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국제학박사학위논문

## **North Korea between Reform and Security**

### **The Interaction of Economic Reforms and Security Environment in China and North Korea**

북한 경제개혁과 안보환경의 상호작용: 북한·중국 비교연구

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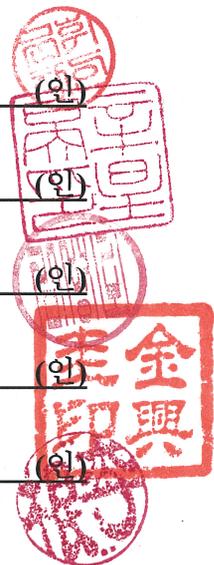
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## ABSTRACT

This dissertation is a comparative study of influences from security environment to economic reform decisions in China and North Korea, which resulted in a sharp contrast of economic consequences between the two countries. The puzzle was why North Korea did not, or failed to launch a comprehensive economic reform and opening as China did starting in the late 1970s. Many previous studies on the socialist economic reform, particularly on China, concentrates on the conditions of leadership change or urgent domestic needs to be the major causes of economic reform and opening. But there had been limitations in explanations on the North Korea case which were partly due to the lack of consideration of an additional condition, the influence of external factors. This study argues that the external factors, mainly the security environments, is one of major constraints of reform. Since the basic purpose of a socialist leadership was to keep their political regime safe and stable with economic prosperity, the reform decisions could not be allowed without a guarantee of regime security. In their interactions with the outside world, the security environment should be interpreted as supportive and utilizable for economic development with keeping the political regime safe. If the interpretations turned out as bringing more political threat than economic benefit, they became constraints of reform and opening.

Four particular periods were selected for case studies on China and North Korea, two for each country regarding the critical years of reform attempts. The success or failure of each reform attempts found their causes from the interaction between the leadership and security environments. These interactions were reflected in the decisions of economic reform through two routes of influences, the political discourse and the political dynamics. One route is the intentional change of political discourses. When the security environments were interpreted as having improved, the leadership could utilize this as an opportunity to facilitate the pro-reform political discourses in their ideological slogans and propaganda. Another route is the

construction of political dynamics. The improvements in security environments helped the top leadership to construct the pro-reform political dynamics among elites, empowering the economic experts to promote pragmatic economic measures.

The cases on China dealt with two periods, one around the year 1978 and the other 1992, both critical years of reform and opening. The former was the starting point of reform with the rise of new leadership, and the latter was the second breakthrough which took place despite temporary retreat after the Tiananmen Incident and the end of the Cold War. The security environments were interpreted as becoming supportive by the reform leaders, and they managed to change the political discourses toward pragmatism and construct the political dynamics to shift power to the reformers. In North Korea, the two cases dealt with the periods around the year 1984 and 2002, times during which the leadership of Kim Jong Il had pursued certain pro-reform economic measures. There were a series of economic measures, including the Equity Joint Venture Law in 1984 and the announcement of the July 1<sup>st</sup> Measures in 2002, which however turned out to be limited and temporary in their effects. Security environments were fluctuating and significantly deteriorated right after the initiation of these reform attempts. The political discourses quickly returned to anti-foreign concepts and intensified with the military-oriented slogans due to the international changes interpreted as increasing threats. In political dynamics, the economic experts conducted the pro-reform measures whereas the conservative Party and military leaders maintained their superior political power. Although the economic experts had clear intentions of economic reform, the deterioration of security environments easily shifted the political power to the conservative leaders to put priority on military buildup and ideological mobilizations.

The Chinese and North Korean leadership had clearly different interpretations on their security environments, influenced by accumulated historical memories and their interactions with the superpowers, neighboring countries, and another part of divided nation. Security environment of China was selectively utilized as opportunities with continuous improvements to facilitate pro-reform discourses and

pro-reform dynamics. This resulted in continuous progress of the reform decisions. In North Korea, however, security environment was interpreted as rapidly deteriorating due the prolonged suspicions on foreign powers and conflicts with South Korea and the United States. This made North Korea intensify the anti-foreign discourses and limit pro-reform political dynamics. After several decades of these repeated interactions between external factors and the leadership, the economic performances turned out quite different in two countries. Now that a third generation leader Kim has emerged, North Korea is again seeking opportunities for economic reform and development while simultaneously seeking to preserve political regime security. This study provides some insights to both North and South Korea in terms of the changes in the security environments and the consequent policy decisions which changed the interaction dynamic between economic reform and regime security.

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**Keywords: External Factor, Security Environment, Economic Reform, China, North Korea**

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## LIST OF ABBREVIATIONS

ADB	Asian Development Bank	KWP	Korean Workers' Party
CCP	Chinese Communist Party	NAM	Non-Aligned Movement
DPRK	Democratic People's Republic of Korea	NIC	Newly Industrialized Country
FDI	Foreign Direct Investment	PLA	People's Liberation Army
FETZ	Free Economic and Trade Zone	PRC	People's Republic of China
GDR	German Democratic Republic	ROC	Republic of China
ICM	International Communist Movement	ROK	Republic of Korea
IMF	International Monetary Fund	SEZ	Special Economic Zone
KCNA	Korean Central News Agency	SPA	Supreme People's Assembly
KPA	Korean People's Army	TRT	Three-Revolution Team

### NOTES ON TRANSLITERATION

1. Romanization of Korean names of people and place is according to the Korean Romanization system of the National Institute of the Korean Language, except for the cases other spellings have become widely accepted such as Kim Il Sung, Kim Jong Il, Kim Jong Un, and Pyongyang.
2. For the names of North Korean elites, the North Korean way of transliteration will be presented in parentheses along with the year of birth and field of expertise, when the name comes up for the first time. North Korean way of English rendering referred to the *North Korea Handbook* (New York: M.E. Sharpe, 2003).
3. Romanization of Chinese names of people and place is according to the pinyin system with similar exceptions for widely accepted spellings.
4. The translation of the names of official institutions follows their own official English publications, except for the CCP (Chinese Communist Party, not CPC for the Communist Party of China) and the KWP (Korean Workers' Party, not WPK for the Workers' Party of Korea).

# I. INTRODUCTION

This dissertation is a comparative study on the economic reform and opening decisions in China and North Korea,<sup>1</sup> with a focus on the top leaders' interpretations of external constraints, mainly that of security environments. Whereas China launched the reform and opening policies in the late 1970s, North Korea did not pursue such bold and comprehensive policy changes until the 2000s and that remains the same even today. North Korea suffered a great famine in the mid-1990s and remains as one of the most isolated countries in the world. This study argues that the security concerns of the North Korean leadership, among many other political and economic factors, are no less significant in explaining its failure to launch economic reform and opening comparable to that of China. The North Korean leaders' interpretations of the external factors, mainly that relating to the security environment, limited their policy alternatives and left them with no other options but to continue with their previous policy of socialist mobilization. A corollary was the short-lived attempts at partial reform from the 1980s through the 2000s.

## 1. A Puzzle on North Korea's Economic Reform Attempts

China and North Korea are considered as unique cases in the area of socialist economic reform history. China has been famous for its remarkable economic growth that was achieved without political liberalization, and North Korea has been notorious for not having had any policy changes despite extreme poverty and continuing crises. Before their development paths apparently diverged from the 1980s, however, the socialist regimes of the Chinese Communist Party (hereafter the CCP) and the Korean Workers' Party (the KWP) shared many similarities as members of the socialist bloc.<sup>2</sup>

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<sup>1</sup> The countries will be called in generally used names such as China, Taiwan, North Korea, and South Korea, rather than their official names such as the "People's Republic of China (PRC)", "Republic of China (ROC)", "Democratic People's Republic of Korea (DPRK)", and "Republic of Korea (ROK)". The official names will be only used in citations of government documents or other primary sources.

<sup>2</sup> The names of the parties in their official documents are "the Communist Party of China" and "the

They both started their rule in the form of a classical socialist system that they learned from the Soviet Union. Among many socialist countries, North Korea and China, in particular, had an intimate bilateral relationship. Against that backdrop, it is quite evident that the North Korean leaders were aware of the impressive economic development that took place in China after the reform and opening of the late 1970s, which accelerated even more in the 1980s. The basic question of this study is why, despite the leaders' awareness of China's dramatic economic development and modernization, North Korea did not or failed to launch a comprehensive economic reform in a similar manner.

The fundamental goal of the socialist leadership in China and North Korea was to maintain regime security by delivering economic prosperity. The CCP and the KWP founded the socialist regime in the late 1940s with a strong nationalist component, fighting foreign invasions. Thus, the two regimes were deeply committed to political independence and economic self-reliance. But there were increasing economic difficulties already from the 1960s as the Soviet model lost its initial dynamism and began to exhibit numerous limitations. In the early 1970s, production inefficiency and supply shortages became a serious problem for the planned economies of the socialist bloc. The East Asian socialist countries were no exception. Many socialist countries searched for ways to reform and develop their economy, including introducing material incentives throughout the 1970s and the 1980s. In Eastern Europe, there had already been debates on economic reform measures since the 1950s to overcome the chronic inefficiency of socialist system by introducing elements of the capitalist market economy.<sup>3</sup> These efforts of Eastern Europe were not

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Workers' Party of Korea." In this dissertation, however, the abbreviations of the party names will be the CCP (Chinese Communist Party) and the KWP (Korean Workers' Party), which are the terms being used more frequently in academic papers and articles. The official names will be only used when government documents or citations from primary sources.

<sup>3</sup> For debates of economic reform in Eastern Europe, Janos Kornai, *The Socialist System: the Political Economy of Communism* (Princeton: Princeton University Press, 1992); Marie Lavigne, *The Economics of Transition: from Socialist Economy to Market Economy*, 2<sup>nd</sup> ed. (New York: St. Martin's Press, Inc., 1999); Bernard Chavance, *The Transformation of Communist Systems: Economic Reform Since the 1950s* (Boulder: Westview Press, 1994).

unknown in East Asia.<sup>4</sup> East Asian socialist countries such as China and Vietnam began debates and started experimentation of economic reforms from the 1970s. China launched the reform and opening in 1978. Vietnam began policy changes in 1979 and launched their reform, the Doi Moi, in 1986.<sup>5</sup> In the midst of such flurry of reforms, North Korea, however, failed to launch its own set of economic reforms or opening of a similar scale.

This remains a puzzle regarding North Korea and begs the explanations as to why the leaders' perceptions and calculations turned out to be so different which resulted in sharply contrasting decisions and development paths. Many previous studies have focused on the surrounding domestic conditions during the time of leadership change and urgent domestic needs as the main causes that affected reform decisions. In the cases of China and North Korea, the process of the leadership change and the different context of the domestic conditions had indeed been important and influential in the policy decisions. But the combination of only these two conditions does not fully explain the differing paths of the economic reform and the development. To complement the combination of conditions, the influences and interactions with the external factors found in the larger arena of international relations should be included as an additional condition that merits consideration.

Before decisions of reform policies, external factors influenced the leaders' thought process. When there were more external factors that were interpreted as being supportive and of good utility to regime security, more comprehensive and long-term reform measures were pursued. But when the leadership perceived that there were more factors that posed threats to the regime without much benefit, these factors became constraints to economic reform and opening. This study will focus on the

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<sup>4</sup> David S. G. Goodman, "Communism in East Asia: the Production Imperative, Legitimacy and Reform," *Journal of Communist Studies* 3, no. 4 (1987): 1-8, reprinted in David S. G. Goodman, ed., *Communism and Reform in East Asia* (Frank Cass & Co. Ltd., 1988).

<sup>5</sup> Vietnam started some kinds of economic reform since 1979, and the more radical Doi Moi reform facilitated its way toward a market economy. Wladimir Andreff, "The Double Transition from Underdevelopment and From Socialism in Vietnam," *Journal of Contemporary Asia* 23, no. 4 (1993): 515-531.

security environments as the major external factors that influenced the top leaders' decisions toward reform and opening.

The changing security environments influenced the reform decisions through its interactions with the leadership, which were reflected in their domestic political discourses and dynamics. First, the improved security environments were used by the leadership to facilitate the pro-reform political discourses, prompting ideological shifts from the orthodox socialist revolutionary slogans to the more pragmatic concepts for economic development. Second, the improved security environment helped the leader to construct pro-reform political dynamics among the elite groups, providing more opportunities for the economy-oriented experts and technocrats to pursue reform and opening more actively. When the leaders interpreted the security environments as having deteriorated and posing threats to the regime, the political discourses and dynamics would shift away from the reform-oriented decisions.

Chinese leaders decided to adopt market-oriented reform measures, which they officially assessed as non-threatening to their regime within a relatively supportive security environment. The supportive and utilizable external factors allowed Chinese leaders to expand the reform and opening for modernization, to ensure their regime security both politically and economically.<sup>6</sup> The need of economic reform and opening was no less acute in North Korea than China in the 1970s and the 1980s. There have been several periods of economic reform attempts in North Korea especially from the 1980s after the leadership succession from Kim Il Sung to Kim Jong Il. The young generation leadership of Kim Jong Il prepared and launched some reform-oriented policies in the mid-1980s, one of them a series of economic measures surrounding the Equity Joint Venture Law of 1984. But they did not develop into a set of comprehensive reforms as a similar attempt did in China, because the North Korean leadership, for some reason, chose not to pursue the Chinese path.

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<sup>6</sup> Thomas G. Moore and Dixia Yang, "Empowered and Restrained: Chinese Foreign Policy in the Age of Economic Interdependence," in *The Making of Chinese Foreign and Security Policy in the Era of Reform*, ed. David Lampton (Stanford University Press, 2002), 200-201.

While China pushed forward the reform and opening policies and began to emerge as a powerful economic actor beginning in the 1980s and onwards in the 1990s, North Korea chose not only to refrain from comprehensive reform but concentrated rather on political mobilizations and control well onto the 2000s, and this remains true even today. The mobilization scheme did achieve some short-term goals, but it also led to the long-term result of failing at market-oriented reform. The outcome was extreme poverty and famine North Korea managed to retain its political regime, but had lost the momentum for economic development in the 1990s. Kim Jong Il's economic experts once again announced economic reform initiatives in the early 2000s on a larger scale but again failed to continue them after some years. Among many reasons of the failure of reform attempts was the concern regarding regime security in the midst of rapid deterioration of security environments which contributed to the retreat of pro-reform political discourses and dynamics.

The roots of the continued hardships of the North Korean economy today can be found in the preceding decades. All of the economic measures and policies currently pursued by the North Korean leaders are within the confines of the policies and decisions that they habitually pursued in the past. The North Korean regime has somehow managed to survive the hardships of the mid-1990s, but it is still struggling to achieve economic development without much progress in reform and opening. This is due to the fact that their decisions are closely intertwined with their interpretations of the security environment. The comparison with China's case from the 1970s will provide a comprehensive understanding of the North Korean leaders' different interpretations of the security environment and its influence on whether or not to pursue economic reform and opening in a broader perspective.

## 2. Research Methodology

To examine the leaders' interpretations of external factors and their influences on reform decisions, an in-depth analysis of the firsthand materials of the leaders' policy discussions including official and unofficial documents and individual writings

needs to be conducted. The problem is, however, the limited accessibility of those firsthand materials which had been the most difficult obstacle in North Korea studies. Except for the official Party documents and speeches containing Kim Il Sung and Kim Jong Il's opinions, it is almost impossible to find any materials presenting different opinions by the oppositions that have reasonable credibility. This situation is worse with the periods of the 1970s and the 1980s. There have been an increasing number of analyses on the earlier period of the 1950s and 1960s or the later periods after the end of the Cold War. The number of analyses on the 1970s and the 1980s, however, has been particularly few due to a severe scarcity of sources. There are official publications of Kim Il Sung and Kim Jong Il's "Works" throughout the period, and the newspapers and journals that largely transport the top leader's arguments. It is well-known that not only the official publications but even journals cannot be relied upon to offer credible and balanced information. They often provide fabricated opinions for the purpose of diplomatic interest or propaganda. Still, they can be used to draw out basic concepts and strategies of the top leaders, which are the only public opinion allowed in North Korea.<sup>7</sup> The situation is not much different in China, where only selected materials containing speeches or dialogues by the top leaders, mainly Deng Xiaoping in this period, which represents the leaders' decisions at the time as reiterated in the newspapers and journals, are available.

In an effort to overcome this fundamental limitation of first-hand materials, many debates on the various research methods on North Korea, ranging from the critical immanent approach to the historical structural approach to the cultural approach, etc. have taken place. The comparative analysis has become increasingly popular as one of the methods that complement the shortcoming of the internal

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<sup>7</sup> On the usage of official publications of North Korea, noticing how the documents or speeches including Kim Il Sung's works have been fabricated or rewritten for political purposes and propaganda, Dea-Sook Suh, Wan Bon Lee, Hyun Soo Jeon, and Kwang-Shick Kang, *Bukhan Hyeongdaesa Munheonyeongu* [A Bibliographical Study of North Korean History] (Seoul: Baeksan-Seodang Publishing, 2001); Philo Kim, *Kim Il Sung Jeojak Haeje* [Bibliographical Notes on Kim Il Sung Works] (Korea Institute for National Unification, 1993); Jong-seok Lee, *Saero Sseun Hyeondae Bukhan ui Ihae* [A Re-Written Understanding of Contemporary North Korea] (Seoul: Yeoksa Bipyongsa, 2000), 33-60.

(immanent) approaches, by shifting the focus from the particularity of North Korea to its similarities with other socialist countries.<sup>8</sup> In response to the material-poor periods of the 1970s and the 1980s, this study conducted a comparative historical analysis of China and North Korea by basically analyzing the available primary materials, namely, the “Works” done by the top leaders. The comparison between the Chinese and the North Korean leaders’ thinking will provide useful insights for the analysis of their different decisions on economic policies. The official Party documents and publications like the newspapers will be used as complementary sources. To achieve a more balanced analysis on the leaders’ discussions, the diplomatic documents from other socialist countries, the Soviet Union and the Eastern Europe countries will be also used.<sup>9</sup> North Korea actively sought to gather more political and economic support by utilizing its diplomatic connections, and many official and unofficial communications remained in diplomatic documents written by foreign diplomats that were stationed in Pyongyang or in other countries. These documents will add more variety to the analysis.

### **(1) A Comparative Historical Analysis**

There have been series of comparative studies on China and North Korea, mostly conducted in South Korea for the purpose of devising government policy options. Many South Korean studies have only compared North Korea’s recent situation, mainly the period after the 2000s, with China of the late 1970s.<sup>10</sup> The

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<sup>8</sup> Jong-seok Lee, *Saero Sseun Hyeondae Bukhan ui Ihae*, 23-36, 110-112; Moon-soo Yang, “Bukhan Gyeongje Yeongu Bangbeopron: Sigak, Jaryo, Bunseokteul eul Jungsim euro [Research Methodology on North Korean Economy: Perspectives, Sources, and Analytical Frameworks]” and Kab-woo Koo, “Bukhan Yeongu wa Bigyo Sahoejuui Bangbeopron [North Korea Studies and the Comparative Socialist Methodology],” in *Bukhan Yeongu Bangbeopron [North Korea Studies Methodologies]*, ed. Kyungnam University Graduate School of North Korea Studies (Seoul: Hanul Publishing Company, 2003), 209-238, 280-305.

<sup>9</sup> All the diplomatic documents were obtained and translated by the North Korean International Documentation Project (NKIDP) and the Cold War International History Project (CWIHP) under the History and Public Policy Program at the Woodrow Wilson International Center for Scholars, Washington D.C. Most of them are available online, <http://digitalarchive.wilsoncenter.org/>.

<sup>10</sup> Some examples among many studies comparing China of the 1970s and North Korean in the 2000s, Hui-jin Park, *Bukhan gwa Jungguk: Gaehyeok Gaebang eui Jeongchi Gyeongjehak [North Korea and*

academia did not seriously consider the possibility of Chinese-style reform in North Korea until the late 1990s, when the economic contrast became clear from the remarkable growth of China and the famine in North Korea. Right after the end of the Cold War, a large number of analyses expected North Korea to follow the trajectories of the Eastern European countries, suggesting the possibility of a sudden collapse, facilitating unification by way of absorption like the case of Germany.<sup>11</sup> In the mid-1990s, the situation seemed to further deteriorating in North Korea with the death of Kim Il Sung and the famine. In the realm of the debates on pros and cons of shock therapy versus gradualism, many still expected a sudden collapse of North Korea.<sup>12</sup> Still, the North Korean regime managed to survive after the power consolidation of Kim Jong Il in 1998. Some reform measures implemented by North Korea in the 2000s finally put a damper on the academia's fixation on the collapse and have shifted its attention toward the possibility of Chinese-style reform. Many recent studies compare the economic conditions between North Korea of the 2000s and China at the early stage of reform in the late 1970s and 1980s.<sup>13</sup>

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- China: the Political Economy of Reform and Opening*, in Korean] (Seoul: Sunin Books, 2009),; Myoung-chul Cho and Ihk-pyo Hong, *Jungguk Betunam ui Chogi Gaehyeokgaebang Jeongchaek gwa Bukhan ui Gaehyeok Banghyang* [Early Policy of Reform and Opening in China and Vietnam and the Direction of Reform in North Korea] (Seoul: Korea Institute for International Economic Policy, 2000).
- <sup>11</sup> Jong-won Lee and Chang-kwon Kim, "Tongil Siryeonsi Bukhan Gyeongje ui Sijang Gyeongje roui Jeonhwan eul Wihan Gyeongje Jedo Gaehyeok Bangan: SSM Sayuhwa Jeongchaek eul Jungsimeuro [Policy Suggestions on the Fundamental Economic Reform Programs for North Korea's Transition toward Market Economy When Unified: With an Emphasis on the so-called SSM-Privatization Policy]," *Jaejeong Nonjip* 11, no. 1 (1996): 271-298; Jung-chaeh Chung and Im-soo Yoo, "Donggu ui Chejejeonhwan Gyeongheomgwa Bukhan ui Gaehyeokbanghyang [Experiences of Transformation in CEECs and its Guidance Possibilities for North Korea]," *Europe Yeongu* 4, no. 1 (1996): 415-444; Manhak Kwon, "Talgukga Sahoejuui ui Yeoreo Gil gwa Bukhan: Bunggoe wa Gaehyeok [Pathways from State Socialism and North Korea: The Political Economy of Collapse and Reform]," *Hanguk Jeongchihakhoebo* 35, no. 4 (2001): 247-264.
- <sup>12</sup> Kang-taeg Lim, "Kim Jong Il Cheje wa Bukhan ui Gyeongje Jeongchaek: 'Silli Chuguhyeong Pyeswaejuui' wa Geu Dillema [North Korea's Economic Policies under Kim Jong Il]," *Bukhan Yeonguhakhoebo* 3, no. 1 (1999): 83-100; Jun-ki Kim, "Bukhan Gyeongje ui Gaehyeok: Donggugwon gwa Jungguk Gyeongje Gaehyeok ui Gyohun [North Korean Economic Reform: Lessons from China and East European and Former Soviet Union (EEFSU)]," *Haengjeong Nonchong* 35, no. 2 (1997): 125-149; Sung-sup Rhee, "Bukhan Gaebang Jeongchaek ui Baegyeong gwa Gaehyeok Jeongchaek Chugu ui Ganeungseong [Reasons for the Open Door Policy and Possibility of Reform Policy Initiation in North Korea]," *Bigyo Gyeongje Yeongu* 3 (1995): 93-123.
- <sup>13</sup> Among the studies in various fields of economy with specific analysis on policies, Seong-cheol Kim, *Gukje Geumnyung Gigu wa Sahoejuui Gaehyeok Gaebang: Jungguk Beteunam Gyeongheom i Bukhan*

Though the number of theoretical perspectives has increased, there remain several limitations, one of them being the inconsistency of the comparative researches. Due to the strategic and practical purpose of policy recommendations, many researches were published only when North Korea declared some economic measures. They would then assess the potentials and effects of the measures but would also disappear soon afterwards.<sup>14</sup> When North Korea declared the Rajin-Sonbong district to be a “Special Economic and Trade Zone (FETZ)” like the Chinese had with the Special Economic Zones (SEZs), the number of analyses on the possibility of Chinese-style foreign direct investment (FDI) expansions sharply increased.<sup>15</sup> When North Korea declared “the July First Economic Management Improvement Measures (the July 1<sup>st</sup> Measures)” in 2002, debates on the possibility of comprehensive reform were revived again for a while.<sup>16</sup> The questions were mainly about the effects of

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*e Juneun Hamui [International Financial Organizations and Socialist Reform and Opening: Implications from the Experiences of China and Vietnam to North Korea]* (Korea Institute for National Unification, 2001); Hui-Jin Park, “Bukhan gwa Jungguk ‘Sijang(Market)’ ui Bigyo: Hyeongseong Baljeon Gwajeong gwa Geu Teukjing [Comparative Study on Market of North Korea and China: With a Focus on Market Formed and Developed],” *Tongil Jeongchaek Yeonggu* 16, no. 2 (2007): 199-232; Jeong-sig Go, “Jungguk gwa Bukhan ui Gagyeok Gaehyeok Bigyo [Comparative Study on the Price Reforms in China and North Korea],” *Hanguk Dongbuka Nonchong* 26 (2003): 175-207; Seok-jin Kim, “Bukhan Gyeongje Gaehyeok ui Chogi Jogeon: Gukje Bigyojeok Sigak [The Initial Conditions of Economic Reform in North Korea: Comparative Studies],” *Hyeongdae Bukhan Yeongu* 5, no. 2 (2002): 143-172; Byung-yeon Kim, “Sahoejuui Gyeongje Gaehyeok gwa Cheje Ihaeng ui Jeongchijeok Jogeon: Gusoryeon, Dongyureop, Jungguk ui Gyeongheom gwa Bukhan ui Ihaeng Ganeungseong [The Political Constraints of Economic Reforms and Transition: The Implications of Experiences of Former Soviet Union, Eastern Europe and China for North Korea],” *Bigyo Gyeongje Yeongu* 12, no. 2 (2005): 215-251.

<sup>14</sup> Mu-chul Lee, “Bukhan Gyeongje Gaehyeok Yeongu ui Jaengjeom [Issues of Studying North Korean Economic Reform],” *Hyeongdae Bukhan Yeongu* 9, no. 2 (2006): 49-87; Jong-seok Lee, *Saero Sseun Hyeongdae Bukhan ui Ihae*, 88-90.

<sup>15</sup> Yong-chan Won, “Deung Sopyeong Ihu Junggik ui Gaehyeok Jeonmang gwa Bukhan Gyeongje Gujo ui Banghyang: Dongasia Sahoejuui Bigyo Jeopgeun [Reform Prospects of China after Deng Xiaoping and the Direction of North Korean Economic Structure: Comparative Approach on East Asian Socialism],” *Saheo Gwahak Yeongu [Social Science Studies]* 24 (1998): 101-115; Koong-young Nam, “Bukhan ui Oejayuchi Jeongchaek gwa Nambukhan Gyeongje Hyeomnyeok [North Korea's Policy to Induce Foreign Capital and Inter-Korea Economic Cooperation],” *Hanguk Jeongchihakhoebo* 32, no. 2 (1998): 279-304.

<sup>16</sup> Park (2002) carefully assessed the July 1<sup>st</sup> Measures as the extension of pre-existing improvement measures, based on the theory of socialist economic reform phases. Hyeong-jung Park, “‘Noim Mit Mulgainsang’ Mit ‘Gyeongje Gwalli ui Gaeseon Ganghwa’ Jochi e Daehan Pyeongga [North Korea's Wage and Price Increases and ‘Improving Socialist Economic Management’ in 2002],” *Tongil Munje Yeongu* 14, no. 2 (2002): 77-97, while Kim (2002) highly recognized the July 1<sup>st</sup> Measures as a reform

reform measures, and the possibility of its success or failure. In order to fully investigate the causes of such accumulation of decisions that led to long-term policy differences, however, the comparison has to be considered in a longer time frame.

Another limitation has been the separation of political and economic aspects. The analyses on the reform prospects were mainly conducted in the field of economics, while political studies concentrated on security issues like the nuclear crises. Some economic studies analyzed the key elements of the reform attempts by comparing with the measures with the reforms in China and Vietnam and searched for economic similarities.<sup>17</sup> Most of them briefly talked about the importance of political

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toward the market economy. Yeon-cheol Kim, "Bukhan Gyeongje Gwalli Gaehyeok ui Seonggyeok gwa Jeonmang [Characteristics and Prospects of North Korean Economic Management Reform]," in *Bukhan Gyeongje Gaehyeok Yeongu [Studies on North Korean Economic Reform]*, eds. Yeon-cheol Kim and Sun-seong Park (Seoul: Humanitas, 2002), 11-28. Park (2003) also suggested North Korea to follow the Chinese reform in each sector of its economy, which he categorized as agriculture, SOEs, price, finance, and international trade. Jeong-dong Park, *Gaebalgyeongjeron: Jungguk gwa Bukhan ui Bigyo [Theory of Development Economy: Comparing China and North Korea]* (Seoul National University Press, 2003); Jeong (2002) posed the July 1<sup>st</sup> Measures in the middle between the reformist socialism to market socialism. Hyeong-gon Jeong, "Dongyureop Sahoejuui Gyeongje Cheje ui Gaehyeok gwa Bukhan [The Reform of the Socialist Economic System in Eastern Europe and North Korea]," *Hyeondae Bukhan Yeongu* 5, no. 2 (2002): 51-111. For more assessments on the economic measures of North Korea, Hyeong-jung Park, *Bukhan ui Gyeongje Gwalli Chegye: Gigu wa Unyeong, Gaehyeok gwa Byeonhwa [Economic Management System of North Korea: Institutions, Operations, Reform and Changes]* (Seoul: Haenam, 2002); Yeong-cheol Jeong, *Bukhan ui Gaehyeok Gaebang: Ijung Jeollyak gwa Silli Sahoejuui [Reform and Opening of North Korea: Dual Strategy and Pragmatic Socialism]* (Seoul: Sunin Books, 2004).

<sup>17</sup> Cho and Hong (2000) urged North Korea to learn from China and Vietnam to find ways to expand economic relations even with the U.S. and South Korea, and recommended Chinese-style reform and opening as the most appropriate model for North Korea to consult with. Cho and Hong, *Jungguk Beteunam ui Chogi Gaehyeok Gaebang Jeongchaek*. With a slightly different perspective, Oh (2001) also compared China in the late 1970s, focusing on economic structure. Compared to China, North Korea has a highly concentrated economic capacity at the center, and much higher dependency on international trade to develop its economy. Due to these different circumstances, he concludes that North Korea would need to develop its own way of reform and not follow China's path of development. Sung-ryol Oh, *Jungguk Gyeongje ui Gaehyeok Gaebang gwa Gyeongje Gujo: Bukhan Gyeongje Byeonhwa e Daehan Hamui [China's Economic Reform and Opening, and Economic Structure: Implications for North Korean Economic Changes]* (Korea Institute for National Unification, 2001), 6-10. More economic analyses arguing rather low possibility of Chinese style economic reform in North Korea can be found in Un-cheol Yang, *Junggukhyeong Gyeongje Baljeon Jeollyak ui Bukhan Jeokyong e Gwanhan Yeongu [A Study on the Application of China-Style Economic Development on North Korea]* (Sejong Institute, 2001); Yeong-gyeong Gwon, "Bukhan Gyeongje ui Wigi Gujo wa Jungguk, Beteunam ui Chogi Gaehyeok Gaebang Jeongchaek e Bichueo Bon Bukhan ui Gaehyeok Gaebang Pyeongga [The Crisis Structure of North Korean Economy and the Assessment on North Korea's Reform and Opening Compared to the Initial Reform and Opening Policies of China and Vietnam]," *Anbo Haksul Nonjip* 13, no. 2 (2002): 83-158.

and international constraints, but did not earnestly delve into the linkages between these security factors with the economic policies or prospects. Some other studies have tried to put North Korea in the frame of transition phases towards system transformation, by inferring from the Eastern European experience.<sup>18</sup> It was not easy to find the balance between universality and uniqueness of North Korea. The existence of the rapidly developing South Korea and the United States was also indicated as a decisive political factor that provided initiatives to allow any kind of reform measures, but the detailed explanations are rarely found on the linkages of these factors to the reform attempts in North Korea.<sup>19</sup> The economic elements were indeed important necessary conditions for the reforms, but the influence of the political and security factors need to be analyzed to make the conditions sufficient to initiate reform and opening.

Some recent studies have explained the reasons why North Korea could not simply follow China's economic reform and opening by paying more attention to the politics and security environments. Hyeong (2006), for example, listed the differences of North Korea in political, economic, cultural and international conditions. Relations with South Korea or the United States provided constraints to the reform decision of North Korea, and prevented it from taking the path of China-style reform and

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<sup>18</sup> Seong-cheol Kim et al., *Bukhan ui Gyeongje Jeonhwan Mohyeong: Sahoejuui Gukga ui Gyeongheom i Juneun Hamui [Economic Transition Model for North Korea: Implications from the Experiences of Socialist Countries]* (Korea Institute of National Unification, 2001); Hyeong-gon Jeong, *Cheje Jeonhwan ui Gyeongjehak [Economics of System Transition]* (Seoul: Cheongam Media, 2001); Park, *Bukhan ui Gyeongje Gwalli Chegye*.

<sup>19</sup> Some studies even argued that political purposes and the larger international relation environment, especially South Korea, were more important in the economic reform policy decision and implementation in North Korea. Despite the clear need of economic reform, the final decision was always political. Comparing the initial stage of Chinese reform from 1979 to 1984 and North Korean situation around the July 1<sup>st</sup> Measures, Lee et al. (2005) found that the problem is not economic conditions, but politics. They expected North Korea to be on the track of Chinese reform due to many similarities in economic conditions, but the domestic political factors such as strict control over the population and the 'military-first ideology' with no leadership change make the reform impossible. They also posit that international relations were an important element, for example, the security issues with the U.S. and South Korea, which provided risks of abrupt changes in North Korean economic and security strategies. Kyo-duk Lee et al., *Bukhan Cheje ui Bunyabyeol Siltae Pyeongga wa Byeonhwa Jeonmang: Jungguk ui Chogi Gaehyeok Gaebang Gwajeong gwauui Bigyo Bunseok [Assessments and Prospects on North Korean System by Sectors: Comparative Analysis with China's Reform and Opening Process at its Initial Stage]* (Korea Institute for National Unification, 2005).

opening.<sup>20</sup> The impact of external factors provided more uncertainty and possible dangers to the North Korean regime. Now a more thorough understanding and analysis on the interactions of these factors, linking the leaders' decisions in a broad perspective with a longer time span is needed.

## **(2) Four Case Studies on Critical Years of Reform**

Many recent comparative studies have compared the post 1990's North Korea with China of the 1970s and 1980s in totally different domestic and international contexts.<sup>21</sup> Few have compared what the two countries went through during the same period of the 1970s and the 1980s. To compare China and North Korea in terms of the leaders' calculations and decisions toward reform, this study will focus on four particular periods as case studies, two for each country. The first cases of each country will begin with the initial periods of policy changes from ideological and military policies to more practical ones. These changes usually occurred simultaneously with the leadership change, China in the late 1970s with the rise of Deng Xiaoping, and North Korea in the early 1980s with the consolidation of Kim Jong Il's domestic leadership. The policy decisions from these periods accumulated and influenced the development path of two countries until the end of the Cold War, and still do today. The second cases for each country deal with their second attempts of economic reform after some years of crises, the Tiananmen Incident in China, and

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<sup>20</sup> Hyeok-gyu Hyeong, *Saeroun Bukhan, Jungguk i Daeaninga [Is China an Alternative for a New North Korea?]* (Korean Studies Information, 2006). Kim (2008) and Park (2009) also talk about political or international issues like leadership succession or nuclear crisis, although they primarily focus more on different economic backgrounds and policies between North Korea and China. Seok-jin Kim, *Jungguk Beteunam Gaehyeok Model ui Bukhan Jeokyong Ganeungseong Jageomto [Reassessing the Applicability of China and Vietnam Reform Models for North Korea]* (Korea Institute for Industrial Economic and Trade, 2008); Hui-jin Park, *Bukhan gwa Jungguk*.

