaningful growth.<sup>32</sup> There seems to be a large consensus that the disparity in geography, population, and demography are the key differences that sabotage the application of a Chinese system. Hilary Izatt points out that seventy-one percent of the population were working in agriculture when China implemented reforms, as opposed to only thirty-three percent in North Korea. Similarly, she points out that North Korea’s population and land mass are a mere few percent of that of the People’s Republic of China. She argues that this therefore requires a fundamentally different approach to reform. Specifically, she says that control of reform needs to be more centralized in North Korea than it was in China and because SEZs have been widely outside the scope of the central government’s control, investment has been lackluster.<sup>33</sup> Guo and Stradiotto similarly cite the clear predominance of agriculture in China as a major factor in their success. The DPRK, as they point out, was never the bread basket of the Korean peninsula. Furthermore, they claim that this has been a hindrance of growth because “economic development is easier than structural adjustment.”<sup>34</sup>

Each of these arguments, however, seems to make the assumption that the North Korean regime has committed itself to the transition to a plan rational system. What these

---

<sup>31</sup> Sujian Guo and Gary Stradiotto, “The Nature and Direction of Economic Reform in North Korea,” *Political Studies* 55 (2007): 773.

<sup>32</sup> Izatt, “Can North Korea Develop?” 182; Cha, *The Impossible State*, 139.

<sup>33</sup> Izatt, “Can North Korea Develop?” 182.

<sup>34</sup> Guo, “The Nature and Direction of Economic Reform,” 774.

arguments miss is the crucial question of what incentives elites face in aligning themselves toward more developmental goals. Victor Cha disagrees with the prognosis above, emphasizing much more the agency of elites in curtailing North Korea's prospects. He cites many examples of SEZs being grossly mishandled because of fear of loss of centralized power. Ultimately, in direct opposition to much of the argument of Izatt, Cha's description of the North Korean SEZ experiment paints a picture of policies that were entirely dissimilar from Chinese policies and therefore not a viable comparison.<sup>35</sup> Similarly, he regularly cites the fact that the DPRK leadership clearly seems more concerned with control than with economic growth.<sup>36</sup> Cha is similarly skeptical that any reform is possible, but his emphasis is on entirely ideological factors. He argues that the state is disinclined to implement reforms because those reforms would undermine the very ideological legitimacy that the regime stands on.

## **E. CONCLUSION**

As the China model establishes, ideology is not the only available source of legitimacy, even for a regime like North Korea. Evans clearly argues that transition from a predatory state to a developmental one is possible, and Deng Xiaoping clearly demonstrates that transition from an ideologically legitimated state to market legitimacy is possible as well. Izatt and Cha may disagree on the reasons, but they both believe that transition is not possible in North Korea. This paper argues in following chapters that this reform is in fact possible. It explores developmental state theory, followed by explorations of China's reforms and transition in order to compare China's experience to the current picture of the North Korean economy. The thesis ultimately reaches the conclusion that North Korea is not the impossible state but rather the improbable state.

---

<sup>35</sup> Cha, *The Impossible State*, 139; Izatt, "Can North Korea Develop?" 182.

<sup>36</sup> Cha, *The Impossible State*, 93.

THIS PAGE INTENTIONALLY LEFT BLANK

### **III. DEVELOPMENTAL, PREDATORY, TRANSITIONAL STATES AND NORTH KOREA**

In order to discuss North Korea and its developmental trajectory, it is first necessary to establish a comparative analytical framework by which to do so. How does North Korea compare to the theories and metrics by which other states and their developmental trajectories have been studied, compared, and categorized long before now? This question can be answered by turning to the works of Chalmers Johnson and Peter Evans. Johnson fathered the theory of the developmental state, which is a state that uses its position and influence at the center of society to achieve impressive industrial and economic outcomes. On the other end of the spectrum lies the inverse, what Evans calls the predatory state, which appears to be incapable of achieving such outcomes. Evans also describes intermediate states, those that seem to be attempting to transition from predatory to developmental. What follows is an exploration of each of these types of states and their fundamental elements, particularly those that differentiate them from each other. Then, this framework is used to examine the North Korean state and establish where on the spectrum it falls.

#### **A. DEVELOPMENTAL STATES**

Chalmers Johnson, in his treatment of the developmental state, identifies four elements that are essential to its existence. They are: rule by bureaucratic elite not subject to political whims that harm economic growth, a close relationship between public and private enterprise, a strong emphasis on education, and implementation of a system that ensures the fair distribution of wealth.<sup>37</sup>

Johnson coined the term “soft authoritarian” to refer to the political-bureaucratic elite that is able to pursue single-minded goals without any meaningful opposition. He argues that these elite produced the stability necessary to foster economic growth. These bureaucrats are able to put a plan in place and follow through because of their isolation from political whims. Evans emphasizes the importance of an autonomous, rational, and

---

<sup>37</sup> Johnson, “Political Institutions and Economic Performance,” 145.

meritocratic—or Weberian—bureaucracy, citing Max Weber’s argument that this type of bureaucratic insulation creates “corporate coherence” which is ultimately necessary for the state support of markets.<sup>38</sup> Johnson emphasizes the other side of the coin, political stability and predictability, as the essential ingredients that soft authoritarianism brings to the table.<sup>39</sup>

Both Johnson and Evans use the examples of Japan, South Korea, and Taiwan, and both of them recognize that the countries fit onto a spectrum of authoritarianism. Post World War II Japan was democratic, with a constitution and a parliament. So, the nature of Japan’s soft authoritarianism lies in its state institutions. The Ministry of International Trade and Industry (MITI) exemplifies the bureaucratic elite. South Korea and Taiwan differ from Japan. Both, through much of their developmental years, were not democracies, and Johnson notes that they were “hard states,” but both also employed an autonomous bureaucratic elite to guide their states’ economies.<sup>40</sup> In Korea, these bureaucratic elite were positioned in the Economic Planning Board (EPB); in Taiwan, in the Council on International Economic Cooperation and Development (CIECD). These various elite bureaucracies operated as their countries’ “economic pilot agencies.”<sup>41</sup> Chalmers Johnson does not intimate that authoritarianism is necessary in order to achieve economic growth, but he observes that it can be a means by which two essential conditions, stability and predictability, are achieved in the infancy stages of a developing economy.

These bureaucratic elite did not achieve success alone, however. The second element of the developmental state that Johnson emphasizes is the cooperation between public and private sectors. Evans also observes this point: “Japanese industrial policy depends fundamentally on the maze of ties connecting MITI and major industrialists.<sup>42</sup> MITI, the EPB, and the CIECD were the pilot agencies that put together a cohesive

---

<sup>38</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 567.

<sup>39</sup> Johnson, “Political Institutions and Economic Performance,” 142–43.

<sup>40</sup> *Ibid.*, 138.

<sup>41</sup> *Ibid.*, 154–55.

<sup>42</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 574.

economic plan and then used economic policies to incentivize that plan in the private sector. Naturally, this plan could not be made in a vacuum and was largely based upon cooperation with private businesses. The Keiretsu and the Chaebol, in Japan and Korea, respectively, were industrial conglomerates that aided in “unleashing entrepreneurship.”<sup>43</sup> This practice of putting a plan in place and then strongly incentivizing it with tariffs, tax breaks, and the like is in essence the act of picking economic winners and losers. Evans emphasizes this as a function that differentiates developmental from predatory states. He notes, “The Japanese state acted as a surrogate for a missing capital market while at the same time helped to ‘induce’ transformative investment decisions.”<sup>44</sup> This government investment allowed these planning agencies to rationalize industrialization. On the flip side, privately owned enterprises were essential in shaping this plan because they gave feedback based on observed market conditions. Johnson explains this feedback loop by saying, “The intent of the public system is to manipulate the inputs into the decision-making processes of privately owned and managed enterprises in order to achieve developmental goals, but the content of its inputs is continuously affected by feedback on profit loss conditions, export prospects, raw material costs, and tax receipts.”<sup>45</sup>

Another key in “unleashing entrepreneurship” is education. As countries industrialize, innovation becomes increasingly important. Innovation is a crucial element in growth, serving as a multiplier of a country’s human and physical capital input by improving their factor productivity; however, innovation is nearly impossible to achieve without an educated workforce. Therefore, the third key element of the developmental state is an investment in education. A secondary benefit of this investment is that given that the developmental state privileges industry at the expense of the rank and file labor force, education can garner buy-in from otherwise undervalued segments of society.<sup>46</sup>

One problem with “winner picking,” that is alluded to above, is that it can be inversely thought of as “loser picking.” The developmental state must, therefore, find a

---

<sup>43</sup> Johnson, “Political Institutions and Economic Performance,” 162.

<sup>44</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 572.

<sup>45</sup> Johnson, “Political Institutions and Economic Performance,” 142.

<sup>46</sup> *Ibid.*, 145.

way to appease the losers or risk upheaval. Labor is one of the losers at the outset of the developmental state, and to appease this group, the state must ensure a fair distribution of wealth once rapid economic growth takes off. Likewise, for those companies and business sectors that did not get chosen as winners, the developmental state must offer conciliatory prizes in the form of subsidies. This policy of “buying off” the losers is not efficient, but it is cost effective and necessary because the developmental state legitimates itself based on the promise of economic development.<sup>47</sup> If that growth does not benefit the whole population, including the would-be losers, the government will lose the legitimacy with which it governs.

These four elements, which make up the developmental state, in essence operate as a kind of incubator, protecting infant economies from brutal market forces and helping them to grow rapidly. No one element is sufficient by itself to achieve the underlying functions necessary for the developmental state. Conversely, the degree to which each element is focused on will vary depending on the structure of the economy that the developmental state is being applied to. It is the functions of these elements, stability, predictability, direction and feedback that are necessary to grow an economy.

## **B. PREDATORY STATES**

What differentiates a developmental state from a predatory one is the commitment of the elite and the design of the institutions in supporting these functions and elements. Evans defines predatory states as those that “extract such large amounts of otherwise investable surplus and provide so little in the way of ‘collective goods’ in return that they do indeed impede economic transformation.”<sup>48</sup> His description does not end there, however. Evans does not just define the negative outputs of the predatory state, which are indeed symptomatic of it, but also defines the institutions that enable, if not encourage, such extraction of investible surplus. As a prototype of the predatory state, Evans referenced Zaire under Joseph Mobutu Sese Seko. In the first twenty years of his reign, the per capita gross national product declined more than two percent per year.

---

<sup>47</sup> Johnson, “Political Institutions and Economic Performance,” 143.

<sup>48</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 562.

What allowed this? Evans points to the lack of Weberian-style bureaucracies. Instead, a set of patrimonial qualities, what Evans calls a “mixture of traditionalism and arbitrariness,” serves as the corporate climate that leads the state to be an organization entirely composed of close compatriots of the leader. This is what Evans means when he refers to personalism. Positions of authority and stature are appointed more based on interpersonal relationships than they are on merit. This personalism then becomes the foundation for the secondary structural problem with these non-Weberian institutions of the predatory state: plundering.<sup>49</sup>

Predatory states, because of their personalism, lack the aforementioned corporate coherence and cannot mount an investment in economic productivity. What is left instead is an investment in cronyism. Evans notes of Zaire that it is striking just how much the institutions of the state were guided by a perverse application of market forces. Mobutu himself noted that “everything is for sale,” in Zaire, and that holding a position of public influence was a “veritable exchange instrument, convertible into illicit acquisition of money or other goods.”<sup>50</sup> Those closest to the president retain their relationship either through familial ties or through “gifts” that will maintain their favor. To maintain these gifts, and their own lavish lifestyle, this inner circle will then require similar gifts and fees from those below them, in a system of neopatrimonialism. In essence, it is the trickle-down economics of plundering, and it erodes the rational underpinnings of rule-based economies. <sup>51</sup>

In turn, this emphasis on “individual maximization” makes productive investment impossible because all excess capital is consumed by the “marketized” state apparatus. This is how a predatory state evolves out of a non-Weberian, non-meritocratic, and personalized bureaucracy. The masses become the resource, which the elites, like locusts, consume voraciously. Evans says it best: “The preoccupation of the political class with rent seeking has turned the rest of society into prey.”<sup>52</sup> The final evolution of this

---

<sup>49</sup> Ibid., 570.

<sup>50</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 570.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

predatory cycle occurs when foreign direct investment (FDI) ceases because the state cannot bring any long-term plans to fruition, and investment in it is folly. Ultimately, the economy sags, if not collapses, under the weight of the elite's own shortsighted greed. This is the fate of the predatory state.<sup>53</sup>

### C. TRANSITIONAL STATES

Luckily for many of the nations of the world and for their citizens, these categorizations are neither constant nor absolute. Indeed, Evans begins his paper imagining “a range of states defined in terms of the way in which they affect development.”<sup>54</sup> Furthermore, he notes that “most developmental states offer combinations of Zairian ‘kleptopatrimonialism’ and East Asian ‘embedded autonomy.’ The balance varies not only over time but also from organization to organization within the state apparatus itself.”<sup>55</sup> States fall along a spectrum with the utmost predatory at one end and the highly developmental at the other. States’ categorization as predatory or developmental and the description of what makes them such is a mere snapshot in time of their specific characteristics.

For his exploration of states that fall into the intermediate spectrum between the two extreme poles, Evans uses the example of Brazil.<sup>56</sup> Brazil has some immediately recognizable institutional problems. For one, meritocracy is problematic within the state. Some estimates point out that there can be as many as 15,000–100,000 presidential appointments, in comparison to the dozens in Japan and hundreds in the United States. Appointments’ being measured in the thousands is clearly symptomatic of a system of personalism rather than merit, which, as discussed above, undermines the system.<sup>57</sup> On the flip side, however, Brazil has maintained certain “pockets of efficiency” of which Evans’ prime example was the National Development Bank (BNDE). Like Japan’s MITI, the BNDE uses a public examination system for its recruitment and internal norms and

---

<sup>53</sup> Ibid., 570–71.

<sup>54</sup> Ibid., 562.

<sup>55</sup> Evans, “Predatory, Developmental, and Other Apparatuses,” 576.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid., 576–77.

esprit de corps have managed to keep the institution relatively quarantined from personalism and nepotism. A majority of the BNDE's directors were recruited internally, and they were markedly more efficient than many of their fellow Brazilian institutions. One statistic puts the BNDE's target completion rates at One hundred and two percent. This is compared to the average Brazilian score of thirty-two percent.<sup>58</sup>

This incongruous system is obviously not as efficient as a developmental state like Japan, and even these pockets of efficiency are fraught with problems due to the incongruity. First and foremost, these pockets exist at the pleasure of the leadership at the top. Should the president in such a personalistic society decide to appoint someone as director that was entirely unqualified, there is little that the BNDE could do. Second, the incongruity of the BNDE with other institutions within the country makes it incredibly difficult to coordinate efficiently inter-governmentally. This problem of lack of stable relationships actually extends outside the government as well. Without a cohesive and stable bureaucratic government, how is a cohesive and stable relationship with the private sector supposed to be established?<sup>59</sup> Ultimately, what it comes down to is that organizational disparity not only leeches efficiency from the system but also stability. The intermediate state, in its pursuit of pockets of efficiency, needs to release its dominion over all segments of society which is what clearly differentiates it from its predatory ilk, but until the personalism can be minimalized and institutional coherence can be created across the span of government bureaucracies, it cannot transcend into the fraternity of developmental states.<sup>60</sup>

What then causes a state to make this transition? Why would the ruling elite decide to make the precarious change from a personally very profitable but predatory state to a developmental one? Evans explains it thusly: "the state's autonomy was constrained by the international context, both geopolitical and economic, which conspired to create the conviction, first, that rapid industrialization was necessary to regime

---

<sup>58</sup> Ibid.

<sup>59</sup> Evans, "Predatory, Developmental, and Other Apparatuses," 578–79.

<sup>60</sup> Ibid., 580–81.

survival, and later, that export competitiveness was essential to industrialization.”<sup>61</sup> Robert Wade argues that this conviction arose in the East Asian miracle states due to the perception of external threats. Japan, South Korea, and Taiwan experienced to varying degrees the very real threat of encroachment and invasion from Russia, North Korea, and China, respectively. The only way to forestall such offensive action was to couple national security goals with economic ones. Ensuring growth ensured security. Secondly, Wade points to the role of the United States, as the patron of these states, in applying significant pressure towards economic growth. Finally, Wade points out that once Japan had established a model for rapid industrialization and growth, South Korea and Taiwan followed the Japanese blueprint. The psychological effect of this demonstrable model cannot be understated on nation states with an eye for a burgeoning economy. It gives them a means to achieve such growth without having to invent the wheel themselves.<sup>62</sup>

#### **D. NORTH KOREA**

Where does North Korea fall on this spectrum bounded by the developmental and predatory states on each end, and intermediary states in the middle? The question seems almost inane given that nearly all accounts of the North Korean state frame it in grotesquely predatory terms. So much so, in fact, that North Korea may be the standard bearer for the modern day predatory state. This is no more clearly illustrated than by the testimony of Yi Yong-guk, Kim Jong-un’s prior bodyguard and later defector to South Korea, “[Kim] has at least ten palaces, set in sprawling grounds. . . They contain golf courses, stables for his horses, garages full of motorbikes and luxury cars, shooting ranges, swimming pools, cinemas, fun-fair parks, water-jet bikes, and hunting grounds stocked with wild deer and duck.”<sup>63</sup> Further reports indicate that these various palaces may be connected by underground train.<sup>64</sup> This in stark contrast to the one million tons of

---

<sup>61</sup> Ibid., 575.

<sup>62</sup> Wade, “East Asia’s Economic Success,” 314.

<sup>63</sup> Cha, *The Impossible State*, 81.

<sup>64</sup> Ibid., 80.

food aid that the country needs to receive annually from China to keep its public distribution system (PDS) going leaves little doubt that there is plundering going on.<sup>65</sup>

If this were not enough, the North Korean state also appears to be incapable of putting a plan in place and then following through with it, much as Evans describes as the lot of the predatory state. Recent history is replete with stories of failed projects and other attempts to revitalize the indolent economy. The Ryugyong Hotel was a 105-story hotel that was supposed to house 3,000 rooms, seven restaurants, a casino, and a night club. It was intended to be completed in 1989—and remains unfinished to this day. Even more applicable to this discussion of economic expansion is the North Korean attempt at creating SEZs. Sung-Hoon Lim and Kaeg-Taeg Lim identify four distinct SEZs that North Korea attempted to implement. Two of these SEZs rested in the north, along the border with China, the Sinuiju international complex and the Rajin-Sunbong trade-centered zone. The other two are on the South Korean border. They are the Gaeseong manufacturing-centered zone and the Mount Kumgang Tourism Centered Zone. According to Lim and Lim, the purpose of these SEZs was to “build the domestic economy through induction of foreign capital, improvements in foreign exchange, broader employment, and reinforcement of international economic linkages.”<sup>66</sup> The problem with each of these zones was that they required the easing of control and increasing transparency beyond what the North Korean state was willing to concede. It appears that those at the top of the DPRK believed that simply announcing an SEZ would be enough to garner investment in it. In some cases, this was initially true. Investment did come in the form of helping build some buildings and infrastructure, but significant manufacturing investment did not come because the North Koreans could not even keep themselves adhering to their own agreements. Victor Cha describes the North Korean SEZs as being “basically in a perpetual state of ‘talk’ with very little ‘action,’ with the North Koreans simultaneously trying to attract investment (more like aid) while fighting off the need to reform, and having very little success in the process.”<sup>67</sup>

---

<sup>65</sup> Ibid., 10.

<sup>66</sup> Lim, “Special Economic Zones as Survival Strategy,” 59–60.

<sup>67</sup> Cha, *The Impossible State*, 139–40.

Today, whether the North Korean leadership admits it or not, their state is driven by the market exactly as Mobutu described Zaire. Everything is for sale. Ironically, this was in part due to North Korea's own lack of foresight. The great North Korean Famine between 1996 and 1999, which was significantly exacerbated by poor decisions on the part of the DPRK government, killed off any sense of idolatry for North Korea's command economy. Literally, in a twisted form of ideological Darwinism those that believed in the system died of starvation, and those that were willing to accept and give bribes were the ones that survived. North Korea today, at least the North Korea experienced by the common North Korean, is a country guided entirely by the invisible hand of the market, not the invisible hand just in Adam Smith's meaning, but invisible because this is the market of greased palms and graft. It is invisible because it is illegal by mandate of the state. Marketization has begun in the North Korean society and has turned what was once an ideologically backwards state into a predatory one. The question that remains, however, is whether the state will let the encroaching visible hand be its savior or its downfall.<sup>68</sup>

## **E. CONCLUSION**

North Korea is a predatory state, but as was discussed earlier, this designation is not immutable over time. If Evans, Wade, and Haggard are correct, the presence of an impending threat, pressure from their patron state, and a viable path to reform could, in fact, initiate reform in North Korea. Now, the hermit country does not suffer the threat from the United States or the Republic of Korea (ROK) that their rhetoric espouses; however, the regime is threatened by its tenuous hold on legitimacy over its own population. As mentioned previously, the marketization and gradual erosion of control of the state is the greatest threat to the regime's stability. The DPRK regime was originally legitimated by its ideology but, after years of famine and suffering, there is no legitimacy left. In the second category, there appears to be little pressure from the People's Republic of China (PRC) to move the DPRK towards responsible nationhood; however, where the PRC is useful, is in providing a demonstrated model for reform. The PRC was able to

---

<sup>68</sup> Lankov, *The Real North Korea*, 88.

reform its own economy and keep its ruling party, the Chinese Communist Party (CCP), in power. They survived famine, unrest, political turmoil, and more. As the only communist country that has managed to go from a troubled command economy to a powerful market-based economy that many have termed the newest form of the developmental state, China provides a compelling model for North Korea. Through this comparative lens, this thesis next examines the potential for North Korea to transform its fate away from its predatory underpinnings by adopting characteristics of the developmental state.