<sup>21</sup> Also comparing reform phases, Park (2005) included the case of Vietnam from 1979 to 1985 as showing similar characteristics with the reform phase of North Korea in 2002 to 2005. Despite much more serious economic difficulties and security crises, he expects similar gradual reform in North Korea a strong leadership. Since North Korea is already industrialized, and has demolished state-owned enterprises, it might be easier for them to rearrange and mobilize resources, if they succeed in surviving a much worse economic poverty. Hyeong-jung Park, "Jungguk gwa Beteunam ui Gaehyeok gwa Baljeon: Bukhan eul Wiha Model? [Reform and Development in China and Vietnam: a Model for North Korea?]," *Online Series 05-06* (Korea Institute for National Unification, 2005), 15-16.

the Arduous March in North Korea. The new leaderships had established their political power, and were seeking to continue or catch the momentum to push the economic reform policies forward.

For China, the periods around the year 1978 and 1992 were selected for the case studies. The new and reform-oriented leaders started the initial reform and opening after the Third Plenum in 1978 winning the competition with other factions and utilized the domestic and international circumstances for their pragmatic purposes. There were already some signs of pragmatic approaches to foster closer relationship with the United States throughout the 1970s. Another case study on China will be on the reform progress of reforms around the year 1992. In the aftermath of the Tiananmen Incident and the end of the Cold War, the reform and opening retreated to concentrate on maintaining political stability. But Deng Xiaoping's Southern Tour in 1992 resulted in more rapid reform and opening throughout the 1990s.

For North Korea, the periods around the year 1984 and 2002 were selected for its two case studies. Though North Korean leaders did not launch a major reform like China, they did try some reform measures in 1984, and attempted bolder ones in 2002 named the "July 1<sup>st</sup> Measures." Kim Jong Il established his power as the successor through the 1970s and finally solidified his position as the actual leader in 1980. In 1984, the new generation's leadership led by Kim Jong Il initiated partial reform measures aimed at economic development. The KWP had already failed at economic opening in the 1970s, which resulted in stricter political stance against reform and opening. The reform attempts of 1984 remained partial and limited due to the restrengthened political mobilization and military preparation to preserve regime security in the late 1980s. Another case on North Korea will be the political and economic interactions around the year 2002, where more efforts of economic rationalization intertwined with the tensions resulting from the nuclear issue. Each period of reform attempts was short-lived without achieving visible progress due to various impediments including that arising from unfavorable security environments.

### 3. Overview of the Chapters

Following this introduction, a literature review on the North Korea puzzle will be conducted in chapter two which is divided into four sections. The first section briefly deals with the transition theories from the experiences of Eastern Europe and the Soviet Union, which emphasize the necessity of political liberalization prior in order for the economic reform to be successful. The theoretical focus shifted to the Chinese reform and opening initiation and progress, and three necessary conditions were inferred from the debates between the shock therapy and the gradualist approach with extended discussions on the developmental states and historical institutionalism. The three conditions are leadership change, urgent domestic needs, and external factors. The second and third section deals with the two of these necessary conditions, leadership change and urgent domestic needs, which were regarded as the core conditions of reform and opening in previous explanations on the Chinese case. But to make the combination of these necessary conditions to be sufficient for the reform policies, another necessary condition has to be added: the external factors. The fourth section of the literature review discusses the condition of external factors, which had been relatively underestimated in the previous studies. The interactions with the external factors, mainly security ones, need to be analyzed as another major condition for the reform decisions.

Chapter three will present an alternative explanation inferred from the literature review, narrowing down the research focus onto the interaction of external factors and the leadership toward the reform decisions. Even if there were reform-oriented leadership and urgent domestic needs, the leaders would not launch such comprehensive reform and opening policies without supportive and utilizable external factors. Regarding their fundamental purpose of regime security, the reform would not be possible when the external factors work unfavorably towards the regime. The lack of supportive or utilizable external factors led to a fundamentally different calculation process in North Korea from Chinese case. Mainly, the security concerns in the context of the Cold War era and the East Asian region influenced the leaders'

decisions to be different in North Korea.

To deal with this question of influences from security environments to reform decisions, chapter four will provide an analytical framework under which China and North Korea will be compared. The security environments constitute the independent variables, and two routes of interactions with the leadership will convey the influences from the security concerns to the reform decisions: the political discourses and the political dynamics. The political discourse part deals with the influences of the security environments on the leaders' political slogans and ideological orientations, which had been critical in allowing political decisions of the reform initiations. The political dynamics refer to the elite politics between the conservatives (revolutionaries) and the reform-oriented experts (pragmatists) which was also influenced by the top leader's interpretations of the state of regime security. A framework will be derived based on these ideas, to compare the top leaders' interactions with the security environments in China and North Korea.

Chapter five to eight will describe the case studies on China and North Korea. Evidences will be provided for each case according to the analytical framework, focusing on the interactions of external factors on the decisions and process of reform measures. The chapter five and six deal with China in 1978 and 1992. Chapter five deals the successful launch and progress of reform and opening since 1978 which were influenced by improvements of security environment including the Sino-U.S. normalization to check the Soviet Union. These security factors influenced the decisions of the reform and opening at the end of the 1970s and the 1980s through the changes in political discourses and dynamics among the leading elites. The rapid progress of the reform and opening met a final backlash with the Tiananmen Incident and the end of the Cold War, which will be dealt with in chapter six. But the actual security environment was still improving without any substantial danger, with the Sino-Soviet normalization and the continued relations with the United States. The pro-reform political discourses and dynamics soon recovered and continued after the Southern Tour of Deng Xiaoping in 1992.

Analysis on North Korea in chapter seven and eight follows the same framework, focusing on the different result of the interactions between the security environment and the leaders' reform decisions around 1984 and 2002. Kim Jong Il had officially established his power from 1980 and onwards and attempted several pro-reform economic measures from 1984. But North Korea had to be on high alert in order to deal with the gradually deteriorating security environment, with South Korea and the United States in the background, without clear support from the socialist neighbors. The security environment plummeted in the late 1980s with rapid increase of international support toward South Korea. The isolation facing the end of the Cold War made the pro-reform attempts to stop at the end of the 1980s. After the Arduous March of the mid-1990s, North Korea attempted another shot at economic reform in 2002, which will be analyzed in chapter eight. The leadership prepared and launched several economic measures including the July 1<sup>st</sup> Measures, but the security environment had severely deteriorated with the second nuclear crisis and the ongoing distrust and conflict with both the United States and South Korea prevented the pro-reform discourses and dynamics from making progress. The economic measures in these two cases were only temporary, and the security concerns have constituted a large part of the negative decisions of the leadership.

Chapter nine will summarize the case studies on China and North Korea, showing the results in a highly contrasting fashion after the repeated interactions and decisions on economic policies. Through this comparative historical analysis, this study will focus on how the external factors – the security environment – have turned out to be the constraints of reform in case of North Korea. With the new leadership of Kim the Third, North Korea will most likely try its hand again at some measures to improve the situation, but their basic policy frame has not changed much from the past. The conclusion chapter will provide a summary of the key issues, and will suggest several implications for both North and South Korea that may help facilitate pro-reform changes in North Korea based on the logic derived from the analysis.

## II. LITERATURE REVIEW ON THE NORTH KOREA PUZZLE

There have been various explanations on the different paths that socialist economic reforms have taken. The East Asian socialist countries, including China and North Korea, have shown different trajectories in the economic and political decisions from other socialist countries in Eastern Europe. Chinese reform and opening process has garnered more attention and many previous explanations focusing on China pointed to the importance of leadership change or urgent domestic needs as the main conditions for reform decisions. In dealing with the puzzle of why North Korea chose different economic policies even from that of China, however, these explanations have manifested certain limitations. Starting with the differences of the East Asian socialist reform from the Eastern European transition cases, previous studies focusing on the respective condition of leadership and domestic needs will be reviewed in following sub-chapters. Finally, to reach a more balanced analysis on the North Korea puzzle, a relatively unexplained condition, the external factors, will be added.

### 1. Limitations of the Political Liberalization Thesis

The term “reform” has often been confused with “system transition”, which here includes both economic and political transitions. The economic transition refers to that from a planned economy to a market economy, and the political transition from a socialist dictatorship to a liberal democracy.<sup>22</sup> The political and economic reforms of the Soviet Union and Eastern European countries in the late 1980s resulted in the collapse of the Communist party rule and rapid changes towards market economy and

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<sup>22</sup> To take a look at the differences in the usage of terms “reform”, “transition”, and “transformation”, see Keun-sik Kim, “Sahoejuui Chejejeonhwangwa Bukhan Byeonhwa: Bigyosahoejuui Gwanjeomeseo [Socialist Transition and Changes in North Korea: From a Perspective of Comparative Socialism],” *Tongilgwa Pyeonghwa* 2, no. 2 (2010):111-135; Seung-ji Kwak, “Bukhan Gaehyeok Gaebangui Jeongchigyeongje: Hyeonsangwa Insik [North Korea’s Reform and Opening-up: the Present Situation and Perception],” *Bukhan Hakbo* 33, no. 1 (2008): 73-114.

democracy.<sup>23</sup> Based on this experience of Eastern Europe, there have been theoretical efforts to place China and North Korea in the frame of system transition process and these efforts are shown to use the terms “reform” and “transition” simultaneously.

Unlike the Eastern European socialist countries, China has continued to implement the “reform and opening” policies for several decades and managed to accomplish remarkable economic growth without having gone through political liberalization. Perhaps, one day, China will eventually fit into the arguments made by the European transition theories if it finally does undergo political transition towards a liberal democracy. But its prolonged rapid economic growth under the CCP rule has already shaken up the belief of the inevitable political transition towards a democracy which is supposed to have preceded economic prosperity. To distinguish the term “reform” from “transition”, “economic reform” in this study will refer to “a comprehensive package of market-oriented economic policies under the socialist (the Communist party) system.” If the economic reform provides strong incentives toward political liberalization, the process might develop into a revolutionary transition towards a democracy. However, such a revolution is not a predetermined future of all economic reforms. The economic reform of a socialist country itself is merely a series of domestic economic policies still contrived and implemented under the rule of existing Communist party leadership.

### **(1) Political Liberalization: Essential Precondition of European Reforms**

The socialist economic reform discourse is not a new academic trend after the end of the Cold War. There existed prolonged debates on the socialist economic reform date back to the 1950s in the Soviet Union and Eastern Europe. These debates contemplated ways to resolve the inefficiency of the Soviet-style planned economy,

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<sup>23</sup> Regarding socialist transition and democratization in post-socialist countries, Valerie Bunce, “Democratization and Economic Reform,” *Annual Review of Political Science* 4 (2001): 43-65; Tsuneaki Sato, “Convergence and Divergence in Transformation: Comparison of Experiences of CEECs and China,” in *Transition from Socialist to Market Economies*, eds. Shinichi Ichimura, Tsuneki Sato and William James (Palgrave Macmillan, 2009), 9-36.

including introducing market-oriented elements into the system. Many Eastern European countries attempted economic reforms, but mostly failed to launch a sweeping reform until the Communist party rule collapsed in the late 1980s and early 1990s. Many European scholars argued that the reform efforts since the 1950s were unsuccessful because of the socialist leaders' reluctance and the resulting limited implementations of market elements including freedom for companies to make autonomous decisions.<sup>24</sup> They concluded that political liberalization was necessary to guarantee a meaningful and effective economic reform. Without political transformation of the Communist party rule, it was difficult to imagine that economic reform or development could be achieved.

Lavigne (1999)'s observation shows that the Eastern European socialist countries tried to reduce the size of the central administration apparatus and relax the mandatory character of the economic plan. But the decisional autonomy for the enterprise was still limited, and accessibility to key resources was strictly controlled by the party and state. Attempts to provide material incentives and thereby boost economic efficiency soon became stale. Such experiences seemed to prove that market-oriented measures could never exist in tandem with the Communist party dictatorship.<sup>25</sup> Most socialist countries failed to revive their economies until the 1980s and the end of the political monopoly was what led to rapid transitions.<sup>26</sup> The main reason for reform failures seemed to point to the Communist party leaders who did not want to lose their grip on power and privileged status in the country. Many scholars thus concluded that comprehensive economic reform was rendered impossible without political reform that allowed opposition parties and organizations. Once political reform began, a complete system overhaul towards democracy and

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<sup>24</sup> Lavigne, *The Economics of Transition*. The similar stance on socialist reforms of the Soviet Union and Eastern European countries, Włodzimierz Brus, "East European Reforms: What Happened to Them?" *Soviet Studies* 31, no. 2 (1979): 257-267; Włodzimierz Brus and Kazimierz Laski, *From Marx to the Market: Socialism in Search of an Economic System* (Oxford: Oxford University Press, 1989).

<sup>25</sup> Lavigne, *The Economics of Transition*, 29-43.

<sup>26</sup> *Ibid.*, 91-112.

capitalist market economy was inevitable.<sup>27</sup> This simultaneity of economic reform and political liberalization led the term “reform” to be confused with “system transition.”

One outstanding work on socialist economic reform and transition process has been conducted by Janos Kornai (1992). He divided the history of socialist economy into two phases, “classical socialism” and “reform socialism.”<sup>28</sup> He defined the concept “socialist system” simply as countries ruled by a Communist party like the Soviet Union, Eastern European countries, China, and North Korea.<sup>29</sup> Based on the experience of Eastern European countries, the common characteristics of the socialist economic system were listed as follows: i) a political structure in which power is monopolized by the Communist party and its own official ideology (the most fundamental element); ii) a property relations dominated by state ownership; iii) bureaucratic apparatus with strict hierarchy and centralized information; iv) habitual behaviors concerning economic activities such as plan bargaining, drive to achieve quantity, soft budget constraints, and so on; and v) economic consequences such as forced growth, labor shortage, unemployment on certain sectors, chronic shortages, and system-specific role of foreign trade. If a socialist country wanted to change its economic system from a classical system to a reform system, the leadership would have to permanently change at least one of the second or third characteristic, the property relations or the centralized bureaucratic mechanisms.<sup>30</sup> If the policies

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<sup>27</sup> For more studies on the inevitability of political transition to pursue an actual and meaningful economic reform, Jan S. Prybyla, *Reform in China and Other Socialist Economies* (Washington D.C.: AEI Press for American Enterprise Institute, 1990); Richard E. Ericson, “The Classical Soviet-Type Economy: Nature of the System and Implications for Reform,” *Journal of Economic Perspectives* 5, no. 4 (1991): 11-27.

<sup>28</sup> These two phases are in between two system transitions, first from capitalist to socialist, then in return from socialist to capitalist system. Kornai, *The Socialist System*. He has been consistent on arguing his logic on every other socialist country including China and North Korea. Among other works by Kornai are: *The Road to Free Economy – Shifting from a Socialist System: the Example of Hungary* (New York: W. W. Norton & Company, 1990); *From Socialism to Capitalism: Eight Essays* (Budapest: Central European University Press, 2008).

<sup>29</sup> Kornai put China into the same category of his “socialist countries” that followed the same course of returning transition to the capitalist system. Kornai, *The Socialist System*, 3-5.

<sup>30</sup> Despite wide variations by countries, Kornai provided a general theory about the changes from the classical system to the reform system by using the five common characteristics to be the “socialist

touched only minor issues as described by the fourth or fifth characteristics, they become too superficial and ordinary to be considered a reform. If the leadership alters the most fundamental element of the political structure, the first characteristic, then it becomes a revolution. By definition, a reform is not to take the country completely out of the socialist system. It has to be “moderately radical” by pursuing partial and moderate change.<sup>31</sup>

Although the reform itself did not aim at a revolution, there was a dilemma in the “reform socialism” phase. Socialist leaders initially allowed limited policy changes that did not touch upon the fundamental political structure. But the economic reform measures under the monopolized power structure had failed in many countries, and the repeated failures led to the conclusion that it was impossible to achieve an effective economic reform while keeping the political structure unchanged.<sup>32</sup> In the Soviet Union and Eastern Europe, these growing contradictions eventually brought the collapse of the socialist system, which was not the original intention of the leaders. Initiation of effective economic reform was destined to spark a re-revolution towards capitalist economy with political liberalization along side of it.

When the socialist leaders launched economic reform, the leaders intended to revive the economy and continue the Communist party rule. But the initial and the most essential part had to be political liberalization, a change in the political structure and the official ideology.<sup>33</sup> Just as the classical socialist system was founded on its

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system,” as a framework for reference. Ibid., 360-365.

<sup>31</sup> Ibid., 387-390. For debates on the revolutionary transition of socialist system after certain period of reform, see Ivan Szelenyi, “Eastern Europe in an Epoch of Transition: toward a socialist mixed economy?” in *Remaking the Economic Institutions of Socialism: China and Europe*, eds. Victor Nee and David Stark (Stanford: Stanford University Press, 1989), 208-232.

<sup>32</sup> Kornai, *The Socialist System*, 375-377.

<sup>33</sup> Kornai provided seven general tendencies of reform policies: i) the “perfection” of control; ii) political liberalization; iii) revival of private sector; iv) self-management; v) market socialism; vi) price reforms; and vii) macro tensions. These tendencies followed the main elements of the classical system, from very fundamental element of political structure and ideology. The “perfection” of control means the modifying efforts on the coordination and control mechanism to keep the classical socialism, which Kornai called pseudo-reforms. The real process of reform starts with political liberalization, related to the fundamental element of political structure and ideology. The term “market socialism” refers to the ideas to change the bureaucratic coordination mechanism, by linking the public ownership with market coordination. But it is still within the prevailing political structure of the Communist

unique political structure and ideology, a meaningful reform was only possible when the changes started from the same fundamental political structure and ideology.<sup>34</sup> Based on the experiences of European socialist countries, the transition theory of socialist system has concluded the inevitable involvement of the political liberalization to be the main element of the reform phase.

## **(2) East Asian Reforms without Political Liberalization**

What if a socialist country turned out to be capable of a successful economic reform, accepting market-oriented elements, without implementing any changes in its political structure? The previously thought inevitability of political liberalization had to be reassessed in analyzing what went on inside the East Asian socialist countries including China. In the early 1990s, China and Vietnam was listed in Kornai's analysis as countries that started the reform but had not yet gone through the revolution towards the post-socialist transition period.<sup>35</sup> After two decades, the CCP still maintains monopoly of power without having any changes made in its political structure. Many questions have surfaced regarding China's future, whether it will follow the same path of transition sometime in the future. In an economic context, today's China is often regarded as being an almost capitalist economy that continues to engage in market-oriented reforms.<sup>36</sup> Kornai believes that China has acquired

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party's monopoly of power, and the dominance of public ownership. The intention of this market socialism is to eliminate the command economy wholly or partially, to increase the autonomy of publicly owned firms. As a result, however, the idea of market socialism cannot be followed consistently, as long as the fundamental characteristics do not change. Ibid., 565-568.

<sup>34</sup> Ibid., 569-570. Many recognized this linkage of economic reform and political change as a dilemma to the leaders, including Mikhail Gorbachev of the Soviet Union. Włodzimierz Brus, "Marketization and Democratization: the Sino-Soviet Divergence," *Cambridge Journal of Economics* 17, no. 4 (1993): 423-440; David Lane and Cameron Ross, "Limitations of Party Control: the Government Bureaucracy in the USSR," *Communist and Post-Communist Studies* 27, no. 1 (1994): 19-38.

<sup>35</sup> He described China and Vietnam as being under reform socialism from 1978 and 1987, slowly moving towards revolution and post-socialist system. Other countries like Hungary and Soviet Union all went through a revolution, either as a continuation of the reform process or direct revolution bypassing the reform period. Kornai, *The Socialist System*, 393.

<sup>36</sup> For criticisms on the third ways debate, see, Ivan Szelenyi, "Review: János Kornai: From Socialism to Capitalism. Budapest: Central European University Press, 2008," *Czech Sociological Review* 45, no. 3 (2009): 611-616; Ivan Szelenyi, "Third Ways," *Modern China* 37, no. 6 (2011): 672-683.

many characteristics of a capitalist market and is steadily advancing towards the same direction as others have.<sup>37</sup> During the two decades of the reform and opening, the structure of ownership has undergone incremental change, and the official ideology has been adjusted to allow private property and the market mechanism.<sup>38</sup> Still, the political system remains basically unchanged.

There had been theoretical efforts to fit China into the transition frame of the European socialist countries. For example, Chavance (1994) employed the concept of “the historical waves of reform” in the socialist bloc.<sup>39</sup> The first wave started with Josip Tito’s Yugoslavia in the 1950s, which gave rise to the ideological split in the socialist bloc. This wave was short-lived but prompted some countries to reassess the centralized planning with de-Stalinization. The second wave was in the 1960s which took place in most of the European countries and the Soviet Union, but also quickly retreated due to the political backlash resulting from the Soviet invasion into Czechoslovakia. Finally, the third wave began in the 1980s with the Solidarity uprising in Poland, and spread throughout the socialist bloc. Chavance tried to place China into these waves, arguing that Chinese reform history also began in the 1950s which grew into the radical reforms of the late 1970s. The gist of the argument was that China had also been in the cycle of socialist reforms, and that the final destination of revolutionary political transition was inevitable.<sup>40</sup>

So far, however, China seems to be following neither the regular order of Kornai nor the waves of Chavance. A property reform in the agriculture sector first took place and spread into the urban area, all the while accompanying little change in the political structure.<sup>41</sup> The CCP leadership has allowed some changes to occur in

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<sup>37</sup> Kornai, *From Socialism to Capitalism: Eight Essays*, 147-150.

<sup>38</sup> Janos Kornai, “Socialism and the Market: Conceptual Clarification,” in *Market and Socialism: In the Light of the Experiences of China and Vietnam*, eds. Janos Kornai and Yingyi Qian (Palgrave MacMillan, 2009), 11-24.

<sup>39</sup> Chavance, *The Transformation of Communist Systems*, 1-4.

<sup>40</sup> *Ibid.*, 195-199.

<sup>41</sup> On the importance of agricultural reform in China in terms of its incremental nature accompanied with political stability; Jean C. Oi, *Rural China Takes off: Institutional Foundations of Economic Reform* (University of California Press, 1999); Peter Nolan and Robert F. Ash, “China’s Economy on

the reform phase, but it is far from a fundamental change in political structure. Compared to the experiences of the Soviet Union and Eastern Europe, China seems to be an outlier. The theories considered the CCP's continuing political monopoly as only temporary resistance against the unavoidable political changes.<sup>42</sup> Kornai recently argued that the CCP regime exists in only a formal manner that the country has already transformed into a de facto capitalist country, complete with a market economy.<sup>43</sup> Still, China's achievements cannot be explained using the frame of system transition derived from European experiences.

Another unresolved problem is the case of North Korea. North Korea has been mentioned together with the case of Cuba, which is yet to experience a dramatic economic or political change even after the revolutionary transitions in other socialist countries. Before 1990, the longest surviving classical socialist system was the Soviet Union, which lasted about six decades.<sup>44</sup> The classical socialist system has now survived for slightly longer than sixty years in North Korea, and roughly fifty years in Cuba. North Korea's KWP has sustained its political monopoly with no signs of impending political transition despite economic devastation.

In an attempt to gauge North Korea's current status within the frame of system transition, Park (2004) divided the socialist transition process into four stages, starting from a Stalinist, centralized planned economy, to a partially decentralized planned economy (partial reforms), a socialist product economy, and finally to a socialist market economy.<sup>45</sup> The first two stages match the classical and reform socialisms set

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the Eve of Reform," *The China Quarterly* 144 (1995): 980-998; Tony Saich, "The Reform Process in China," *Journal of Communist Studies* 3, no. 4 (1987): 9-27.

<sup>42</sup> Lavigne, *The Economics of Transition*, 111-112.

<sup>43</sup> The CCP regime uses socialist rhetoric but its approach when it comes to actual practice has become closer to that of a development-oriented capitalist dictatorship, similar to developmental states which will be discussed in next section. Janos Kornai, "Socialism and the Market," 11-24.

<sup>44</sup> Kornai, *The Socialist System*, 378.

<sup>45</sup> Hyeong-jung Park, *Bukhan ui Gaehyeok Gaebang gwa Cheje Byeonhwa: Bigyo Sahoejuui reul Tonghae Bon Bukhan ui Hyeonjae wa Mirae* [North Korean Reform, Opening, and System Transition: North Korea's Situation and Outlook Viewed through the Lens of Comparative Socialism] (Seoul: Haenam Publishing, 2004), 63-72. The concept of "market socialism", which has become more popular with the Chinese-coined term of "socialist market economy," tends to suggest a unique system with its own characteristics. For more on the concept of "market socialism," Jinglian Wu, "Market

forth by Kornai, and the third and fourth stages were forms of a mixed economic system that reflects the various circumstances of each country. He refers to China and Vietnam as the only two countries that have become socialist market economies on their path to becoming a complete market economy. North Korea might be in between the first and second phases, but that does not mean that it will follow the same path that China or Vietnam has taken.

Similar to the European socialist countries, China and North Korea also started their socialist rule with the classical, orthodox Stalinist system with a centralized planned economy. The CCP and the KWP leadership ran their countries according to general Communist party rules, using the repressive top-down bureaucratic mechanism with official ideology and property relations. Any small attempt at economic or political reform was impossible without policy changes of the top leadership. It is not easy for the established socialist leadership to initiate bold changes like a reform, which might weaken their control over the country. The Communist parties may have built socialist system through a revolution, but now it was their turn to keep the system safe from further revolutionary changes.

If the overriding objective of socialist leadership was to safeguard their grip on political power, China and North Korea's leadership have been much more successful than the counterparts in the Eastern European countries. However, their method of keeping political power was quite different from each other. China's CCP leadership prevented the economic and political crises beforehand by pursuing the reform and opening policies. The KWP leadership in North Korea, in contrast, did not opt for such policy changes toward reform and opening and instead tried for a few partial measures and mostly depended on political mobilization and tight ideological control.

### **(3) Debates on China's Reform and the Three Conditions**

There have been debates on the conditions of Chinese economic reform and

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Socialism' and Chinese Economic Reform," in *Market and Socialism: In the Light of the Experiences of China and Vietnam*, eds. Janos Kornai and Yingyi Qian (Palgrave MacMillan, 2009), 25-46.

development that are different from the European cases. Viewed in a comparative analysis, these debates may also provide critical insights for North Korea puzzle. The Chinese economic reform and opening was not a drastic revolution but a series of policies that accumulated, based on repeated calculations by the leaders. The gradual progress and the resulting remarkable achievements were possible because of the interactions among three necessary conditions: leadership change, domestic needs, and external factors. These conditions were inferred from the major theoretical discourses on reform that arose from the debate between the “shock therapy” and the “gradualist approach” of the 1990s. The discussion was extended to include concepts as the developmental state and path dependency.

The debate between the shock therapy approach and the gradualist approach first started among Western scholars, on the question how China managed to achieve rapid development without political liberalization while Eastern Europe and the Soviet Union experienced serious economic setback after the transition. This contrast ignited the debate concerning development strategies that aim to achieve long-term growth in a post-socialist economy. The shock therapy proponents supported an all-at-once economic and political reform. This was mainly represented by Jeffrey Sachs and Wing Thye Woo. They consistently emphasized the “big bang” as a shortcut to the most efficient economic and political development, despite the high cost incurred in its initial stage.<sup>46</sup> Advocating the Eastern European way of reform as the most efficient one, they argued the inevitability of a total transition (“revolution” in Kornai’s terms) with the political reforms preceding economic reform.<sup>47</sup> China’s

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<sup>46</sup> For further understanding of the shock therapy, Jeffrey D. Sachs and Wing Thye Woo, “Understanding China’s Economic Performance,” *Journal of Policy Reform* 4, no. 1 (2000): 1-50; Jeffrey D. Sachs, Wing Thye Woo, Stanley Fischer and Gordon Hughes, “Structural Factors in the Economic Reforms of China, Eastern Europe, and the Former Soviet Union,” *Economic Policy* 9, no.18 (1994): 101-145.

<sup>47</sup> A thorough economic reform with radical changes required political transitions in Eastern Europe and the Soviet Union, and the existence of opposition groups and organizations in civil society was crucial for rapid political change. This was not the case in China which lacked powerful political organization outside of the Communist party. China’s traditional and decentralized social networks did not function as political resistance, but more as easily mobilized and utilized units for economic development. Martin King Whyte, “The Social Roots of China’s Economic Development,” *The China Quarterly* 144 (1995): 999-1019; Victor Nee and Sijin Su, “Institutions, Social Ties, and Commitment in China’s

successful economic development is considered to be irrelevant. According to their view, China needs to go through a total transition to fully enjoy the long-term growth and prosperity.

While shock therapists argue the possibility of more efficient reform with radical and comprehensive plan, the gradualists support incremental and piecemeal reform, and place more importance on the interaction between policy decisions and their consequences. Represented by Thomas Rawski and Barry Naughton, the gradualists basically assume that Chinese leaders never really had an overall plan, and had only wanted to experiment with partial market elements in a limited manner. These small-scale experimentations, over time, expanded and resulted in an unintended economic growth.<sup>48</sup> This gradual progress helped the leadership to create an institutionalized authoritarian system while keeping any possible political movements toward pluralism or democratization in check.

On certain issues, the shock therapy approach and the gradualist approach sharply contrasted in their assessments. One such example was the emergence of the township and village enterprises (TVEs) at the initial stage of reform in rural area. Shock therapists criticized the TVEs, when it was first implemented as a restricted form of private ownership, saying that it was no more than a tool to keep the political structure intact, by forging a partnership with the local officials. For the gradualists, however, TVEs symbolized successful adaptation to emerging markets. By combining limited autonomy with a decentralized control, TVEs were considered to be the new local actors that created a non-state sector, linking local government with the

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Corporatist Transformation,” in *Reforming Asian Socialism: the Growth of Market Institutions*, eds. John McMillan and Barry Naughton (The University of Michigan Press, 1996), 111-134; David Goodman, “The New Middle Class,” in *The Paradox of China's Post-Mao Reforms*, eds. Goldman, Merle and Roderick MacFarquhar (Harvard University Press, 1999), 241-261.

<sup>48</sup> Many gradualist literature discuss incremental reform process that did not have overall plan and led to unintended results. See Barry Naughton, *Growing out of the plan: China's Reform 1978-1993* (New York: Cambridge University Press, 1996); Thomas G. Rawski, “Reforming China's Economy: What Have We Learned?” *The China Journal* 41 (1999): 139-156; Kang Chen, Gary H. Jefferson, and Inderjit Singh, “Lessons from China's Economic Reform,” *Journal of Comparative Economics* 16, no. 2 (1992): 201-225.

market.<sup>49</sup> Another example was the state-owned enterprises (SOEs), which became the target of criticism from the shock therapists for its chronic inefficiencies. The Chinese SOEs had shown little technological progress, but rather over-compensation and over-investment. Gradualists here again had different opinions. They perceived that the SOEs were learning and adapting, and their increasing losses were due to the competition with the non-state enterprises. For gradualists, it was better to maintain them than to incur huge costs by abruptly privatizing them.<sup>50</sup>

The debate between the shock therapy and gradualist approaches has widened to incorporate more discourses on a theoretical level, namely, that of the East Asian developmental state model and the concept of path dependency in historical institutionalism. China resembles the East Asian developmental state model in terms of its heavy reliance on export-oriented industrialization with a strong (authoritarian) leadership. It does diverge when it comes to the final destination of political democratization which appears to come after a certain level of economic achievement. The initial policy choices and the gradual development of China can also be explained by historical institutionalism, and more specifically, the concept of path dependency. Historically accumulated institutions can have influenced Chinese reform decisions to set its path towards a market-oriented economy without going through any political transition in advance. Each gives insights on the Chinese economic reform and opening, and presents the necessary conditions for the reform decisions.

#### *The developmental state model and the three conditions*

After years of debate on the continuous growth of China, the shock therapists

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<sup>49</sup> On the TVE debates, see, Wing Thyee Woo, "The Real Reasons for China's Growth," *The China Journal* 41(1999): 129-135; Jean C. Oi, "The Role of the Local State in China's Transitional Economy," *The China Quarterly* 144 (1995): 1132-1149; Andrew G. Walder, "Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy," *The American Journal of Sociology* 101, no. 2 (1995): 263-301.

<sup>50</sup> On the debates on SOEs, Woo, "The Real Reasons for China's Growth," 129-135; Barry Naughton, "China's Macroeconomy in Transition," *The China Quarterly* 144 (1995): 1083-1104; Gary H. Jefferson and Thomas G. Rawski, "Enterprise Reform in Chinese Industry," *Journal of Economic Perspectives* 8, no. 2 (1994): 47-70.

now argue that China's rapid economic growth has been due to some big bang-like measures that were implemented at the initial stage. Although China has been regarded as the success case of gradual reform, its initial reform measures were not gradual but quite radical in comparison with other socialist countries. The reform-oriented leadership made radical decisions concerning trade and cooperation with non-socialist market economies. The Chinese leadership had decided to reorient its industrialization strategy so that it can utilize its agriculture-oriented economic structure with a huge population, which was naturally advantageous for the labor-intensive, export-led growth, experienced by many of the Asian newly industrialized countries (NICs).<sup>51</sup> China was much less industrialized than Eastern Europe and had much fewer SOEs, which allowed it to take "the advantages of backwardness" and facilitate economic liberalization.<sup>52</sup>

The big-bang approach on China's rapid growth had been extended in its comparison with other East Asian countries including Japan, South Korea, and Taiwan, generally grouped together as the East Asian developmental states. These developmental states all shared the characteristics of having a strong leadership, mostly military dictatorships as the first necessary condition for economic policy changes. They originally had agriculture-centered industrial structure with a small number of SOEs and were poverty-stricken in the aftermath of World War II or civil wars. The strong leadership opted for radical economic policies using market elements, launched market-oriented, export-led growth strategy, focusing on labor-intensive manufacture while keeping their authoritarian political regime until they reached a certain level of economic development and prosperity.<sup>53</sup>

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<sup>51</sup> Woo, "The Real Reasons for China's Growth," 115-137.

<sup>52</sup> The quotation regarding the need of economic liberalization comes from Alexander Gershenkron, *Economic Backwardness in Historical Backwardness: A Book of Essays* (Cambridge: Harvard University Press, 1962), recited from *Ibid.*, 122. Other examples of Chinese structural advantages have been found in its agriculture-oriented industrial structure or pre-existing decentralizations. Naughton, *Growing Out of the Plan*, 3-55.

<sup>53</sup> "East Asian developmental states" broadly includes Japan, Taiwan, South Korea, Singapore, Hong Kong, Malaysia, Thailand, and the Philippines. For an comprehensive understanding of the concept, see, Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca, New York: Cornell University

In combination with the condition of strong leadership, urgent economic needs constituted another necessary condition of these developmental states. Johnson (1982) emphasized the “situational imperative” that followed the World War II, which made Japanese leaders possible to forge a national consensus on the uncontested priority of economic recovery and development. To quickly mobilize resources, they resorted to arousing nationalistic sentiment. The national consensus was established to achieve rapid economic development to overcome the obstacles of lagged development, lack of natural resources, large population that is mostly poor, and the need to diversify trade.<sup>54</sup> Japan managed to maintain its governmental structure after the war and utilized their functions as effective tools for development. The state was able to preserve its policy coherence in the form of administrative guidance, and a pilot agency like the Ministry of International Trade and Industry (MITI) organized the policy processes for maximum efficiency and coherence.<sup>55</sup>

There was a combination of the two conditions, strong government leadership and the urgent economic needs. The leadership mobilized the people and created a political consensus on the need of economic development. Government and firms closely cooperated to find more efficient ways for growth. The existence of an independent elite bureaucracy was pivotal, and the political system allowed for an efficient policy implementations headed by the bureaucracy.<sup>56</sup> South Korea and Taiwan had similar structure of strong leadership and urgent economic needs. Led by an authoritarian regime, they became economically market-oriented and a politically

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Press, 1999). China was regarded as another example of the developmental state, linked with corporatist approaches: Jonathan Unger and Anita Chan, “Corporatism in China: a Developmental State in an East Asian Context,” in *China after Socialism: in the Footsteps of Eastern Europe or East Asia?*, eds. Barrett L. McCormick and Jonathan Unger (Armonk, New York: M.E. Sharpe, 1996), 95-129; Ming Xia, *The Dual Developmental State: Developmental Strategy and Institutional Arrangements for China's Transition* (Aldershot: Ashgate, 2000).