THIS PAGE INTENTIONALLY LEFT BLANK

## **IV. CHINA'S TRANSITION FROM PREDATORY TO DEVELOPMENTAL STATE**

Having established that North Korea is a predatory state, the next question that should naturally be asked is whether it is possible for it to transition into a developmental state? The assertion here is yes; it is possible regardless of how probable the current situation makes it. In fact, there is another country—the People's Republic of China—that was ideologically driven, ruled by an authoritarian cult personality, politically isolated, and wracked with political and economic strife that successfully transitioned into a developmental state. China's transition provides a compelling model for North Korea, and this chapter examines how China managed their transition. In other words, this thesis argues that Maoist China was a predatory state, and that it transitioned, under the policies initiated by Deng Xiaoping, into a developmental state today. In the following chapter, this Chinese transition is applied as an assessment framework for the potential that North Korea undertakes a similar economic reform.

### **A. MAOIST PREDATORY FUNCTIONS**

Maoist China was clearly not marketized in the same manner as Evans described Zaire. In fact, in many ways it was the exact opposite. Mao's dream was to mimic the Soviet socialist system established by Stalin. Along this vein, the CCP shifted to a command based economy, rather than a market one, along with the fundamental characteristics that a planned system entailed. Since the state was attempting to control all aspects of the market and disincentivize, and ultimately abolish, personal property, it might appear that China was not a predatory state. On the other hand, despite the fact that China appears to be a polar opposite of the predatory state that Evans described, many of the functions of the states' communization had the same effects as Zaire's marketization. Dani Rodrik wrote, "There is no unique correspondence between the functions that good institutions perform and the form that such institutions take."<sup>69</sup> With respect to Maoist China the argument is the obverse of Rodrik's: there is no unique correspondence

---

<sup>69</sup> Dani Rodrik, *One Economics – Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton University Press, 2007), 15.

between the functions that *bad* institutions perform and the form that such institutions take.

In China, ownership of factories and production plants was shifted to the government, as was communication infrastructure. Agricultural lands were shifted from small family-owned plots to large collectives managed by the state. All production goals were established by party planners, as was resource allocation. Finally, and possibly most importantly, the government maintained control of prices. Prices were used as a tool for resource allocation rather than as an economic signal.<sup>70</sup> Consumer growth was neglected. In fact, it was discriminated against. This caused basic goods, like watches and fans, to become luxury items that most Chinese could not afford.<sup>71</sup> Furthermore, the agrarian peasantry were communized and collectivized in an attempt to harness to best affect their productive potential. They, as human capital, became prey, just like in the predatory state, but rather than being a resource to be consumed by a merely personalistic and plundering elite, they were a resource that was consumed, sometimes willingly, by the state under the auspices of ideologically legitimated policy. The Chinese people suffered not at the hands of individual maximization but at the hands of attempted communal maximization.

This was the PRC in the era of Mao. It was a country dominated by a cult-personality. It was led by a small elite party that was generally more interested in ideology than it was in economic growth. The economy was wracked with drastic mood swings and ill-advised “big push” plans rather than gradual policy, a syndrome that closely mirrors Evans’ point about predatory states not being able to implement effective plans.<sup>72</sup> All of this was maintained through a hierarchical political structure and through ideological manipulation. In many ways, the CCP wielded more control over its population than did the Soviet Union. Mao was in control not just over the country’s message but over the speech and thought of its population. The state restricted the movement of people. Jobs were assigned to people and could even be hereditary. Social

---

<sup>70</sup> Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge: MIT Press, 2007), 59–60.

<sup>71</sup> *Ibid.*, 80–82.

<sup>72</sup> *Ibid.*, 88.

mobility was both illegal and impossible.<sup>73</sup> The CCP itself served at the pleasure of Mao, and when people fell out of favor they were quickly and decisively eliminated. This is functionally similar to the personalism that Evans described, and unfortunately, it led, just like Evans described, to a long series of irrational decisions in the management of the state.

If Naughton identifies one macro-level failure in the developmental plan under Mao, it was the “big push” emphasis on developing heavy industry and subsequently neglecting light industry and agriculture. Since heavy industry is not particularly labor-intensive in comparison to its costs, and the labor that is required is highly specialized, there was not much room for growth in that realm without capital inputs from other less capital intensive sectors, and furthermore, with little focus on light industry and consumer goods, there was little room for employment growth in those fields. The focus on heavy industry was time intensive. The plants required for this sector were both large and technologically advanced. Both required significant investment in time and capital with little upfront return. Early investment in these industries was an investment in failure.<sup>74</sup>

By 1960, the Chinese system was so untenable that food reserves were running out and demands were still going up. Mao Zedong was entirely disinclined to hear any dissent from the plan. Unfortunately, no one in the CCP at the time was willing to stand up to him. The ill-advised policies mixed with bad weather in a confluence of disaster in 1960 to suddenly ignite famine in the country. Chinese population statistics put the death toll at somewhere between twenty-five and thirty million people. Appallingly, throughout this period, the CCP continued to export grain from rural areas, the areas hardest hit by the famine, so that no signs of the disaster would be noticeable in the main coastal cities.<sup>75</sup> Beyond the cost in human capital, the Great Leap forward caused the PRC an approximate fifty percent retraction in its economy.<sup>76</sup> With price-tags such as that, can there be any doubt that the Chinese state under Mao was indeed predatory?

---

<sup>73</sup> Ibid., 61–62.

<sup>74</sup> Naughton, *The Chinese Economy*, 80–82.

<sup>75</sup> Ibid., 71–72.

<sup>76</sup> Ibid., 63.

Naughton describes the predatory nature of Maoist China this way: “Here was a system that set all the strategic and systemic settings to maximize the flow of resources into industrialization. It concentrated discretionary power at the top, so that leaders could throw resources at whatever their priorities were.”<sup>77</sup> Ultimately, the leaders that Naughton refers to changed over time. These leaders, which were imbued with such discretionary power, were whichever leaders happened to be in Mao’s favor at that given moment. Kenneth Lieberthal notes on the other hand, while the people changed, the structure remained the same. The party, the government, and the army are still the ruling elite in China today, and they are vestiges of the institutions that Mao built.<sup>78</sup> Unfortunately, Mao’s twisted ideology of continuing revolution led him to a series of campaigns to break down power centers within the government. This ensured time and again that the state’s power and wealth, which had been collectivized from the people, were directly at his and his cronies’ disposal.

## **B. CAUSES OF CHANGE**

Looking again at Wade’s explanations for the causes of transition—to recap, a perceived external threat, external pressure from a patron state for economic growth, and an established model for reform—it is actually a bit surprising that China implemented transitions such as it did. After all, while China’s leaders certainly perceived external threats, from both the United States and the USSR, they did not have a patron state to push them along, nor did they have a model to follow. Deng Xiaoping himself was credited with the idea of, “groping for stones to cross the river.”<sup>79</sup> More pointedly, Deng had no idea how to reform the Chinese economy. It would only be achieved through experimentation and incremental change.<sup>80</sup>

On the other hand, by reexamining Evans’ explanation that geopolitical constraint causes the conviction that reform is necessary, it becomes fairly clear that China’s

---

<sup>77</sup> Ibid., 79.

<sup>78</sup> Kenneth Lieberthal, *Governing China: From Revolution Through Reform* (New York: W.W. Norton, 1995), 121.

<sup>79</sup> Guthrie, *China and Globalization*, 405.

<sup>80</sup> Wade, “East Asia’s Economic Success,” 314.

autonomy was constrained significantly by its geopolitical and economic context. There was little that the PRC could do about the threat from either of its adversarial superpowers, but there was a larger threat to the security of the People's Republic than either the United States or the U.S.S.R. It was the dire economic condition of China itself and the effects of this poor performance on the people themselves. The aforementioned famine and economic retraction were not exogenous shocks to the Chinese system but endogenous ones; regardless they were shocks that "[created] a conviction" that reform was necessary.<sup>81</sup> After all, the Plan had promised spectacular growth and well-being for all. Instead, it brought death and destitution. This type of failure is certain to undermine the legitimacy of any plan. It is fairly clear that Deng recognized that the ideological legitimacy of the CCP was nearly bankrupt, and they needed to find a new wellspring. Kenneth Lieberthal explains Deng's realization of this fact: "Deng concluded that after the disillusionment of Mao's last years, ideological exhortations rang hollow, and that the Chinese people sought a higher standard of living. Events during the 1970s had so eroded the legitimacy of the Chinese Communist Party that a new source of confidence in the party's right to rule would have to be found."<sup>82</sup> Maurice Meisner further cites some of the experiences that must have informed Deng's thinking,

That Deng himself had been among the victims of the upheaval, indeed twice victimized, won him the sympathy and support of millions who had suffered during the previous decade. Drawn to him were Party cadres who had been attacked, humiliated, and "overthrown" . . . and millions more ordinary citizens who had suffered a variety of physical and psychological abuses. All looked to Deng to bring about a "reversal of unjust verdicts."<sup>83</sup>

Since economic disaster had been the constraining factor that eroded the ideological bedrock of the party, economic growth was Deng's natural choice for a new source of legitimacy. Ultimately, all of these constraining factors, ideological bankruptcy and a threat from the masses were merely factors that informed a choice made by Deng

---

<sup>81</sup> Evans, "Predatory, Developmental, and Other Apparatuses," 575.

<sup>82</sup> Lieberthal, *Governing China*, 127.

<sup>83</sup> Maurice J. Meisner, *Mao's China and After: A History of the People's Republic* (New York, NY: Free Press, 1999), 431–32.

and the CCP, a choice that reform was necessary. It was that choice that was the ultimate catalyst of change.

### **C. DENGIST TRANSITIONS**

Understanding that the CCP made a choice, the question remains how did China make the transition from Mao's predatory state to Deng's developmental state? China's particular flavor of predatory state disallowed private property. It was literally the mantra of the state to take away the people's possessions. Therefore, one crucial ingredient that was missing for China to become a developmental state was privatization. Similarly, the years of big push strategies and economic mood swings under Mao led to serious instability, and instability is one of the most serious retardants of growth. Therefore, it was also necessary for the CCP to stabilize their system. Finally, they needed to liberalize their economic policy. Draconian control of business, capital, and prices led the state to many seriously misinformed decisions. So, liberalization was needed. In essence, China was trying to implement the principles underpinning the Washington consensus twelve years before it had been written.<sup>84</sup> Yet there was one major difference between the Washington Consensus and what China wanted to accomplish. The CCP wanted to change gradually in order to ensure their hold on power and the changes they implemented constituted a unique and context-driven form of marketization.<sup>85</sup> This next section will describe some of the most notable reforms with which they managed to do just that, namely the dual track system, the township-village enterprises, special economic zones, opaque banks, and the Chinese Company Law. The CCP put these various institutions in place to stir a transition from predatory to developmental statehood, to reinstitute some level of privatization, and to maintain stability after so many years of economic volatility.

The first of the transitional systems was the dual track system. This was a system whereby agricultural households and government owned businesses continued to

---

<sup>84</sup> Dwight H. Perkins, Steven C. Radelet, and David L. Lindauer, *Economics of Development* (New York: W.W. Norton, 2006), 179–80.

<sup>85</sup> Guthrie, *China and Globalization*, 400.

contribute their quota to the “plan” in either goods or in capital, but anything beyond what was required by the state was allowed to be sold in an open market fashion. This created the incentive for business and workers to produce more in order to make more than their plan-based income and was key in pushing business out of the classical communist rent seeking dilemma where all the money or goods are taken by the state and wages are redistributed regardless of productivity, leaving no incentive. This dual track also created business paradigms that fostered capitalist practices under the familiar governmental parachute of state control. At the same time, in order to work, this system required the state to limit its predatory consumption of resources. Beijing did so, in order to spur growth, and this led to fiscal discipline. It was hard to convince many within the CCP that lowering quotas in a time of resource scarcity was a good idea. After all, in order to pay for this, they needed to reduce investment, increase agricultural production, and trim their industrial outreach, but luckily, within five years of these reforms grain production had surged by one-third.<sup>86</sup>

Ultimately, what was genius about this system was that those that relied on the plan for their survival and benefit, mostly party members and industrial managers in the coastal areas, did not have to worry about their share of the pie simply drying up. Similarly, it offered the opportunity for the rural poor to feed themselves, and possibly even earn a profit. As Yingyi Qian put it, “It represents a mechanism for the implementation of a reform without creating losers.”<sup>87</sup> This transitional process was instrumental in allowing for the gradual adaptation to market pressure. Without it, those aforementioned party members and industrial managers, who were reliant on the plan, would have been trying to decide how to sell goods, compete, and survive without any degree of lifeline. This system was so successful that the economy “grew out of the plan.”<sup>88</sup> The “plan” itself began to unravel, but due to the controlled descent of this dual track the unraveling was stable.<sup>89</sup>

---

<sup>86</sup> Naughton, *Chinese Economy*, 89.

<sup>87</sup> Yingyi Qian, “How Reform Worked in China,” in *In Search of Prosperity: Analytic Narratives on Economic Growth*, ed. Dani Rodrik (Princeton, NJ: Princeton University, 2003), 307.

<sup>88</sup> Guthrie, *China and Globalization*, 407.

<sup>89</sup> *Ibid.*, 406–07; Qian, “How Reform Worked,” 307–10.

Another change that the CCP made was the movement from state control of production to local control. This decentralization led to the development of the Township-Village Enterprises (TVEs), which were not state (nationally) owned but were not private either. China managed to achieve the function of privatization while still maintaining public ownership. Andrew Walder and Jean Oi point out that property is in actuality a group of three rights: the right to manage, the right to extract revenue, and the right to transfer ownership.<sup>90</sup> In the early years of reform, China transferred only the first two rights. This is how the dual track system and the TVEs were possible. The government held onto the title, but assigned the right of management and to extract revenue down to the local and sometimes even familial level.<sup>91</sup> These local government firms were not directed by the national plan and therefore adopted business models in order to meet their objectives. Guthrie points out that, “TVEs rapidly came to resemble business organizations in crucial ways yet property rights still resided in the hands of the local state.”<sup>92</sup> This constituted a critical diffusion of power from the central state to the local government in order to recreate the privatization and liberalization that is necessary for economic growth. In the fifteen years from 1978 to 1993 the percentage of industrial output by TVEs went from twenty-two percent to forty-two percent and the percentage for private firms went from zero to fifteen. That means that in the course of fifteen years the percent of total industrial output by non-state (national) firms went from twenty-two percent to fifty-seven percent, more than half.<sup>93</sup> The best part of this development is that as the total output of China grew, a smaller percentage of GDP was necessary to keep up the “plan.” Economic growth essentially made the plan a dwindling percentage of the overall economy.

Furthermore, the PRC has now legalized privatization, and it is encouraging it. In 1993 the National People’s Congress passed the Chinese Company Law. This law essentially formalized the process by which firms could become private and effectively

---

<sup>90</sup> Guthrie, *China and Globalization*, 407–08.

<sup>91</sup> *Ibid.*, 408.

<sup>92</sup> *Ibid.*, 409–10.

<sup>93</sup> Qian, “How Reform Worked,” 311.

legalized the existence of business firms as separate entities from the state. Essentially, there are three different categories for a business in China: private, collective, and state enterprise. Like with the TVEs this separation was key. If the state was making the decisions regarding business, there could be a conflict of interest. While the state wants GDP growth, there are often programs like public health projects and infrastructure, which are not particularly profitable, that will naturally supplant those which generate profit. What is good for the state is not always good for business, and an imbalance between the two, as has been seen in most command economies, is inhibitive to economic prosperity for business, the state, and the people.<sup>94</sup>

Guthrie points out other institutions and policies that aided the transition toward a freer market. One such policy was the opening to foreign capital. In 1979, China implemented policy that opened the country to FDI and furthered this trend with the development of SEZs in the 1980s.<sup>95</sup> FDI steadily increased throughout the 1980s, but its overall national impact was not as earth shattering as the sheer act of opening up to FDI, that is until the 1990s. Naughton argues that it took a decade for FDI to move from a trickle to a flood because it took time for China to gain credibility and to build the rational institutions that were necessary to trigger the interest of foreign investors. This increase in FDI is a strong indication that the state has begun its shift from predatory to developmental. The government is showing enough signs of stabilization and liberalization that foreign business views it as a secure enough investment. Naughton also points out that until approximately 1992 China was entirely focused on export manufacturing, but after 1992, China began opening its markets to foreign imports as well.<sup>96</sup>

Finally, another early transitional institution that China used to ensure private property and wealth was secure from predatory state practices was the implementation of anonymity in the banking system. This opaqueness essentially made it impossible for the state to take peoples' earnings because they had no way of knowing how much wealth

---

<sup>94</sup> Guthrie, *China and Globalization*, 410.

<sup>95</sup> *Ibid.*, 414–15.

<sup>96</sup> Naughton, *The Chinese Economy*, 402–03.

people had. It may seem backwards, but for a command economy that is making its way back to a market creative implementation may sometimes be necessary.<sup>97</sup> This was the function of most of the reforms in China; it was the gradual giving of private rights to people and non-governmental entities in order to rationalize and stabilize the economy, spur growth, and do it all without jeopardizing the CCP's position at the head of government.

All of these reforms, the dual-track system, TVEs, the Chinese Company Law, and opaque banking were critical in the transition from a predatory state to a developmental one. They fulfilled the functions of privatization by ensuring that the state would not confiscate everything that people produced and allowing the people to benefit from their own labor. They fulfilled the functions of liberalization by freeing up capital and allowed people to invest in their own fortunes and allowing business to invest in growth. Finally, these reforms fulfilled the role of stabilization by rationalizing decision making and removing the deleterious influence of national-level decision making on local production. Ultimately, these are the functions that move the state from predatory to developmental by ensuring that the state will not consume all the resources necessary for growth at the expense of the masses for the benefit of the elite few.

#### **D. CHINA TODAY**

Looking at the PRC today, and comparing it to thirty-five years ago when the reforms were initiated, it would hardly be recognizable. China's economy is the second largest in the world.<sup>98</sup> Furthermore, it has sustained growth rates that many countries could only dream of. Between 1978 and 2004, real per capita household incomes increased by a factor of more than five.<sup>99</sup>

On the other hand, China is still not a free country. The CCP is the only party in the government, and it still rules through their own closed off system of selection and

---

<sup>97</sup> Qian, "How Reform Worked in China," 323.

<sup>98</sup> "GDP Ranking," The World Bank, accessed July 22, 2014, <http://data.worldbank.org/data-catalog/GDP-ranking-table>.

<sup>99</sup> Naughton, *The Chinese Economy*, 210.

promotion. Freedom House gave China a ranking of “Not Free.” It gave the Internet in China a ranking of “Not Free,” and it gave the press a ranking of “Not Free.”<sup>100</sup> There is some level of private rights, and some level of dissent is tolerated, but even moderate attempts to organize against the government are efficiently silenced. Gary King, Jennifer Pan, and Margaret Roberts from Harvard University recently completed a study on the Chinese censorship machine. What they found was that the PRC was less concerned with “vitriolic criticism,” but when it came to “collective action” and “social mobilization,” they acted swiftly to quash it. Therefore, the lesson is, when it comes to the masses, it is not just discontent but the ability to galvanize that discontent across the masses that is dangerous.<sup>101</sup> This is the outcome of the Chinese style of reform: a stabilized, liberalized, and privatized economy operating under the umbrella of control of an authoritarian regime.

## E. CONCLUSION

The essential functions that the developmental state needs to deliver for a market-based model of economic growth are stabilization, liberalization, and privatization. Rodrik points out that these functions are more important than the specific institutions put in place to create a developmental state.<sup>102</sup> China’s place among the other developing states is clouded by the nature of its planned economy, but it should not be. Johnson states up front and consistently that capitalism and a market are necessary elements of the developmental state, but he also maintains that it is the interaction of a plan and the market that makes it unique, a kind of economic yin and yang. China has a plan, and it has allowed in the market with undeniable success. Each of the functions listed above are being met. Their economy is growing rapidly. This remarkable turnaround, which has methodically maintained the power of the CCP and the economic well-being of the people, should be an inspiration to other predatory states. In the chapter that follows,

---

<sup>100</sup> “China,” Freedom House, accessed July 22, 2014, <http://www.freedomhouse.org/country/china#.U869pfldWSo>.

<sup>101</sup> Gary King, Jennifer Pan, and Margaret E. Roberts, “How Censorship in China Allows Government Criticism but Silences Collective Expression,” *American Political Science Review* 107, no. 2 (May, 2013): 326.

<sup>102</sup> Rodrik, *One Economics – Many Recipes*, 15.

China's model for gradual economic reform is applied to North Korea to determine if it is in fact a viable model for the hermit nation.