<sup>54</sup> Chalmers Johnson, *MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982), 305-309.

<sup>55</sup> *Ibid.*, 198-241.

<sup>56</sup> The role of politicians and bureaucracy was systemically divided in Japan, that politicians reign and the bureaucrats rule. *Ibid.*, 35-82.

less-suppressive system.<sup>57</sup> The interaction between the strong leadership and urgent domestic needs facilitated the full utilization of a cheap but educated labor force through close ties between the government and private sector, administrative guidance, and high subsidies. Governments actively intervened and strategically selected regions and industries and kept a tight grip on them.<sup>58</sup> This developmental state model provided a route of economic development that was possible without political liberalization, similar to what happened in China's reform and modernization process.

In addition to the will of leadership and the urgent domestic needs, the developmental state model also demonstrate the importance of external factors as the third necessary condition, such as the learning effect and economic cooperation with other developed and developing countries. Some studies on the Chinese reform have specified the difference from other Asian developmental state that show more focus on FDI and not on foreign loans and grants as the cases of Japan and Korea.<sup>59</sup> In any form, it was the leadership that actively chose to engage in these economic relations for the purpose of facilitating economic development. However, before cultivating and expanding these economic relations, the political and security relations first had to be stabilized in order to invite and secure foreign investments and loans.

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<sup>57</sup> A developmental state can be distinguished from a predatory state according to their system and their state-society relations. In Korea, the elite bureaucracy ruled the economic system, by forging strong connections between government and conglomerates (Jaebeol). In Taiwan, an independent elite bureaucracy and SOEs existed, and the competition was systematically in place. Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

<sup>58</sup> South Korea was able to achieve rapid economic growth thanks to its low wage, high subsidies on the private sector, and rapidly increasing productivity. Jaebeols took the advantages of a well-educated labor force and governmental guidance. Utilizing cheap labor, rearranging its economic resources to favor the export sector, and creating government-firm connections were characteristics found both in South Korea and Taiwan. Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

<sup>59</sup> On the role of FDI and how Chinese characteristics differed from that of other countries, Mary E. Gallagher, "Reform and Openness: Why China's Economic Reforms Have Delayed Democracy," *World Politics* 54, no. 3 (2002): 338-372; Nicholas R. Lardy, "The Role of Foreign Trade and Investment in China's Economic Transformation," *The China Quarterly* 144 (1995): 1065-1082.

### *Historical institutionalism and the three conditions*

The gradualist approach had put more importance on political interactions. The incremental reform policies had been decided based on political consensus, which was directly influenced by compromises or conflicts among the leaders and the elites. In this process, internal and external events like the Tiananmen Incident and the collapse of the Soviet Union had a huge impact.<sup>60</sup> The economic reform policies gradually replaced the centralized state control with the market-oriented allocation, which began with partial and experimental measures that later ignited more competition and innovations toward a market economy.

The gradualist approach's theoretical emphasis on historical evolution was extended to the theory of historical institutionalism. Reform was considered a process that included interactions through which the evolution of market structures took place. According to historical institutionalism, actors continuously try to reduce "transaction costs", and "institutions" are humanly devised constraints that shape every interaction to reduce uncertainty and the following costs.<sup>61</sup> These accumulated historical institutions are the shadows of the past, which affect their path of development by making the rule of the game. The concept "path dependency"<sup>62</sup> gives insights that lead to a better understanding of the process of economic reform and development that China experienced.

In China, the initial development path was set by the three necessary conditions: reform-minded leadership with a strong top-down decision-making mechanism, strong imperative for economic development, and the relatively stable international relations. Once a path is set, the interactions among these conditions reinforce the

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<sup>60</sup> Thomas G. Rawski, "Implications of China's Reform Experience," *The China Quarterly* 144 (1995): 1152-1165; Woo, "The Real Reasons for China's Growth," 124.

<sup>61</sup> The concept of the transaction cost from Coase Theorem, in Ronald H. Coase's famous article "The Problem of Social Cost" published in the *Journal of Law and Economics* 3 (1960): 1-44. It was interpreted by Douglas C. North for his arguments of institutional changes in his book chapter 2 (11-16) and 4 (27-35). Douglas C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

<sup>62</sup> On institutional change and path dependency, see Part II in North, *Institutions, Institutional Change and Economic Performance*, 73-104.

path by organized economic activities, accumulated knowledge, and institutionalized frames.<sup>63</sup> There is no guarantee that historical institutions will direct the reform towards only a positive direction of development. Unproductive paths also do persist due to path dependency.<sup>64</sup> One could say that China is an example of a successful developmental path and that North Korea is an example of the opposite, the persistence of an unproductive path. The institutions of each economy created both productive and unproductive opportunities, and North Korea chose to take a path that is quite different from that of China, and this choice remains influential to this day and has led to continuing economic difficulties.

From the extended theoretical discourses above, the three necessary conditions for Chinese reform and opening were inferred as: **reform-oriented leadership, urgent domestic needs (both economic and political), and supportive external factors**. Each of the necessary conditions alone cannot initiate reform and opening, but the combination of these conditions is sufficient for the reform decisions through a repeated interaction among themselves.<sup>65</sup> These three conditions are all interlinked, and their influences led to different results in each country. The reform and opening experience of China can be explained by combinations of these conditions within its own historical context. Faced with a clear demand for modernization in the 1970s, Chinese leaders chose to pursue economic reform and opening to sustain CCP rule. The combination of the three conditions supported and promoted the reform, and the results were the remarkable economic growth and expansion that turned out to be more rapid than the leaders anticipated. This combination of conditions can also be applied to North Korea in order to construct a more balanced approach regarding the inability of the leadership to launch a similar reform and opening.

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<sup>63</sup> How the historical institutions matter on the economic performance and developmental path was shown in Part III of *Ibid.*, 107-130.

<sup>64</sup> The economic history of Latin America was used by North as an example of the downstream consequences of path dependency, in contrast to the U.S. economic history. *Ibid.*, 115-117.

<sup>65</sup> For reference, Goodman (1987) provided an outline of four-factor categorization: leadership change, production imperative, the search for legitimacy, and external factors. Goodman, "Communism in East Asia," 1-8.

China and North Korea followed different development paths, and met contrasting results in the 1990s and onwards. Comparison of each condition would be useful in understanding the North Korea puzzle. There have been many explanations on each of the conditions, while the influences emanating from the condition of external factors have been relatively underestimated.

## 2. Limitations of the Leadership Change Thesis

Among the necessary conditions for decision of reform listed above, the rise of a new and reform-oriented leadership had been considered as the most critical condition for the Chinese reform and opening of the late 1970s. Basically, Chinese reform and opening had been a series of domestic policies designed and determined by the CCP's top leaders. The leaders had a clear goal of maintaining regime continuity and thereby stabilizing the political environment. There have been various researches and arguments that investigate on the causes for initiation and progress of Chinese reform and opening, mainly focusing on the leadership change in the domestic sphere.<sup>66</sup> The leadership change includes the succession issue, generational change from the revolutionaries to technocrats, and the factional conflicts or competition on policy matters.

### **(1) Rise of a New Leadership as an Opportunity for Reform**

Unlike the Soviet Union and the Eastern European countries, both China and North Korea had no opposition parties or a civil society that played a role in accelerating changes towards political liberalization. Without domestic political constraints from below, the Chinese leaders were able to launch a top-down reform in

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<sup>66</sup> David L. Shambaugh, *China's Communist Party: atrophy and adaptation* (Washington, D.C.: Woodrow Wilson Center Press, 2008); Justin Yifu Lin, Fang Cai, and Zhou Li, *The China miracle: Development strategy and economic reform* (Hong Kong: The Chinese University Press, 2003); Jae-ho Chung, ed., *Jungguk Gaehyeok Gaebangui Jeongchigyeongje 1980-2000* [The Political Economy of Chinese Reform and Opening, 1980-2000] (Seoul: Kachi Publishing, 2002).

accordance with their preferred methods, at a preferred time.<sup>67</sup> It was Deng Xiaoping who made all the final decisions on major issues until the early 1990s, which allowed the CCP to maintain monopolization of political rule and to designate his political successor. The decisions of the top leaders had a tremendous effect throughout the country, and they were most widely felt in policies relating to the economic reform. How the leaders interpreted other conditions directly affected their decision-making process and the ensuing implementation of reform policies. The domestic needs first had to be recognized by the leadership, and the external factors also had to be interpreted and assessed through the eyes of those in power.

*Victory of Deng Xiaoping as a reform opportunity*

There have been many studies that pointed to the death of Mao Zedong in 1976 and the rise of Deng Xiaoping as the main reason that facilitated the initiation of China's reform. The leadership succession had been one of the most critical issues for the political stability of socialist system. Since the PRC was founded by the revolutionary leaders, China's political stability depended heavily on the personal loyalty and camaraderie among the elites under Mao Zedong's leadership. Peaceful succession was critical to have a smooth generational turnover from the old revolutionary soldiers to young professionals and technocrats. Mao Zedong personalized his political authority, and the succession issue became the core of every issue in his later years. The decision of economic reform and opening was deeply related to the succession competition between the supporters of Deng Xiaoping and his competitor, Hua Guofeng. In the 1980s, another round of competition continued under Deng's leadership between the radical reformers supported by Deng and the conservatives led by Chen Yun.

The individual vision and preferences of the prime leader came to be regarded as the main political factor for reform. Deng Xiaoping was another prime leader who

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<sup>67</sup> Gérard Roland, "The Political Economy of Transition," *The Journal of Economic Perspective* 16, no. 1 (2002): 29-50.

was powerful, wielding undisputed authority. Lieberthal (1995) listed Deng's personal vision of economic development and modernization as the main cause of reform and opening policies. Deng wanted to gain advanced knowledge and acquire technologies from abroad in order to achieve economic prosperity, for political legitimacy and the disciplined rule of the CCP.<sup>68</sup> With his power as the prime leader, Deng could enforce his decisions to move China toward more actively participating in the international economy to learn technology and skills, and to improve the economic situation and the political situation simultaneously. In his recent book on Deng, Vogel (2011) emphasizes the experience and the future-oriented vision of Deng to have been an influential drive toward reform. As a political player that played a balancing role between the competing factions and a designer of the newly emerging economy-focused leadership, Deng persuaded the elites to visualize his ideas of reform.<sup>69</sup>

By focusing more on the logic of succession competitions, Shirk (1993) argued that reform and opening was Deng's political strategy, and that it was not the only available option in 1978 that was believed to be necessary to revive the economy. There were other, more conservative options proposed by Chen Yun, which argued for a return to the planned economy of the 1950s.<sup>70</sup> Deng tried to gather more support in order to oust Hua Guofeng in the succession competition by using the reform and opening ideas. Deng built his own networks consisting of supporters that included the old revolutionaries and local-level officials, and promised ideological flexibility and economic payoffs. Deng and his supporters viewed the economic crises of 1977 and 1978 as an opportunity to discredit Hua, and thus allied with Chen Yun's conservative reformers to increase his chances at a more decisive victory.<sup>71</sup>

The generation change took place in parallel with the succession competition.

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<sup>68</sup> Kenneth Lieberthal, "The Reform Era." in *Governing China: From Revolution Through Reform* (W. W. Norton, 2004), 122-152.

<sup>69</sup> Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: the Belknap Press of Harvard University Press, 2011).

<sup>70</sup> Susan L. Shirk, "Part 1. Introduction." in *The Political Logic of Economic Reform in China* (University of California Press, 1993), 3-51.

<sup>71</sup> Lieberthal, *Governing China*, 128-144; Shirk, *The Political Logic of Economic Reform*, 35-36.

The number of old generation revolutionary leaders was decreasing, and the young generation was emerging in a different outfit as professional experts and technocrats. The top leaders had to work to strike a balance between the old and new generations, which was interlinked with the succession issue and factional conflicts. The fall of Hu Yaobang in 1987 and Zhao Ziyang in 1989 showed that ensuring a smooth generation change, keeping stable political rule intact and achieving economic development all at the same time was not at all an easy task. The young generation of elites belonged to factions headed by older generation leaders, and they experienced the policy cycles along gradual institutionalization of Chinese politics.

The factional conflicts could hardly be separated from the leadership succession and generation change. Until the 1970s, factions fought for the survival of the group or individuals. During the 1980s, conflicts turned into policy competitions. Deng supported the radical reformers who pursued rapid marketization and opening while Chen Yun and the conservatives preferred planned growth and limited opening. When the problem of overheating and imbalances occurred within the economy, Chen's conservative group was given an opportunity to criticize radical reform policies, to halt the reform process for readjustment.<sup>72</sup> The policy cycles of reform occurred throughout the 1980s, and the first readjustment unrolled from 1981-1982, the second in 1986, and the third from 1988 towards the Tiananmen Incident, until 1991.<sup>73</sup> After 1992, however, factional competition was no longer visible in the reform policy debate, since all the leaders came to support the market-oriented reform.

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<sup>72</sup> Lowell Dittmer and Yu-Shan Wu, "The Modernization of Factionalism in Chinese Politics," *World Politics* 47, no. 4 (1995): 467-494; Lowell Dittmer and Yu-Shan Wu, "Leadership Coalitions and Economic Transformation in Reform China: Revisiting the Political Business Cycle," in *China's Deep Reform: Domestic Politics in Transition*, eds. Lowell Dittmer and Guoli Liu (Rowman & Littlefield, 2006), 49-80.

<sup>73</sup> The cycle after 1978 came to the first retrenchment in 1981 and 1982 then advanced rapidly during 1983 and 1985. There was the second consolidation period in 1986 which soon resumed toward reform in 1987 (downfall of Hu Yaobang). The economic expansion of 1987 and 1988 under Zhao Ziyang met crisis, and the reform again tended to be reversed from fall 1988. The Tiananmen Incident and the downfall of Zhao Ziyang resulted in three years of retrenchment until 1991, but a new wave of reform started from 1992.

*Family succession in North Korea: no chance for reform?*

As mentioned in the Chinese case, the emergence of a reform-oriented leadership was one of the necessary conditions for reform initiation and progress. Having similar classical socialist system with a strict top-down hierarchy, the bottom-up type of political influence has been negligible in North Korea.<sup>74</sup> The succession issue has been the most critical issue also in North Korean politics. When it comes to the succession issue, however, the analyses can easily end up with a simple conclusion that North Korea will not change its economic policies because of the prolonged, absolute power of Kim family.

North Korea's father-to-son succession has been argued to be the most critical factor that impeded reform and opening. It was to protect the power of Kim Il Sung and the revolutionary leaders around him and make sure they continued to monopolize power. Kim Il Sung and his supporters witnessed the experiences of other socialist countries, the de-Stalinization that materialized following the death of Stalin in the Soviet Union, and the betrayal and death of Lin Biao in China. North Korea prepared for a stable succession, and Kim Jong Il became the unofficial heir from the mid-1970s. Kim Il Sung also had a younger brother Kim Yeong-ju [Kim Yong Ju], but Kim Jong Il was chosen as the successor in his early stage of Party career.<sup>75</sup> The

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<sup>74</sup> The unilateral top-down structure of hierarchy has been the general tendency in all classical socialist system, but more clearly manifested in Asian countries, which show no signs of civil society. In China and North Korea, the experiences of the colonial era and traditional social hierarchy were still familiar, and there was no such visible culture of civil society. Jong-seok Lee (1995) pointed out that North Korea had transferred immediately from a traditional society right into the socialist system, without enough experience of industrialization and civil society. This abrupt change made it easier for the leadership to establish a strict top-down hierarchy similar to the sovereign-subject relationship. Kim Il Sung established his power in the 1950s through fierce political struggle to oust other factions from power, and emphasized the one and only charismatic leadership upon him at the center. The cases of Stalin and Mao also influenced on the personality cult of North Korea. Jong-seok Lee, *Joseon Rodongdang Yeongu: Jido Sasang gwa Gujo Byeonhwa reul Jungsimeuro [A Study on the KWP: with Focus on the Guiding Ideology and the Structural Changes]* (Seoul: Yuksa Bipyongsa, 1995), 139-140.

<sup>75</sup> Hwang (2006) commented on the succession competition between Kim Jong Il and Kim Yeong-ju from the late 1960s. Jang-yeop Hwang, *Hwang Jang-yeop Hoegorok [Memoirs of Hwang Jang-yeop]* (Seoul: Sidaejongsin Publishing, 2006), 177-182, 202-210. Jong-seok Lee also focused on the purges that took place at the end of 1960s and the role of Kim Jong Il. He suggests that Kim Jong Il was deeply involved in the purging processes, by revealing the "sins" of those purged leaders, and led

experiences of factional conflicts also taught Kim Il Sung to build a concrete power base. The purges of rival factions occurred throughout the 1950s, and more purges took place in the mid and late 1960s. Kim Il Sung established complete control over politics by the end of the 1960s, and started to mythologize his family background and guerilla struggles for his personality cult as a revolutionary hero. Kim Jong Il promoted those myths even more vigorously to legitimize the father-to-son succession throughout the 1970s.<sup>76</sup>

The succession process was quite gradual. It had first begun covertly in the 1970s, and was widely publicized at the Sixth Congress of the KWP in 1980. Kim Jong Il was frequently called as the “Party center” in official documents, and the activity of this Party center increased rapidly from 1980. From 1982, the Party center conducted about 70 percent of Party decisions, mainly domestic issues, while his father handled the remaining 30 percent on matters related to unification and foreign policy. By 1985, Kim Jong Il was also in charge of the unification and the foreign policy, carrying out almost 90 percent of the “on-the-spot guidance” at factories and farms.<sup>77</sup> On June 1, 1986, North Korea reconfirmed Kim Jong Il as the heir apparent to Kim Il Sung. There were some disagreements among the elites about the preparation of the succession to Kim Jong Il during the 1970s.<sup>78</sup> But from 1980, Kim

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further campaigns to expose any possibility of disloyalty. He was rapidly promoted after these purges, straight to the center of the party structure already by the late-1960s. Jong-seok Lee, *Joseon Rodongdang Yeongu*, 310.

<sup>76</sup> Yung-hwan Jo, “Succession Politics in North Korea: Implications for Policy and Political Stability,” *Asian Survey* 26, no. 10 (1986): 1092-1117; Hwang (2006) mentioned Kim Jong Il’s passionate works to emphasize his father’s charisma for his succession, and the satisfaction of Kim Il Sung on the strengthening personality cult about him. Hwang, *Hwang Jang-yeop Hoegorok*, 209-216.

<sup>77</sup> Jo (1986) described the situation as the junior Kim “ruling” the country with his father “reigning” over it. Jo, “Succession Politics in North Korea,” 1092-1117.

<sup>78</sup> Kim Jong Il was too young to be easily supported by the old generation’s revolutionaries. Thus, there are certain periods of relative inactivity and disappearance of Kim Jong Il. For example, the year from 1977 to 1979 reflect troublesome times in the succession process. Hwang, *Hwang Jang-yeop Hoegorok*, 206-207, 220-221. There was also generation conflict between the revolutionary cadres and the young technocrats. The Three-Revolution Team (TRT) Movement led by Kim Jong Il also gave rise to conflicts with the pre-existing cadres in each of the organization. In 1976, one of the leaders Kim Dong-gyu [Kim Tong Gyu] criticized Kim Jong Il’s policies, and Kim Il Sung temporarily limited Kim Jong Il’s activities. But Kim Dong-gyu and his supporters were all purged in the fall of 1977, and Kim Jong Il resumed his works thereafter. Jong-seok Lee, *Joseon Rodongdang Yeongu*, 330-331.

Jong Il established his political status as the actual leader of North Korea and pushed for more production and ideological mobilization. Kim Jong Il's rule was once again reaffirmed in 1992, and finally in 1998 with the new constitution, three years after the death of his father.<sup>79</sup>

In fact, the family succession of North Korea was not the only case among socialist countries. Due to the lack of institutionalized procedure, the family succession was one among many options to prevent the fierce power struggle which might destabilize the regime. Scobell (2005) argued that the attempts at family succession had been quite common under the socialist system.<sup>80</sup> The family members of the top leader dominated the important posts in China under Mao, Romania under Ceausescu, and in North Korea and Cuba.<sup>81</sup> Many of these potential family successions could not be accomplished due to the abrupt system transitions in the late 1980s. However, if the Romanian regime had managed to survive in the 1990s, there might have been a leadership succession to Nicholae Ceausescu's son Nicu.<sup>82</sup> In China, Mao Zedong's wife Jiang Qing wielded enormous power and tried to succeed him after his death in 1976. In Cuba, Fidel Castro named his brother Raoul as the successor, who started his presidency from 2008. North Korea became a unique case since it continued its regime with two consecutive family successions. The idea of

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<sup>79</sup> In September 1998, the Tenth Supreme People's Assembly announced that they had instituted a new constitution with the slogan "A Strong and Prosperous Nation." The new constitution included changes in the relations between the party, the military, and the government. Power was theoretically divided into three parts: the National Defense Commission, the Presidium of the Supreme People's Assembly (SPA), and the Cabinet. But the new constitution was mainly a formal institutionalization of military rule by Kim Jong Il. Jin-wook Choi, "Changing Relations between Party, Military, and Government in North Korea and Their Impact on Policy Direction," *Shorenstein APARC Working Paper* (Stanford: Asia-Pacific Research Center, 1999).

<sup>80</sup> Andrew Scobell, "Making Sense of North Korea: Pyongyang and Comparative Communism," *Asian Security* 1, no. 3 (2005): 259-261.

<sup>81</sup> There were many other regimes with family-tied power structure. In the Sandinista regime of Nicaragua, Daniel Ortega ruled the regime with his brother who was his Defense Minister; In Cambodia's Khmer Rouge regime, the wives of Pol Pot and Ieng Sary were sisters. Nepotism was also a "main characteristic" in Enver Hoxha's Albania. On each country, Ben Kiernan, *The Pol Pot Regime: Race, Power, and Genocide in Cambodia Under the Khmer Rouge, 1975-79*, 2<sup>nd</sup> ed. (New Haven: Yale University Press, 2002); Arshi Pipa, *Albanian Stalinism: Ideo-Political Aspects* (Boulder: East European Monographs, 1990). All recited from Scobell, "Making Sense of North Korea."

<sup>82</sup> Ken Jowitt, "Moscow 'Centre'," *East European Politics and Societies* 1 (1987): 320, recited from Scobell, "Making Sense of North Korea."

family succession itself was commonly circulated in the socialist bloc.

The leadership succession had been in progress throughout the 1970s and the 1980s in accordance with the rise of the new generation that was loyal to the regime. Jo (1986) argued that the young leaders were selected and promoted according to the degree of their loyalty to the leadership.<sup>83</sup> The generational change was not only a natural process but also a necessary task that must be done away with the increasing demands of economic development. Economic modernization necessitated the replacement of revolutionary leaders with a group of professional experts and technocrats, and Kim Jong Il seemed like a suitable candidate to push for these changes as a young leader, representative of the new generation, and as a son who loyally carried for his father's legacy. The old revolutionaries were increasingly replaced by the post-war generations, but the revolutionary goals continued to figure prominently, in spite of the clear need for economic reform. This contradiction might have ignited factional conflicts on policy priorities, but the end results turned out quite differently from that of China.

Chinese leadership under Deng promoted pragmatism and allowed bigger space for policy debates whether they were radical or conservative in nature.<sup>84</sup> North Korean leadership change brought more ideological indoctrination with even more intensified personality cult, meaning that there was no space for lively debates on the major policy decisions. Now, the elites no longer fought for survival and this was not because there was no need but because it became too dangerous for them to do so.<sup>85</sup> After a series of purges that went on until the late 1960s, factional competition between the military-oriented leaders and economy-oriented ones disappeared from

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<sup>83</sup> People close to Kim Jong Il, mostly relatives or his classmates, were rapidly promoted. Jo, "Succession Politics in North Korea," 1092-1117.

<sup>84</sup> Dittmer and Wu, "The Modernization of Factionalism in Chinese Politics," 467-494.

<sup>85</sup> Choi (1999) describes the control over the elites and the cadres of North Korea. Strict regime control continued until the 1990s, if not intensified onwards, so much so that North Korean elites could not have private communication among themselves to collect information, understand current issues, and reformulate their opinions. To prevent any possibility of factionalism, the cadres were closely watched when they met privately, particularly in the case of high-ranking cadres. No private meetings were allowed such as that organized by alumni associations or hometown gatherings. Choi, "Changing Relations between Party, Military, and Government in North Korea."

the view, and economic development became the main goal of North Korea together with keeping the military on full alert and state of preparedness. At the same time, Kim Il Sung's ideology of Juche intensified the degree of political mobilizations to ensure the Party's stable rule.<sup>86</sup> Kim Jong Il took charge of the Three-Revolution Teams (TRT) Movement in 1973 to accelerate the lagged achievements of the Six-year Plan, by way of carrying on a battle-like mobilization campaign including the 70-day battle, 100-day battle, and the Three-Revolution Red Flag Winning Movement. The role of economic experts expanded, but the key methodologies were more mobilizations and tighter control. There was neither the partial reform of Eastern Europe nor the radical reform of China. The Six-year Plan ended without success,<sup>87</sup> and the Second Seven-year Plan began in 1978 with even more mobilization campaigns.

North Korea constructed an extreme form of charismatic leadership. During the 1980s, factional competition among the elites turned into a competition to occupy a closer position to Kim Jong Il. The flow of information was concentrated at the top. Without the decision and commitment of the top leader, other elites or groups could not initiate policy changes even when they were fully aware of the strong need for such changes. In a political structure that was so highly centralized upon Kim Il Sung and then Kim Jong Il, neither of the leaders had to consult with the institutionalized bureaucracy in making major policy decisions.<sup>88</sup>

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<sup>86</sup> Jong-seok Lee viewed the purges that took place at the end of the 1960s as a sign of strong resistance from the North Korean elites. After the purges of the Gapsan faction (mainly civilian leaders) in 1967, many high-level military leaders were purged in 1968 for their disloyalty and warlordism. Most of them had shared the background of guerilla struggle during the colonial era with Kim Il Sung. It is possible that they were critical of the personality cult of Kim Il Sung and charismatic leadership. Even after such purge of military leaders and continuing disappearance of several core party leaders in 1970, criticism against the One and Only Ideology (Yuil Sasang) of Kim Il Sung among elites remained. These continuous resistances from the old elites also facilitated the need of new generations with more practical approaches and loyalty. Jong-seok Lee, *Joseon Rodongdang Yeongu*, 317-319.

<sup>87</sup> It is generally acknowledged that the appearances of a coordination period after each economic plan means that the plan failed to achieve its original goals.

<sup>88</sup> Choi, "Changing Relations between Party, Military, and Government in North Korea."

## **(2) Leadership Change as One of Many Conditions of Reform**

The leadership change has been considered as the most influential domestic factor to major policy changes such as economic reform. The decision of reform and opening, however, implies radical change of the national strategy to allow for a certain level of market elements and capitalist influences to enter into the domestic economic system. The leadership change per se does not guarantee such a dramatic change in major policy directions. Many leadership changes in Eastern Europe before the late 1980s did not result in such comprehensive economic reform, despite the chronic economic difficulties they were suffering from. Even when a new leadership with relatively more reform-oriented tendencies came into power, it was still insufficient to implement a comprehensive reform and opening possible when other conditions were absent.

It would be too simplistic to say that a comprehensive economic reform is possible with just a rise of a new, reform-oriented leadership. One should be cautious about fixating on leadership change. When China first began reformist measures in the late 1970s, the leadership only had a few policy initiatives and no overall blueprint. Deng Xiaoping himself did not intend to pursue such radical and comprehensive reform and opening from the start. Naughton (1996) stressed that to singularly attribute China's economic success to the role of the new leaders would be an overly simplified tale of morality. Overly focusing on the Chinese leaders' flexibility and pragmatic ideas is too similar to what the official Chinese propaganda argues and therein lies the danger of being distracted from the real, underlying dynamics of the reform process. The official view is usually contrived for the purpose of justifying the current leadership and may provide misleading information and distort an accurate interpretation of the past reform processes.<sup>89</sup> The interaction of the leaders' preferences with other domestic and external factors pushed China increasingly toward bolder reform policies. After the initial launch of the reform, the leadership became increasingly fragmented and cooperation between various

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<sup>89</sup> Naughton, *Growing out of the plan*, 22.

bureaucratic units began to take on an important role to enable an efficient implementation of the leaders' decisions.<sup>90</sup> Thus, a broadened perspective is needed to link other conditions in interaction with the leadership, both from internal and external levels.

To achieve a condition that would be effective toward the reform decision in combination with other conditions, the important part of the leadership change is the reform-oriented characteristic and the strong will of the new leadership and not the process of the succession. Some might argue that the actual death of the previous leader was needed for a meaningful launch of a reform. The actual death of the previous leader, who founded the regime and ruled for a long time, in fact, can be a powerful trigger for economic reform or political transformation. In China, the death of the long-time leader and founder Mao Zedong did work as a trigger. Although this trigger provided a great opportunity to the reform-oriented leaders, it was not the "one and only" condition for the reform.

Kornai states that political events like the death of a leader would indeed provide a dramatic effect and impetus towards reform. But it does not mean that the reform was impossible without the death of the leader. Yugoslavia's Tito, the same leader who established and ruled the system, also initiated and led the reform process. Various external and internal factors have to be considered, and the degree of their influences and specific effects varied by country.<sup>91</sup> A reform can be initiated not only by the death of a leader but also by other circumstances derived from domestic and international changes. In Eastern European countries, the last leaders were not the political opponents of the previous leader when they succeeded the leadership. The Soviet leader Gorbachev was elected as the General Secretary by the Politburo in

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<sup>90</sup> Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988), 22-23. As the reform process goes on, the leaders have recognized the advantage of cooperation among key participants. The process of important policy making requires a series of decisions, debate, and the mobilization of support for its effective implementations after the decision.

<sup>91</sup> Kornai, *The Socialist System*, 394. For a detailed history of Tito's reforms in Yugoslavia, see Duncan Wilson, *Tito's Yugoslavia* (Cambridge University Press, 1979).

accordance with their standard procedure. Vietnam had a system of collective leadership and the succession was not the main issue when they first started implementing reform policies in 1979 or launching the Doi Moi in 1986.<sup>92</sup> As is shown, the death or the retirement of the previous leader can either be a trigger or not, depending on the different contexts in interaction with other internal and external factors. It needs to be combined with other conditions.

From this point of view, the impact of the father-to-son succession in North Korea should also be reassessed. The succession from father Kim Il Sung to son Kim Jong Il was harshly criticized as a dynastic, backwards behavior. Most recently, Kim Jong Un has succeeded the leadership post as the third Kim family member to rule North Korea which adds even more peculiarity to the already eccentric country. The father-to-son succession, however, does not necessarily mean that there is an unconditional continuity of policies without any changes. The history of the socialist system was too short-lived to the chance to show other cases, but the father-to-son succession in a dictatorship has been quite common outside the boundary of the socialist system, and can still be found in many of the African, the Middle East, and Third World countries. Looking at the general trajectory of human history, family succession is more commonly found in the patriarchs of the ancient times to the absolute monarchs of the twentieth century. The father-to-son succession has often resulted in a strong drive toward reforms, either political or economic. The death or retirement of the father often presented the heir son with a great opportunity for a reform to establish his own power base and distance himself from his father's legacy.

One of the most recent cases was Taiwan and the succession from Chiang Kai-shek to Chiang Ching-kuo. Chiang Ching-kuo inherited political power in 1978, three

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<sup>92</sup> Vietnamese Community Party experienced leadership change following the death of Le Duan in 1986 right before the official commencement of Doi Moi. However, leadership change itself had not thought to be the main factor of the economic reform in Vietnam. The reform had been already initiated by the pragmatists since the late 1970s and the succession issue did not constitute a critical element to the changes in policy direction. The elite consensus had ensured a relatively smooth reform process and this closely interacted with the external factors inherited from the Vietnam War which ended in the mid-1970s.

years after the death of his father in 1975.<sup>93</sup> His career was essentially the series of preparation to become the successor. He was the head of the secret police, the defense minister, vice-premier and the premier. Although his career had followed his father's military policies which established and continued the Nationalist rule in Taiwan, he started to distance himself from his father by promoting rapid economic development and political liberalization. Adapting to the changing international circumstances, Chiang Ching-kuo's rule accomplished rapid economic growth and democratization of Taiwan with ended the martial law in 1987 and incorporated political participation of the Taiwan-born people.<sup>94</sup>

The leadership succession in a socialist system with dictatorship can be either a family succession or a non-family succession, and both can provide an opportunity for reform. The leadership preferences closely interact with the conditions of domestic needs for a stable rule. Kim Il Sung chose his son to hold onto power, and Kim Jong Il chose to closely follow his father's legacy for the same reason and did not push hard for economic or political reform. Wada (2002) explains that North Korea's succession led to different results from Taiwan due to the burden of ideology, which interfered with the reform potentials of Kim Jong Il. Unlike Chiang Ching-kuo of Taiwan, Kim Jong Il had inherited the myth of heroic guerilla struggles which Kim Il Sung had solidly established for his leadership based on charisma.<sup>95</sup> Kim Jong Il carried on his father's legacy with more emphasis on Juche while taking on limited and partial reform measures within a tightly controlled boundary.

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<sup>93</sup> After the death of Chiang Kai-shek, the presidency turned to Yen Chia-kan for the interim period. Chiang Ching-kuo was elected president by the National Assembly in May 1978. Most of the Assembly members had been occupying seats for an indefinite length time from the 1940s which was before Taiwan's defeat in the civil war and thus their support and election of Chiang was out of the question. A documentary film created by Academia Historica, *Chiang Ching-kuo Zongtong* [President Chiang Ching-kuo], Presidential Anecdotes & Artifacts (Taipei: National Taiwan University Press, 2006).

<sup>94</sup> From the documentary film *Chiang Ching-kuo Zongtong*.

<sup>95</sup> Wada argued that even if Kim Jong Il had wanted to take some initiatives in economic or political reform during his own reign, the myth became an obstacle. Haruki Wada, *Bukjoseon: Yugyeokdae Gukga eseo Jeonggyugun Gukga ro* [North Korea: From a Guerilla State to a Regular Army State], trans. Dong-man Seo and Ki-jeong Nam (Paju: Dolbegae Publishing, 2002), 245.

*North Korea's leadership change as one of several conditions*

In North Korea, the previous leader (father) Kim Il Sung physically existed for until 1994. However, the leadership succession when it came to domestic policies had already begun to take place in the early 1980s, way before the actual death of Kim Il Sung. It was generally agreed that Kim Jong Il's new leadership was established in the domestic sphere from 1980. He fully controlled the Party works and economic policies and in fact, this may date back further to the mid-1970s. How strong the reform-mindedness of the new leadership was never known for sure, but there had been a few policies that were obviously inclined to reform and opening. After Kim Jong Il and the younger generation solidified their power base, some partial economic reform measures took place in the mid-1980s.