## V. NORTH KOREA'S COMPARATIVE PROSPECTS

North Korea today is much closer to Evans' original description of the predatory state than China was when it decided to reform. The previously mentioned accounts of the Kim palaces in contrast to the destitute population is an example of how the state itself, driven by the greed of its leaders, is extracting wealth from its people as though they were a simple resource to be tapped. The primary difference between present day North Korea and Maoist China is that in North Korea, markets are already starting to take hold. Everything is for sale in North Korea, whereas in China this effect was minimized due to ideological vigor.<sup>103</sup>

Interestingly, these different sources of predatory function were not always as disparate as they are today. In the Mao years, China's hold on power, and therefore the source of its predatory nature, was its ideology. When Mao was alive, his belief in constant class struggle and self-reliance carried great weight with the people.<sup>104</sup> His communist ideal created a mass fervor that led to the great failures like the Great Leap Forward and the Cultural Revolution. Unfortunately, millions of people died throughout the Mao's twenty-seven years of struggle, and ultimately, this would lead Deng Xiaoping's CCP to seek a new source of legitimacy.<sup>105</sup>

North Korea initially had a similar source of ideological legitimacy. Kim Il Sung was the beloved leader of the North Korea, and his ideology of *juche*, which is roughly translated as "self-reliance," was the driving force of early North Korea. This ideology, which ended up being laced with Marxist-Leninist principles as well, was the ideological basis for the Kim regime's legitimacy.<sup>106</sup> Over the decade, the landscape changed, however, much as it did in China. The largest example of this change was the great famine between 1996 and 1999. Ultimately, what happened was that the low level "true-believers" in the state plan died. Because they had faith in the communist ideal and that

---

<sup>103</sup> Lankov, *The Real North Korea*, 88.

<sup>104</sup> Lieberthal, *Governing China*, 74–76.

<sup>105</sup> *Ibid.*, 69.

<sup>106</sup> Cha, *The Impossible State*, 36–37.

the PDS would provide for them, they did not abuse their positions of power. When the PDS broke down, and the food did not come, these “honest” officials starved. Ultimately, this caused an erosion of the ideological legitimacy of the Korean Workers’ Party (KWP) in the lower levels of the party. All that remains as the power base for the North Korean state is its police power.<sup>107</sup>

Neither state in the midst of its predatory state, China under Mao and North Korea today, was able to achieve much in the way of its production goals, both, in part, due to the extraction of critical wealth from the sectors where it was needed and secondly because production plans were usually ill conceived. Both countries put strong emphasis on attempting to build up their heavy industry sector without focusing on the population friendly service sectors first.<sup>108</sup>

The market drives much of what happens in North Korea today, but in order for China to stop being a communist predatory state it first needed to allow for the market to operate. What this implies for North Korea is that some of the steps of transition have already begun, even if they are happening without regime approval. If the regime wants to stem the tide of revolt then getting in front of the wave of change is in their best interest. What follows is a description of the DPRK’s precursor conditions that lend themselves to a Chinese style transition and those conditions that will likely inhibit such a transition.

#### **A. POTENTIAL NORTH KOREAN CAUSES FOR TRANSFORMATION**

The most recent series of shocks that has defined North Korea’s present day existence began in 1994, with the death of its preeminent leader and ideological lynchpin, Kim Il Sung. With his father gone, and as the pre-ordained successor, Kim Jong Il stepped in as the new leader of North Korea. Kim Jong Il, unlike his father, did not serve in the military, and while Kim Il Sung had officially anointed him as successor, once the Supreme Leader had passed, Kim Jong Il had to ensure the security of his position based

---

<sup>107</sup> Lankov, *The Real North Korea*, 86.

<sup>108</sup> Naughton, *The Chinese Economy*, 80–82; Cha, *The Impossible State*, 112.

on his own merit. This caused him to court the Korean Peoples' Army (KPA). This relationship took an already militarized society and only managed to intensify it.<sup>109</sup>

The other major shock to North Korea, the end of the Cold War began to have its effects at around the same time. The hermit nation, in the early years of its existence had been a beneficiary of two different patron states: the PRC and the USSR. This continued until the early 1990s, but with the warming of ties between China and the United States, and the economic collapse of the USSR, North Korea lost most of its trade with its previously communist partners by 1994. As Lankov observed, "North Korea's trade with Communist countries was essentially aid in disguise."<sup>110</sup> Hence, North Korea's only sources of external income were drying up. With the sudden absence of capital inputs into the country, the economy collapsed. Economic estimates are hard, but Lankov indicates that the industrial output of the country shrank by half between 1990 and 2000.<sup>111</sup> Infrastructure, which was already dated and worn, crumbled due to lack of maintenance or industrial production of items in need of repair. Agriculture, which was managed by the state in a similarly Stalinist fashion as China, was hit worst of all because the agriculture system was reliant on infrastructure that needed power and chemical fertilizers that Soviet aid had helped to pay for.<sup>112</sup> In the early years, Kim Il Sung had made the decision not to invest in agriculture or light industry, in exchange for heavy industry. This in turn left the North Korean agricultural sector unprepared for the shocks that hit it. The idea behind this was called Ch'ollima, which was essentially the notion that shortfalls in production could be shored up with "revolutionary zeal." This idea was very similar to the work ethic espoused by Mao Zedong during the Great Leap Forward.<sup>113</sup>

Things went from bad to worse when torrential rains battered the Korean Peninsula in 1995 and 1996. Due to ill-advised plateauing of the North Korean hillside

---

<sup>109</sup> Cha, *The Impossible State*, 85–86.

<sup>110</sup> Lankov, *The Real North Korea*, 76.

<sup>111</sup> *Ibid.*, 77.

<sup>112</sup> *Ibid.*, 76–77.

<sup>113</sup> Cha, *The Impossible State*, 112–13.

for rice crops and an odd campaign of breeding goats, the mountainous terrain no longer had any natural defense against the deluge. The downpours caused massive landslides, which in turn, wiped out what little remaining arable land was left. The subsequent famine was devastating.<sup>114</sup> The 1996 harvest was estimated to only produce half of what was needed to feed the population, and the lack of available food caused North Korea's PDS to break down. The PDS had been the means by the regime collected and redistributed food to its people, much as was done in China during times of complete communization. The famine lasted from approximately 1996 until 1999, and one estimate published in 2001 placed the death toll from the famine between 600,000 and one million people. That means that somewhere between two and a half to five percent of the population died in the famine. This is roughly the same percentage that was estimated dead from the Chinese famine after the Great Leap Forward.<sup>115</sup>

These were a combination of exogenous and endogenous shocks that closely mirrored many of the experiences of Maoist China in the 1960s. The collapse of the Soviet Union and drying up of communist patronage was starkly similar to China's isolation from the Soviet Union thirty years earlier. The subsequent economic retraction of North Korea's economy by half was proportionally equivalent to that in China after the Great Leap. Even their respective famines killed approximately the same proportion of their respective populations.

With regard to an external threat, despite constant rhetoric coming out of the hermit kingdom to the contrary, there is no very real external threat, and any sort of reunification is estimated to cost upwards of one trillion dollars, and that does not include the cost of whatever conflict that might bring the Koreas to that point.<sup>116</sup> Considering South Korea's current economic prosperity (it currently has the fourteenth-highest GDP in the world), and the likely devastating effect of war with the North, it is incredibly unlikely that any but the most hawkish of South Koreans would be interested in a conflict

---

<sup>114</sup> Andrei Lankov, *The Real North Korea*, 77; Cha, *The Impossible State*, 109–110.

<sup>115</sup> Lankov, *The Real North Korea*, 78–79.

<sup>116</sup> Larkin, "Cost of Collapse," 20.

with the north.<sup>117</sup> Similarly, the American experience in Iraq and Afghanistan appears to have ushered in a new era of geopolitical restraint in the international arena. There is no palate for a conflict in Korea there. North Korean rhetoric as to the bullying by the United States is merely a bargaining chip that is used when an infusion of capital is necessary. It is the narrative they create to justify their game of brinksmanship. Ironically, the Machiavellian manner in which they wield this particularly dangerous negotiating tool betrays their understanding that neither the United States nor South Korea is actually a threat.<sup>118</sup>

On the other hand, as with predatory China, there is a threat to the North Korean regime, but it does not come from without; it comes from within. After all, the North Korean population is relatively young and almost entirely literate, and Victor Cha and Nicholas Anderson are quick to point out that they are showing signs of losing their fear of the state. North Korea's redenomination of its currency in 2009 was responded to less with resignation and more with anguish and anger. North Koreans burned their money, protested, and even committed suicide. Cha and Anderson note that the greatest fear of any repressive regime is when the population ceases to be fearful.<sup>119</sup> The regime seems to be sensitive to this fact. After the Tunisian vegetable vendor, Mohamed Bouazizi, self-immolated himself and ignited the Arab Spring, North Korea ordered tanks and troops to amass in city centers, and had riot units, 100 strong, stationed at each provincial headquarters. It also increased surveillance of universities and residential areas, and it even conducted a nation-wide inventory of all computers, cell phones, flash drives, and MP3 players. It appears from all of this that North Korea recognizes, as China did, that the greatest threat to its survival is its own people.<sup>120</sup> Unfortunately, as described earlier, the Chinese reaction and the North Korean reaction to this recognition have been very different. Deng Xiaoping and the CCP set out on a path to find a new source of

---

<sup>117</sup> "GDP Ranking," The World Bank, accessed July 22, 2014, <http://data.worldbank.org/data-catalog/GDP-ranking-table>.

<sup>118</sup> Cha, *The Impossible State*, 305–06.

<sup>119</sup> Victor D. Cha and Nicholas D. Anderson, "A North Korean Spring?" *Washington Quarterly* 35, no. 1 (2012): 16.

<sup>120</sup> Cha, "A North Korean Spring?" 13–14.

legitimacy, economic performance. On the other hand, the Kim family and the KWP appear to have made the choice to eschew any real form of legitimacy in exchange for merely maintaining control. Cha puts it this way, “In North Korea, political control is still more important than money.”<sup>121</sup>

The last condition that Wade cited as enabling countries to transition is really the one thing that North Korea does not have in common with pre-transitional China, and that is while China did not have a blueprint to follow for its reforms, North Korea does. Much as Japan’s developmental state had no trailblazer to go before it and show it how to reform, China was the first communist country to use gradualism and principles of soft, and sometimes not so soft, authoritarianism to “cross the river” to capitalism. North Korea, much like South Korea and Taiwan did with Japan, now has a model in China that can demonstrate to the leadership which stones to grasp in order to do the same.

## **B. PRECURSORS TO TRANSITION**

Granted, the predatory state in North Korea today looks different than the predatory state under Mao, but these difference, if address correctly, could be beneficial to transition. If North Korea has all of the causes that Wade and Evans lay out as causes for transition, and it has shared many of the experiences of pre-transitional China, the next factor that needs to be established is any precursor conditions that lend North Korea to Chinese style reform. What follows is a description of conditions that have evolved out of the erosion of the DPRK’s ideological legitimacy, which could be enablers to economic reform, should Kim Jong Un and the KWP actually decide to take such action. This exploration will focus on developments that could specifically lend themselves to the development of TVEs, a dual track system, and SEZs, but it will also focus on the regimes apparent predilection for control over reform, which ultimately will likely mean that no reform will happen short of revolution.