Kim Jong Il sought to establish his political power and status in the KWP throughout the 1970s, and was officially recognized as Kim Il Sung's successor at the Sixth Party Congress in 1980. At the 1980 Party Congress, the Party structure had been reorganized to accommodate the actual rule by Kim Jong Il. The Political Committee became the Politburo and political power was concentrated to the five members of the Politburo's Permanent Standing Committee which consisted of Kim Il Sung, Kim Jong Il, Kim Il (semi-retired due to health problems), Ri Jong-ok (Ri Jong Ok, an economic expert), and O Jin-u (O Jin U, loyal supporter of Kim Jong Il). Only Kim Il Sung and Kim Jong Il were elected to all three core institutions, the Politburo, the Secretariat, and the Central Military Committee of the KWP.<sup>96</sup> The official head of the state was still Kim Il Sung, but the actual ruling activity was conducted by Kim Jong Il from the early 1980s. All the official documents went through Kim Jong Il before going up to Kim Il Sung. Thus Kim Jong Il filtered and rejected the negative contents. The inner-Party works and domestic policies were increasingly determined only by Kim Jong Il, and he had the final decision-making authority on almost all the

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<sup>96</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue: Ganbu Jeongchaek eul Jungsimeuro* [North Korea's National Strategy and Power Elite: Focusing on the Cadre Policies] (Seoul: Sunin Publishing, 2007), 134-135.

documents and reports from the mid-1980s.<sup>97</sup>

Since Kim Jong Il's new leadership was completely established with no existing political oppositions, his regime started to promote economic experts and technocrats to a position where they could deal with economic difficulties. At the Sixth Party Congress in 1980, a new generation officials constituted 56.6% of the regular members and 87.4% of alternative members in the Party Central Committee, 63.2% (12 out of 19) of regular members in the Politburo, and 80% (8 out of 10) of the secretaries in the Secretariat. Although Kim Jong Il inherited the ideological rhetoric of Kim Il Sung to maintain political legitimacy, the number of military personnel in the Politburo had become smaller throughout the 1980s. Political loyalty was still important but Kim Jong Il promoted and fully utilized the professional experts.<sup>98</sup> To meet the demands in agriculture and light industry, the economic management function of the Administration Council was emphasized to initiate partial reform measures in economic system.

Knowing that neighboring China and other countries were diligently pursuing reform, surely, North Korean leaders must have known the need to prompt more changes in their own economy. The Second Seven-year Plan from 1978 to 1984 again turned out to be a failure, and the leaders had to find some other methods to stimulate economic growth. One of them was attracting FDIs from capitalist countries. The Equity Joint Venture Law of September 1984 was designed to promote economic cooperation with foreign companies. For the domestic economy, self-supporting accounting system was expanded to provide more material incentives, and the "8.3.

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<sup>97</sup> Ibid., 412-413.

<sup>98</sup> The generation change was an inevitable natural process, but it was also a political project incentivizing loyal and practical technocrats to support the new leadership. Among the selected members at the Seventh SPA in 1982, 49.4% were intellectuals, and 50.4% were the college graduates. Many experts in various sectors, such as Kim Yeong-nam [Kim Yong Nam], Yeon Hyeong-muk [Yon Hyong Muk], Yun Gi-bok [Yun Ki Bok], and Hwang Jang-yeop [Hwang Jang Yop] who were promoted to take charge of ideology, economy, and foreign relations, respectively. It was after the late 1980s when political loyalty and revolutionary spirit made a comeback to occupy the top slot in North Korean leadership's list of priorities, as regime security became the most urgent task in the midst of changing external environment. Ku-seop Kim and Du-hyeogn Cha, *Bukhan ui Gwollyeokgujo wa Gwollyeok Ellitue* [North Korean Power Structure and Power Elite] (Seoul: Korea Institute for Defense Analyses, 2004), 130-133.

Production of People's Consumer Goods Program" was initiated to produce more consumer goods. But the pro-reform measures came to a halt and became ineffective in the late 1980s. The economy sharply deteriorated with a serious food shortage in the 1990s.

Even though North Korea experienced a leadership change that hinted at a certain inclination towards economic policy changes, attempts remained partial and limited at best, and did not produce notable achievements. North Korean leaders made more attempts at economic reform and development several times after the 1980s, but still failed to show visible accomplishments. One of the reasons for failure might have been the lack of strong will or reform-oriented tendencies of the new leadership. But other conditions, domestic needs and external factors should also be considered together in the investigation of the reasons for failure to reform and develop.

### 3. Limitations of the Domestic Needs Thesis

Even with a leadership change to a more reform-oriented top leader, there may not be a comprehensive economic reform when there is no urgent demand for reform at the domestic level. To initiate a reform, an urgent domestic need has to exert pressure to the leadership. The condition of the domestic needs consists of two dimensions, the production imperative from the economy and the legitimacy to rule from politics. Under the newly emerging leadership with reform-oriented policy preferences, the domestic needs for production and development provided a strong initiative to launch reform and opening. The declining political legitimacy provided another domestic imperative for reform from the political perspective.

#### **(1) Pressing Economic and Political Needs for Reform**

While searching for an economic logic for policy changes, Naughton (1996) focused on China's economic conditions rather than ideology or politics. He pointed to China's extreme poverty that persisted throughout the 1970s as the main cause for

its radical reform policies of 1978.<sup>99</sup> The poverty and the complaints among the population exerted pressure on the new reform-oriented leadership. The CCP and the government had to achieve rapid economic growth, and one way to do that was to adopt some market-oriented measures that they had learned from the foreign economies. Rapid economic development was necessary to buy political stability. In essence, it was an exchange between economic development and the political liberalization.<sup>100</sup> The CCP after the Cold War era managed to sustain its regime only by providing actual, tangible economic benefit through reform and opening.

*Economic and political pressures on Chinese leadership*

Economic difficulties were not a new problem in China. Chronic economic difficulties were common in socialist countries that shared the Soviet-type economic model. The structural inefficiency and repeated failures of reforms had been an issue in Eastern Europe as mentioned before. China before 1978 was definitely a Soviet-type command economy with a much lower level of industrialization, and had remained as one of the world's poorest countries even in the 1980s. The Cultural Revolution interrupted the gradual development and accumulation of management skills even among the socialist systems, which seriously aggravated the Chinese economic situation in the early 1970s.<sup>101</sup> By the late 1970s, Chinese economy was suffering from a combination of difficulties stemming from chronic socialist inefficiency and serious backwardness that resulted from the Cultural Revolution added on top of that.

To continue the Party rule over the country and subdue complaints, the leaders

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<sup>99</sup> Naughton, *Growing Out of the Plan*, 26-55.

<sup>100</sup> Barry Naughton, "China's Transition in Economic Perspective," in *The Paradox of China's Post-Mao Reforms*, eds. Merle Goldman and Roderick MacFarquhar (Harvard University Press, 1999), 30-44. Similarly, Chao and Dickson analyzed the situation of social contract on the economic development and political reform between the CCP and people. If CCP guarantees economic development and better quality of life, the people would not demand political reform or democratic participation. Chien-min Chao and Bruce J. Dickson, *Remaking the Chinese State: Strategies, Society, and Security* (Routledge, 2001).

<sup>101</sup> Naughton, *Growing Out of the Plan*, 38-39.

had to revive the economy and increase production. To fulfill the economic efficiency and political stability, the new CCP leadership maintained a coordination mechanism, and the reform gradually progressed through incremental policy measures such as the adoption of a dual-track system in industry.<sup>102</sup> Since it had been the CCP leaders who launched reform policies to develop the economy, the production imperative has often been considered as a consequence of the leaders' desire to reform, not a cause.<sup>103</sup> But the production imperative did have its impact as a stimulus toward reform. More than two-thirds of the population was engaged in rural economy, and Naughton assessed that the relatively small size of the industry allowed the leaders more flexibility in their reform experimentations, without much worry about strong resistance from the people. The rural population had been less averse to the economic uncertainties, and provided huge labor for development.<sup>104</sup>

The production imperative was closely linked with political pressure. By the 1970s, the CCP faced the legitimacy crisis due to political turmoil and economic difficulties. After Mao's death in 1976, the Mao Zedong Thought and his personality cult was no longer effective in guaranteeing the legitimacy to rule.<sup>105</sup> The leaders sought the economic reform to legitimize their rule and keep the people loyal to the Party rule. Since China did not have any domestic alternative organizations like the Solidarity in Poland, the leadership did not have any political competition. Still the

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<sup>102</sup> The "dual-track system" refers to the coexistence of plan and market for the allocation of resources. Leaders could maintain the plan to keep stability and sector priorities. In a dual-track price system, a commodity has a state-set planned price and a market price separately. Naughton noticed that this dual-track system was important for the adaptation to market processes. As the economy develops rapidly, the portion of the socialist plan decreased, and the share of non-plan, market transactions gradually increased. Naughton, *Growing Out of the Plan*, 7-9.

<sup>103</sup> Goodman (1988) commented on the concept of production imperative that, although the production imperative can be a stimulus to reform, it is neither a necessary nor even a sufficient condition. The Communist party's search for legitimacy or its relationship with USSR may equally be the spur to reform. The production imperative may be a consequence of the communist party's desire to reform rather than a cause. Goodman, "Communism in East Asia," 3.

<sup>104</sup> The "labor surplus" economy in China was one of the critical difference from other socialist countries. Urban workers (SOEs) tend to resist reform, but as a big country with huge population and diversity, resistance could not be organized to make a strong agenda. Naughton, *Growing Out of the Plan*, 38.

<sup>105</sup> Tony Saich, "The Reform Process in the People's Republic of China," in *Communism and Reform in East Asia*, ed. David S. G. Goodman (Frank Cass & Co. Ltd., 1988), 9-27.

leaders had to find another ideological logic to provide a proper explanation for the difficult situation and the reform policies they decided.<sup>106</sup>

In their early years of the CCP rule in China, Marx-Leninism was the central ideological tool to construct the state and society. After the establishment of the socialist system, the role of ideology turned to be instrumental to keep the party rule legitimate. In the mid-1970s, the CCP became the established power trying to retain its political monopoly, hoping no open opposition or disorder. Hua Guofeng attempted to retain the Maoist legacy with only slight modification, but most elites and leaders supported a new idea with bold modifications by Deng Xiaoping and his reformers.<sup>107</sup> At the Third Plenum in 1978 Deng changed the direction of economic strategy to pursue more radical measures. At the Twelfth Party Congress in 1982, he provided the concept “socialism with Chinese characteristics” to spur the reform process throughout the 1980s. Deng and the reformers modified the ideology to adjust to the changing circumstances, and this modified ideology gave them power to implement the reform.

The ideological legitimization was also critical in protecting the Party rule along the progress of economic reform. Facing an unexpectedly rapid progress of reform, the leaders used the ideological rhetoric to limit the growing liberal discourses. Deng declared the “Four Cardinal Principles” in 1979 to define the limits of criticisms.<sup>108</sup> Political consensus was difficult to achieve between the radical

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<sup>106</sup> The role of ideology had not been greater in China than the Soviet Union or Eastern European countries. The socialist ideology of the Soviet and Eastern Europe had to defend their fundamental principles against other ideologies from the West, but Chinese leaders did not have that problem in the 1970s. Information about the outside world and different ways of thinking was all in the hands of the leaders, and they could apply some of them to rearrange or partly modify their official ideology for the purpose of political stability and economic development.

<sup>107</sup> Hua Guofeng promoted the concept “two whatevers,” meaning whatever policies Mao has formulated, and whatever instructions Mao has issued should be kept without further opinions. But Deng Xiaoping presented a new idea from 1978, with pragmatic slogans to “seek truth from facts,” justifying the modifications as pragmatic adaptation of Mao Zedong Thought and Marxism to meet China’s present conditions.

<sup>108</sup> The Four Cardinal Principles were: i) upholding the socialist road; ii) the dictatorship of the proletariat; iii) the leadership of the Communist Party; and iv) Marxism-Leninism-Mao Zedong Thought.

reformers and the conservatives, which resulted in the cycle of retrenchment and readjustment.<sup>109</sup> To pacify the conservatives and stabilize the regime, Deng announced the line of “one center and two basic points” at the Thirteenth National Party Congress in 1987, meaning that economic development (center) should be on the balance of the reform and opening up (point one) and strong opposition to the “bourgeois liberalization” (point two).

The official ideology evolved along the changing need of legitimization for the leadership. Scholars often pointed out the Tiananmen Incident in 1989 as a major conservative backlash, which hampered the political liberalization in China. But the previous ideological legitimizations always expressed the importance of the political stability. The leadership defined the goal of the regime as the economic development, but they were stringent as to not endanger their grip on political control. They did not halt the reform and opening after the Tiananmen Incident and still pursued rapid economic development and modernization.<sup>110</sup> Deng legitimized his new drive for more reform and opening in 1992 after the Southern Tour, and the “socialist market economic system” was declared as the goal at the Fourteenth Party Congress also in 1992. The ideological legitimization provided strong support for the leaders’ decisions before and after each reform measure.<sup>111</sup>

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<sup>109</sup> Radical reformers led by Hu Yaobang and Zhao Ziyang were not really worried about the “spiritual contamination” and accepted influences from the West or the Asian NICs. But the moderate reformers (the conservatives) led by Chen Yun emphasized equilibrium in the management of economy and they worried about the Westernization with various political ideas. Chen Yun, “Jihua yu Shichang Wenti [Issues on Plan and Market],” an outline of speech written by Comrade Chen Yun, March 8, 1979, and “Jianchi Anbili Yuanze Tiaozheng Guomin Jingji [Holding the Principle of Balance in Reorganizing National Economy],” A speech of Comrade Chen Yun at the Central Committee Meeting of the Communist Party of China, March 21, 1979, in *Chen Yun Wenxuan Disanjuan [Selected Works of Chen Yun Volume III]*, 2<sup>nd</sup> ed. (Beijing: Renmin Chubanshe, 1995), 244-247 and 250-255.

<sup>110</sup> Conservative backlash lasted less than three years after the Tiananmen Incident. During that period, Chen Yun and the conservatives emphasized that the planned economy was primary and the market economy only supplementary. Before 1989, the political and economic democracy had been a major goal of Chinese intellectuals, but the Tiananmen incident forced radical democratic activists out of the country. The tendency of neo-authoritarianism reflected the emerging difficulties of top-down control and regime stability in the process of rapid socioeconomic developments.

<sup>111</sup> In 1992, the goal of the reform was defined as “fundamentally changing the economic structure rather than patching it up.” The ideological rhetoric changed rapidly to enclose the market-oriented changes of China, while still carefully protecting the political stability. The 15<sup>th</sup> National Party

So far the CCP has been successful in legitimizing its rule by delivering more economic development. After the harsh suppression of political dissidents after 1989, the general political discourse in society has also come to resemble the official ideology. The intellectuals and opinion leaders generally support the political order and stability under the leadership of CCP, for the purpose of achieving a more rapid and stable economic development.<sup>112</sup> The new generation of leaders after Deng Xiaoping has used this political ideology and pragmatic statecraft of reform to sustain their authoritarian rule and have emphasized powerful central authority to unify the people.

*Domestic needs in North Korea: not urgent enough for reform?*

While extreme economic poverty had been regarded as one of the main causes of the reform initiation in case of China, North Korea did not seem to be as poor as China of the 1970s in terms of major economic indices. North Korea had been more industrialized than China, and many previous explanations supposed that the economic difficulties were not yet as serious in the 1970s and the 1980s to create a production imperative strong enough to initiate a radical reform.

North Korea might not have been seen as poor enough compared to China in the late 1970s. Statistics on the North Korean economy showed much better numbers than it did in China at the time. But there are problems in using the statistics on North

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Congress in 1997 endorsed the strategy of accelerating “the socialism with Chinese characteristics” in the national economy. Jiang Zemin responded to the changing environment by introducing “Theory of the Three Represents” to endorse the advanced productive forces such as private enterprises and intellectuals, which was included in the Party Constitution at the 16<sup>th</sup> National Party Congress in 2002. CCP was changing its characteristics from a transformative party into a populist party to represent “the interests of the vast majority of the Chinese people,” by developing “a market economy under socialism.” Tendency of embracing concepts of mixed economy continued with Hu Jintao’s rule, with more new phrases like “three for the peoples” and “the scientific outlook on development.” Christian Ploberger, “China’s Reform and Opening Process: a Fundamental Political Project,” *Asian Social Science* 6, no. 11 (2010): 28-41.

<sup>112</sup> The trend of “Neo-conservatism” was a collective mentality in intellectuals, calling for political stability, central authority, tight social control, role of ideology and strong nationalism. Joseph Fewsmith, “The Emergence of Neostatism and Popular Nationalism,” in *China since Tiananmen: the Politics of Transition* (Cambridge University Press, 2001), 132-156.

Korea. The credibility problem has long been pervasive in socialist countries, and North Korea has been one of the extreme cases about its dearth and inaccuracy in statistics. The official statistics have not been published since the mid-1960s, and it has been a challenge to analyze the scarce resources available on North Korea to come up with reasonable numbers. The most frequently cited ones are the statistics from the Bank of Korea, the Central Intelligence Agency (CIA), and the United Nations (U.N.).<sup>113</sup> Only the U.N. National Accounts provides economic development indicators from the 1970s, including the gross domestic product (GDP). The GDP per capita is shown in Table 1. Other organizations provide data from the 1990s or from more recent years.

**Table 1 GDP and GDP per capita of China and North Korea<sup>114</sup>**

Year	China (PRC)		North Korea (DPRK)	
	GDP (in million \$)	Per capita GDP (in US \$)	GDP (in million \$)	Per capita GDP (in US \$)
1971	98,059	119	5,440	416
1974	141,529	161	7,320	520
1977	171,467	185	8,757	592
1980	306,520	318	9,879	642
1983	314,637	313	12,855	795
1986	304,348	289	13,654	805
1989	459,782	415	15,771	811
1992	499,859	433	12,458	593
1995	756,960	635	4,849	222
1998	1,045,199	852	10,273	456
2001	1,317,230	1,049	11,022	476

<sup>113</sup> Kwon, Kim, and Shim (2007) pointed out that many organizations have provided North Korea statistics from various sources they accessed, without publishing the whole process of analysis. Due to extreme exclusiveness of North Korea, the statistics by each organization show big differences, which result in even less credibility and objectivity. For example, the GDP of North Korea in 2005 has been calculated by the Bank of Korea as \$25.6 billion, but the CIA World Factbook has calculated it as \$40 billion. Soon-pil Kwon, Seo-Young Kim, and Kyu Ho Shim, “Bukhan Tonggye Hyeonhwang Bunseok [An Analysis on North Korean Statistics],” in *‘Microdata’ Hwalyongyeongu Mit Tonggye reul Yiyong han Hyeonhwang Bunseok Yeongu [The Microdata Application Research and the Situation Analysis Using Statistics]*, Dong-myeong Jeong et al. (Statistical Research Institute, 2008), 197-200.

<sup>114</sup> They are in current US Dollars for selected years. A complete table with all years attached as Appendix I, p. 431 at the end of the conclusion chapter. Source: United National Statistic Division, *National Accounts*, <http://unstats.un.org/unsd/snaama/selCountry.asp> (accessed September 10, 2013).

The U.N. does not provide specific sources for its calculation methods. North Korea started to submit the official statistical materials to the United Nations spontaneously from 1988, but their numbers were quite different from other statistics presented by the Bank of Korea or the CIA. It is no surprise that North Korea has presented different numbers for its political and economic purposes by each year.<sup>115</sup> The statistics on the periods before 1990s are not solid enough for academic analysis since they only show very general trends in the economy. North Korea seems to be doing better economically than China according to the U.N. statistics but that it does not confirm the speculation at there was less need of economic development at the time of the 1970s and the 1980s.

There have been other explanations regarding the industrial structure of North Korea, compared with the agriculture-oriented structure of China. Some studies pointed out the differences of industrial structure as one of the main factor of the difference.<sup>116</sup> The level of industrialization in most East Asian socialist countries was generally lower than that of the European socialist countries, including China which had a huge population in the rural area. When China started the economic reform, the large population in the rural area became an advantage for rapid economic development since it could either develop rural industries or move the labor forces from rural to urban area into factories to expand production. It facilitated the rapid growth of China's urban industries in the coastal area.<sup>117</sup>

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<sup>115</sup> The metadata does not provide the actual sources and only suggests that they also used a lot of assumptions and estimations for the list. The UN statistics generally show lower GDP than that from the CIA or the BoK. The differences are too dynamic that it is almost impossible to deduct the economic situation of North Korea from any of them. Kwon, Kim, and Shim, "Bukhan Tonggye Hyeonhwang Bunseok," 201-213.

<sup>116</sup> Comparing China and North Korea focusing on China's rural economy and its influence on the Chinese reform success, Sung-ryol Oh, *Jungguk Gyeongje ui Gaehyeok Gaebang gwa Gyeongje Gujo*; Yeon-chul Kim, *Bukhan ui Saneophwa wa Gyeongje Jeongchaek [Economic Policy and Industrialization in North Korea]* (Seoul: Yuksa Bipyongsas, 2001), 384-400 and 405-411.

<sup>117</sup> About the Chinese reform and the move of the agricultural population into urban industries, Harry Xiaoying Wu, "Rural to Urban Migration in the People's Republic of China," *The China Quarterly* 140 (1994): 669-698; Justin Yifu Lin and Yang Yao, "Chinese Rural Industrialization in the Context of the East Asian Miracle," in *Rethinking the East Asian Miracle*, eds. Joseph E. Stiglitz and Shahid Yusuf (Oxford University Press, 2001), 143-195.

North Korea had been industrializing rapidly since its early years of the 1950s with a focus on the heavy industry in urban area. Table 2 shows its level of industrialization based on the percentage of population employed in agriculture in the mid-1980s. North Korea appeared to have been more industrialized than other East Asian countries, but not as much as the Eastern European countries.

**Table 2 The Share of People in Agriculture, Socialist Countries around 1985<sup>118</sup>**

Country	Year Power was Attained	Population, 1986 (million)	Share of People in Agriculture, ca. 1985 (percent)
Soviet Union	1917	281.1	19
Mongolia	1921	2	53
Czechoslovakia	1948	15.5	12
Hungary	1948	10.6	20
Romania	1948	22.9	28
North Korea	1948	20.9	48
China	1949	1,054	74
Vietnam	1954	63.3	70

In addition to the problem of credibility in statistics, the level of industrialization and urbanization should be considered with the characteristic of North Korean mobilization campaigns. Since North Korea had numerous campaigns to mobilize people for both industrial and agricultural productions, a clear distinction between employers in industry and agriculture became impossible.<sup>119</sup> One of the chronic problems in North Korean industry was the shortage of labor, which they suffered while they were also promoting agricultural production for the policy of self-reliance. Unlike China, North Korea could not shift a large number of the labor force permanently from agriculture to the industry due to its labor shortage.<sup>120</sup> People in

<sup>118</sup> A complete table with more socialist countries included is attached as Appendix 2, p. 432 at the end of the conclusion chapter. The credibility of statistics must be considered as it has already been mentioned. Source: Kornai, *The Socialist System*, 6-7.

<sup>119</sup> Seok-jin Kim, *Junguk Beteunam Gaehyeok Model*, 81.

<sup>120</sup> This was the reason why there were arguments predicting a big bang-like reform in North Korea with simultaneous reforms on price, trade, currency with other supporting laws in a short period of time like was the case with European countries. Wada, *Bukjoseon*, 242-243.

both urban and rural area were frequently mobilized for both agricultural and industrial production and construction projects.

In relation to the production imperative, the KWP leadership also had to legitimize their monopoly of power to guarantee the continued loyalty of its people. Facing a difficult economic situation, the leaders depended more on the ideological rhetoric to legitimize their rule. China chose to launch reform and opening to revive the economy and legitimized the CCP rule by using more pragmatic ideologies. North Korea chose to retain the orthodox socialist mobilization and control capacity to sustain their political authority with the Juche ideology. It has been considered as one of the major obstacles against reform. Since Kim Il Sung had established his personality cult and Juche ideology, the political legitimacy of the KWP rule in North Korea seemed much stabilized than the Chinese situation right after the Cultural Revolution in the late 1970s.

Ideology was rather an instrument to justify whatever policies the leadership chose and the ensuing consequences of these choices, than the driving causes of certain policies providing a logical basis. Lee (1995) has argued that the leadership used the Juche rhetoric to avoid being blamed for economic difficulties, and instead utilized the tensions existing in the external environment to legitimize domestic mobilizations. The anti-American sentiment and the division of the Korea nation continuously appeared in political propaganda to keep the people on high alert. It was used to enhance loyalty to the leadership and mobilize people for more production. Whenever the North-South relations emerged as an issue, the propaganda emphasized the exploitations that the South Koreans were suffering under the imperialist rule of the United States and urged people to produce more “to help and liberate the South Korean brothers,” or “to revenge on American imperialists.”<sup>121</sup> Later, the ideological obsession on the self-reliance became a barrier of the reform, hampering interactions with the outside.

The official ideology of Juche can be traced back to the mid-1960s when Kim Il

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<sup>121</sup> Jong-seok Lee, *Joseon Rodongdang Yeongu*, 58-59.

Sung outlined the fundamental principles of Juche as “independence in politics (jaju)”, “self-sufficiency in the economy (jarip)”, and “self-defense in military (jawi).”<sup>122</sup> Political independence was defined as a major task of North Korea during the 1960s and the leaders frequently expressed their strong antagonism towards the imperialists and foreign interventions. In between the Sino-Soviet split, North Korea did achieve a certain level of independence from the two big brothers and was recognized as a relatively self-reliant country among the small states in the socialist bloc. The concept of the supreme leader “Suryong” spread out to be in popular use from the mid-1960s. Revolutionary tradition from the colonial era was emphasized focusing on the heroic anti-Japanese insurgency in Manchuria led by Kim Il Sung.<sup>123</sup> It justified the consolidated power of Kim Il Sung and the military-oriented leaders who fought with him as guerrilla fighters. Wada (2002) labeled this military tendency of the North Korean leadership as the “guerilla state,” a specialized form of state socialism.<sup>124</sup> By using the Juche ideology, the leadership denounced the foreign enemies, the United States, Japan, and South Korea, on almost every problem. The high military budget of the 1960s was also justified by the existence of threats from the enemies.

From the Fifth Party Congress in 1970 and the Six-Year Plan, North Korea declared a “complete victory of socialism” as their goal. Throughout the 1970s, Juche ideology was increasingly being called “Kim Il Sung ideology” without reference to

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<sup>122</sup> Kim Il Sung, ‘4. Juche reul Teunteuni Se-umyeo Gunjung Roseon eul Gwancheol haneun Munje e Daehayeo [On Problem of Firmly Establishing Juche and Carrying Out the Mass Line]’ in “Joseon Minjujuui Inmin Gonghwaguk eseoui Sahoejuui Geonseol gwa Namjoseon Hyeokmyeong e Daehayeo [On Socialist Construction in the Democratic People’s Republic of Korea and the South Korean Revolution],” A lecture at the Ali Arkham Academy of Social Sciences in Indonesia, April 14, 1965, in *Kim Il Sung Jeojakjip [Kim Il Sung Works] 19: January 1965 – October 1965* (Pyongyang: Joseon Rodongdang Chulpansa [KWP Publishing House], 1982), 304-316.

<sup>123</sup> After September 1961, the Fourth Party Congress, the term “Suryong” became widely used in the society. The official use of Suryong in every document started from 1967 the year Kim Il Sung established his absolute power with the One and Only Ideology (Yuil Sasang). Kim Il Sung purged several “Gapsan faction” leaders including Pak Geum-cheol, Ri Hyo-sun, and Kim Do-man, and finally established his charismatic leadership with the personal cult and the One and Only Ideology. Jong-seok Lee, *Joseon Rodongdang Yeongu*, 150-151.

<sup>124</sup> Wada, *Bukjoseon*, 122-123. The change of North Korea in the 1960s was also called by other scholars as the Suryong System, or the One and Only Leadership System. Masayuki Suzuki, *Kim Jong Il gwa Suryongje Sahoejuui [Kim Jong Il and Suryong System Socialism]*, trans. Yeong-gu Yu (Seoul: Joongang Ilbo Publishing, 1994).

Marx-Leninism.<sup>125</sup> The “New Socialist Constitution” in 1972 emphasized ideological unity and the TRT Movement and the Three-Revolution Red Flag Winning Movement had always put top priority on the ideological unity than the practical tasks of technology or management. At the Sixth Party Congress in 1980, Juche ideology was declared as the monolithic ideology (the One and Only Ideology, *Yuil Sasang* in Korean) of the KWP, and Marx-Leninism was deleted from the Party Constitution. Lee (1995) conceptualized this development of Juche ideology as several “refractions.” According to Lee’s analysis, the first refraction occurred when the Juche ideology was defined as “the most accurate Marx-Leninism” in 1968 to respond against the criticism of the Red Guards of China. Second refraction was the declaration of “Kim Il Sung-ism” in 1974, and the third was the expansion and systemization of Juche ideology by Kim Jong Il in the 1980s.<sup>126</sup> These refractions caused more extreme tendency of personality cult and political unity, which reflected the anxiety of the leaders on the regime security.

## **(2) Domestic Needs as Another Condition of Reform**

The urgent domestic needs in economic or political aspects would put strong pressure to the leadership to initiate major policy changes. But there are limitations of the explanations focusing only on the domestic needs, which can be addressed in two. First, the condition of domestic needs had to interact with reform-oriented leadership to put the pressure and redirect the policy directions, and then external factors to be supportive to the policy changes the leadership would pursue. In a similar fashion as the condition of leadership change, urgent domestic needs per se do not lead to the actual reform decision. Second, even though the domestic needs in economy or politics had not become urgent in terms of the objective level, they can exert much more pressure to the leadership with the relative deterioration compared to their own

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<sup>125</sup> At the Fifth Party Congress in 1970 the Juche ideology was defined as “the core of revolutionary ideology by Kim Il Sung” and the most proper Marx-Leninist theory for North Korea. Jong-seok Lee, *Joseon Rodongdang Yeongu*, 86-92.

<sup>126</sup> *Ibid.*, 97.

past or neighboring competitors. Even if the North Korean economy did not seem to be much poorer than China, the leadership might have felt an urgent production imperative due to the sudden deterioration of economic performance compared to the rapid development of the South Korean economy.

The key to the reform was the level of urgency and gravity the leaders were feeling about domestic needs. The feeling of sudden economic decline or relative decline compared to their recent past or neighboring countries could provide a powerful drive toward the economic reform, especially when the leadership felt serious political danger from the lagged economy. Simply being poor did not lead to any initiative for the reform. The whole country had to be politically mobilized by the leaders who had the will and the power to decide and implement the policies. Many African countries have experienced extreme poverty over decades but few have implemented dramatic reform or experienced a revolution to improve their economic plight. The existence of a strong leadership is critical to promote a political consensus on the economic development toward dramatic changes.

In combination with the strong leadership, the production imperatives could become a strong initiative toward the reform from above even without extreme poverty. The leaders had to prevent any political danger to the regime before the economic difficulties became too extreme. Relative decline or a sudden deterioration of economy could lead to complaints and provide more grounds for dissident forces before the difficulties become too extreme. To avoid another revolutionary transition like what happened in many Eastern European socialist countries at the end of the 1980s, the leadership had to be sensitive to the production imperatives and deal with the economic problems before they got out of hand. The economic stalemate after some years of rapid development put much more pressure towards reform which was the case for most socialist countries after their initial phase of high-growth achieved through socialist mobilization methods.

Both China and North Korea had economic difficulties and production imperatives following the general pattern of economic stalemate in socialist countries.

In addition, North Korea needed to continue military buildup and had to overcome the economic difficulties produced by the military-oriented policies. The leaders wanted to attract foreign capital and technology but the strategy turned out to be different from that of China. The reform policies were limited and partial with no consistent determination to achieve rapid changes. The North Korean leaders depended more on political mobilization campaigns to achieve short-term economic goals. The pressure of production imperatives grew stronger as they continuously failed to make dramatic improvement throughout the 1970s and the 1980s. But it became harder for the leaders to seize opportunities not because there were less of them but because of the increasing political dangers.

The interaction between the leadership and the domestic needs led to different configuration of regime control in China and North Korea. It was conventionally thought that China had transformed from a totalitarian to an authoritarian regime to allow more participation through reform and opening. Scobell (2005) called North Korea the longest remaining totalitarian regime which was in power for more than five decades. China moved into a post-totalitarian regime in the 1980s and even Cuba had become a post-totalitarian regime from the 1990s.<sup>127</sup> The term “post-totalitarian” had been defined as a transitional phase from totalitarian to something else, still having a centralized state apparatus. But it was less repressive than the original totalitarian regime.<sup>128</sup> Post-totalitarian regime was not yet authoritarian. Authoritarian

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<sup>127</sup> Scobell, “Making Sense of North Korea,” 247-248. Other studies on the nature of the North Korean political system, Robert A. Scalapino and Chong-Sik Lee, *Communism in Korea* (Berkeley and Los Angeles: University of California Press, 1972); Kongdan Oh and Ralph C. Hassig, *North Korea Through the Looking Glass* (Washington, DC: Brookings Institution, 2000); Bruce Cummings, *North Korea: Another Country* (New York: the New Press, 2004).

<sup>128</sup> Scobell (2005) explained the history of the concept “totalitarianism” in *Ibid.*, p.247. When Hannah Arendt first articulated the concept, it meant extremely powerful, repressive, and enduring type of regime, like the Nazi Germany. When Carl Friedrich and Zbigniew Brzezinski identified totalitarianism with Stalin’s Soviet Union, the term was understood to be same as the classical Communist (socialist) regimes. Juan Linz criticized the enduring characteristic of totalitarianism, and suggested limited life span of totalitarian regimes and changes into post-totalitarian ones before further changes. He argued that totalitarianism demands too much effort to maintain the control and mobilization and it is difficult to sustain longer than one or two generations. Hannah Arendt, *The Origins of Totalitarianism*, 2<sup>nd</sup> ed. (Cleveland: Meridian Books, 1958); Carl J. Friedrich and Zbigniew K. Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge: Harvard University Press, 1956);

leadership leads the country toward a certain target, like economic development, while strictly oppressing the demand for democratization. China was defined as either a post-totalitarian or an authoritarian regime regarding its political oppression and economic strategies. North Korea has been always considered a totalitarian regime without changes in absolute power of dictatorship, ideology, coercive state apparatus, and centrally planned economy.

In Kornai's transition theory, totalitarian mobilization and control is weakened during the reform socialism phase and then goes through a revolutionary transition to become a different system.<sup>129</sup> China and North Korea were clearly categorized as totalitarian regimes until the 1970s before China launched reform and opening and allowed market-oriented elements. Which comes first, the weakening of political control or the start of economic reform? In China, the new leadership chose economic reform to meet the urgent economic needs to pursue development and stability. The ideology helped the leaders afterwards to legitimize their decisions and the political institutions followed to suit the achievements and to support more sustainable changes.<sup>130</sup> China is now even called a system of "soft authoritarianism" which allows almost any kind of capitalist activities except for politically dangerous ones.

North Korean leaders chose to continue the use of Juche ideology with political control and mobilizations. It was a choice of the leadership, and they could legitimize their choice by their own ideology whether it was the totalitarian campaigns or the reform policies. Since North Korea has a strictly centralized system with mobilization capability, it could have implemented reform policies efficiently if the leaders really intended to do so. The centralized structure usually facilitates reform at the initial stage, providing clear contact points to the new economic actors and international

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Juan Linz, *Totalitarian and Authoritarian Regimes* (Boulder: Lynne Rienner, 2000).

<sup>129</sup> Kornai (1992) also had defined the nature of the totalitarianism to be as follows: i) the power of the bureaucracy extends to everywhere blurring the distinction between the state and private spheres; ii) the bureaucracy can control the whole society through party branches, mass organizations, state apparatus and police authorities; iii) the bureaucracy is not subordinate to the legal system and decides the rules itself. Kornai, *The Socialist System*, 46-47.

<sup>130</sup> Chinese political institutionalization along the reform progress proves that economic reform has worked as the cause of political changes, though not outright democratization.

actors.<sup>131</sup> While China chose to change its system towards an authoritarian developmental state and maintain the CCP rule, North Korea chose to remain as a totalitarian dictatorship with economic difficulties and manage the regime with ideological unity. North Korean leaders could have used their centralized and industrialized structure to pursue the economic reform with efficiency. They chose not the way of reform but depended more on the political mobilization in the name of Juche. Ideological stimuli were frequently used to replace the material incentives to encourage the production.

The official ideology – the Juche and the personality cult of Kim Il Sung – was the legitimizing tool of the regime for whatever policies and strategies they took. China decided to pursue economic reform and opening in 1978 and legitimized the decision by using ideological rhetoric. North Korean leadership chose the Juche ideology to legitimize their avoidance of the reform, and utilized it as a tool of the production campaigns instead of economic reform. If the leadership decided to implement reform in a practical sense, the ideological legitimization would have been changed to support the decisions. The North Korean leadership did not opt for a comprehensive reform but justified the worsening economy passing the responsibility to the outside security threats or domestic counter-revolutionary opponents.

#### *Relative gravity of domestic economic needs in North Korea*

Although North Korean leadership was able to fully utilize the Juche ideology and personality cult to stabilize domestic politics, the economic pressure remained strong. The leaders clearly knew that there was an urgent economic need already in the 1970s to overcome the relative deprivation and political dangers. North Korea was no exception to the general trend of economic difficulties in the socialist bloc. After

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<sup>131</sup> Early in the reform era, high levels of centralization favored the influence of the international economic actors. If decentralized, the decision and implementation of reform might have been impossible. Later, in the reform era, economic decentralization with more point of access made the economic participation and expansion faster, but in turn, the efficiency of the policies decreased. Moore and Yang, “Empowered and Restrained,” 199.

the initial phase of rapid development in the late 1950s and the early 1960s, North Korea also faced slowing growth and even economic stalemate from the late 1960s. Learning from the Soviet Union, North Korea had adopted an economic strategy that focused on heavy industries. The speedy development of the heavy industry meant that there was a relative backwardness in light industry and agriculture. The leaders felt even more pressure from the increased economic burden resulting from military-oriented policies of the 1960s which was spurred by its competition with South Korea. The “policy line of simultaneously building up the economy and defenses” led to a serious distortion of the economy caused by ever-increasing military preparations. Moreover, foreign aid from the Soviet Union and China fell sharply and further aggravated the situation.<sup>132</sup>

Some studies have argued that North Korea’s military adventurism in the late 1960s were to dodge the pressure for production imperative by distracting the population’s attention. The North attempted to assassinate Park Chung Hee in January 1968 by launching a raid of the Blue House. It also seized the USS Pueblo to bring the United States to the negotiation table which went on for almost a year. Some have interpreted the North Korean leaders’ intention as wanting to shift the attention to the security threats and to draw out more assistance from the Soviet Union.<sup>133</sup> The leadership exploited the tension to distract the domestic audience and mobilize resources for military preparations. Generating external crises was also helpful in demonstrating their commitment to the Juche principles in security affairs.<sup>134</sup> There

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<sup>132</sup> Young-kuk Cho, *Talnaengjeongi Bukhan ui Gaehyeok Gaebang Seonggyeok e Gwanhan Yeongu: Gukga Baljeon Jeollyak eul Jungsimeuro* [A Study on the Character of Reform and Openness in North Korea in the Post-Cold War Era: Focus on the National Development Strategy] (Korean Studies Information, 2006), 65-68.

<sup>133</sup> Sergey S. Radchenko, “The Soviet Union and the North Korean Seizure of the USS Pueblo: Evidence from Russian Archives,” *Cold War International History Project Working Paper # 47* (Washington D.C.: Woodrow Wilson International Center for Scholars, 2005).

<sup>134</sup> Mitchell Lerner, “Mostly Propaganda in Nature: Kim Il Sung, the Juche Ideology, and the Second Korean War,” *North Korea International Documentation Project Working Paper #3* (Washington D.C.: Woodrow Wilson International Center for Scholars, 2010). Kim (2008) agrees that Kim’s leadership was in crisis, and the incidents and more infiltrations into South were high-level tactical activities to resolve the internal vulnerability of North Korea at the time. It was their effort to find an exit, by referring to the socialist struggle against imperialism and showing active South-ward operation. The

may be various reasons for the military adventurism at the time and one of them was probably to cover up the economic shortcomings and mobilize domestic and international support.

From 1971 and onwards, the Six-Year Plan began to tackle the problem of uneven growth and lagging technology. But the stagnations in industries including construction and transportation, and the mounting trade deficit drove the economy into even more hardships. The oil shock had aggravated the foreign currency shortage problem. When the Second Seven-Year Plan was launched in 1978, it contained similar target amounts of trade, construction, and transportation. The fact that the previous Plan's targets reappeared was a reflection of worsening situations concerning foreign debt, capital shortage, and obsolete technology.<sup>135</sup> Unlike China, however, North Korea's policy choices were not to reform the economic system but to employ more orthodox socialist methods of mass mobilization to resolve urgent production needs. There were numerous campaigns throughout the decades including the "Chollima" campaign in the 1950s and the "Cheongsan-ri" campaign in the 1960s. The Three-Revolution Teams Movement and the Three-Revolution Red Flag Winning Movement were launched in the 1970s. These mobilization campaigns made it difficult to pursue long-term plans and consequently led to increasing inefficiency and production shortage.<sup>136</sup>

The original intent behind Juche was to achieve political independence and economic self-reliance in a practical sense. But as time passed, by the 1980s, the Juche ideology became a dogma that made it very difficult for the leaders to accept the idea of reform and opening. The pro-reform attempts of the 1984 Equity Joint

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real purpose of the USS Pueblo incident can be interpreted as propaganda. Jung-bae Kim, "Bukhan, Miguk, Geurigo Naengjeon Cheje: 1968 nyeon Pueblo-ho Sageon eul Jungsimeuro [Rethinking the Pueblo Incident in the Cold War]," *The Korean Journal of American History* 27 (2008): 115-144.

<sup>135</sup> Doo-won Lee, "North Korean Economic Reform: Past Efforts and Future Prospects," in *Reforming Asian Socialism*, eds. McMillan and Naughton, 317-336.

<sup>136</sup> Young-kuk Cho, *Talnaengjeongi Bukhan ui Gaehyeok Gaebang Seonggyeok e Gwanhan Yeongu*, 71-72.

Venture Law failed owing to political limitations and lack of commitment.<sup>137</sup> The perestroika of the Soviet Union and the socialist transitions of the late 1980s had come to North Korea as a huge shock. Still, the leaders remained in an almost trapped state in their own ideology, denying the need of reform despite the experience of neighboring China. The leadership had come to be dominated by the conservatives who were losing political confidence in the dramatic effects of any kind of reform.<sup>138</sup> The international changes were perceived as threats, leading the leaders to focus more on the ideological principles, the Juche concept which became a barrier of reform. It stressed the self-reliance, depended on mobilization campaigns that separated the people from the world economy.

Instead of opening its doors to the outside, North Korea insisted inward-looking mobilization campaigns to stimulate production and people's loyalty. When the Chollima Movement from the mid-1950s became ineffective in the 1970s, the TRT Movement took its place to mobilize the younger generation and to ramp up efficiency. There had been a series of mobilization campaigns such as the Three-Revolution Red Flag Winning Movement in the 1970s, the "Emulate the Hidden Heroes Movement" and "the 1980s' Speed Creation Movement" of the 1980s. The Three-Revolution Red Flag Winning Movement started from 1975 in accordance with the TRT Movement for even more rapid development armed with ideological vigilance.<sup>139</sup> These mass campaigns can be compared with similar movements in other socialist countries, for example, the Stakhanovite Movement of the Soviet

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<sup>137</sup> North Korea did learn the opening policies from the examples of China and Vietnam, but North Korea was more dependent on the Soviet Union in terms of economic and military aspect throughout the 1980s. On the dogmatized Juche ideology and its role of separating North Korea from the general trend of socialist countries, see Dong-man Seo, "Bukhan Chejewa Minjokjuui [North Korean Regime and Nationalism]," in *Bukjoseon Yeongu: Seo Dong-man Jeojakjip [North Korea Studies: Works of Dong-man Seo]* (Paju: Changbi Publishers, Inc., 2010), 233-235.

<sup>138</sup> Wada, *Bukjoseon*, 261-262.

<sup>139</sup> For a detailed history of North Korean mass campaigns, Sang-don Jeong, "Daejung Undong [Mass Campaigns]," in *Bukhan ui Gyeongje [North Korean Economy]*, ed. Sejong Institute North Korea Research Center (Paju: Hanul Academy Publishing, 2005), 207-223. Another study on North Korean mass campaign is Yeon-chul Kim, "Chollima Undong gwa Daejung Dongwon ui Jeongchi Gyeongje [The Chollima Movement and Political Economy of Mass Mobilizations]," in *Bukhan ui Saneophwa wa Gyeongje Jeongchaek*, 195-243.

Union in the mid-1930s. The Stakhanovite Movement also had both political and economic purposes to achieve rapid development under the leadership of Stalin. This was also similar to the Great Leap Forward of Mao's China.<sup>140</sup> These mass campaigns generally imposed production competition, forcefully created loyalty to the regime, and built up societal control mechanism.

The production imperative became clearer with an obvious foreign currency shortage due to an increasing difficulty of cooperation with the West. The Third Seven-Year Plan from 1987 to 1993 had same targets as the previous ones but the foreign debt problem reached an extremely serious level with the collapse of the socialist bloc. In 1991, North Korea announced that it had designated a Free Economic and Trade Zone (FETZ) in Rajin-Sonbong area in accordance with several new legal measures for the purpose of attracting FDIs.<sup>141</sup> Unfortunately, since the country was facing extreme economic difficulties on top of living in complete political isolation, North Korean economy failed to capitalize on this opportunity and fell into the great famine of the mid-1990s.

#### 4. External Factors: Additional Condition for Reform

There have been various explanations that discuss the necessary conditions for reform decisions in China and North Korea. Many have focused on the lack of proper leadership change or the lack of urgent domestic needs in explaining why the KWP regime in North Korea did not or could not launch a bold and comprehensive reform

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<sup>140</sup> Sang-don Jeong, "Daejung Undong," 195-198. For more comparative studies with other socialist countries, Gil-jae Ryu, "Chollima Undong gwa Sahoejuui Gyeongje Geonseol: 'Stakhanovite' Undong Mit Daeyakjin Undong gwau Bigyo reul Jungsimuro [The Chollima Movement and Socialist Economic Construction: Comparing the Stakhanovite Movement and the Great Leap Forward]," in *Bukhan Sahoejuui Geonseol ui Jeongchi Gyeongje* [Political Economy of North Korean Socialist Construction], Choi Chung-ho et al. (Institute for Far Eastern Studies, Kyungnam University, 1993), 43-79.

<sup>141</sup> Three laws were enacted to provide legal infrastructure for the joint ventures: the Law on Foreigners' Investment, the Law on Contractual Joint Ventures, and the Law on Foreign Enterprises. In Rajin-Sonbong area, firms were 100% owned by foreign investors and the tax rates were reduced. South Koreans also could invest. One of the caveats was that the hiring process must be done through the North Korean authorities.

and opening. To complement the combination of the conditions of leadership change and domestic needs to constitute a sufficient condition enabling economic reform decisions, one more condition should be added from the other spectrum of the domestic needs. In addition to these two conditions, the interaction with the external factors should be discussed as the third condition towards reform decisions.

Information about the outside world was asymmetrically concentrated to the top leaders in the socialist political mechanism based on a top-down hierarchy. This was basically the same in China and North Korea. The power of Deng Xiaoping in the matters relating to foreign affairs was undisputed throughout the reform era even though he had “retired” from all official positions.<sup>142</sup> Once the top leaders established their power, they had all the information since often they were the sole contact point with the outside world. This increased the impact of external factors in their calculations. Any international issue that they perceived to be important would capture their attention and influence their decisions regarding domestic policies.<sup>143</sup> Since the degree of power centralization was even stronger in North Korea in addition to the monopolization of domestic and international information, the influence of external factors on the leaders’ decisions might have been greater in North Korea than it was in China.

### **(1) External Factors Only as Anecdotes in Previous Studies**

Compared to the two previous conditions of the reform-oriented leadership change and the urgent domestic needs, the interaction with external factors have not been received as much attention. There have not been many studies that solely focus on the influence of external factors on Chinese reform and opening. External factors such as foreign economic relations or the security environments had only been mentioned as background elements or supplementary elements in the process of reform. In North Korea studies, the impact of security relations have been addressed

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<sup>142</sup> Dittmer and Wu, “Leadership Coalitions and Economic Transformation in Reform China,” 49-80.

<sup>143</sup> Lieberthal and Oksenberg, *Policy Making in China*, 30-31.

in a broad manner as a key factor of political consideration of reform decisions but rarely with detailed analysis on the linkages or interactions with the actual policy changes.

Among many explanations on Chinese reform and opening process, some recent studies have begun to emphasize the role of external factors, both economic and security relations-wise. Some recent economic studies are starting to put increasingly more emphasis on the role of foreign economic relations, mainly after the initiation of reform and opening in China. Moore (2002) has shifted the focus to international economic actors, such as multinational corporations, foreign governments, and international organizations.<sup>144</sup> Moore and Yang (2001) recognized the role of these economic actors in providing learning experience and facilitating countries to swiftly become engaged with the world economy. When the Chinese leadership allowed these economic actors to do business in China, their activities themselves, in turn, changed the perceptions of the leaders and the general population, and these interactions prompted the leaders to pursue even more policy changes to allow the expansion of a market-oriented economy.<sup>145</sup> The influence of these economic actors was much more effective once the reform was launched, allowing some spaces for economic activities.

There were some economic relations that existed before 1978. Lardy (1992) points out that international trade was a factor that pushed China toward reform and opening. Although it was strictly controlled by the state, China's foreign trade showed continuous growth from the early 1970s and received increasing support of official government policies. The expansion of trade was closely linked with the improving

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<sup>144</sup> Thomas G. Moore, *China in the World Market: Chinese Industry and International Sources of Reform in the Post-Mao Era* (Cambridge University Press, 2002), 35-40.

<sup>145</sup> Moore and Yang (2002) list various kinds of economic actors, from person-to-person contacts to multilateral economic institutions (MEIs), foreign governments, multinational corporations (MNCs), etc. All of these actors influenced the leadership's perceptions before and after the reform and ultimately led the reform process "grow out of plan." Original idea of the leaders was to limit the use of market elements to supplement the plan with only partial opening for modern technology and management skills. But the reform stimulated the reform process itself, and the economy started to undergo rapid transform, which the leaders never intended. Moore and Yang, "Empowered and Restrained," 191-198.

relations with the capitalist West. The Nixon visit in 1972 and the end of the U.S. trade embargo helped China to expand its trade relations. Geopolitical considerations influenced these changes even though there was no domestic consensus that denounced the policy of self-reliance.<sup>146</sup> Before the actual reform and opening of the country, however, these activities of trade and cooperation were closely linked with and thus limited by political considerations. It was after a certain tangible progress of the reform and opening was made that trade, investment, and finance began to have much stronger impact in China and was hindered with less and less restrictions.<sup>147</sup>

Before the launch of the reform and opening, the security considerations were still acted as decisive factors for the decision to reform. Harding (1987) points out that Deng and the leaders considered the increasing gap of technology and economic capacity between China and others as a serious security concern in the region. They recognized the sharp contrast between China's level of economic growth and that of the East Asian NICs in the 1970s. Without drastic measures, the gaps were expected to widen over time. They also had knowledge of the experiments of economic reform undertaken in Eastern Europe since the 1960s, and contemplated the possibility of a more radical reform in their country.<sup>148</sup>

Some studies have taken a renewed look at the security factor as a major issue

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<sup>146</sup> Nicholas R. Lardy, *Foreign Trade and Economic Reform in China, 1978-1990* (New York: Cambridge University Press, 1992), 3-11.

<sup>147</sup> Recently many analyses on the international factors and their influences have been published. They mainly deal with economic or social factors. Margaret M. Pearson, *China's New Business Elite: the Political Consequences of Economic Reform* (University of California Press, 1997); Scott Howard Wilson, *Remade in China: Foreign Investors and Institutional Change in China* (Oxford and New York: Oxford University Press, 2009); Tom Christensen, Dong Lisheng and Martin Painter, "Administrative Reform in China's Central Government: How Much 'Learning from the West'?" *International Review of Administrative Sciences* 74, no. 3 (2008): 351-371; Justin Yifu Lin, "The China Miracle: How OECD Country Policies Contributed?" Paper prepared for the Conference 'The Impact and Coherence of OECD Country Policies on Asian Developing Economies,' held at Paris on June 10-11, 2004.

<sup>148</sup> Harding listed these outside examples as pressures than learning effects. The comparison with the Asian NICs was humiliating to China which traditionally regarded itself as the leader of Asia. The economic reforms in Eastern Europe and the Soviet Union led Chinese scholars and intellectuals to stress the feasibility of reform in China. They argued that they had a much more independent environment and had no cause for worry about reaction from others. Harry Harding, *China's Second Revolution: Reform after Mao* (Washington D.C.: The Brookings Institution, 1987), 38-39.

in the strategic thinking of the leadership, including that of Deng Xiaoping, when they initially decided that they would pursue reform and opening. Peng (1998) explains that Deng and the new leaders had clearly different opinion from Mao Zedong's concept of the revolutionary war, and sought global and regional stability to pursue economic modernization and development. Deng reassessed the international situation and concluded that there was no threat of an imminent global or regional war.<sup>149</sup> Yang (2008) also talks about how Deng had understood the security environment to be inclined towards peace than a world war and that this understanding had been in place for a considerable period of time.<sup>150</sup> Unless the leadership believed that the international environment would provide a certain level of peace and stability, it would not be possible for them to pursue the reform and opening policies shifting focus from the military to the economic sphere.

International relations provided both threats and opportunities. The Soviet Union posed the biggest threat at the end of 1960s in the form of border conflicts, but the deteriorating relations with the Soviet Union, in turn, provided China with the opportunity to improve the relationship with the United States. This resulted in the Sino-U.S. rapprochement of 1972. Chinese leaders officially concluded that both superpowers would not pose grave threats to China for the time being. They also believed that the U.S., Japan, and other capitalist countries to be willing to cooperate in China's economic modernization process. The Chinese communities overseas also offered to play a bridging role in the cooperation process.<sup>151</sup> In close interaction with the leaders' preferences and their concern on domestic conditions, the external factors provided either threats or opportunities and became another necessary condition for the decision of reform and opening.

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<sup>149</sup> Guangqian Peng, "Deng Xiaoping's Strategic Thought," in *Chinese View of Future Warfare*, ed. Michael Pillsbury (Washington D.C.: National Defense University Press, 1998), 4-5.

<sup>150</sup> Jiemian Yang, "China's Diplomatic Achievements and Theoretical Breakthrough during Three Decades' Reform and Opening-up," *China International Studies* 13 (2008): 20-21.

<sup>151</sup> Harding, *China's Second Revolution*, 39.

*Unexplained external condition in the case of North Korea*

The literature on North Korean economic reform frequently mentions the importance of external factors, especially its security relations with South Korea, the United States, or the socialist bloc, but does it in a way that is too brief and intuitive without positing detailed explanations on their influences on the progress or retreat of pro-reform policies.<sup>152</sup> External environment and relations were usually regarded as main sources of foreign policies but not as sources of domestic economic policies like reform measures.<sup>153</sup> Compared to the influence of the leadership succession issue or the ideological control at the domestic level, external factors were regarded as elements that exercised merely indirect influence on the policy decisions.

Still, the external influences from economic and security relations could not be ignored in the analyses on North Korea's policy changes and its continuing economic reform failures. The impact of international economic relations had been discussed regarding their gradually increasing influences through indirect learning effects and the pressures from trade relations. In spite of the dearth in statistics and firsthand materials, there are some studies on the North Korean economic measures and relations, focusing on their limits due to the leadership's priorities on political aspects

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<sup>152</sup> Kim (2001) briefly mentions the external security relations as major conditions for reform and opening in North Korea in the conclusion part of his analysis. Yeon-chul Kim, *Bukhan ui Saneophwa wa Gyeongje Jeongchaek*, 401-415. Other studies on the North Korean economic development and reform all briefly discuss the political and external factors as decisive ones for the future of North Korea. Kwang-su Kim and Man-su Park, *Bukhan Gyeongje [The North Korean Economy]* (Soongsil University Press, 1994), 302-305; Soo-young Choi, *Bukhan ui Daeoe Gyeongje Gaebang Jeongchaek Hyeonhwang gwa Jeonmang [North Korea's International Economic Opening Policies: Current Situation and Prospects]* (Korea Institute for National Unification, 1994), 92; Marcus Noland, "The External Economic Relations of the DPRK and Prospects for Reform," in *North Korean Foreign Relations in the Post-Cold War Era*, ed. Samuel S. Kim (Oxford University Press, 1998), 204-205. Ham (1995) explains the political and military external factors had been one of the causes of North Korean economic difficulties in the 1990s. Taeg-yeong Ham, "Bukhan Gyeongje ui Chimche wa Daeogwangye: Jeongchi, Gunsajeok Cheukmyeon [The Recession of North Korean Economy and the Foreign Relations: the Political and Military Aspects]," in *Bukhan Sahoejuui Gyeongjeui Chimchewa Daeung [The Recession of North Korean Socialist Economy and the Policy Alternatives]*, Eui-gak Hwang et al. (Institute for Far Eastern Studies, Kyungnam University, 1995), 97-135.

<sup>153</sup> Many studies on foreign policies had dealt with the threat perceptions toward external factors to be the main causes for policies. Samuel S. Kim, ed., *North Korean Foreign Relations in the Post-Cold War Era*; Hazel Smith, Chris Rhodes, Diana Pritchard, and Kevin Magill, eds., *North Korea in the New World Order* (Macmillan Press Ltd., 1996).

to maintain regime security.<sup>154</sup> Without a genuine will for “opening” in the economic relations, the economic setback and deterioration only became the theme that was used to support North Korean leaders’ repetitive mobilization and control.

There were a series of limited pro-reform attempts in North Korea during the Cold War era, mainly the 1984 Equity Joint Venture Law. Lee (1988) assesses the characteristics and limitations of these attempts through the case of North Korea International Joint Venture General Company established in 1986. He focuses on the economic cooperation between the North Korean government and the Jochongnyeon (Chongryon, the General Association of Korean Residents in Japan with pro-North Korea tendencies). This short-lived economic opening was quite impressive considering the ever-strong Juche idea North Korea retained.<sup>155</sup> Many hoped that these measures would develop into a comprehensive reform and opening as they had in the Chinese case, but there was no sign of meaningful development afterwards. Kim (1993) sought to link this disappointing result of partial reform experience with a relatively more upgraded measure including the Rajin-Sonbong FETZ in 1992. There was a powerful external factor, the end of the Cold War, which had severely negative impact on North Korea. Once again there were hopes for more reform policies 1992 but his fear that the North might lose this opportunity to sink beyond the point of no return, materialized instead.<sup>156</sup>

The international security factors have often been mentioned as having had decisive impacts on the economic policies, which were fundamentally political decisions. Kim (1989) explains the history of North Korean development policies,

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<sup>154</sup> Many scholars mention the limit of economic reform as its fall to being exploited for domestic mobilizations and being utilized for regime stability and succession. Ho-Yeol P. Yoo, “90 nyeondaek Bukhan Gyeongje Jeongchaek Pyeongga wa Jeongchi Jidoryeok ui Yeokhal: Gyeongje Chimche Yoin gwa Gaehyeok ui Ganeungseong gwa Guallyeonghayeo [The North Korean Economy and its Political Leadership: Problems and Future Prospects in 1990s],” *Tongil Yeongu Nonchong [Journal of Unification Studies]* 1(1992): 25-53; John Merrill, “North Korea in 1992: Steering Away from the Shoals,” *Asian Survey* 33, no. 1 (1993) A Survey of Asia in 1992 Part I: 43-53.

<sup>155</sup> Lee sees this limited opening as a reflection of the acute need for foreign capital and technology. Hy-Sang Lee, “North Korea’s Closed Economy: the Hidden Opening,” *Asian Survey* 28, no. 12 (1988): 1264-1279.

<sup>156</sup> Sung-woo Kim, “Recent Economic Policies of North Korea: Analysis and Recommendations,” *Asian Survey* 33, no. 9 (1993): 864-878.

taking note of the continued difficulties, and lists external political and security factors as major constraints for reform. Though he does stop at simply indicating some of the issues without venturing onto further analyses, he does suggest that the competition with South Korea and the teetering relations with China and the Soviet Union may have been the main constraints of economic reform in North Korea.<sup>157</sup> In an analysis of the origins of Kim Il Sung's personality cult, Lee (1995) lays out several external factors which facilitated the establishment of the personal dictatorship.<sup>158</sup> First was the learning experience of Stalin and Mao, who remained powerful and maintained their personality cult until the moment of death. This influenced the KWP's decision to create and promote Kim Il Sung's personality cult. Secondly, the Sino-Soviet split and the division within the socialist bloc provided Kim Il Sung an opportunity to strengthen his power and Juche ideology. The third factor was the division of the Korean Peninsula which provided unending justification for the leadership to mobilize and militarize the people.<sup>159</sup>

Among more recent studies, Cho (2006) briefly touches upon international relations in the Cold War era with a narrower focus on the interaction of external factors and economic policy changes. In his analyses, the détente of the early 1970s gave North Korea an opportunity to expand its diplomatic relations for cooperation and trade with the outside world. The dwindling of aid from socialist bloc was another external factor that pushed North Korea to become engaged with the West. North Korea tried to receive foreign capital and technology, but the oil shock and the

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<sup>157</sup> Dong-won Kim, "Bukhan ui Gyeongje Gaebal Jeongchaek ui Seonggyeok gwa Gyeongje Gaehyeok Jeonmang [The Characteristics of North Korean Economic Development Policies and the Prospects of Economic Reform]," *Asia Yeongu [The Journal of Asiatic Studies]* 32, no. 1 (1989): 109-145.

<sup>158</sup> Jong-seok Lee, *Joseon Rodongdang Yeongu*, 139-140.

<sup>159</sup> In his explanation on the succession issue, Jong-seok Lee provided another set of external factors from Chinese experience from 1966 to 1978, which gave North Korea series of learning effects to prepare its succession. The CCP designated Lin Biao as the successor of Mao Zedong during the Cultural Revolution, and officially documented this decision in their party constitution. The rise of Kim Jong Il started in KWP in this period. But in 1971, Lin Biao was purged and died, which alarmed North Korea how serious and dangerous the succession issue was, and facilitated the family succession to be justified for its safety. Moreover, China designated another successor in 1973, Wang Hong-wen who was in his thirties at the time. This also helped justify Kim Jong Il, also in his early thirties, to be recognized as the successor with less resistance. *Ibid.*, 332-334.

international price changes negatively influenced its economy.<sup>160</sup> North Korea attempted limited economic opening toward the outside world based on their interpretation of the détente, but external factors like the oil shock hampered their new approach. Without fundamental changes of the main security factors such as the threat from South Korea and the U.S., North Korean reform decisions would not be possible as it had been in China or the perestroika in the Soviet Union.

## **(2) Searching for Alternative Explanations**

The influence of the external factors had been relatively underestimated than other conditions of leadership change and the domestic needs. The explanations on have been mostly anecdotal without theoretical analyses. For a more balanced explanation on the conditions for reform decisions, theoretical analyses on the external factors are needed, particularly on the influence of security environment. The importance of international security relations such as the détente or the improved relations with the United States have been mentioned in a general manner, but the actual role of these influences have not been analyzed as much. The interactions of these external factors and the leadership also needed to be analyzed in order to explain the initiation of reform. With the leadership preference and the domestic needs, the external factors should be also counted as essential condition of the reform decisions.

Before the actual initiation of reform and opening, the influence of security and political considerations remained much stronger than the economic considerations. The influence of international economic or social relations was not powerful enough to change the policy directions unless the top leaders made the political decision to launch a comprehensive reform and opening. It was after the initial stage of reform and opening in China when the influence of economic, social, and cultural relations remarkably increased. These socio-economic exchanges accelerated economic reform

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<sup>160</sup> Young-kuk Cho, *Talnaengjeongi Bukhan ui Gaehyeok Gaebang Seonggyeok e Gwanhan Yeongu*, 55-96.

and opening progress to be quicker and wider than was seen in China during the 1980s and the 1990s.

It was generally accepted that economic policy decisions had subordinated to political logic under the classical socialist system. As long as North Korea retained classical socialism, economic policies were overwhelmed by political consideration. Kornai (1992) recognized the importance of security relations, which had made many socialist countries inclined to become self-reliant. Economic relations between the socialist countries followed the principle of revolutionary solidarity and mutual assistance, and were subordinated to the political and military purposes than economic interests. China and North Korea also shared the basic threat perception that they were surrounded by capitalist enemies and the leaders used this “siege mentality” as a political tool to prevent domestic challenges and justify their repressive measures.<sup>161</sup> In order for the reform and opening to take place, there should be less external threats both in rhetoric and in practice.

Economic issues subordinated particularly to military concerns during the Cold War era. For the initiation of economic reform and opening, various external factors were needed to redirect security considerations first. Throughout the Cold War era, socialist countries had to deal with the security and political issues as the top priority, which were superpower relations, regional tensions, and conflicts within the socialist bloc. Reform decisions required a stable international environment to preserve political stability for continued Party rule. The leaders had to build peaceful and stable relations not only with the socialist and the Third World countries but also with capitalist countries.<sup>162</sup> Even the learning experience of the East Asian NICs proved to become security concerns since the rapidly growing gap between the socialist countries and the East Asian countries could plant the seeds of dangers to the regime in the future.

Each external factor had a different effect on each country according to their

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<sup>161</sup> Kornai, *The Socialist System*, 339-341.

<sup>162</sup> Goodman, “Communism in East Asia,” 5-6.

situational contexts and strategic positions. Goodman (1988) posited a few examples. First, the relationship with the Soviet Union had been one of the most important external security factors to the socialist countries but its effects on Mongolia and Vietnam turned out radically different from those on China. Second, the technological development of South Korea became a very different external factor to North Korea and China. The North Korean leaders' perception toward South Korea could not be without political concerns. Technology transfer from South Korea was interpreted to be another learning experience for China, but for North Korea it was a defeat.<sup>163</sup> This tendency was prominent in North Korea as the leadership frequently made use of the security-oriented ideological rhetoric to prepare for the coming war and to foster domestic unity and loyalty to the regime.

The leadership incorporates their interpretations of the external factors in their domestic policy decisions. The political and economic decisions were not clearly separated. The leaders interpreted political and security factors and applied political logic to economic policies. When the North-South relationship deteriorated, the North Korean leadership changed not only their military policies but also domestic economic policies to render them more hostile towards South Korea in tandem. This resulted in the pursuit of more military preparations and less economic cooperation. The external factors rising from security and political relations continuously put limits on the leaders' choices of the economic policies.

*Interactions with the leadership for reform from above*

As an additional necessary condition for the reform decision, the external factors interact with other conditions, mainly the leadership via the leaders' interpretations of the influence of external security factors. When reform-oriented leaders recognize urgent domestic needs for political legitimacy, they use their power through the top-down bureaucratic mechanism to implement their decisions to launch reform policies. But before pursuing economic reform, the leaders had to be sure that

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<sup>163</sup> Ibid., 6.

the international relations were utilizable or safe at least, and would not pose any danger to regime security at the fundamental level. They would consider whether the external factors are supportive or threatening to their purpose of regime security in the process of economic system changes and development. Economic reform would make the country particularly vulnerable to international crisis or security threats for a certain period of time. To keep the regime secure, the leadership had to be certain about the supportive external factors which would be utilizable for the reform or at the least not threatening to regime security.

By definition, a reform never intends for fundamental change in political structure like a revolution. Both China and North Korea had already experienced a revolution when they established the socialist regime under the Communist party rule. Economic reforms under socialist leadership never intended to go through revolutionary changes again. Revolutions generally bring new political leadership to replace the existing ones and this is not the purpose of the socialist leadership which aimed to preserve their political rule along economic development.

Theories on revolution and the role of the elites provide conceptual help in understanding the role of external factors and their interactions toward top-down reforms. Skocpol (1976) presented a theory on “social revolutions,” defined as “rapid and basic transformation of institutions accompanied by class upheavals from below.” She looked at the cases of France in 1789, Russia in 1917, and China in 1911 as examples of revolution.<sup>164</sup> These revolutions were strongly influenced by the global trend of modernization, in which these countries faced competition with countries that had already modernized. The traditional leadership proved incapable of adapting to the modernizing world because they feared losing their privileged status under the system of landlord-peasantry. Revolution occurred by the combination of widespread peasant rebellions and a small group of new elites who were able to mobilize and

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<sup>164</sup> Theda Skocpol, “France, Russia, China: a Structural Analysis of Social Revolutions,” *Comparative Studies in Society and History* 18, no. 2 (1976): 175-210. She quoted Huntington’s *Political Order in Changing Societies* (1968) and Lenin’s *The Two Tactics of Social Democracy in the Democratic Revolution* (in Possony’s *The Lenin Reader*, 1966) to combine the features of social revolution.

organize them into a political movement. The external pressures from international changes provided the basic cause for revolution, and this interacted with the newly emerging elites to provide their own motive towards starting a revolution.<sup>165</sup>

Some revolutions have occurred without the major involvement of the masses. The revolutions of Meiji Japan in 1868 and Ataturk Turkey in 1919 were not “social” but “elite” revolutions. Trimberger (1978) emphasizes the role of elites in the military or the bureaucracy through a quick takeover of power. There was little mass participation, little violence, and little appeal for radical ideology but they efficiently destroyed the power of the traditional aristocracy. These top-tier elites were relatively autonomous from the established system of interests, and they were thus able to launch a radical move when the security crisis became clearly imminent. Both in Japan and in Turkey, the new leaders were nationalistically inspired by the threat of Western invasions. In both countries, the elites acted quickly to replace the incapacitated old regime.<sup>166</sup> Once they took hold of power, they initiated reforms and incrementally destroyed the aristocracy and quashed counter-revolution attempts.

These revolutions assume a fundamental change of the existing political structure, and this is not the aim of the economic reforms in socialist countries. Still, these theories provide insights for top-down economic reforms. The reform and opening is a preventive action taken by the existing party leadership and elites in socialist countries before security or economic situation becomes extremely bad to ignite a revolution from either above or below. Simply put, Chinese leaders led by Deng Xiaoping fully recognized the urgent need of rapid reform and opening to prevent another revolution. Also, they were confident that their regime would be still secure even if they pursued the reform and opening policies. The North Korean leaders around Kim Il Sung and Kim Jong Il also have recognized the need for

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<sup>165</sup> Theda Skocpol, “Introduction,” in *States and Social Revolutions: a Comparative Analysis of France, Russia, and China* (Cambridge University Press, 1979), 3-43.

<sup>166</sup> Ellen Kay Trimberger, “A Theory of Elite Revolutions,” *Studies in Comparative International Development* 7, no. 3 (1972): 191-207; *Revolution from Above: Military Bureaucrats and Development in Japan, Turkey, Egypt and Peru* (New Brunswick: Transaction Books, 1978), 1-39.

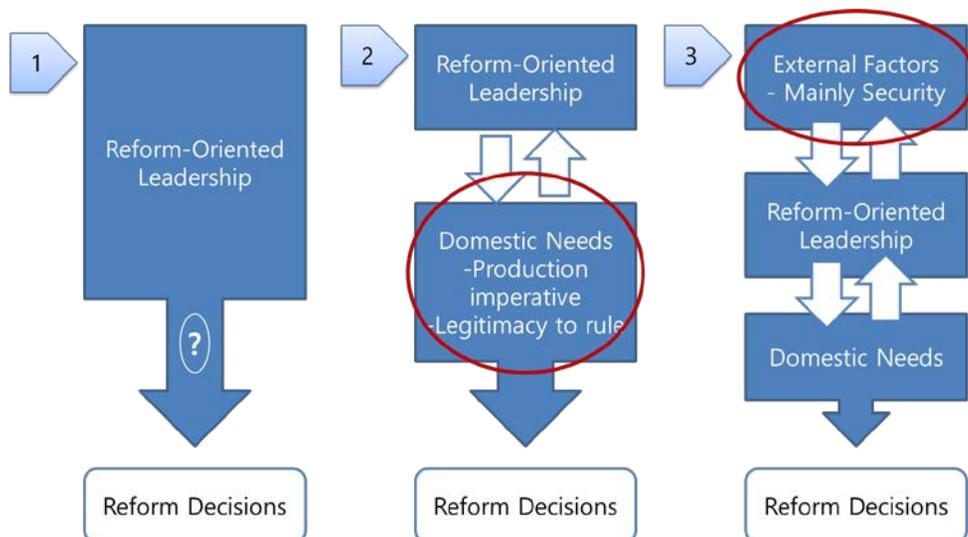
economic changes but remain too concerned about the worsening security condition to risk such dramatic changes.