In 1996 and 1997, the state run restaurant sector collapsed due to the famine. What emerged in its place almost immediately were new “state-run” eateries. These were essentially privately run restaurants that had rubber stamped paperwork to indicate its

---

<sup>121</sup> Cha, *The Impossible State*, 14.

state ownership. This obviously involved a certain amount of graft. Private managers gave kickback to state and party officials in exchange for the ability to run their own business.<sup>122</sup> Local government officials are intimately involved in the “management” of a business at the local level. They keep the state out of the way and the business is able to earn a profit. A 2009 study estimated that “private” restaurants comprised fifty-eight percent of the restaurants in the country. There are similar examples to this development in other sectors of North Korean life, as well. In remote parts of the country, far from city centers such as Pyongyang, the countryside is replete with small illicit farming plots. In these rural areas, the illicit harvest makes up approximately half of the total, and nationally, Lankov cites that it has reached close to one-fifth. Similarly, markets have developed where families can barter their family wares in exchange for food or other items that they may need. On one level, this is clearly an example of how North Korea is a predatory state. Kickbacks, graft, personalism, and plundering dominate these markets. After all, none of this could happen without at least an implied consent from local officials. On another level, it represents a distorted emergence of a TVE like division between those producing goods and services and the state. It is the emergence of a division that the CCP sought to establish, but at the moment is occurring in spite of the KWP. Entrepreneurship is developing in North Korea. The question becomes whether the regime is willing to lead the change or let the change leave it behind.

In looking at the dual track system, Sujian Guo and Gary Stradiotto observe of North Korea, “The North Korean socialist economy is a dual structure that combines state and market roles with market and socialist principles.”<sup>123</sup> This description is strikingly close to that of the dual track system. Unfortunately, like the restaurants and business that mimic the TVEs in China, this dual structure is not operating with the blessing of the KWP; it is operating in spite of it. Naughton observes of command economies in general that they all have some kind of dual track system because they all have various black and gray markets operating outside the plan.<sup>124</sup> It appears, since this dual structure is

---

<sup>122</sup> Lankov, *The Real North Korea*, 84–85.

<sup>123</sup> Guo, “The Nature and Direction of Economic Reform in North Korea,” 774.

<sup>124</sup> Naughton, *The Chinese Economy*, 92.

becoming so prevalent, that were state blessing to be given, it would operate more efficiently because it would no longer need to conceal itself, and it would aid in the economic recovery of the country; however, since the KWP appears to view that their draconian policies remain in their best interest, it seems that it remains in the interest of local officials to undermine the authority of KWP.

Finally, there is no denying that SEZs have been tried in North Korea. To date there have been four, but they operate with minimal success.<sup>125</sup> In 2006, Sung-Hoon Lim and Kang-Taeg Lim observed that like China, North Korea's comparative labor wage should have provided significant advantage to the small isthmus of a country.<sup>126</sup> Unfortunately, mishandling by the state betrayed a fear of loss of control and an overinflated sense of importance. The level of transparency and stability required in making these zones work was a bridge too far for the leaders of the DPRK, and unfortunately, the North Koreans lost out on the sorely needed influx of capital.<sup>127</sup>

Hilary Jan Izatt makes a counter-argument to the assessment of this chapter. She says, "considerable difference in geography, demographics, climate, history, and content and role of ideology have meant that the Chinese successes could not be realized swiftly, if at all, in North Korea."<sup>128</sup> She points out that Chinese reform was initiated when seventy-one percent of the population was in the agricultural sector, while only thirty-three percent of the North Korean labor force is in agriculture. However, Qian points out the "misperception about China's success is to attribute it exclusively to the agricultural reform in the early 1980s."<sup>129</sup> Qian points out that agriculture was not the only success in China, it was the first success. Furthermore, by the year 2000 the agricultural labor force in China had dropped below fifty percent. Ultimately, the point of Qian's criticism of the agricultural argument is that the agricultural sector declined and was quickly replaced by industry and non-agricultural sectors, which is where the majority of China's growth

---

<sup>125</sup> Lim, "Special Economic Zones as Survival Strategy," 48.

<sup>126</sup> Ibid., 58.

<sup>127</sup> Cha, *The Impossible State*, 139–40

<sup>128</sup> Izatt, "Can North Korea Develop? 182.

<sup>129</sup> Qian, "How Reform Worked," 300.

occurred.<sup>130</sup> Of course, as was discussed earlier with regard to China, the agricultural sector provided an initial surge in market activity with minimal capital inputs. Stephan Haggard recognizes this issue, and says, apparently in agreement with Izatt: “North Korean farmers, however, are much more reliant on industrial inputs than were their Chinese or Vietnamese counterparts. Productivity in agriculture has been flat over the last decade.”<sup>131</sup> However, he also recognizes Qian’s argument and points out that there are fields other than agriculture that could offer a similar surge in growth that would encourage further favorable policy, a similar function if not a similar form as Rodrik would say. He points to their natural resources and light and medium tech manufactures in combination with foreign investment as potential sources for such surges. Haggard ultimately notes, “North Korea should be exporting its natural resources—as it increasingly is—but also light and medium tech manufactures. It should import capital goods, intermediate products, and food.”<sup>132</sup>

It is important to note that none of the conditions cited here are an exact fit to the transitional institutions that China implemented. If they were, North Korea would likely already be in transition; however, each of the conditions discussed above are conditions that would lend themselves to Deng Xiaoping style transitions. Again, to use the inverse version of Rodrik’s logic, these developments have many of the forms of Deng’s reforms, but without state endorsement they cannot fulfill the true functions of privatization, liberalization, or stabilization. The piece that is missing from each of these conditions is the state’s—and in particular the ruling elite’s—endorsement and coordination.

### **C. LACK OF CHOICE, LACK OF PRESSURE**

Cha calls North Korea the impossible state. He claims that the North Korean regime cannot reform because if the regime were to liberalize, it would reveal to the people how terrible the regime has been. He also argues that such opening would undermine the ideological legitimacy of the state; however, as is evidenced by China,

---

<sup>130</sup> Ibid., 300–01.

<sup>131</sup> Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid, and Reform* (New York: Columbia University Press, 2007), 212.

<sup>132</sup> Ibid., 214.

ideological bankruptcy does not spell the demise of a regime and neither do abhorrent conditions such as man-made famine. Deng Xiaoping proved that it is possible to establish a new legitimacy, and it is possible to reform without the ruling elite being ousted from its position of power. The only thing that is necessary for such reform to occur is smart policy and the will to do so. Unfortunately, in North Korea, there appears to be no will.<sup>133</sup>

Cha points out that, “[North Korea] still sees political control as more important than economic development.”<sup>134</sup> His work describing the North Korean response to the Arab Spring seems to only back up this claim. Lankov similarly observes that while the option of following in the footsteps of Dengist China should be wildly appealing, North Korea’s leaders appear to be uninspired. Lankov argues that this is a calculated decision, made neither out of ignorance nor out of zealotry, but out of sheer self-interest. Lankov claims that the KWP, the KPA, and the Kim family truly believe that any opening to the outside world would be their political suicide.<sup>135</sup>

Unfortunately, since the types of reform being discussed here are entirely predicated on the choice of leadership to implement them, it is entirely improbable that North Korea would implement Deng style reforms, however possible they may be, without serious convincing that such reforms could, in fact, be to their benefit. Lankov notes that in the past the DPRK has been relatively immune to such pressure, which sadly means that without a new strategy for pressure, or a new reason for a new choice on behalf of North Korean leaders, the status quo will likely remain.<sup>136</sup>

The natural choice for such pressure, as Wade would prescribe, would be the People’s Republic of China. After all, “China remains North Korea’s primary patron, supplying approximately 70 percent of its oil and most of its food assistance. Chinese economic assistance to North Korea accounts for about half of all Chinese foreign

---

<sup>133</sup> Cha, *The Impossible State*, 7.

<sup>134</sup> *Ibid.*, 60.

<sup>135</sup> Lankov, *The Real North Korea*, 110–11.

<sup>136</sup> Lankov, *The Real North Korea*, 110–11.

aid.”<sup>137</sup> China has certainly applied some pressure. Their response to North Korea’s 2012 attempted missile launch was notably more heavily handed than in the past. China even signed on to the UNSC resolutions 1718 and 1874 condemning the test and demanding that North Korea cease and desist.<sup>138</sup> The DPRK viewed this as a serious betrayal and shortly thereafter withdrew from the Six-Party Talks. As the International Crisis Group puts it, “From Pyongyang’s perspective, the Six-Party Talks had become a vehicle for the five parties to pursue their own interests, engage in double standards and gang up on the DPRK.”<sup>139</sup> What is more telling, and in fact more important, than North Korea’s rather predictable and unjustifiable outrage, is that China, while firmer with its neighbor than previously seen, had remained true to their neighbor by successfully moving a UN binding resolution to a non-binding presidential statement. They also believed they had removed any measures that might jeopardize regime stability.<sup>140</sup>

In recent years, China has become surprisingly divided about how to respond to its petulant neighbor. On one end of the debate, there seems to be the Western-educated liberals who think that bilateral cooperation with the United States and heavy-handed measures are the right answer. On the other end of the spectrum there are the older more traditional elite, who do not trust the West and very much see North Korean intransigence as the fault of the United States.<sup>141</sup> Many in the West seem to see the opening of this debate as a sign that China’s opinion toward the DRPK is changing, but in reality it appears that their calculus has not. There seems to be relative consensus in academic circles that, politically, China is interested in the status quo in North Korea. Lankov describes China’s priorities as being a stable Korea, a divided Korea, and lastly a non-nuclear Korea.<sup>142</sup> Logic would dictate that if stability and division were their first two

---

<sup>137</sup> Bonnie S. Glaser and Brittany Billingsley, “Reordering Chinese Priorities on the Korean Peninsula,” *A Report for the CSIS Freeman Chair in China Studies* (Nov 2012): 5.

<sup>138</sup> *Ibid.*, 11.

<sup>139</sup> “Shades of Red: China’s Debate Over North Korea,” *International Crisis Group Asia Report*, no. 179 (Nov 2, 2009): 4.

<sup>140</sup> *Ibid.*, 3.

<sup>141</sup> *Ibid.*, 5.