If North Korea does have a reform-oriented leadership and urgent domestic needs, would that be sufficient for comprehensive reform and opening to materialize in North Korea? Even though the leaders did have reform-oriented intentions and clearly recognized the domestic need of reform, the bold and comprehensive economic reform and opening required more proactive interpretations of external factors to be confident in their regime security. In interpreting the influences from various external factors, the socialist leadership tended to count more on the security factors in calculating regime safety. For a more thorough and balanced understanding, it is necessary to investigate the influences of the security environment on economic reform and opening decisions by looking at the leaders' calculations about regime security.

### III. ALTERNATIVE EXPLANATION

#### 1. A Balanced Combination of Conditions

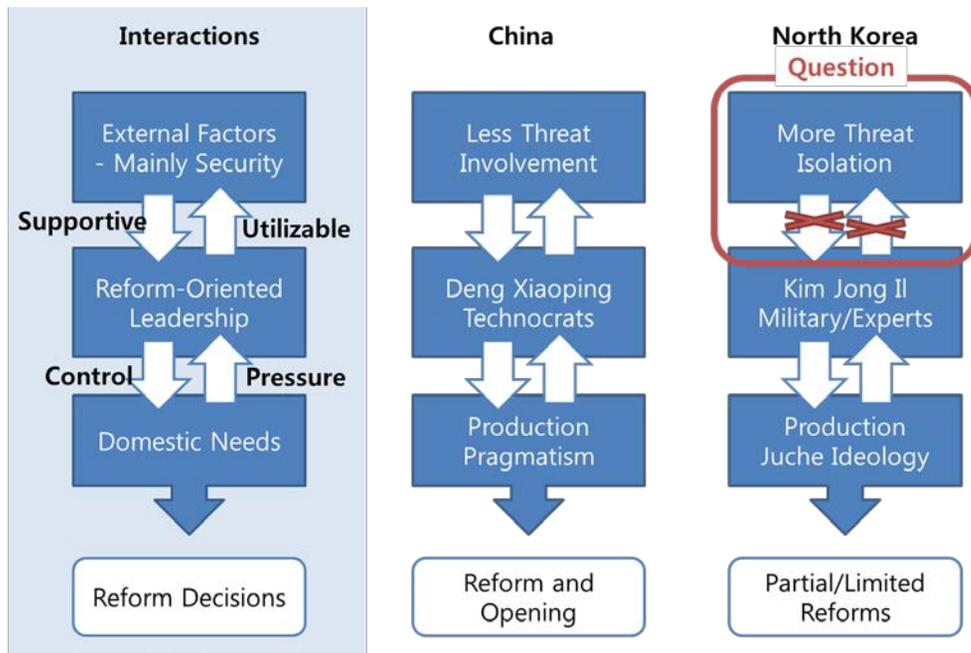
The primary goal of the socialist leadership is political regime security coupled with economic prosperity, to safely continue the rule of the Communist party. In accordance with a strict top-down mechanism of the classical socialism, reform decisions were controlled by a small group of leaders, and at times just one prime leader, both in China and North Korea. The CCP led by Deng Xiaoping fulfilled the goals of the stable Party rule and economic development through economic reform and opening. Regarding the conditions of reform decisions, the emergence of the reform-oriented leadership had been critical but other conditions of domestic needs and external factors should also be considered in a more balanced manner. After the literature review, the domestic (economic and political) needs and external factors were added to render the combination sufficient enough for reform decision, as described in Figure 1.



**Figure 1 Combination of Conditions for Reform Decisions**

The three conditions had to be combined to form a sufficient condition towards the reform decision: the emergence of a reform-oriented leadership, urgent domestic needs, and external factors (mainly security environments). Domestic needs were divided into economic and political ones, the production imperative and the legitimacy to rule. The emergence of the reform-oriented leadership provides a good opportunity for a comprehensive reform decision as was seen in China (as described in '1' in Figure 1) but such a comprehensive reform and opening requires close interactions between leadership change and urgent domestic needs (as '2'). Without urgent and strong pressure emanating from domestic needs, there would be no reason for the new leadership to launch such dramatic reform and assume so much political risk. In addition to domestic needs, another necessary condition was external factors, mainly the security environment regarding the regime security. Even if the leaders preferred to adopt reform measures to respond to urgent domestic needs and pressures, they would not launch reform and opening unless the external factors, mainly that of international security, were judged to be supportive and utilizable in preserving regime security (as '3').

A balanced approach on the reform decisions should include the interactions of this added condition with the leadership. The rise of the reform-oriented leadership would interact with the pressure from domestic needs, such as an urgent production imperative and decreasing political legitimacy of the Communist party rule. The new leadership, or sometimes the established leadership, would attempt to launch the reform while the domestic economy and politics are still controllable, before the situation got too serious. Before they decide and implement the reform policies, they should calculate the possible supports or threats rising from the external factors, particularly regarding regime security. The leadership can decide on such comprehensive reform policies like the Chinese reform and opening only when external factors turn out to have a supportive effect for regime security and utilizable for the modernization and development. These interactions between the conditions are described in Figure 2 with comparison of China and North Korea.



**Figure 2 Interactions between Conditions in China and North Korea**

In interactions between these conditions, leadership change – the succession, generation change and factional conflicts – provide a good opportunity for change in policy lines. Different succession processes create different contexts in the timing and the level of the reform possibilities but the emergence of a new leadership with somewhat practical and economy-oriented tendencies become a driving force towards the reform and opening when they interact with other conditions in the same direction. The second condition of urgent domestic needs consist of the economic production imperative and the need for legitimacy to rule. The economic and political needs promoted the emergence of a new reform-oriented leadership by placing more pressure and support for reform-minded leaders. The important point is the relative difficulties compared to their past or what their competitors have experienced. In addition to chronic economic difficulties inherent in the socialist system, both China and North Korea also had their own reasons for intensifying economic productions.

Furthermore, they had to legitimize the Communist Party's monopolistic hold of power by primarily using the official ideology customized to suit the leaders' preferences. They chose the ideological rhetoric to justify the policy decisions and these later became either a stimulus or a barrier to reform.

By adding external factors, the combination of the conditions comes to include the interactions between the international security environment and the new reform-oriented leadership. Before the actual initiation of reforms, mainly security relations, more so than economic ones, influence the leadership by putting pressure or support from outside. Particularly in the socialist countries, the leaders were reluctant to launch reform if they were not so sure about the security of their regime. The external security factors should be assessed to be supportive for the regime security, and it would be better if they turned out to be increasingly utilizable for the development and modernization without political risk.

The rest of this study will focus on the interactions of the external factors, mainly that of the security environment, which have been relatively underestimated in terms of their influence on the decisions to go forth with reforms or not. Before moving further ahead onto the focused analysis on the interactions of the external factors and the leadership, the basic arrangements of the three conditions in China and North Korea, as described in the Figure 2, will be briefly addressed.

### **(1) China: Combination Promoting Reform**

Chinese leaders clearly recognized the domestic needs of reform with the production imperative and the legitimacy to rule, and interpreted the external factors as being positive enough to launch the reform and opening, supportive and utilizable to sustain their regime. It was a preventive action of the CCP against any possible danger of political instabilities. With the confidence that the regime was secure, along the improvements in its foreign relations, the Chinese leaders implemented the reform and opening policies, grounding it on ideological rhetoric, and legitimized the CCP

rule as to support rapid development.<sup>167</sup>

*Leadership: Deng Xiaoping with the technocrats*

The death of Mao Zedong and the rise of Deng Xiaoping provided a dramatic opportunity toward the reform and opening in China. Deng defeated Hua Guofeng who was the designated successor of Mao, and implemented more pragmatic and radical measures together with reform-oriented experts and technocrats. The leadership change overlapped with the generation change from the old revolutionaries to the young technocrats to successfully satisfy the demands of modernization and development. Reform-oriented leaders of the young generation came to seize actual political power and went on to realize their idea through the vehicle of existing Party apparatus and structure. The factional conflicts over survival came to an end when Deng consolidated his power, and the policy cycle during the 1980s became when one would consider policy debates unfolding within the larger consensus framework on the need for economic development.

*Domestic needs: production and legitimization*

In the aftermath of the Cultural Revolution, the production imperative came to exert substantial pressure on the leadership. People looked towards then to tackle the urgent matter of achieving increased production and rapid development. The distress of lagged behind the others provided more incentive to pursue policy changes in order to prevent extreme difficulties which might seriously endanger the regime. The pragmatic use of the official ideology facilitated the reform and opening while keeping the political system stable. Deng and the leaders utilized the ideology to justify their grip on power and policies. To clamp down on political instabilities, Deng integrated the ideological rhetoric of Mao together with his pragmatic ideas. The pragmatic use of ideology with the principle of regime security worked to justify

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<sup>167</sup> In China's case of economic reform without political transition, the domestic political constraints were less of a problem. Roland, "The Political Economy of Transition," 29-50.

their reform policies to the Chinese people, which helped to institutionalize the reform measures. It further enabled promotion of more reform policies in the 1990s.

*External factors: less threat from the outside*

The leaders officially regarded the changing relations in the 1970s and 1980s to be increasingly favorable or at least not gravely dangerous, enough for radical economic changes. The détente and the improvement of the Sino-U.S. relations provided support to those who argued for the need to pursue the reform and opening in a cooperative environment. The United States helped China in offsetting the Soviet threats, and Taiwan was now no longer a security threat. The 1980s became even more favorable for reform and opening when system transitions took place in the socialist bloc. While they continued to block the political influences, the leaders deemed the external relations to be cooperative where more opportunities for economic expansion and growth would present itself.

**(2) North Korea: Combination Constraining Reform**

With a similar top-down socialist structure, the North Korean leaders also were capable of devising and implementing any decision through the monopolized political mechanism. North Korean leaders, too, recognized the domestic needs of production and legitimacy but their interaction with the external factors took a different path from that of the Chinese leaders. They assessed the external factors to be negative in general towards regime security. Concerned that the reform might endanger the regime, the leaders launched only partial and limited reform measures. They placed priority on political stability to protect the regime.

*Leadership: Kim Jong Il with military leaders and economic experts*

North Korea's elite politics stabilized once the factional struggles and purges came to a close in the late 1960s. By the 1970s, the factions were almost non-existent not due to a political consensus but the absolute power consolidation of Kim Il Sung.

Kim Il Sung wielded undisputed power to hand down his place to his son and Kim Jong Il indeed took over the leadership role in domestic policies from 1980. The father-to-son succession does not automatically mean that there will not be any reform. But under Kim Jong Il, the actual political power remained in the hands of the military leaders and the conservative Party officials, while pro-reform economic measures were conducted by the economic experts who belongs to the state bureaucracy. The interactions with other conditions did not redirect the North's policy preferences but caused it to further distance itself from the path of comprehensive reform and opening.

*Domestic needs: production and legitimization by Juche*

North Korea was no exception from the general pattern of economic stalemate of the socialist system, aggravated by the state of decreasing aids from the socialist bloc. The military-oriented strategy was an enormous burden to the North Korean economy. The economic hardships and the relative deterioration compared to the rapidly developing South Korea put even more pressure on the leadership. They thus needed to find safe and effective methods to increase production and pursue economic development, to prevent a further decline in the state of affairs which might threat the regime. While ideological mobilization gradually decreased in China as the reform progressed, the official ideology was becoming even more conspicuous in North Korea for the purpose of legitimizing the leadership and their policies. Later, the Juche ideology became a barrier preventing change toward a reform and opening from happening.

*External factors: more threat from the outside*

Beginning with the socialist construction with the war against South Korea and the United States, the threat perception of imminent war or invasion had served as North Korea's basic rhetoric to extract more political support and economic aids. North Korea widened its relations with non-socialist countries in the 1970s. This was

linked with the decreasing support from the socialist bloc and the increasing competition with South Korea. However, approaching the West out of practical concerns was no easy feat due to the continuing confrontation with the U.S. troops and South Korea. As North Korea remained deeply isolated, burdened with economic difficulties, the situation became worse in the 1980s when the changes in the socialist bloc erupted, prompting the end of the Cold War. The economic and political growth of South Korea was one of the major threats. Under these increasing threats in the security environment, the leaders chose to put priority on inward mobilizations rather than taking the risk of economic reform and opening.

## 2. External Factors as the Constraints of Reform

Many previous studies on North Korea have not given enough attention to the influences of external factors on their decision to adopt domestic economic reform. This study shifts the focus to external factors – international security environments – which influence the leaders’ decisions whether to launch a meaningful economic reform and opening or not. The term “external factors” hereafter primarily refers to the political and security environments in the region. The question is: **how did the external factors (security environments) become the constraints of economic reform in North Korea.** In other words, how did the North Korean leadership interact with the security environment and conclude that it was not possible for them to pursue economic reform and opening as China had in the late 1970s.

The reform and opening policies by a socialist leadership was a preventive action to maintain the existing Communist party rule. As was seen in the theories of revolutions, the cause of a revolution by a group of newly emerged elites is that they interpret the external threats as being quite urgent and thus have strong doubt about the ability of the existing leadership to effectively deal with these threats. They were “potentially autonomous from socioeconomic interests and structures.”<sup>168</sup> The

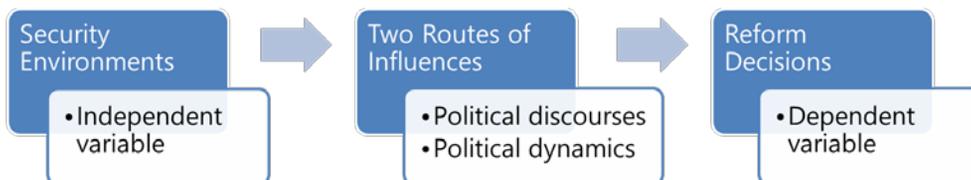
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<sup>168</sup> Skocpol, *States and Social Revolutions*, 3-43; Trimberger, “A Theory of Elite Revolutions,” 191-207.

Communist party leaders recognized the domestic needs and launched the reform policies preemptively, to prevent a real revolution from actually materializing in the future. The leaders with a firmly established footing could not be as radical as the revolutionary leaders. But in a sense, the top leaders of a socialist dictatorship were also autonomous from the system since they had absolute power over the top-down mechanism. Thus, when the leadership launched reform to maintain their rule and regime, the interpretations about the external factors were critical in this process.

There is an important difference between revolution and reform regarding the characteristics of the external factors. In the case of a reform from above, international relations should not be too threatening. Before a revolution took place, the emerging leaders perceived the external factors to be seriously threatening to the country unless they quickly transform the domestic system to adapt to the changing environment. In the process of reform in China, however, the top leaders could launch such comprehensive reform only when they perceived the international security to be relatively stable and cooperative. The leaders' political power should not diminish in the course of the reform and the overall situation should not pose danger to their regime. The more the external factors become supportive and utilizable, the bolder the reform policies. The threats, on the other hand, became constraints of the reform.

As an alternative explanation, the external factors, mainly the security environments, become independent variables in influencing the leaders' decisions about domestic pro-reform policies, as described below in Figure 3. The influences from the security environment go through the two routes of political discourse and dynamics toward reform decisions whether to go forward or stay unchanged.



**Figure 3 From Security Environments to Reform Decisions**

The security environment consisted of various international relations and security issues from the very beginning of the socialist regimes in China and North Korea. They varied by each country's historical and geopolitical contexts. The People's Republic of China (PRC) was established in 1949 and the Democratic People's Republic of Korea (DPRK) in 1948. The CCP fought against Japan and the Nationalists (Kuomintang, the KMT) and founded the PRC after the civil war. Historically speaking, the Chinese socialist regime was relatively independent from the Soviet Union from the start, while the KWP was more of an organization planted by the Soviet Union after the liberation of the Korean Peninsula from the Japanese colonial rule. The KWP leaders established their regime with the help from both the Soviet Union and China. During and after the Korean War, North Korea depended on their military and economic aids. In the 1950s and the 1960s, the security environment included the Sino-Soviet split, nuclear competition, the Vietnam War, and the consistent confrontation with the U.S. imperialists. For North Korea, domestic changes taking place in China including the Cultural Revolution were also important external factors.

The support or threat from the security environment interacted with the top leadership through two routes: political discourses and political dynamics. First, political discourses with ideological rhetoric had to change from anti-foreign struggles toward more pragmatic approaches to allow for reform decisions. The improvement of the security environment facilitated the pro-reform discourses when the top leadership actively responded in utilizing the supportive external environment to pursue economic changes and development. Second, the political dynamics among the leading group has to shift from the military (revolutionary) elites to the economic experts and technocrats who adopt more pragmatic approaches. The improvement of the security environments would make it easier for the top leaders to construct pro-reform political dynamics to push the reform policies forward. For a meaningful progress toward comprehensive reform and opening, the top leaders have to actively interact with the externally given factors to redefine the ideological slogans and

rearrange the high-level personnel to decide and promote the policies toward economic reform and opening.

The analysis on the influence of the security environment to the reform decisions should focus on these two different routes of interactions with the leadership factor. Through these processes, certain external factors were either powerful stimuli or constraints of the reform. Detailed case studies on China and North Korea dealing with their external factors and their influence will be conducted from chapter five to eight. Here, an analytical framework is needed to make sense of the processes of external factors and leadership interactions and it should be supplemented with a theoretical background explaining for the influence from the international level to the policy decisions at the domestic level. Before going into the case studies, chapter four will provide a framework on China and North Korea. It will show the configuration of the relationship between the security environment and the reform decisions through the two routes of political discourse and dynamics in the leadership of each country.

## IV. ANALYTICAL FRAMEWORK

To build an analytical framework to take a closer look at the influence of the security environment on reform decisions, the first section of this chapter will provide a brief theoretical background for the influence from international level that affects domestic policy decisions. Some political economy and international relations theories have presented influences from the international level to the domestic level to explain domestic policy changes. The definitions of the security environment and the reform decisions will be laid out in the following section which have been derived based on China's experiences. The second section will explain the two routes of political discourses and political dynamics for the purpose of linking the security environment to the decision to pursue economic reform and opening. The third section will apply the framework to examine China and North Korea in a comparative manner. A set of propositions will be provided in the last section before moving into the specific evidences.

### 1. Influences from Security Environments to Reform Decisions

External factors were one of the major conditions that the leadership considered in making a decision towards reform, but only a few studies have focused on the influence emanating from the international level down to domestic policy decisions like economic reform. External factors have been considered as important sources for foreign policy decisions, but not for domestic policies. It is necessary then to try to reverse the direction of influence to consider the international security environments as an influential source of the domestic reform policies. This is not to deny the importance of leadership change or urgent domestic needs and their influence on policy decisions. These domestic factors have been increasingly emphasized also in foreign policy studies. As domestic factors are becoming important in foreign policies, the external factors have become important to the domestic policies. Especially in the Cold War era, the international security structure and issues were hugely influential

on the strategic choices of each country in every aspect.

After briefly explaining the theoretical backgrounds to attempt a reversal of the direction of influence, the “security environments” will be defined as the major source of external factors in the regional and global contexts. The major economic measures implemented in the Chinese reform and opening experience will then be addressed to help define the “reform decisions” in the analytical framework.

### **(1) Direction Reversed: from International to Domestic Level**

There are some structural approaches in international relations that have provided the groundwork for two-way causalities. Interactions of internal and external factors in policy processes have been visualized by the idea of dividing the levels of analysis. Waltz (1979) has divided the levels of analysis in international relations to study the causes of a country’s policy decisions and behavior in international politics. He divided the levels into three – system, state, and domestic (individual) levels – and emphasized the system level structure as the main cause of foreign policy decisions of each country.<sup>169</sup> Particularly, during the Cold War, the policies were automatically limited by the system structure pre-determined by the superpowers. Waltz argued that even without the given condition of the Cold War, each country had to choose foreign policies as rational actors in anarchical international system which is largely influenced by the system level structure.<sup>170</sup>

The system structure was led by the superpowers in the 1970s and 1980s, and it was one of the major external factors that set the ground for countries to pursue their national interests through policies tailored to fit the system. However, this structural realism does not provide enough explanation when the international structure interacts within each county in formulating different policy decisions and behavior.

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<sup>169</sup> The levels of analysis first started with the individual human behavior, internal structure of each state, and the international anarchy, but later developed into the system, inter-state, and domestic levels with strategic concepts of balancing and bandwagoning in Cold War politics. Kenneth N. Waltz, *Man, the State, and War: A Theoretical Analysis*, 2<sup>nd</sup> ed. (New York: Columbia University Press, 1959); *Theory of International Politics* (Reading: Addison-Wesley, 1979).

<sup>170</sup> Waltz, *Theory of International Politics*, 79-128.

The concept of “anarchy” and “rational actors” cannot explain how and why countries like China and North Korea perceived the international environment and calculated the security threat differently. Strategic decisions of individual countries are the results of the leaders’ interpretations at the domestic level and this might not be objectively rational.<sup>171</sup>

To explain the two-way interaction between international and domestic level that occurs in the process of policy decisions, Moravcsik (1997) took liberalist approach. He depicted the policy formation process as a negotiation procedure between countries, conducted through the representatives of each country. A policy with initial purposes would be decided upon first through domestic discussions, reflecting the preferences of the leadership and other domestic actors. When the representative (the leader) goes out to the international arena, the initial policy meets various responses and faces limitations imposed by other countries or the international structure. After negotiations at the international level, the representative comes back to the domestic level to take a shot at another round of discussion, persuasion, or gauging the reactions from the domestic actors.<sup>172</sup> This process is then repeated, meaning that there is a continuous interaction between internal and external factors.

The decision and implementation of economic reform policies would take similar procedural steps. The leaders might have initially intended to launch a radical economic reform to respond to domestic demands but the policy could be blocked or faced limitations and become modified to reflect only partial changes due to the deteriorating situation of international security or world economy. When they evaluated the international relations as not being safe enough to pursue reform and opening, the leaders would come back to the domestic level, searching for other ways to deal with their economic difficulties. Putnam’s “two-level game” also shows a

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<sup>171</sup> Samuel S. Kim, ed., *North Korean Foreign Relations in the Post-Cold War Era*, 17-18.

<sup>172</sup> Andrew Moravcsik, “Taking Preferences Seriously: a Liberal Theory of International Politics,” *International Organization* 51, no. 4 (1997): 513-553.

similar process. Similar to a trade negotiation procedure, the state representative would have concerns and dilemma in between its people and the international variables.<sup>173</sup> The leadership searches for a policy decision acceptable to both the domestic and international actors. The external factors can act as constraints in deciding certain strategies.

Focusing on inbound influences, Gourevitch (1978) examined the impact of the international system on domestic policy decisions. He took the term “second image” from Waltz’s *Man, the State, and War*, which originally referred to the impact of domestic structure as the primary determinant of foreign policy. He reversed the direction of its causality, arguing that international relations can influence domestic policies. The international relations exert influence on the national leaders and domestic actors in a way that either empowers or weakens their capacity to implement policy preferences and institutional arrangements.<sup>174</sup> Particularly in terms of economic policy decisions, the international economic and political environments exercise even more influence with direct impacts that lead either to opportunities or crises. When the policy was not an ordinary economic policy but a policy that covered the broader agenda of overall economic reform, the influence of international relations would weigh much more heavily.

Switching the direction of causality leads the international relations to become the cause, and domestic policies the consequences. In Gourevitch’s analysis, the main factors originating from abroad were categorized into two: international security and international economy.<sup>175</sup> When a country faced a security threat or a political crisis, the country would react not only using its foreign policies but also its domestic policies to confront the threatening situation, demanding more loyalty from its people

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<sup>173</sup> Robert Putnam, “Diplomacy and Domestic Politics: the Logic of Two-level Games,” *International Organization* 42, no. 3 (1988): 427-460.

<sup>174</sup> Stephen D. Krasner, “Revisiting ‘The Second Image Reversed’,” Paper prepared for a conference in honor of Peter Gourevitch, University of California, San Diego, April 23-24, 2010.

<sup>175</sup> They are traditional characteristics of the international relations, the distribution of political power and the distribution of economic wealth. Peter Gourevitch, “The Second Image Reversed: the International Sources of Domestic Politics,” *International Organization* 32, no. 4 (1978): 882-883.

with higher political or military vigilance towards the threats. The international economy also works in a similar pattern, pushing the leaders to promote economic strategies toward certain direction for the sake of their interests.<sup>176</sup> The reactions may not be same due to the different capabilities and geopolitical contexts each of the countries face and so the external factors might result in different domestic policy outcomes in each country.

In his later book *Politics in Hard Times*, Gourevitch focused on the interactions at the time of international crises. When faced with international political or economic crises such as the peak of the Cold War or the oil shocks, the reactions of each country become more sensitive and resolute.<sup>177</sup> The strategic calculations and policy decisions would take those crises into account to preserve fundamental national interests. Whatever the political system is, the role of the leadership tends to be emphasized at the time of international crises. If the domestic structure of the country is not a democracy, like China and North Korea, the impact of the external factors might be stronger.

Regarding economic reform, the external crises provide more constraints than stimuli. International threats or crises shift the focus of the leadership to keep political stability and safety by not choosing any risk-taking policies. The more the external crises turn out to be urgent and serious, the more the political power would be concentrated on the top leadership in a protective manner. Even in countries with liberal democracy, political power would be temporarily concentrated on the top leader to maintain stability both politically and economically. In the socialist system, the authority of the top leadership would be emphasized much more easily for the sake of expediting efficient responses against external threats.<sup>178</sup> The influences of

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<sup>176</sup> Gourevitch, "The Second Image Reversed," 896.

<sup>177</sup> Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca and London: Cornell University Press, 1986), 17-22.

<sup>178</sup> Crises provide the dictators or authoritarian leaders a more desirable condition to maintain their monopoly of power. Gourevitch, "The Second Image Reversed," 899-900. Here Gourevitch cited the argument of American isolationists at the time who argued the "foreign entanglements" would threaten American democracy by giving more power to the president, from Stanley Hoffmann, *Primacy of*

external constraints on domestic policy changes would be thus more visible at times of crisis. A crisis is not limited to only the actualized international threats but also the perceived ones created by the subjective interpretation of the leadership. If the North Korean leaders interpret the security issues to be more severely threatening than they actually were, those security concerns would also prevent initiatives for reform as the strong external constraints.

## **(2) Definitions of “Security Environments” and “Reform Decisions”**

Focusing on the influences of the security environments, a short explanation on the components of these security environments is needed before discussing the routes of interactions with the leadership.<sup>179</sup> All of these are closely related with the concerns about their regime security. Along with the security environments, details of the reform decisions will be also explained in the context of the Chinese experience as the other end of this analytical framework.

### *“Security environments” in regional and global contexts*

Under the rule of the Communist party with a strict political hierarchy, the top leaders are the only contact point between the security environment and the domestic policy mechanism. Both China and North Korea are led by a prime leader and a small group of elites that surround him who shape the major policies and implement them through a well-organized mechanism. The security environment consists of the direct security relations including military conflicts in the regional context and indirect political recognitions or economic connections in the global context.

First, the top leaders have to make strategic choices on day-to-day security

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*World Order: American Foreign Policy since the Cold War* (New York: McGraw Hill, 1978).  
<sup>179</sup> These security-related issues have been selected from many kinds of external factors in foreign policy makings, particularly from the works on North Korean foreign policies. For example, Jae-kyu Park, “Introduction: A Basic Framework for Understanding North Korea’s Foreign Policy,” and Byung-joon Ahn, “North Korean Foreign Policy: An Overview,” in *The Foreign Relations of North Korea: New Perspectives*, eds. Jae-kyu Park, Byung-chul Koh, and Tae-Hwan Kwak (Seoul: Kyungnam University Press, 1987), 3-14 and 15-38.

issues, including their position between the superpowers in the Cold War context, conflicts and tensions with neighboring countries in East Asia, and consistent threats from competing regime in South Korea and Taiwan. The geopolitical location in the Cold War context and the bilateral relations with neighboring countries provide both structural and issue-based security inputs. Northeast Asia has been one of most confrontational battlefield during the Cold War era, having allies of the United States and Soviet Union facing each other on the Korean Peninsula, Vietnam, and the Taiwan Strait. The Sino-Soviet split from the 1950s induced China and North Korea to become relatively more independent from the Soviet Union, developing their own strategies to maintain independence and self-reliance. The relations with the United States provided a favorable opportunity for China, but in case of North Korea, it was the opposite. In the 1970s and 1980s, the economic development of other Asian countries including Japan, South Korea, Taiwan, and Singapore provided both learning effects and the sense of threats.

Second, the leaders pursued to expand the international accessibility for the country's political recognition and economic connections which were critical elements for the regime security as a normal state. The leaders of both China and North Korea sought to expand diplomatic relations and conclude more economic agreements with the capitalist West and the Third World to gain political and economic support for their regime. Economically speaking, trade relations with the capitalist West became important for capital and technology. The economic sanctions had to be removed and more economic assistance was needed from the international financial institutions. But the economic connections also had the effect of putting strong constraints when they turned into undesirable pressure like foreign debts or excessive interventions. In a political sense, it was important to become involved in the international society as a regular member by expanding diplomatic relations and memberships in international organizations. As divided nations, regime competition became one of major tasks of the leadership. For China, it was the competition with the Republic of China (ROC) in Taiwan and for North Korea, with the Republic of

Korea (ROK) in the South. It was important considering the prospects for future unification to gain more political recognition and support from international society. The relations with the Third World countries expanded rapidly in the 1970s for this purpose and many of these countries were African and Latin American countries.

These external factors can be serious constraints of reform depending on how the top leaders respond to their influences, using domestic political discourses and dynamics. For the safety and stability of the political regime, the interaction between these security environments and the leadership should be compatible with and generally supportive of the regime. When Chinese leaders decided to launch the reform and opening policy in the late 1970s, the external factors were interpreted to be relatively supportive and cooperative for the regime. But the North Korean leaders appear to have interpreted that the factors to have more risks and constraints and thus have chosen a more strict way of self-reliance which limited the effects of the partial reform measures in the 1980s and the 2000s.

*“Reform decisions” from the Chinese experience*

The reform policies were basically domestic policies targeting economic modernization and development, formulated as a result of the changing political discourses and dynamics in the leadership. The influences from the security environment were reflected in the process toward such policy decisions. Once they were initiated, the economic reform policies interacted repeatedly with the external factors to create further changes in economic system throughout the reform era. Three major economic measures can be inferred from the Chinese experiences to define the meaning of the reform decision for the analytical framework: i) rebalancing and readjustments of the industrial policies (reorientation); ii) institutional changes such as increased autonomy and competition (liberalization); and iii) entry of non-state and foreign economic actors (opening).

The first major reform-oriented economic measure was “reorientation,” the shift of the industrial strategic focus from heavy to light industry. It was the initial

measure taken in China from 1978 which changed the direction of its industrial development. The government reduced the heavy industry investment and shifted resources to the agriculture and light industry for food and consumer goods. It was intended to readjust the economic balance and fix the problems from Hua Guofeng's ambitious plans of the rehabilitation of conventional heavy industries. The reorientation of the industrial focus was decided and implemented quickly between July 1978 and July 1979, and became the basic concept of the economic reform policies until 1984, under which many reform measures in the state sector and rural economy were promoted and institutionalized.<sup>180</sup>

The reorientation was officially presented at the Third Plenum in 1978, when Chen Yun took over the responsibility to deal with the problems that arose from Hua Guofeng's Ten Year Plan. Chen Yun and Li Xiannian initiated the "readjustment" policies for the reorientation of economic development path. Leaving the matter of institutional reforms untouched, the Third Plenum made decisions to redirect the financial and material resources into the agriculture and production of consumer goods. Since China was experiencing a serious energy crisis, the industrial structure had to be rearranged anyway to focus more on labor-intensive and energy-frugal light industries. The rapid expansion of the labor-intensive manufacture and service sector also helped China to deal with the employment problem both in rural and urban area.<sup>181</sup>

Zhao Ziyang (2009) also recalled the inevitable reorientation and readjustment of the Chinese economy at the initial stage of the reform. Although there was an immediate need for economic growth, the reform-oriented leaders agreed to "temporarily scale back infrastructure construction and reduce the pace of economic development" which was insisted by Chen Yun and the moderates. The period of readjustments extended into 1981, and the economic growth rate started to rise with growing agricultural production and market expansion. Zhao recalled that the leaders

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<sup>180</sup> Naughton, *Growing Out of the Plan*, 59-60.

<sup>181</sup> *Ibid.*, 74-80.

were able to keep the economy growing by “scaling back infrastructure projects and reducing heavy industry,” and by “expanding light industries such as consumer products and textiles while allowing and encouraging private business.”<sup>182</sup> This reorientation of industrial focus not only helped to balance the government budget, but also directly improved urban living standards.

The second major reform measure was the institutional “liberalization” of economic system, referring to the economic institutionalization of autonomy and market-oriented elements. It was a rather familiar concept already seen in other socialist reforms – expanding enterprise autonomy and combining plan and market. Along with the remarkable reform achievements in the rural area, urban reform was also initiated with the expansion of enterprise autonomy. This measure was implemented through the urban SOEs, allowing profit retention for the officials and elites in those enterprises. Enterprises could retain their profit by varied rates, give bonuses for employees, and increase their own investment. The leaders tried to rationalize the financial system, promote consumption and the quality of life, decentralize investment, and reform the management system to give more authority and responsibility to the managers.<sup>183</sup>

“Combining plan and market” has long been Chen Yun’s argument since the late 1950s in the aftermath of the Great Leap Forward, to allow limited market elements in the planned economy. Chen Yun still supported central planning, but the dual-track approach and the market-oriented elements drove China into more changes in the 1980s. These rapid changes soon became concern of the conservatives but the radical reformers led by Zhao Ziyang and Hu Yaobang with the support of Deng

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<sup>182</sup> Zhao Ziyang, *Prisoner of the State: the Secret Journal of Zhao Ziyang* (New York: Simon & Shuster Paperbacks, 2009), 98-99.

<sup>183</sup> There already existed some market-like system from pre-reform era with the decentralized local economy in Mao’s policies, which developed quickly into small enterprises and markets. Commercial network became diversified and the industry-commerce relations shifted from plans to voluntary contracts. It was closely linked with various ownership forms emerged from markets. Naughton, *Growing Out of the Plan*, 97-136. For the potential of economic development in local economies by the Mao’s legacy, see Jean C. Oi, “The Role of the Local State in China’s Transitional Economy,” 1132-1149.

Xiaoping pushed the reform forward, putting the dual-track approach into practice. The financial rationalization by the price reform was one of their main goals but the reform continued based on the dual-track approach throughout the 1980s because of the difficulty of price reform which was accompanied by rapid inflation.<sup>184</sup> The problem of the price reform and the inflation caused increasing instabilities until the Tiananmen Incident and it demonstrated the potential danger of the reform policies since it risks giving political dissents more room for maneuver.