<sup>142</sup> Lankov, *The Real North Korea*, 180.

priorities, then pressure to reform would be a natural next step. The Center for Strategic International Studies indicates that it is:

China has a strong interest in North Korea's becoming an economically viable state, which requires implementing economic reforms and opening up to the outside world. A prosperous North Korea would remove the threat of instability along China's border and provide greater development opportunities for China's northeast provinces. By demonstrating the success of China's economic reforms to visiting North Korean leaders and by increasingly blunt entreaties, Chinese leaders continue to urge North Korea to undertake serious economic reform measures.<sup>143</sup>

The problem here is that China's pressure is tepid at best. Given their strong interests in the status quo, they are unwilling to implement any threats or sanctions that might threaten it. Again, the Center for Strategic International Studies comments on China's willingness to apply pressure to the DPRK, "Beijing has consistently rebuffed U.S. requests to reduce or temporarily cut off aid to pressure North Korea to abandon its nuclear weapons program. Fear of instigating instability is one reason that China has generally been unwilling to apply such direct pressure."<sup>144</sup> Without the willingness on behalf of North Korea's largest patron to withhold substantial amounts of aid from North Korea, upon which it depends, there will likely be little change on the peninsula. If China is unwilling to apply pressure for reform then North Korea will continue to be unwilling to reform, and the status quo will remain, which at the moment is in the interest of both.

#### **D. CONCLUSION**

North Korea today is defined by its collapse in the 1990s. The state itself is heavily dependent on foreign aid to maintain itself, and black markets are often the rule, not the exception.<sup>145</sup> Regardless, the state seems widely convinced that its ideological entrenchment is the only way to maintain control. This has led to markets simply exist in spite of the state. Growth is seriously hampered and life remains a struggle. Were the state to decide to embrace these developments, it could see an explosion in growth even

---

<sup>143</sup> Glaser, "Reordering Chinese Priorities," 3.

<sup>144</sup> *Ibid.*, 19.

<sup>145</sup> Cha, *The Impossible State*, 125.

more quickly than the PRC did. This optimism was best expressed by Terence Roehrig, from the U.S. Naval War College, “To avoid the dangers of a sudden collapse in the DPRK, it may be a better route to promote a long term, gradual transition that seeks to encourage the forces within North Korea and the ruling regime for change.”<sup>146</sup> Lankov, on the other hand, takes issue with this assessment. While he believes that a reformed North Korea would likely be a more responsible patron of the international community, he does not believe that the regime will ever make such changes. He believes that reform spells their demise, and he believes that the regime believes it too. Ultimately, that is the most important piece to this comparison. Is there a leader like Deng Xiaoping or the 1978 CCP that is willing to implement such reforms? At present, the answer appears to be no.<sup>147</sup>

The second factor that appears to be missing from North Korea is any serious pressure to encourage their reform. While it has been established that there have been serious exogenous and endogenous shocks, and it has been proven that the state recognizes a threat to its survival in its declining loss of repressive control over its people, there seems to have been no realization on the part of the North Korean leadership that their autonomy has been constrained. Were *serious* pressure to be applied from North Korea’s only remaining patron state, China, it could tip the scales in convincing the leadership that reform is not only possible without losing control of the country but also that it is the best option. Unfortunately, China appears to be unwilling to take the kids gloves off with its petulant benefactor.

This is no better demonstrated than by its reaction to the 2010 sinking of the South Korean naval vessel *Cheonan*. While the rest of the world screamed in outrage, the Chinese were silent. In fact, it refused to accept the subsequent investigation, high level intelligence briefing, or the violation of the 1953 armistice. If China continues to acquiesce to such antics, it seems unlikely that the Kim regime will ever realize on its own that reform is in its better interest.<sup>148</sup>

---

<sup>146</sup> Lankov, *The Real North Korea*, 110.

<sup>147</sup> *Ibid.*, 111.

<sup>148</sup> Cha, *The Impossible State*, 332–33.

THIS PAGE INTENTIONALLY LEFT BLANK

## VI. CONCLUSION

China was a predatory state. Today, it is a developmental one. It managed to make such a transition and to keep its ruling elite in power, which is a feat rarely seen to date. It did so with a series of gradual reforms that introduced market pressures and slowly privatized, liberalized, and stabilized the economy. The lessons of China are apropos for North Korea. Both states have a similar heritage: socialism, cult personalities, and terrible famine. They were allies in the Korean War, and today, China is North Korea's closest patron state. China's decision to reform was largely driven by the vision of Deng Xiaoping, a man who had been twice burned by the mood swings of Maoist policy and who understood firsthand the impact of these big push strategies as constraining the autonomy of the CCP. Deng was a strong personality with a large following both within the party and among the people. This backing gave him much of the political clout that he needed to implement such reforms; at the same time, the reforms were managed in such a way as to protect, at least at the outset, the interests of the other elites within the Chinese Communist Party.

In the DPRK on the other hand, there appears to be very little will to affect such change. There does not appear to be any personality within the leading factions of the state that either recognizes the need or is willing to implement such reforms such as Deng Xiaoping did. It is unclear if the leadership recognizes that their autonomy has in fact been constrained. At one point, those that watch North Korea were hopeful that the new leader, Kim Jong Un, might in fact have been a reformer. One Congressional Research Service report observed:

“Optimists point to the fact that [Kim Jong Un] is young and was partially educated at European schools, which may make him more open to economic and political reform and international outreach. Multiple sources claim that Beijing considers Jang Song-taek, vice chairman of the National Defense Commission and Kim's uncle, to be friendly to economic reform.”<sup>149</sup>

---

<sup>149</sup> Congressional Research Service, *North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation* (Washington, DC: GPO, January 17, 2012), 1.

On the other hand, that same report also noted:

“Others point out that Kim’s novice status likely makes him more beholden to established interests in the elite and that the regime may in fact be more likely to launch attacks or other provocations as a result. If Kim is eager to prove his hard-line credentials with the powerful military, for example, he may be willing to carry out another nuclear test or another act of aggression.”<sup>150</sup>

Time has seemed to condemn the optimists and to prove the latter theorists correct: news reports indicate that Kim’s uncle, referenced above, was sentenced to death on 12 December 2013.<sup>151</sup>

Today, the DPRK has started to see the precursors of change: markets, graft, and illicit goods. This has moved it squarely into the realm of Evans’ predatory state, market and all. Yet, considering that China required marketization in order to reform, these North Korean markets could be a harbinger of change, not death, for North Korea, given the right input. This input would need to come from the regime, however. Unfortunately, whatever calculations the regime conducts continuously seem to indicate that reform is either not in their interest or that the status quo is enough in their interest that it is not worth taking the risk. This dilemma will be explored further below and will ultimately be followed by a discussion of how China in particular is positioned to affect change to the inputs of these calculations in order to change the prospects of reform.

#### **A. THE DICTATOR’S DILEMMA**

Cha argues that the only choices available to the regime are either maintaining the police state or total collapse. Ironically, the actions of the Kim regime and the KWP seem to indicate that they are making the same mistaken conclusion, but there is, in fact, another choice. As has been demonstrated by China, the third option is that the regime could cooperate with its people in order to spur economic growth. This option offers the most gains for all involved, but it does also involve some degree of risk. If reforms are

---

<sup>150</sup> Congressional Research Service, *North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation*, 1–2.

<sup>151</sup> Ludovica Iaccino, “North Korean Diplomat: Kim Jong-un’s Uncle Was Definitely Shot and Not Eaten By Dogs,” *International Business Times*, IBT Media Inc., accessed 26 March 2014, <http://www.ibtimes.co.uk/north-korean-diplomat-debunks-jang-song-thaek-execution-rumour-1434684>.

not enacted correctly, or if they are enacted too quickly, there is still the real possibility of upheaval and insurrection. This is the dictators dilemma, continue to strangle the masses, and in turn the economy, risking eventual collapse, or attempt reform and liberalization in order to resurrect an ailing economy and increase wealth, but risk possible revolt. The positive in this dilemma, for the dictator anyway, is that it is iterative. Adam Przeworski posits a similar iterative interaction in his theory of democratization, but his model can also be applied to the liberalization of economics, industry, or society. Regime officials willing to offer concessions to the public are what Przeworski calls liberalizers, and his model maps the interaction between the liberalizer and society, in which the liberalizer makes some type of reform, then civil society responds. At each step in this process, reform and response, the dilemma, the opportunity for cooperation or betrayal, presents itself again. If at any time civil society gives an indication that they are taking too much liberty with the liberalized policies, thereby betraying the regime, the liberalizer is likely to crack down, in turn betraying the people, and ceasing further reform.<sup>152</sup>

Arguments from the likes of Cha and Lankov imply that there are only two outcomes: the regime betrays the people, which has been happening for the last sixty years, or the people will “betray” the regime through revolt. Based on earlier discussions of the regime, these are obviously the most likely outcomes, but they are not the only possible ones. The most profitable outcome overall is if both the regime and the people cooperate, as is evidenced by the experiences of China.<sup>153</sup> After all, Bloomberg News reported in 2012 that the net worth of the seventy richest members of the CCP was 89.8 billion dollars.<sup>154</sup>

North Korea has already played this game with its people, albeit not intentionally. When the state was unable to disseminate food to its people via the PDS the public began trading and selling what they had in an open market fashion. It was an inadvertent

---

<sup>152</sup> Lisa Blaydes and James Lo, “One Man, One Vote, One Time? A Model of Democratization in the Middle East,” *Journal of Theoretical Politics* 37, no. 1 (2011): 7–8.

<sup>153</sup> Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984), 7–8.

<sup>154</sup> “China’s Billionaire People’s Congress Makes Capitol Hill Look Like Pauper,” Bloomberg News, last modified 27 Feb 2014, <http://www.bloomberg.com/news/2012-02-26/china-s-billionaire-lawmakers-make-u-s-peers-look-like-paupers.html>.

liberalization of the PDS, not out of good will, but out of inability to do anything else. The notable point, however, is that the people did not take great liberty with this minor liberalization. There was no revolt. In fact, the only consternation expressed by the people was when the PDS was reinstated and the currency was redenominated, effectively wiping out their savings.<sup>155</sup> These decisions on the part of the North Korean regime to continue to betray its people seem rather baffling considering the potential success and profit that is made possible by the Chinese model. Unfortunately, what appears to be true is that the leadership in North Korea consistently finds that the gains from betraying the people continues to be sufficient that risking reform and increasing gains overall is not appealing enough.

Wade argues that the presence of a threat, patron pressure, and a viable model for reform are the conditions that will cause a change in the calculus of a predatory state's elite in this dilemma, thereby changing their choice from betrayal to cooperation. North Korea does have the presence of a threat from its people, and there is a viable model that it could follow from China, but they apparently do not perceive their autonomy as constrained enough to risk choosing cooperation with the people over their betrayal. In the arena of external patron pressure, China is the only country in a position to apply any, which it has, but that pressure has been uninspiring and lacking any serious conviction. As long as China, like North Korea, continues to value the status quo more than potential gains of reform, then North Korea's calculations will not change either.<sup>156</sup>

## **B. TURNING UP THE PRESSURE**

Lankov quotes a South Korean diplomat as saying, "China doesn't have leverage when it comes to dealing with North Korea. What it has is not a lever, but rather a hammer. China can knock North Korea unconscious if it wishes, but it cannot really manage its behavior."<sup>157</sup> The point being that many people give too much weight to China's ability to control its neighbor. On the other hand, if China is North Korea's

---

<sup>155</sup> Cha, *The Impossible State*, 93.

<sup>156</sup> "Shades of Red: China's Debate Over North Korea," 3.

<sup>157</sup> Lankov, *The Real North Korea*, 184–85.

largest trading partner, why can they not use that position as leverage? Lack of Chinese willingness to implement such sanctions, or to withhold such trade, is not the same thing as the inability to do so. Bonnie S. Glazer and Wang Liang describe China's stance on North Korea this way, "China does not object to applying political pressure on North Korea and indeed is willing to do so unilaterally . . . Yet, it strongly opposes imposing economic sanctions on North Korea."<sup>158</sup> They list four reasons for this. First, China fears that if they imposed such sanctions, they could potentially destabilize the regime and cause collapse. The second reason China opposes sanctions is that it fears that such measures would harm the "embryonic process" of market reform that is already taking place and would only harm the peasantry. Third, China does not believe that such measures would lead to any kind of compliance by the obstinate North Korean regime and would likely lead to further irrational acts of hostility. Finally, they fear that imposing such sanctions would only damage their relationship with North Korea, thereby eliminating their ability to influence Pyongyang.<sup>159</sup>

Each of these reasons belies the value that China places on the status quo. Perhaps what is necessary to solve the North Korean problem is not for the United States to continue to try and pressure North Korea but rather to encourage and ally more with China. If China begins to see the status quo as less favorable, or if, because of improving relations with the west and South Korea, they see the need for such a buffer state as less important then they would be more likely to take a firmer stance with their long time benefactor. If China is worried about the impact of a flood of refugees should the situation worsen in North Korea, then perhaps the United States should pledge to help China with that problem, in exchange for help with North Korea.<sup>160</sup>

Ultimately, if the United States wants to "solve" the North Korea problem, it is going to have court China, and to do that it will have to change its views and objectives. China's primary focus in North Korea is not denuclearization but stability. If the United

---

<sup>158</sup> Bonnie S. Glazer and Wang Liang, "North Korea: The Beginning of China-U.S. Partnership?" *Washington Quarterly* 31, no. 3 (2008): 174.

<sup>159</sup> Glazer, "North Korea: The Beginning of China-U.S. Partnership?" 174.

<sup>160</sup> Lankov, *The Real North Korea*, 180.

States can move its goals and rhetoric from the hard line single sighted stance of denuclearization, and shift to a more holistic approach of regularization and normalization of relations, of establishing economic stability, and humanitarian well-being, then U.S. and Chinese interests in the region begin to look more similar. The Chinese-North Korean relationship is an anachronism of Cold War mentality, much like North Korea itself, and is emblematic of latent distrust of the West, and the United States in particular. If the United States works diligently to allay these fears and distrust within China, then what once appeared to be an advantageous status quo begins to merely be a proverbial thorn in China's side.

### C. CONCLUSION

Most, if not all, analysts seem to agree that the situation in North Korea cannot continue indefinitely. Sooner or later, if it does not change, the Kim regime will fall. As to when, there is much less agreement on that, and most of the estimates are speculative. One thing is for sure, however—if North Korea collapses, China will have some ownership of the problem whether they like it or not. The United States lacks any serious leverage with North Korea and is therefore not in a position to convince them of change. China, on the other hand, is North Korea's closest ally, and it is the singular state that is in any kind of position to affect change within the hermit nation, but unless China is given a reason to change its calculations on North Korea, little is likely to change. Lao Tzu, author of China's famous *Tao Te Ching*, said, "If you do not change direction, you may end up where you are heading."<sup>161</sup> Ironically, if China is unwilling to change its direction, to risk potentially destabilizing sanctions or some other measure in order to tip the balance of the DPRK regime's calculations in this dilemma, then China will end up where it is heading and get exactly what it has hoped to avoid, a collapsed North Korea, a flood of refugees and uncontrolled nuclear materials on its doorstep.

---

<sup>161</sup> Lao Tzu, Brainy Quote, accessed 28 August 2014, <http://www.brainyquote.com/quotes/quotes/l/laotzu121075.html>.

## LIST OF REFERENCES

- Axelrod, Robert. *The Evolution of Cooperation*. New York: Basic Books, 1984.
- Blaydes, Lisa, and James Lo. "One Man, One Vote, One Time? A Model of Democratization in the Middle East." *Journal of Theoretical Politics* 24, no. 1 (2011): 110–46.
- Cha, Victor. *The Impossible State: North Korea, Past and Future*. New York: HarperCollins Publishers Inc., 2012. Kindle edition.
- Cha, Victor D., and Nicholas D. Anderson, "A North Korean Spring?" *Washington Quarterly* 35, no. 1 (2012): 7–24.
- Chang, Ha-Joon. "The Economic Theory of the Developmental State." In *The Developmental State*, edited by Meredith Woo-Cummings, 182–99. Ithaca: Cornell University, 1999.
- "China." Freedom House. Accessed July 22, 2014.  
<http://www.freedomhouse.org/country/china#.U869pfldWSo>.
- "China's Billionaire People's Congress Makes Capitol Hill Look Like Pauper." Bloomberg News. Last modified 27 Feb 2014.  
<http://www.bloomberg.com/news/2012-02-26/china-s-billionaire-lawmakers-make-u-s-peers-look-like-paupers.html>.
- Congressional Research Service. *North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation* (Washington, DC: GPO, January 17, 2012).
- Evans, Peter B. "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State." *Sociological Forum* 4, no. 4 (1989): 561–87.
- "GDP Ranking." The World Bank. Accessed July 22, 2014,  
<http://data.worldbank.org/data-catalog/GDP-ranking-table>.
- "GDP Ranking Table." The World Bank. Accessed December 18, 2013.  
<http://search.worldbank.org/data?qterm=gdp%202012&language=EN>.
- Glaser, Bonnie S., and Brittany Billingsley. "Reordering Chinese Priorities on the Korean Peninsula." *A Report for the CSIS Freeman Chair in China Studies* (2012).
- Glaser, Bonnie S., and Wang Liang. "North Korea: The Beginning of China-U.S. Partnership?" *Washington Quarterly* 31, no. 3 (2008): 165–180.

- Guo, Sujian, and Gary Stradiotto. "The Nature and Direction of Economic Reform in North Korea." *Political Studies* 55 (2007): 754–78.
- Guthrie, Doug. *China and Globalization: The Social, Economic and Political Transformation of Chinese Society*. New York: Routledge, 2006.
- Haggard, Stephan. *Pathways From the Periphery: The Politics of Growth in the Newly Industrialized Countries*. Ithaca, Cornell University: 1990.
- Haggard, Stephan, and Marcus Noland. *Famine in North Korea: Markets, Aid, and Reform*. New York: Columbia University Press, 2007.
- Iaccino, Ludovica. "North Korean Diplomat: Kim Jong-un's Uncle Was Definitely Shot and Not Eaten By Dogs." *International Business Times*. IBT Media Inc. Accessed 26 March 2014. <http://www.ibtimes.co.uk/north-korean-diplomat-debunks-jang-song-thaek-execution-rumour-1434684>.
- Izatt, Hilary Jan. "Can North Korea Develop? Developmental Dictatorship versus the China Reform Model." *Asian Politics & Policy* 2, no. 2 (2010): 175–95.
- Johnson, Chalmers A. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*. Stanford: Stanford University Press, 1982.
- . "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan." In *The Political Economy of the New Asian Industrialism*, edited by Frederic C. Deyo, 136–63. Ithaca, NY: Cornell University Press, 1987.
- King, Gary, Jennifer Pan, and Margaret E. Roberts. "How Censorship in China Allows Government Criticism but Silences Collective Expression." *American Political Science Review* 107, no. 2 (May, 2013): 326–43.
- Knight, John. "China as a Developmental State." *CGC Discussion Paper Series*, No. 14 2012.
- Lankov, Andrei. *The Real North Korea: Life and Politics in the Failed Stalinist Utopia*. New York: Oxford, 2013.
- Larkin, John, and Murray Hiebert. "Cost of Collapse." *Far Eastern Economic Review* 166, no. 17 (May 01, 2003): 20, <http://search.proquest.com/docview/208229323?accountid=12702>.
- Lieberthal, Kenneth. *Governing China: From Revolution Through Reform*. New York: W.W. Norton, 1995.
- Lim, Sung-Hoon, and Kang-Taeg Lim. "Special Economic Zones as Survival Strategy of North Korea." *North Korean Review* 2, no 2 (2006): 47–61.

- Manyin, Mark E., and Mary Beth Nikitin. "Foreign Assistance to North Korea." *CRS Report for Congress*, 26 April 2012.
- Meisner, Maurice J. *Mao's China and After: A History of the People's Republic*. New York, NY: Free Press, 1999.
- Naughton, Barry. *The Chinese Economy: Transitions and Growth*. Cambridge: MIT Press, 2007.
- "North Korea Nuclear Timeline – Fast Facts." CNN. Accessed 10 August 2014.  
<http://www.cnn.com/2013/10/29/world/asia/north-korea-nuclear-timeline---fast-facts/>.
- Olsen, Edward. "U.S.-North Korea: From Brinkmanship to Dialogue; Strategic Insights: V2, Issue 4." Naval Postgraduate School, 2003.
- Perkins, Dwight H., Steven C. Radelet, and David L. Lindauer. *Economics of Development*. New York: W.W. Norton, 2006.
- Qian, Yingyi. "How Reform Worked in China." In *In Search of Prosperity: Analytic Narratives on Economic Growth*, edited by Dani Rodrik, 297–333. Princeton, NJ: Princeton University, 2003.
- Riskin, Carl. "China and the (Human) Developmental State." Working paper. Columbia University, 2007.
- Rodrik, Dani. *One Economics – Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton: Princeton University Press, 2007.
- "Shades of Red: China's Debate Over North Korea." *International Crisis Group Asia Report*, no. 179 (Nov 2, 2009).
- Tzu, Lao. Brainy Quote. Accessed 28 August 2014.  
<http://www.brainyquote.com/quotes/quotes/l/laotzu121075.html>.
- Wade, Robert. "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence." *World Politics* 44, no. 2 (1992): 270–320.

THIS PAGE INTENTIONALLY LEFT BLANK

## **INITIAL DISTRIBUTION LIST**

1. Defense Technical Information Center  
Ft. Belvoir, Virginia
2. Dudley Knox Library  
Naval Postgraduate School  
Monterey, California