Zhao Ziyang acknowledged the leaders' concerns of excessive growth rate and inflation throughout the late 1980s. The Chinese economy's growth rate became extremely high and market prices rose at an even faster rate. The leadership tried to cool down the economy by tightening macroeconomic control in 1985, controlling credit and lending, and reducing infrastructure constructions. Compared to the earlier periods, the impact of the top-down decisional structure was much less direct keeping relatively tight hold only over financial policies and keeping the level of construction-related activities at 1985 levels until 1986. The inflation in 1988 had risen to a much more serious level and it ignited many demonstrations and protests which culminated in the Tiananmen Incident. Zhao later recalled and commented that the government measures were inappropriate toward the price reform because they were "not in line with the gradual reform strategy but relied on large scale government-administered price adjustments" as they had in old days.<sup>185</sup> By the late 1980s, the planning and administrative methods could no longer effectively fix the problems in the economy. This meant that the degree of mobilization and control over the society was not as

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<sup>184</sup> Hu and Zhao used the concept of "rationalization" to forge political consensus with the conservatives, and conceptually divide the plan and market sphere with sharp inclination toward the market. The dual-track price system recognized both the contractual relations with state enterprises and the market price outside the plan. Naughton, *Growing Out of the Plan*, 173-199. Zhao Ziyang explained the dual-track (two-track) price system as, "since the Third Plenum of the 12th Central Committee, our strategy for pricing reform had combined readjustments with a relaxation of controls. Some prices were adjusted by the government in a top-down fashion, while others were allowed to adjust according to market forces. The same commodity whose price was set by the government within the planned sector's quota might then be sold in the market at an open price. This was the two-track pricing system. The intent was to respond to the market and gradually relax price controls, to let the market take over." Zhao Ziyang, *Prisoner of the State*, 130.

<sup>185</sup> Zhao Ziyang, *Prisoner of the State*, 127-130.

strong as before.

In relation to the institutional changes, the third measure of the reform was the “opening” which is basically allowing new economic actors to enter into the economy. Along with the growth of the non-state sectors, many new actors were allowed to seek profit in China including private enterprises, international firms and individual investors. In the rural area, a large number of new producers, many in the transitional form of the TVEs appeared as a new source of entrepreneurship. The achievements of the new non-state actors proved to be quite successful by 1984. The leaders continuously promoted non-state economic activities to implement even more reform in the urban area as well. The growth rate of the non-state sector was faster than the leaders had expected, and their impact was thus much greater than anticipated.<sup>186</sup> Along with the expansion of the non-state sector, the contact points with the outside world became diversified and expanded with the flow of information which enables even more progresses.

The opening of the SEZs from 1979 initiated rapid increase of FDI inflow which became the main sources of advanced technology and management skills. The leaders expanded the SEZs and FDI inflow along the coastal area and later to other provinces. The opening to the outside world was intended to keep up with the advanced economies, but there was always the concern of excessive contacts with the capitalist actors, learning not only technical tools but also their political concepts and culture. From the early 1980s, the conservatives consistently emphasized the danger of such opening to the world economy. Chen Yun admitted that SEZs were necessary for experimentation but emphasized the negative impacts and opposed expanding them. Deng Xiaoping supported large-scale FDIs for more effective development but Chen Yun suspected foreign capitalists to seek only their own profits.<sup>187</sup> The

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<sup>186</sup> The rapid entry of new businesses created a transitional economic environment, in which state and non-state sectors compete together and create a more contradictory situation for the leaders in their effort to maintain control using the political tools from the past. Naughton, *Growing Out of the Plan*, 137-169.

<sup>187</sup> Zhao Ziyang, *Prisoner of the State*, 102.

economic opening implied that there would be tax reforms in the future and an eventual reform of the property rights which required the leaders to be very confident about their management capabilities and regime stability.

The economic measures of reorientation, liberalization, and opening were essential elements in making China's reform and opening as comprehensive and sustainable as it was. With successive implementations of these reform measures, Chinese reformers could push the economy in the direction of marketization until the end of the 1980s and even after the end of the Cold War. The Tiananmen Incident was a reflection of the political effect of the economic reform. In spite of such incident, the Chinese leaders managed to sustain their strict control over the system and continued the Communist party rule in the 1990s and managed to deliver more changes and developments in the economic sphere.

To achieve a Chinese type of economic modernization and development, the leadership must admit the necessity of the measures of economic reform stated above and actually implement them. Before they decide to launch the reform and opening measures, the leaders interact with influences coming from the security environments through the two routes. These will be explained below.

## 2. Two Routes of Influences

It was important to take advantage of the timing and circumstances to gain more support and benefit from the security environments in the attempt to revive its economy and promote modernization. The security environment and the reform decisions will be linked by two routes of interactions: the facilitation of pro-reform political discourses and the construction of pro-reform political dynamics. These two processes will constitute the main part of the analytical framework toward progress or retreat of the reform decisions.

### **(1) Facilitating the Pro-Reform Political Discourses**

A socialist party leadership generally has the historical memory of socialist

revolution against a capitalist regime. The East Asian socialist countries including China and North Korea had strong memories of foreign invasion or occupations as additional themes to carry out their struggle against. The leaders' historical knowledge and personal experiences of foreign invasion, exploitation, or civil war constituted their argument to uphold the persistent principle on independence and self-reliance, complemented with the obsession for political stability and national unification. However, these historical memories had to undergo a reinterpretation process to allow for initial reform measures, the reorientation of industrial focus or the opening to allow some basic form of cooperation with the foreign actors.

The historical experiences served as an endless supply of unhappy memories to provide the domestic political discourses that emphasize the need to promote political unity and loyalty among the population. Both China and Korea have the historical memory of foreign invasions, including Japanese militarism, unequal relations with the West, and the civil war. Unifying their divided nations remained as their fundamental task to resolve, combined with the ideological purposes to complete the socialist construction. These historical memories and long-term purposes constantly influenced the political discourses led by the long-time rule of revolutionary leaders and elites from the 1950s, underpinning the pursuit of struggles against the foreign powers. Although the new generation of leaders emerged in both countries, the historical concepts persisted as the background of their policies. The memories from the historical experience created the "traditional" political discourses of constant anti-imperialist struggles, strong emphasis on political stability and unity, and the heightened sensitivity and alertness regarding the issue of national unification, etc.

For the reform and opening to be considered as compatible with regime security, the political interpretations on the concepts of revolution and struggle had to be changed to become more pragmatic and economy-oriented. When they detect any favorable signs or opportunities in the security environment, the leaders must reinterpret the official political discourse to incorporate the changing circumstances, to initiate and push the policies toward the reform and opening. In this context, the

Chinese leaders redefined China's international position from the 1970s. This was already seen in the "Three World Theory" announced under Mao Zedong's name in 1974. China redefined its new position as a member of developing countries in the Third World<sup>188</sup> and stopped insisting on the need to continue the revolutionary struggle against the capitalist West. As a developing country seeking the economic development above other goals, unless there was a country that constantly threatened China's economy or political independence, China's understanding of an enemy country changed.

Unless the leadership interacts actively with the improved security environments to redefine the political discourses, the reform measures remains limited without achieving further development. Sometimes it even reverts to the old system before the reform measures can fully unfold. Deng Xiaoping pushed forward the redefinition of the historical positions to become more pragmatic, denying the possibility of a global scale war between the two blocs or the superpowers. It helped China put a stop to the Soviet-style heavy industry-oriented policies and shift the focus to the light industry and agriculture for developments. The changed political discourse sharply reduced the number of enemies that China needed to struggle against, which justified the reduction of resource flow into military buildup and thus temporarily slowing down military modernization. In accordance with the position of a developing country and a member of the Third World, it became possible and even natural to learn the development experiences from the East Asian NICs who were, without doubt, capitalists. The East Asian NICs, including South Korea to Taiwan, had started their economic development focusing on labor-intensive light industry. China could learn from their experiences. This development path was quite different from that of the Soviet model.

The expansion of the diplomatic relations enhanced the CCP leadership's

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<sup>188</sup> The categorization of groups of countries in Mao's "Three World" had been different from the generally used categorization of the three worlds by the Third World countries in the Non-Aligned Movement. But the category of the "Third World" overlapped and referred to the same newly developing, non-aligned countries.

confidence about their political status in the international community. The PRC was admitted to the United Nations as the only legitimate representative of China. Before the expansion of political recognitions and economic connections, the CCP leadership was always suspicious about the intention of foreign powers in terms of the ideological struggle or the broader picture of regime competition. Sustaining political independence and economic self-reliance was the top priority in the political discourses, that this was the case for even the reform-oriented leaders and Deng.<sup>189</sup> Despite the urgent needs for technology and skills, the contacts and exchanges should be cautiously expanded so that it does not put the nation's political unity and stability in danger. But the increased involvement in the international political organizations (and thereby replacing Taiwan) and economic institutions helped the leadership to redefine the slogans on regime competition and security and to become more reassured about the political stability in the coming future. The increased maneuver room in the international arena heightened the Chinese leaders' confidence over the opening policies and lessened their concerns about regime competition or the regime's stability.

## **(2) Constructing the Pro-Reform Political Dynamics**

The other route of interaction between the security environment and the leadership would be the competition and empowerment of elite groups with certain policy preferences. It was reflected in the changing political dynamics among the top-tier elites around the prime leader. In China and North Korea, the political dynamics of the elites were decided by the top leader or through the power struggle among themselves. When the top leader wanted to initiate reform policies based on pragmatic calculations, he would pursue his reform initiatives by putting more weight behind the economic experts' policy suggestions than the military leaders' opinions. The fact that the security environment had improved and was without any grave tension was helpful in this process.

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<sup>189</sup> Zhao Ziyang, *Prisoner of the State*, 197.

Although Chinese policy making process appeared to have become institutionalized during Deng Xiaoping's reform era, the power of the top leader remained prominent in making the final decision. The reform and development strategies were also determined according to the top leaders' interpretations and preferences for the time and circumstances. It is a well-known fact that China did not have any blueprint or guideline for the gradual reform from the start. Right after the death of Mao Zedong in 1976, Hua Guofeng initially attempted to revive the economy through the traditional socialist way of mobilization, empowering the heavy industry-related officials. But his program of economic recovery resulted in a serious foreign debt crisis. Deng Xiaoping, Chen Yun and the young generation leaders decided to reorient the focus from heavy industry to light industry, and started to experiment with reform to search for the proper way to deal with the problems. The legitimization and institutionalization of each reform measure followed after the experimentations to sustain the reform.<sup>190</sup>

Deng encouraged and provided the economic experts and technocrats led by younger generation leaders Hu Yaobang and Zhao Ziyang many opportunities. Meanwhile, he also tried to persuade or put pressure on the revolutionary leaders and the older generations to retire from the leading positions. He also temporarily held back the military buildup and modernization efforts to put priority on economic development. The improvements in the bilateral or regional security relations facilitated these rearrangements which were expected to promote the institutional liberalization in the domestic system. Without the leadership's official position in a considerably long-term stability in the geopolitical environments, the reform and opening would not have been possible due to the continuous concern about regime security. It would have been impossible to give up the top-down mobilization methods which would be employed for any urgent security situations. The increased access to the international organizations also promoted reform and opening measures. Deng and the young radical reformers could put strong drives toward more opening

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<sup>190</sup> Naughton, *Growing Out of the Plan*, 61-64.

based on their confidence about the political and economic status of China in the international society.

The institutional liberalization was essential for the economic reform to provide more material incentives. However, the flip side of the liberalization was a gradual decrease in the mobilization and control capacity of the central authority. The conservatives led by Chen Yun and the old generation leaders pointed out the increasing tendency of corruption and illegal activities as negative impacts of the increased exchanges with the outside world. The conservatives continued to express their concerns about the unintended promotion of the “negative capitalist thinking and behaviors.” These concerns created the policy cycles during the 1980s. They argued that the economic liberalization and opening could bring political instability just by accepting the liberalized thinking among the population, even if there are no direct security threats. But Deng and the radical reformers repeatedly tried to reassure them about the safety of some minor defects. Deng expressed his confidence in the potential of the Chinese economy, which was soon confirmed with the rapidly expanding economic relations with numerous countries that were seeking markets. This provided more benefits than the supposedly negative impacts which were to arise from the reform and opening.

The economic liberalization did ignite some political instability. People’s demands for political liberalization in China resulted in the Tiananmen Incident in 1989. The weakening capacity for political mobilization and control was an unavoidable consequence of the economic reform, and the radical reformers were too busy with the reform measures to take care of these domestic political developments. After 1989, the radical reformers retreated for a while to regain political and economic stability. But Deng Xiaoping and the CCP leadership did not entirely give up the established path of reform and opening. They were convinced that the security environment in the post-Cold War era would not pose a direct threat to the CCP regime and it was important not to lose the momentum of the reform and development. Deng successfully regained the grip on the domestic political dynamics

to continue the reform and opening in the 1990s without encountering any grave external threat to the regime's sustainability.

### 3. Frameworks for China and North Korea

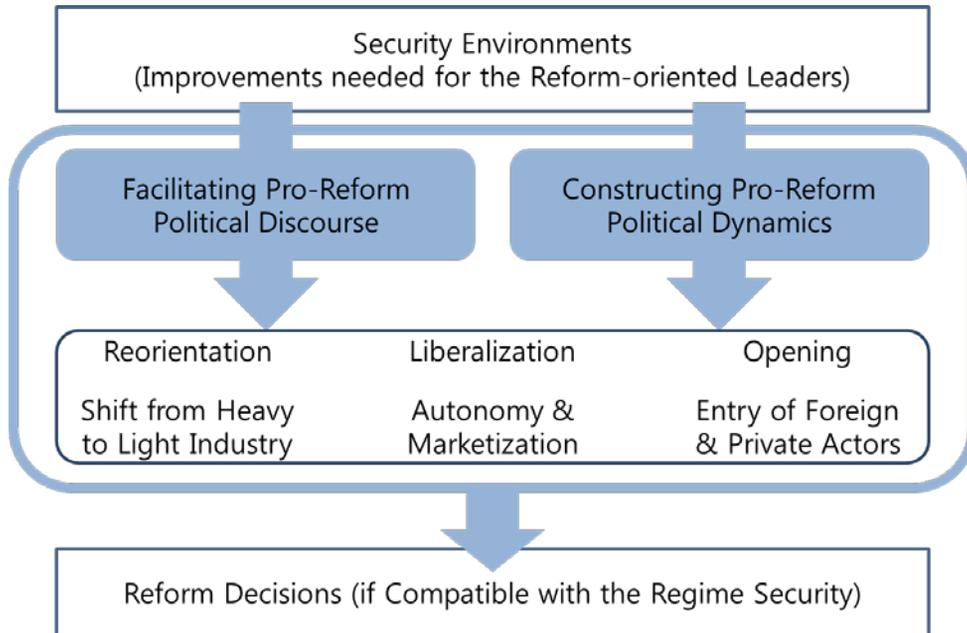
In China and North Korea, the top leaders' interpretations on the security environment played a significant role in the policy decisions. Since the reform and opening was not a one-time decision, the interactions of the conditions were intensified toward certain direction along the repeated interactions.<sup>191</sup> The interactions tend to make the decisions to become path-dependent, directing the country toward more reform and opening (in China), or more political isolation with economic difficulty (in North Korea).

If North Korea wanted the Chinese way of reform and opening, the leadership should actively recognize the improved security environments by facilitating pro-reform political discourses and constructing pro-reform political dynamics. The domestic needs of economic policy changes were clear in both China and North Korea but the leadership took the security environments into account and assessed whether they would be compatible with the fundamental purpose of the regime security. If not, the interactions between the security environments and the leadership would turn into serious constraints for reform.

The flow of the influences of the security environment and the interaction with the leadership toward the reform decisions are described in Figure 4. This will be the analytical framework for this study.

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<sup>191</sup> Jervis (1976) explained this vicious cycle of perceptions through the spiral model by showing how difficult it was to deter the outbreak of wars. Robert Jervis, "Deterrence, the Spiral Model, and Intentions of the Adversary," in *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976), 58-113.



**Figure 4 Interaction of the Security Environment with the Leadership**

The security environments can either improve with more support or deteriorate with more threats depending on the leaders' calculations on the policy decisions. The reform-oriented leadership would seize the opportunities when the security environments were judged to have made relative improvements to be more supportive and utilizable. A comprehensive economic reform materializes only when the top leaders perceive the security environment to work in their favor and thereafter interact with them toward executing reform decisions. The decisions should become compatible with regime security through the two processes of interactions.

The first route was the facilitation of reo-reform political discourses through the reinterpretation of memories. The historical memories were the products of their past experiences. They were reflected in the political slogans based on the concepts such as the revolutionary struggles, anti-imperialism, anti-hegemonism, etc. These political discourses constantly exercised influence on the policy decisions as the background

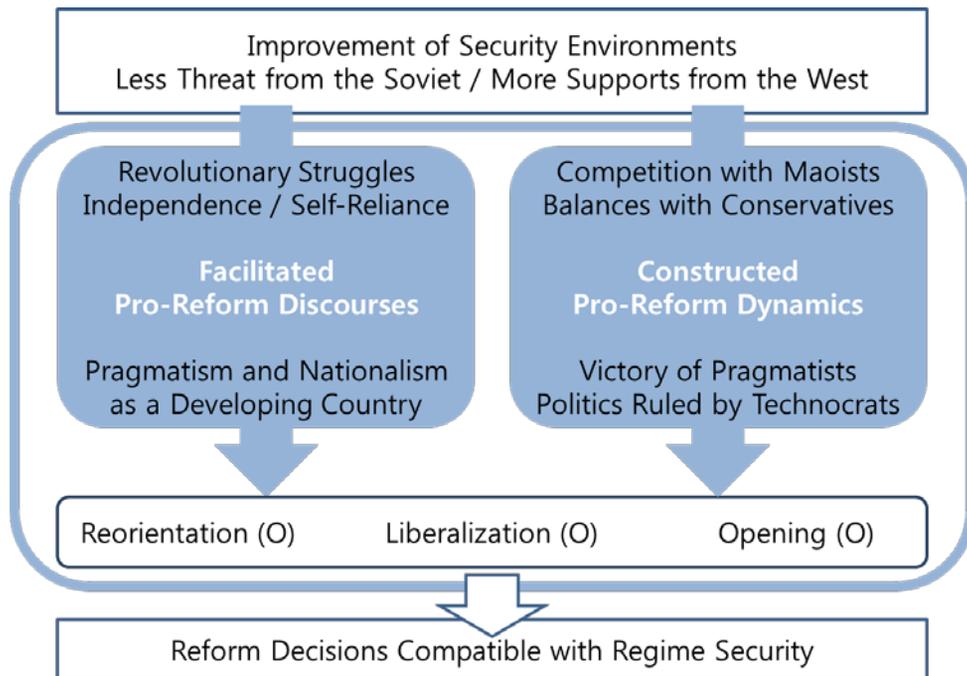
principles that guided the leaders in their decision-making process. The leaders needed to reinterpret the political discourses to redefine the slogans to become more applicable to reform but make sure that it was still compatible with regime security. This is particularly important at the initial stage of reform which entails reorienting policy goals. Unless the official discourses redefine the historical concepts and slogans so that they become more pragmatic and development-seeking, the reorientation, liberalization or the opening measures are not possible so that reform and opening in a long-term perspective can begin.

The second route was the construction of pro-reform political dynamics through policy competition and empowerment of economic experts among the leaders. Unless the security environment improved, it would not be easy for the reform-oriented leadership promote pro-reform elites to seek reorientation, liberalization, or opening. When the security environment improved, the top leaders could take advantage of the opportunity and actively rearrange the leading positions in the bureaucracy to deal with the enterprise autonomy or the market-oriented activities and renouncing the central mobilization capacities. When the leaders interpreted the security environment as becoming dangerous, the personnel managements at the top would be more inclined to tighten domestic control and heighten mobilization for the sake of regime security. The reshuffling of the leading positions so that more economic experts can be promoted to higher level positions might also reflect the increased confidence of the top leadership about allowing more involvement with the world economy. Engaging with the capitalist West was critical in accumulating capital, technology and management skills. Without a certain level of confidence about their regime's status and capability, it was difficult for them to decide to assume the risks of opening up the country to pursue rapid expansion of trade and investment with various foreign or private economic actors.

Following the logic of the framework, two distinct frameworks will be provided below for China and North Korea, respectively, to compare their different tendencies in their individual interactions with the security environments.

### (1) China: External Factors Facilitating Reform

Since the 1970s, the way of the Chinese leadership interacted with the security environments reaching the reform decisions turned out to be more compatible with regime security, as is shown in Figure 5.



**Figure 5 Framework for China: Interactions to Facilitate the Reform**

China had strong security concerns about the Soviet expansionism in the 1960s, military confrontations on the borders and the tensions over Vietnam. But the improvements of the Sino-U.S. relations and in the 1970s were perceived as positive signs about the prospects of regional security. By the end of 1970s, the threat from the Soviet Union was no longer interpreted as gravely dangerous to so much so that it would prevent economic reform. Taiwan was no longer deemed a serious threat or an obstacle in the relations with the United States. After the rapprochement with the U.S.,

economic cooperation with the capitalist West expanded rapidly. China gained access to foreign capital, technology, and the skills that it needed for modernization. Its confidence in the political sphere was quickly enhanced after the PRC was admitted to the United Nations and many other international organizations as the sole legitimate representative of China.

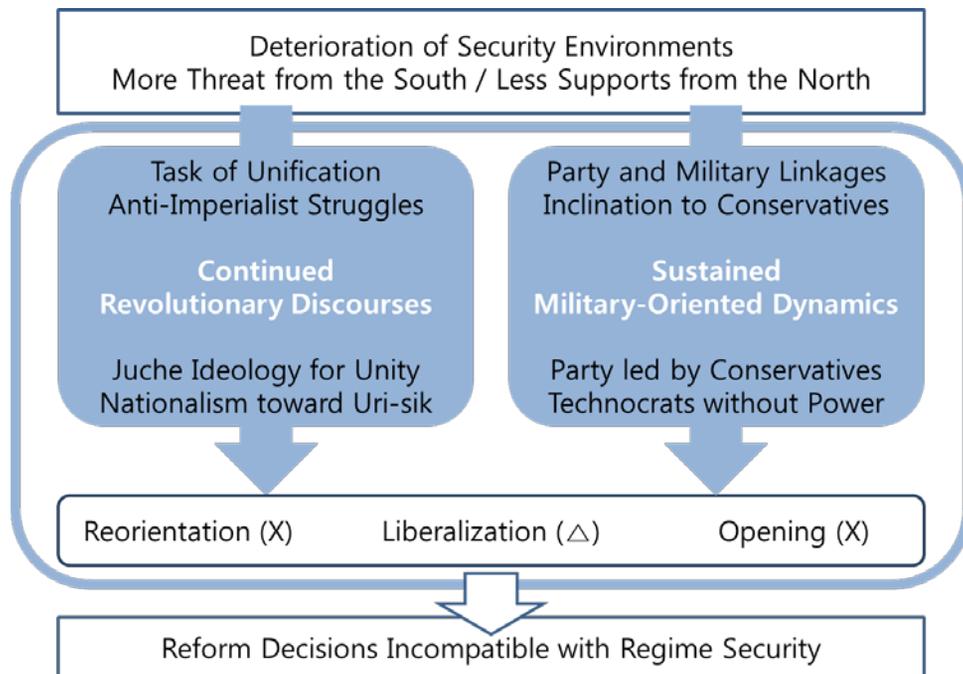
Compared to North Korea, China did not experience total occupation or colonization. It had been independent from the political influence of the Soviet Union from the start. China pursued some extreme forms of self-reliance and the personality cult during the Cultural Revolution, but there were also traditions of pragmatic tendencies from their experience owing to the economic recession that took place in the 1950s and the early 1960s. Political independence was still the top priority in official ideology but the gradual and clear redefinition of the political slogans toward pragmatism in the 1970s facilitated the reform measure. The pragmatists successfully reoriented the economic focus from the heavy industry and military buildup to the light industry and agriculture. The utilization of nationalistic concepts also helped the leadership to intensify the developmental strategies in the 1980s along the lines of pragmatic approach. Deng Xiaoping promoted the slogan of “one China, two systems” with growing confidence after the issue of Hong Kong and Macao, in order to finalize the redefinition of the memories and put more weight on economy-oriented political discourses.

Consistently emphasizing the declining threat and increasing stability, the radical reformers were able to push forward the liberalizing reform measures to initiate changes in domestic economic institutions by combining the plan and market using the dual-track approaches. The voices of the emerging new generation experts and technocrats were reflected in the political dynamics to enhance the economic liberalization and opening. Throughout the 1980s, Deng and the new generation reformers tried to fully utilize the momentum and minimize the unnecessary interventions of the old revolutionary leaders or the conservatives. They were confident about the economic prospects and domestic stability to take the risks of

potential negative impacts that may arise from foreign contacts. The cycles of retrenchment and advance showed the ever-present difficulties in creating consensus with the conservatives. Still, the radical reformers did not completely lose the opportunities. Increasing FDI and exchanges with the world economy were, in a way, threat to China's political stability as was demonstrated in the Tiananmen Incident. However, Deng and the radicals firmly believed that the benefit was greater than the cost of political risks. In the early 1990s, the deepening involvement with the world economy, in turn, protected China's political regime and helped China to become an influential economic actor in the regional and global market.

**(2) North Korea: External Factors Constraining Reform**

Figure 6 shows the North Korean leaders' logic of interaction with the security environments toward the possibility of reform decisions.



**Figure 6 Framework for North Korea: Interactions to Constrain the Reform**

Compared to China, North Korea faced different economic consequences in the 1990s after the end of the Cold War. This was definitely not that the leaders intended in the 1970s and 1980s. The North Korean leaders' interpretations and interactions with the external factors led them to concentrate more on the inward political mobilizations, not reform and opening policies like China had. The new generation of leaders had tried to push for some reform measures since the mid-1980s, but still in a limited, protective manner without much commitment.

Due to its geopolitical location between the two blocs and two socialist big brothers of the Cold War, North Korea had to tread cautiously when it came to the Sino-Soviet split, and be sensitive to any changes in the relations between the United States, Japan, and South Korea. During the Sino-Soviet split in the 1950s and thereafter, North Korea kept a certain distance from and maintained a delicate balance between the two socialist big brothers so that it would not lose any of their military and economic support. North Korea achieved a certain level of political and economic independence from the Soviet Union and China in the 1970s. However, this also translated into political isolation and economic hardships, since North Korea no longer received as much support from them as it had before. The *détente* and the changing superpower relations increased doubts on the part of North Korea about the prospects for Chinese and the Soviet support in case of a military conflict on the Korean Peninsula. The rapid development of South Korea and its alliance relationship with the United States constituted further threats. It was not an easy task for North Korea to receive political and economic support from the international society in competing against South Korea. Since it was confronted with the United States, North's access to the West was restricted in both the economic and political aspects. The diplomatic relations with the Third World countries did expand rapidly in terms of quantity, but their political supports gradually turned towards South Korea during the 1980s due to economic reasons.

The political discourses from the historical experience of the North Korean leadership was mainly based on their memories of the Korean War, which provided

the basis of constant threat perception on the imminent war against the U.S. military forces stationed in South Korea.<sup>192</sup> The imperative of the national unification and the struggle against the U.S. imperialists were the most frequently-cited political rhetoric of Kim Il Sung. The target of its anti-imperialism also included the memory of Japanese occupation and the KWP experience of the Soviet and Chinese interventions in the 1950s. These struggle-oriented concepts soon converged in the Juche ideology to emphasize the political independence and economic self-reliance. The newly emerging leadership under Kim Jong Il chose to carry on the legacy and intensify these political discourses, constantly emphasizing military buildup and the need to achieve heavy industry growth for the socialist construction. All of this made the reorientation difficult. They certainly knew the urgent need for production in food and consumer goods, but were unable to reduce the investments to the heavy industry and military preparations.

The political dynamics among the leaders reflected the changing policy priority of the top leader. The political power under Kim Jong Il's leadership was concentrated to a small group of people around him, and the responsibility of managing the domestic economy had been given to the Administration Council (the Cabinet from 1998) led by economic experts and technocrats. The promotion of many economic experts showed that there was a basic will of the leadership to rationalize the economic system. When the security environment became complicated with military tensions or political conflicts, however, keeping the capabilities of mobilization and control became more important. The retreat of the economy-oriented leaders made the liberalization of domestic economic system difficult in North Korea. They announced and push forward some reform measures to promote partial reforms in a form that was similar to that of the Chinese ones. But the changing dynamics among the top-tier elites that resulted in bringing the military leaders closer to Kim Jong Il quickly shifted the policy priority from the reform to the security problems. They emphasized

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<sup>192</sup> On constant memory and influences of the Korean War in North Korea, see Cummings, *North Korea: Another Country*, 1-42.

the security threat to intensify the mobilization efforts and dampened liberalization tendencies. The fact that North Korea remained isolated and was not confident about the regime competition also constantly quashed the idea of reform and opening.

In the following chapters, the influences of security environments of China and North Korea will be examined through four different case studies. Before looking closer into the evidences, a few propositions will be presented to allow for a comparative historical approach.

#### 4. Propositions

Two propositions can be drawn from the analytical framework about the two routes of influences between the security environment and the reform decisions. Once again, this does not deny the importance of other conditions such as leadership change or domestic needs. Rather, it is to present the argument that external factors, mainly the security environments, were another necessary condition that should be added to construct a combination of the conditions that would be sufficient for the reform decision. China and North Korea faced different security issues when they considered the economic reform. The interactions with the supportive and utilizable security environments facilitated the decisions toward reform and opening while the opposite ones would pose constraints on the reform.

##### *Political Discourse Proposition*

**The more the security environments improved, the easier it becomes for the reform-oriented socialist leadership to facilitate pro-reform political discourses toward the economic reform decisions.**

China and North Korea both experienced foreign invasion and exploitation, and brutalities of the civil war. The memory of foreign intervention on their soil had been strong in their mind, made them obsess about political independence and economic self-reliance. It made them very cautious about depending too much on other countries. In spite of this, Chinese leaders were able to shift their historical concept to

pragmatism and national interests to place more priority on economic development, rather than revolutionary struggles. They could reorient their economic strategy from heavy industry to light industry and focus less on military buildup and more on consumer products. The redefinition also helped the leadership to allow the economic opening for more learning and exchanges with the capitalist West and other countries outside the socialist bloc.

North Korean leaders, however, firmly maintained and even intensified the post-colonialist concept of the struggle against “imperialists” together with the task of national unification. These concepts converged into the Juche idea and continuously emphasized the need for constant war preparation and political vigilance, which made it very difficult for reorientation, liberalization, or the opening. Since the military-oriented policy line was justified in the name of Juche based on the historical memory, it was almost impossible for any bold reform measures to exist alongside. The more the historical memories and political discourses of the anti-foreign struggles remained strong, the less the economic reform and opening became likely to actualize.

*Political Dynamics Proposition*

**The more the security environments improved, the easier it becomes for the reform-oriented socialist leadership to construct a pro-reform political dynamic to widen support for the economic reform and opening.**

Chinese leaders achieved some improvements in the relations with major powers to have certain level of trust and stability, to risk vulnerability in order to pursue reforms. The military conflict with the Soviet Union or Vietnam did not hamper their reform policies, and the improved relationship with the United States provided opportunities for both military and economic modernizations. Based on the improved relations with the United States, China could also gain access to the international financial institutions for economic support and cooperation. These expansions of access increased the leaders’ confidence to allow more new economic actors to enter into China’s economy through the mechanism of FDI inflow and

various forms of exchanges. These improvements in the security environments were reflected in the dynamics among the leaders and improved their chance of taking the opportunities to push forward their policies. The radical reformers and Deng Xiaoping could rearrange the leading positions in domestic policy-making mechanism to pursue reform and opening policies, although they still did have to go through the policy cycles in competitions with the conservatives led by Chen Yun.

The security environments of North Korea had been much more complicated. The Sino-Soviet split put North Korea in an awkward position. The détente among the superpowers did not lead to decreasing threat vis-à-vis North Korea from the United States, South Korea, and Japan who were equipped with modernized military capability. The complicated situation put a damper on the economic reform measures to remain partial and limited. North Korea tried to expand the diplomatic and economic relations with the Third World and the capitalist West. But the progress in its Third World diplomacy lasted only temporarily in the mid-1970s, and the economic relations resulted in growing foreign debt which induced the leaders to resort domestic mobilization methods again. The more isolated in international politics and economy, the less the changes of the political dynamics toward the economic reform was likely to take place. Kim Jong Il did promote the economic experts to take advantage of the momentum to pursue economic measures, but only until another personnel rearrangement was made to shift focus to the military-centered policies and centralized mobilization efforts. The general inclination of the international society toward South Korea in the late 1980s made it even more dangerous for North Korea to initiate contact with the outside world. After the end of the Cold War era, security concerns were reflected in the political dynamics in a way that widened the distance between the military leaders and economic experts which made North Korea more difficult for the reform and opening to be carried out in a long-term perspective.

## V. CASE 1: CHINA IN 1978

The newly established leadership of Deng Xiaoping initiated the reform and opening at the Third Plenum of the Eleventh Central Committee in 1978. They successfully pushed the reform initiatives forward throughout the 1980s utilizing every opportunity. Deng Xiaoping once described the reform and opening policy of China as “openings” both to the outside world and to the domestic society. To him, the economic reform meant “invigorating the domestic economy and opening to the outside world,” and invigorating the domestic economy meant “opening domestically” to stimulate economic development.<sup>193</sup> The external opening meant more exchanges and learning from advanced economies, and the internal opening was the reorientation of industrial focus and the liberalization to promote material incentives which turned out to be remarkably successful first in the rural areas from 1981, and then in the urban areas from 1984.

These “openings” were not to undermine the socialist political system but to sustain the monopoly of power by the Communist party. There were debates on the political dangers of these reform policies, but Deng and the radical reformers had become confident about China’s political sustainability and economic potential. In their interpretations, the security environments provided more support and utilizable resources with less and less threats to the regime security. They were able to shift the focus of political discourses and political dynamics toward reform since 1978, utilizing opportunities provided by the changing security environment. In the early 1980s, continuous improvement in security environment facilitated the pro-reform discourses and dynamics throughout the initial stage of reform and opening. Following the first section on the successful launch of the reform and opening, the second and third sections will deal with each of the two routes of interactions between

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<sup>193</sup> Deng Xiaoping, “Duizhongguo Gaige de Liangzhong Pingjia [Two Kinds of Comments about China’s Reform],” Excerpt from a talk with President Julius Kambarage Nyerere of the United Republic of Tanzania, August 21, 1985, in *Deng Xiaoping Wenxuan Disanjuan, 1982-1992 (hereafter III)* [Selected Works of Deng Xiaoping Volume III] (Beijing: Renmin Chubanshe, 1993), 135.

the security environments and the leadership toward the reform decisions.

## 1. Putting the Reform and Opening on Track

At the time of 1977 and 1978, it was not only Deng Xiaoping who sought the rapid economic development at the time. Hua Guofeng, the designated successor of Mao Zedong, and his elites also pursued economic development and cooperation with the West. Hua and his supporters recognized the clear need of production and modernization but their strategies still resembled the traditional socialist mobilization policies. Hua announced an ambitious Ten-Year Plan with large construction and heavy industry projects that depended on borrowing foreign capital and technology, without carrying out any structural reforms in economy. This strategy soon met difficulties in 1977 and 1978, due to the high costs and this resulted in the largest trade deficit ever.<sup>194</sup> Deng was not satisfied with Hua's economic policies without clear shift from the campaign-like mobilization plans. Deng believed it was time to launch more comprehensive reform and opening than Hua's Ten-Year Plan, and supported exchanges and long-term cooperation with the West to acquire advanced technology and skills. Deng consolidated his political power gradually, and the policies of reform and opening were implemented by the reform-oriented experts with his political support. At first it was Chen Yun who led the economic policies to readjust the imbalanced growth and foreign debt problems.

### **(1) Successful Launch of the Reform and Opening in 1978**

The Central Party Work Conference from November 10 to December 15 in 1978 became the decisive turning point of China's political leadership from Hua Guofeng to Deng Xiaoping. The Third Plenum of the Eleventh Central Committee afterwards was the official ratification of decisions from the Central Party Work

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<sup>194</sup> This ambitious plan of Hua Guofeng was openly criticized by Chen Yun who strongly argued the need of readjustment period for two or three years. Chen Yun, "Jianchi Anbili Yuanze Tiaozheng Guomin Jingji," March 21, 1979, in *Chen Yun Wenxuan Disanjuan (hereafter III)* [*Selected Works of Chen Yun Volume III*], 2<sup>nd</sup> ed. (Beijing: Renmin Chubanshe, 1995), 251-252.

Conference. At the closing session of the Work Conference, Deng announced political and economic policy changes toward the reform and opening for rapid modernization and development. He suggested reforming the management system which had been over-concentrated that needed “to devolve some of it to the lower levels without hesitation but in a planned way.” It was to provide material incentives to the “local as well as national authorities and to the enterprises and workers” by allowing “greater powers of decision regarding both operation and management.” It was gradual liberalization with increasing autonomy “in economic planning, finance and foreign trade,” but “always within the framework of a nationwide unity of views, policies, planning, guidance and action.”<sup>195</sup> The key point was to “learn to manage the economy by economic means.” Learning management skills from abroad was to “begin with limited spheres” in certain regions or industries “and then spread the methods gradually to others.”<sup>196</sup> Deng and his reformers were confident that they could control gradual implementation and adaptation in the process of their reform and opening.

The idea of opening itself was not at all a new one among the Chinese leaders. The pragmatist approach had supported a limited opening under socialist control which reappeared when the moderate leaders came back to power after the peak of Cultural Revolution. When Zhou Enlai rehabilitated Deng Xiaoping in 1972, both pragmatic leaders tried to redirect China’s development strategy from autarkic isolation to international exchanges and participation. The dramatic growth of the East Asian developmental states like Japan, South Korea, Taiwan, Hong Kong, and Singapore provided effective learning experiences with the feeling of urgency about

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<sup>195</sup> Deng Xiaoping, ‘2. Minzhu shi Jiefang Sixiang de Zhongyao Tiaojian [Democracy is a Major Condition for Emancipating the Mind]’ of “Jiefang Sixiang, Shishiqiushi, Tuanjie Yizhi Xiangqiankan [Emancipate the Mind, Seek Truth from Facts and Unite as One in Looking to the Future],” Speech at the closing session of the Central Working Conference which made preparations for the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party that immediately followed, served as the keynote address for the Third Plenary Session, December 13, 1978, in *Deng Xiaoping Wenxuan Dierjuan, 1975-1982 (hereafter II)* [*Selected Works of Deng Xiaoping Volume II*] 2<sup>nd</sup> ed. (Beijing: Renmin Chubanshe, 1994), 145-146.

<sup>196</sup> Deng Xiaoping, ‘4. Yanjiu Xin Qingkuang, Jiejue Xin Wenti [Study the New Situation and Tackle the New Problem]’ of *Ibid.*, 150.

the economic development. The economic and technological backwardness of China also urged the pragmatic leaders to pursue the learning and exchanges from the capitalist West. Deng had several experiences to visit the advanced economies in the mid-1970s, the United States in 1974, France in 1975, and Japan in 1978. He clearly knew how far China was falling behind those economies. Other elites came to recognize the economic and technological gap almost three years later, when the high-level delegation led by Gu Mu visited some European countries in mid-1978.

Hua Guofeng and the leaders around him were inspired by the opportunities they learned from increased visits abroad like Gu Mu's trip which brought back hopeful prospects of economic cooperation and assistance from advanced countries. But the economic cooperation under Hua Guofeng was about borrowing money rather than directly allowing foreign firms to operate in China. This resulted in accumulating foreign debt. Hua Guofeng's Ten-Year Plan was criticized by Deng Xiaoping and Chen Yun's reformers for not pursuing enough changes and being too biased with unrealistic plans toward huge foreign debts unable to repay. Hua's economic goals were way too ambitious in the eyes of economy experts like Chen Yun, and still too traditional in the eyes of radical reformers supported by Deng.<sup>197</sup> Hua's economic advisors were over-confident about China's oil-production capacity to pay back its loans. They made contracts for large construction projects and heavy industry plants importing foreign capitals and technologies. By the end of 1978, Hua's ambitious plans were criticized for being unrealistic and for creating a huge amount of foreign debt without considering the actual capacity of China. The budget imbalances reached serious levels, but China's infrastructure was not yet prepared to quickly adapt to the imported technologies.<sup>198</sup>

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<sup>197</sup> Chen Yun emphasized the readjustment and balance of the economic policy for a long-term development in order as expressed in his speech: Chen Yun, "Guanyu Dangqian Jinaji Wenti de Wudian Yijian [Five Suggestions on the Current Economic Problems]," A speech of Comrade Chen Yun at the Northeast Group Meeting in the Central Working Conference, December 10, 1978, in *Chen Yun Wenxuan III*, 235-238.

<sup>198</sup> In a way, Hua Guofeng's economic goal was fundamentally the same with that of Deng Xiaoping at the time which was to drive China toward modernization and development using advanced

As Deng established his political power after December 1978, the focus of China's economic strategies shifted to more systemic reform and openings. Though never touching the fundamental rules of the CCP, the domestic and international economic actors were now encouraged to compete for material incentives based on their newly endowed autonomy from the center. Due to the huge foreign debt created by Hua's plans, the bold reform and opening had to be postponed to first rebalance the budget with readjustment measures imposed by Chen Yun. But after the early 1980s, the radical reformers led by Zhao Ziyang and Hu Yaobang pursued the bold reforms and opening measures, with expansion of non-state sectors and international involvements.

The initial measure of the newly established reform-oriented leadership was the reorientation of the industrial focus. It started with Chen Yun's readjustment plans to rebalance the serious deficit of state budget. Hua Guofeng had concluded numerous business contracts to import foreign technologies as he launched major projects for construction and heavy industry with his ambitious Ten-Year Plan, which turned out have based itself on an overly optimistic forecast regarding China's economic infrastructure and foreign exchange reserves. Chen Yun and economic experts insisted on having a readjustment period to rebalance the economic situation. In 1979, Chen decided to suspend the contracts with foreign firms, many of which were Japanese, and shifted the focus from heavy industry to light industry. Deng largely agreed with Chen Yun to take a more balanced approach to promote long-term, stable economic development.<sup>199</sup> The reorientation of industrial focus from heavy to light industry

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technologies from abroad Vogel, *Deng Xiaoping and the Transformation of China*, 189-190. Chinese attitude was too enthusiastic for rapid expansion of technological cooperation that the U.S. officials had to consider the opportunities carefully, worrying the difficulties in the process. "Report on Technical Discussions on Energy Cooperation with China," November 27, 1978, HAPP, WWICS, Declassified Documents, DDRS-266004-i1-4, the Secretary of State Memorandum, copied from Carter Library.

<sup>199</sup> Chen Yun, "Guanyu Caijing Gongzuo Gei Zhongyang de Xin [A Letter from the Central Committee Regarding the Works on Finance and Economy]," A Letter from the Central Committee of the CCP jointly signed by Comrade Chen Yun and Comrade Li Xiannian, March 14, 1979, and "Jingji Jianshe Yao Jiaotashidi [Economic Construction Must be Sound and Steady]," A speech of Comrade Chen Yun at a briefing session of the Finance and Economic Committee of the State Council, September 18,

allowed rapid increase in consumer goods production and impressive growth in local and rural industry in the early 1980s, based on a relatively decentralized structure that was suitable for labor-intensive manufactures.

Although he agreed to Chen for the readjustment of economic balance first, Deng's idea of reform and opening became more radical with urgent feeling to open up the country for more technology and management skills. Except for some fundamental elements and issues such as the monopoly of power by the CCP and the Taiwan issue, Deng and the radical reformers were ready to change and relax anything to initiate more drastic reforms and openings for efficiency and rapid economic growth. The leadership first began the radical opening toward the capitalist economic actors within the four SEZs in 1979: Shenzhen (across Hong Kong), Zhuhai (opposite Macao), Xiamen (across Taiwan), and Shantou (northern Guangdong). Special tax and tariff incentives were introduced in these experimental special regions. The experiment proved to be successful and Deng and his reformers expanded similar special regions to fourteen different coastal cities and the Hainan Island in April 1984.

At first the trade mainly dealt with agricultural products and natural resources, increasingly expanding into manufacture products like textiles. The flow of investment increased sharply when China initiated institutional frames for FDIs, facilitated by the establishment of SEZs.<sup>200</sup> The relaxation of restrictions and the creation of proper infrastructure resulted in a substantial expansion of Sino-U.S. economic relations in 1979 and 1980, at a much faster rate than the government anticipated. In addition to the already increasing foreign loans and credits, the Chinese government allowed FDI in various forms mainly through the SEZs and later in other cities and provinces as well. Many foreign economic actors, in any form of individuals, firms, and organizations, could expand their contacts and influence in the Chinese economy through these decentralized trade and investment environment in

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1979, both in *Chen Yun Wenxuan III*, 248-249 and 264-268.

<sup>200</sup> On the rapid changes in Chinese economic policies and patterns of trade and investment in the early 1980s, "China's Growing Export Competitiveness," August 1983, HAPP, WWICS, Declassified Documents, DDRS-228719-i1-30, a research paper by the Directorate of Intelligence, EA83- 10137.

many cities and provinces. The portion of private entrepreneurs also stated to increase along the expanding opportunities, and created more changes in Chinese reform and opening process.

After the initial period of reorientation and readjustments until the early 1980s, the pragmatic reform policies actually started to increase the market-oriented elements in industry and commerce, first in the agricultural sector and then in urban industries. The factories and enterprises were allowed to have more autonomy in drawing up their production plans and in management, and could use material incentives to increase productivity. The gradual liberalization of management system first achieved success in the agricultural sector through various measures including the household responsibility system. From 1984, the urban industries were urged to become more autonomous through reform policies which passed the responsibilities of plan and management to the factory managers and enterprise directors. Many non-state enterprises emerged along the ownership reforms and expansion of joint ventures, and the price, tax, and other legal system went through policy cycles between more liberalization and political stability, until the end of the 1980s.<sup>201</sup>

## **(2) Opportunities from the Changing Security Environment**

In 1977 and 1978, the Sino-U.S. relationship was gradually revived together with the emergence of Deng Xiaoping's leadership. Deng and his reformers knew that the stable and supportive international environment was essential for China's economic reform and opening, for which the cooperative relationship with the United States was a critical precondition. The 1979 normalization of the Sino-U.S. relations secured China from the danger of two-front conflicts, and significantly reduced the

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<sup>201</sup> On processes and consequences of the liberalizing reforms on factories and enterprises toward marketization, see Yeong-jin Kim, "Jungguk ui Sijanghua, Gieop Gaehyeok, Nodong ui Jeongchi Gyeongje [The Political Economy of Marketization, Enterprise Reforms, and Labor in China]," 85-129, and Seok-hong Seo, "Jungguk ui Soyuje Gaehyeok gua Bigukyu Gieop ui Baljeon [The Ownership Reform in China and the Rise of Non-State Enterprises]," 131-198, in *Jungguk Gaehyeok-Gaebang ui Jeongchi Gyeongje 1980-2000 [The Political Economy of Chinese Reform and Opening 1980-2000]*, ed. Jae-ho Jeong (Seoul: Kachibooks, 2002).

direct threat from the Soviet Union. Taiwan issue was no more a security threat, and it disappeared from the Sino-U.S. negotiations table after the 1982 communiqué with the Reagan administration and remained that way until the end of the Cold War.<sup>202</sup> The dramatic reorientation and liberalization of the Chinese economic policies were possible with these lessened security threats along the improved relations with the United States, which left the Soviet Union the only and decreasing threat to China's security.

*The Soviet threat and the Sino-U.S. rapprochement*

The Sino-U.S. rapprochement was a big improvement in 1972 for regional stability. At the start of the 1970s, the Chinese leadership decided to initiate direct contacts with the United States which had formerly been defined at “the most ferocious enemy of the people” until the 1960s. The leaders were concerned about the increasing Soviet military activities in the region, particularly after the Sino-Soviet border incidents which resulted in the military confrontations on the Ussuri River in 1969.<sup>203</sup> Mao Zedong and Zhou Enlai initiated contacts with the United States, the capitalist West, and the Third World countries to safeguard the regime through economic revival. They did not yet intend a comprehensive reform, but the success of the Sino-U.S. rapprochement and the expansion of relations established footholds for the comprehensive reform and opening later.

The relationship between Beijing and Moscow was at its height in the mid-1950s during which the Soviet Union assisted China in constructing the economic system emulating the Soviet model. But the sincere comradeship with the Soviet Union shortly ended with the death of Stalin. The Sino-Soviet split started in the mid-1950s and the mutual criticism grew into the military conflicts in the late 1960s.<sup>204</sup>

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<sup>202</sup> Henry Kissinger, *Years of Renewal* (New York: Simon & Schuster, 1999), 897-898.

<sup>203</sup> King C. Chen, “China’s Response to the United States from Vietnam to Rapprochement,” in *Dimensions of China’s Foreign Relations*, ed. Chun-tu Hsueh (New York: Praeger Publishers, 1978), 82-84.

<sup>204</sup> Mao Zedong and the CCP leaders denounced the Soviets as revisionists after the Twentieth Congress

Both superpowers were criticized as “imperialists” and “revisionists” equally threatening to its China’s security. The Soviet-U.S. contacts were considered as “collusion” or the “encirclement of China,” particularly regarding the nuclear issue in the region.<sup>205</sup> The CCP leadership criticized the Soviet Union of bargaining peace with the United States at the expense of the socialist bloc. The increased Soviet intervention in Asia was perceived as hegemonism in collaboration with the United States, Japan, India, and Southeast Asian countries.<sup>206</sup>

Chinese leaders felt that they needed a new approach to strengthen China’s security, but it was not easy for them to reach out to the United States whom they had defined as the dangerous imperialists. China faced the United States at the Korean War, the Taiwan Strait military crises, and again during the Vietnam War. Criticism against the two superpowers reached extreme levels during the Cultural Revolution, emphasizing strict self-reliance to resist the possible threat from both the U.S. imperialists and the “socialist imperialists” of the Soviet Union. By the end of the 1960s, it was no longer the United States which provided the most urgent threats. The Sino-Soviet border incidents escalated into military conflict in 1969 on Damansky (Zhenbao) Island in the Ussuri River, which implied that the Soviets were prepared to impose military pressure against China.<sup>207</sup> The Brezhnev Doctrine and the Soviet

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of the CPSU (the Communist Party of the Soviet Union) in 1956, where the new Soviet leaders criticized the personality cult of Stalin. The relationship worsened sharply in the late 1950s when China tried to create its own nuclear weapons. The Soviets hesitated to supply technological aids and refused to provide a fleet of nuclear-powered submarines. Khrushchev made a trip to the United States in 1959, and China publicly criticized this “revisionist” act. The economic and technological aid from the Soviet Union came to a halt by the end of 1950s. Roy Medvedev, *China and the Superpowers*, trans. Harold Shukman (Basil Blackwell Ltd., 1986), 22-35.

<sup>205</sup> The superpowers’ agreements on the nuclear restrictions were criticized as a collusion to keep China vulnerable to their nuclear capacity. China refused to sign the 1968 Nuclear Non-Proliferation Treaty.

<sup>206</sup> Chinese leaders understood the Soviet-U.S. high-level meeting in India, January 1966 as the Soviet-U.S.-Indian “united front against China,” and the Soviet Foreign Minister Gromyko’s visit to Japan in July 1966 as the extension of the U.S.-Japan alliance. The Sato-Nixon joint communiqué in 1969 was perceived as the upgraded version of the military collusion between the United States and Japan. Increasing Soviet activities in Southeast Asia were perceived as its attempts to contain China in collaboration with the United States’ military expansion in Asia. Chun-tu Hsueh and Robert C. North, “Peking’s Perceptions of Soviet-American Relations,” in *Dimensions of China’s Foreign Relations*, ed. Hsueh, 53-57.

<sup>207</sup> There were campaigns to “prepare for war” in China, and the leaders actually transported the

invasion of Czechoslovakia in August 1968 provided a turning point to the Sino-U.S. relations. China was in the middle of the Cultural Revolution which made the country particularly vulnerable to external security threats. After the invasion of Czechoslovakia, the Soviet Union became the most obvious threat to both China and the United States.

To deal with the Soviet threat, Mao Zedong, Zhou Enlai, and even the radicals of the Cultural Revolution recognized the need of connection with the West. They also realized the importance of the military and economic modernization to find a way out of the trap that they were caught in and not be manipulated by either the United States or the Soviets.<sup>208</sup> On April 1, 1969 at the Ninth National Congress of the CCP, Lin Biao presented that China must “on no account ignore the danger of U.S. imperialism and Soviet revisionism launching a large-scale war of aggression,” which officially listed the Soviet Union and the United States as equal threats. Lin Biao described both the United States and the Soviet Union as “paper tigers” with serious domestic and international difficulties in the official report, and explained the increased threat from “the Soviet revisionist renegade clique” in detail which had been aggravated by the “disruption of the status quo of the boundary” and “border incidents.”<sup>209</sup> The relative decline of the U.S. imperialism seemed obvious with its failures in Vietnam and the domestic turmoil, whereas the Soviet Union seemed to be utilizing the opportunity to expand its military influence in Asia.

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population out and transferred factories away from the border area. The Soviet leaders also perceived the high possibility of a war with China, and this was one of the reasons of their policy of détente with the United States. When Brezhnev met Kissinger and Nixon in Vladivostok, they discussed about the possibility of a war with China. Medvedev, *China and the Superpowers*, 46-51.

<sup>208</sup> Throughout the 1970s, there was the military doctrine of “People’s War Under Modern Conditions” in China to acquire modernized military system. William T. Tow, “China and the International Strategic System,” in *Chinese Foreign Policy: Theory and Practice*, eds. Thomas W. Robinson and David Shambaugh (Oxford: Clarendon Press, 1994), 129.

<sup>209</sup> Lin Biao, ‘VII. Guanyu Woguo he Waiguo de Guanxi [On China’s Relations with Foreign Countries]’ in “Zhongguo Gongchangdang Dijiuqi Quanguo Daibiaodahui shangde Baogao [Report to the Ninth National Congress of the Communist Party of China (hereafter the CCP)],” delivered on April 1, and adopted on April 14, 1969, Zhongguo Gongchangdang Lici Quanguo Daibiao Dahui Shujuku [Database of the Past National Party Congress of the CCP], <http://cpc.people.com.cn/GB/64162/64168/64561/4429445.html> (accessed Sept. 15, 2013).

Zhou Enlai caught whiff of the changing attitude of the Nixon administration also cautious about the expansionist tendency of the Brezhnev Doctrine, and persuaded Mao to utilize the United States against the Soviet threat. Zhou sent a message to Nixon, and Mao also sent his signal by inviting Edgar Snow to stand with him at the Tiananmen on the National Day of October 1, 1970.<sup>210</sup> After sending signals and messages to each other, China invited an American table tennis team in April 1971, later called the Ping-Pong diplomacy, and conveyed its message to “open the door to friendly contacts between the people of the two countries.”<sup>211</sup> Zhou invited Kissinger for a direct high-level meeting which was a big step to have “direct discussions between high level responsible persons of the two countries.”<sup>212</sup> Kissinger visited Beijing twice in July and October 1971, and finally Nixon visited in February 1972. The Shanghai communiqué identified the Soviet expansion as the common security concern in Asia, and promised not to support the Soviet policies against each other, reducing the possibility of bilateral military confrontation, and expanding economic and cultural relations.<sup>213</sup> With this improved relationship with the United States, China could rapidly expand diplomatic relations with other capitalist countries in the West, which was the core of the pragmatic approach led by Zhou Enlai and Deng Xiaoping in the mid-1970s.

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<sup>210</sup> John W. Garver, *Foreign Relations of the People's Republic of China* (Prentice-Hall, Inc., 1993), 77-80. Some comments on the indirect communications between Zhou Enlai and the U.S. leadership through the Romanian route can be found in the conversations between Zhou and Romanian delegate on various issues, “Memorandum of Conversation between Romanian Deputy Premier Gheorghe Radulescu and Zhou Enlai during a Visit to China between 20-26 November 1970” December 12, 1970, History and Public Policy Program Digital Archive, ANIC, CC RCP Fond, Foreign Relations Section, file 98/1970, 6-35; published in *Relatiile Romano-Chineze, 1880-1974* [Sino-Romanian Relations, 1880-1974], ed. Ambassador Romulus Ioan Budura, (Bucharest, 2005), 1021-1042, trans. Mircea Munteanu, <http://digitalarchive.wilsoncenter.org/document/117762>.

<sup>211</sup> Henry Kissinger, *White House Years* (Boston: Little, Brown and Company, 1979), 702-709.

<sup>212</sup> Zhou Enlai sent a message through the Pakistani channel in April 1971, “to receive publically in Beijing a special envoy of the President of the United States (for instance, Mr. Kissinger) or the U.S. Secretary of State or even the President of the United States himself for a direct meeting and discussions.” *Ibid.*, 714.

<sup>213</sup> It was agreed to promote the Sino-U.S. normalization in a near future, which was not realized in the mid-1970s. *Zhonghua Renmingongheguo he Meilijianhezongguo Lianhegongbao*, “Shanghai Gongbao” [PRC and USA Communiqué, “Shanghai Communiqué”], February 28, 1972, [http://news.xinhuanet.com/ziliao/2002-01/28/content\\_257045.htm](http://news.xinhuanet.com/ziliao/2002-01/28/content_257045.htm) (accessed Sept. 12, 2013).

The relations with Japan developed along the Sino-U.S. rapprochement in the early 1970s with the normalization by Zhou-Tanaka communiqué in 1972. China changed its strategic stance on the U.S.-Japan alliance. It stopped to demanding the United States to withdraw its forces from Southeast Asia, Japan, or the Korean Peninsula. Instead of the harsh criticism against the U.S. collaboration with Japan, China recognized the role of the U.S. forces in Japan as something that controls and prevents the revival of Japanese militarism. The Chinese leaders came to believe that the U.S.-Japan alliance was necessary to prevent a Japanese military and nuclear buildup, to maintain the balance of power between the two superpowers in the Asian region, and to contain the Soviet expansion.<sup>214</sup>

*The Sino-U.S. normalization to keep the Soviets in check*

After the rapprochement in 1972, the relations with the United States had been held back for several years in the mid-1970s mainly due to the domestic politics of each. The Ford and Carter administrations focused more on the détente with the Soviets until 1978. But the U.S.-Soviet détente did not go well, as was shown in the Vietnamese invasion of Cambodia in December 1978 and the Soviet invasion of Afghanistan in December 1979 which finally turned the Carter administration completely toward China to pursue the Sino-U.S. normalization. In the meanwhile, the Chinese leadership sought to increase its influence in the region, taking advantage of the improved image of having become friendly with the United States. China reached out to Southeast Asian countries like the Philippines and Thailand to establish diplomatic relationship with the “anti-hegemony” clause against the Soviet expansionism. One of the major actors in the region had been Vietnam, which had been supported by the Soviet Union during the war with the United States. When the final victory of the Vietnamese Communists in 1975 confirmed the complete retreat of the United States from the region, China had established several diplomatic relations with various Southeast Asian countries to fill the vacuum. For China, these

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<sup>214</sup> Kissinger, *White House Years*, 1089-1090.

relations were to prevent the Soviet expansion and stabilize the south for security and modernization.

The Carter administration at first sought the improvements in U.S.-Soviet relations focusing on the détente with the Soviets and the Strategic Arms Limitation Talks (SALT). But in 1978, the continuous stalemate of the SALT negotiations finally redirected them to take a more active stance towards China. The Soviet Union continued its military expansion in Asia and Africa, and the United States shifted its strategic focus from the détente to the containment of the Soviet Union. The Carter administration reassessed its China policy and sped up its moves toward the normalization. In May 1978, Carter emphasized the importance of Sino-U.S. relationship and sent a message of closer cooperation including a formal process toward normalization.<sup>215</sup> The Sino-U.S. contacts were in a way to put pressure on the Soviet Union toward the détente. China caught this opportunity to further improve regional stability, to deal with the Soviets and Vietnamese.

Deng Xiaoping quickly drove the normalization process to hold a Sino-U.S. summit earlier than the Soviet Union would. At the end of 1978 the SALT agreement was almost complete that the Soviet-U.S. summit was on the verge of happening. The prospect of the Vietnamese invasion in Cambodia was looming large with the Soviet-Vietnamese security treaty in November 1978, which increased the need of security cooperation with the United States. In the eyes of the Chinese, the Vietnamese occupation of Cambodia was a Soviet-backed hegemonic aggression in the region, constituting potentials of serious threat from both Soviet Union and Vietnam from the south. China invaded Vietnam in February 1979 as a preventive action against the Soviet expansion. With indirect support of the United States, China's "limited lesson" to Vietnam was to put the military pressure until the withdrawal of Vietnamese forces from Cambodia, which was finally accomplished with the Sino-Soviet normalization process in the late 1980s.

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<sup>215</sup> Zbigniew Brzezinski, *Power and Principle: Memoirs of the National Security Adviser 1977-1981*, revised ed. (New York: Farrar, Straus, Giroux, 1985), 197-199.

The Chinese leaders wished to strengthen the security cooperation with the United States for military modernization. At first they stayed silent with mutual uneasiness due to China's attack on Vietnam and the Taiwan Relations Act (TRA) in the United States. But the Soviet invasion of Afghanistan in late 1979 was a strong stimulus to enhance the initiatives to expand the Sino-U.S. relations. In fact, the Soviet invasion constituted no additional military danger to China despite shared borders with Afghanistan across the Xinjiang province. China, however, criticized the Soviet invasion harshly in their political slogans as if it posed grave threats, for the ultimate purpose of expanding cooperation with the United States and other Western countries.<sup>216</sup> Right after the Soviet invasion of Afghanistan, the United States and China publicized their strategic relationship in January 1980, and the United States eased its regulations of military support equipment to be exported to China. The Carter administration allowed the granting of the MFN status for China, and the economic cooperation between China and the United States expanded rapidly. Many agreements were concluded in consular, aviation, maritime, and textile negotiations in 1980, along with gradual improvements of security cooperation between China and the United States.<sup>217</sup>

Along with the Sino-U.S. normalization process, China and Japan started their formal negotiation toward the Treaty of Peace and Friendship in 1978 to put an official end to the military confrontation from the past. There were already several operational agreements to expand practical relations in trade and technology.<sup>218</sup>

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<sup>216</sup> For more explanations on China's security concerns and strategies regarding the Soviet invasion of Afghanistan, see Gerald Segal, "China and Afghanistan," *Asian Survey* 21, no. 11 (1981): 1158-1174; and A.Z Hilali, "China's Response to the Soviet Invasion of Afghanistan," *Central Asian Survey* 20, no. 3 (2001): 323-351.

<sup>217</sup> Brzezinski, *Power and Principle*, 418-424. China and the United States consulted each other to oppose the Soviet Union after the invasion of Afghanistan. Among various issues to cooperate, they agreed to boycott the 22<sup>nd</sup> Olympic Games held in Moscow in 1980. "Thank you for President's letter of 1/20/80," February 1, 1980, History and Public Policy Program, Woodrow Wilson International Center for Scholars, Declassified Documents, DDRS-266958-i1-3, a letter from Hua Guofeng, Premier of PRC to President Carter, copied from Carter Library.

<sup>218</sup> A trade agreement was signed in January 1974 with MFN treatment to China, and the trade expanded rapidly with an imbalance due to China's import of steel and machinery from Japan while mainly exporting oil. They signed the aviation agreement in April 1974 after some debates about the air traffic

Chinese leadership wanted to conclude the treaty with Japan quickly to improve the security relations and to win Japan's support for coming Chinese invasion into Vietnam.<sup>219</sup> They signed the Treaty of Peace and Friendship in August 1978, and the relations developed rapidly with more cooperation on the regional issues. In 1978, China and Japan shared the concern on the Soviet military expansion, and supported the military presence of the United States in the region.

The Sino-Soviet relations had worsened after China's invasion of Vietnam in 1979, but the Chinese leaders knew that the Soviet Union could not be a grave threat to China due to the military conflicts in other regions. The Soviet invasion in Afghanistan in November 1979 meant that the Soviet Union now had too many countries and issues it needed to deal with, other than China. The increased number of global conflicts in turn provided more stability and opportunities for China. The negotiation between China and the Soviet Union was going nowhere but Deng was in no hurry to improve the relationship rapidly.<sup>220</sup> By 1980, China was no more in mortal danger but in relatively stable situation regarding the Soviet threat. China succeeded in stabilizing the relations with neighboring countries with prior consultation and coordination with the United States. Allowing no further Soviet expansion into the southern and eastern regions, the stabilized security environment turned out to be safe and supportive for the new CCP leadership of China to pursue economic reform and opening.

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with Taiwan, the shipping agreement in 1974, and the fisheries agreement in 1975. *Ibid.*, 113-116.

<sup>219</sup> The "anti-hegemony clause" against the Soviet Union became an obstacle in the negotiation process, but Deng decided to yield on the clause issue to mitigate the expression. In the summer of 1978. On the process of Sino-Japan treaty negotiation, see Chae-Jin Lee, "The Making of the Sino-Japanese Peace and Friendship Treaty," *Pacific Affairs* 52, no. 3 (1979): 420-445. On the effects and consequences of the treaty on the security environment in the Asian region, see Avigdor Haselkorn, "Impact of Sino-Japanese Treaty on the Soviet Security Strategy," *Asian Survey* 19, no. 6 (1979): 558-573; Daniel Tretiak, "China's Vietnam War and Its Consequences," *The China Quarterly* 80 (1979): 740-767.

<sup>220</sup> About the aftermath of China's invasion in Vietnam regarding Sino-Soviet relations, the Soviet and Chinese perspective turned out to be sharply different in their analyses. Medvedev, *China and the Superpowers*, 64-65; Vogel, *Deng Xiaoping and the Transformation of China*, 536-538.

*Taiwan: no longer a threat or a competitor*

It was important for the PRC to gain political confidence over Taiwan in the international community. Throughout the 1970s, China expanded its diplomatic relations with many capitalist and the Third World countries to be recognized as the only legitimate political representative of China. The CCP leaders asked these countries to sever their diplomatic and economic ties with Taiwan to improve relations with the PRC. The regime competition with Taiwan was both the purpose and the stimulus to China's involvement in international community in the early 1970s. The Taiwan issue had remained as the most critical obstacle in Sino-U.S. relations. The United States provided political support and economic assistance to Taiwan from the 1950s, and had the mutual defense treaty supplying American weapons and military equipment. Chinese leaders consistently argued that Taiwan was part of their internal affair and opposed any foreign intervention. Their definition of the problem was "the U.S. occupation of Taiwan," and it was the primary condition to start a high-level negotiation between China and the United States to improve the relationship.<sup>221</sup>

In the process toward the Sino-U.S. rapprochement, China sought to have a seat in the United Nations as a sole representative of China. The United States had supported the dual representation by the PRC and the ROC, but Zhou Enlai and the CCP leaders had no intention of accepting such compromise. The United States tried to prevent the Taiwan expulsion but lost an important procedural vote in September 1971. The PRC "restored" its seat in the General Assembly and the Security Council replacing the ROC.<sup>222</sup> Recognized at the United Nations as the sole representative of

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<sup>221</sup> Zhou Enlai made this Taiwan issue clear in his message to Nixon through Kissinger in 1971, though he did not want this issue to hamper the improvement of Sino-U.S. contacts. Richard Nixon, *RN: memoir of Richard Nixon* (New York: Grosset and Dunlap, 1978), 546-547; and Kissinger, *White House Years*, 751-753.

<sup>222</sup> The Albanian resolution to replace the ROC with the PRC as the sole representative of China had been submitted by Albania annually from the 1960s. It was impossible to pass it in the Western-dominated United Nations in the 1960s, but the situation changed in the early 1970s. The improving Sino-U.S. relations facilitated the support for the PRC admission to the United Nations. Albania once again submitted a resolution to "restore to the PRC all its rights and expel forthwith the representatives

China, the PRC leaders became more confident in their strategy toward the Sino-U.S. rapprochement, and could demand more countries to sever their relations with the ROC in order to improve relations with the PRC.

In the late 1970s, it was still the Taiwan issue which became the obstacle of Sino-U.S. negotiation toward normalization. China had constantly requested three conditions as their guiding principles for the Sino-U.S. normalization: first, to withdraw all U.S. military forces to put an actual end to the military conflicts in Taiwan Strait; second, to sever the diplomatic relations with the ROC; and third, to terminate the mutual defense treaty with the ROC. The Carter administration basically accepted these preconditions but tried to continue the sale of weapons to Taiwan and to maintain unofficial relations for the peaceful settlement of the Taiwan issue.<sup>223</sup> The continued arms sales or the guarantee of the peaceful resolution was unacceptable for the CCP and remained as the most critical obstacle for the negotiation to the last minute. But it did not stop both leaders' strong will for the normalization.<sup>224</sup>

One of the important improvements in Sino-U.S. relations after the normalization was that the Taiwan question no longer constituted a key obstacle to their relations, and became a much less sensitive topic between China and the United States. As the United States severed its diplomatic relations with Taipei in 1978 and agreed to terminate the mutual defense treaty and withdraw all the American forces

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of Chiang Kai-shek." To keep Taiwan, the United States also submitted resolution to admit the PRC to the Security Council but to allow Taiwan to remain as a member in the General Assembly. The United States proposed to declare the expulsion issue of the ROC to be an "important question" requiring a two-thirds majority vote, but it was rejected in the General Assembly by 59 to 55 (15 abstentions). On 25 October 1971, the Albanian resolution (General Assembly Resolution 2758) was passed by 76 to 35 (17 abstentions) to expel Taiwan and admit the PRC. Taiwan's representatives withdraw from the General Assembly right before the vote to avoid an official expulsion. The U.S. resolution on dual representation never came to a vote. Kissinger, *White House Years*, 773-774; Garver, *Foreign Relations of the People's Republic of China*, 81.

<sup>223</sup> On strategic thinking and discussions in the United States on the Sino-U.S. normalization process to meet the three Chinese conditions and continue the support to Taiwan, see 'II. Strategy for Normalization with PRC' in "Issues for Decision on Korea and China," April 4, 1978, HAPP, WWICS, Declassified Documents, DDRS-284899-i1-13, National Security Council Memorandum, copied from Carter Library.

<sup>224</sup> Deng did not accept the continued arms sales, but did not allow the issue to prevent the normalization. Brzezinski, *Power and Principle*, 229-232.

completely, it was officially concluded that Taiwan would not be a meaningful military threat to China. The Taiwan question remained a thorny issue in the Sino-U.S. relations until the early 1980s. The ROC government in Taiwan did its best to maintain unofficial relations with the United States.<sup>225</sup> In 1979, Carter signed the TRA to mollify the opposition from the U.S. Congress. In 1980 and 1981, the newly inaugurated Reagan administration created temporary tension with his plan to restore the relationship with Taiwan during the presidential election campaign. This issue reignited the debates on the U.S. arms sales to Taiwan.<sup>226</sup> The negotiation lasted almost a year, and the final joint communiqué on August 17, 1982, included concessions from the both sides. Although China failed to guarantee the termination of the arms sales, the Chinese leaders delivered enough warnings to the United States about the seriousness of the issue.<sup>227</sup> After the 8.17 communiqué with the United States in 1982, the Taiwan issue gradually disappeared from the Sino-U.S. relations for the rest of the 1980s. China no longer worried about the military threat or political competition, and became confident about the future of Taiwan in the long-term perspective.

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<sup>225</sup> The American Institute in Taiwan (AIT) was established as the unofficial agency between the United States and the ROC, and the Coordination Council for North American Affairs (CCNAA) represented Taiwan's interests in Washington.

<sup>226</sup> China had already expressed deep concern about the continued U.S. arms sales and the U.S. Congress' legislation of TRA from 1979, as is seen in "PRC Reaction to Taiwan Legislation," March 16, 1979, HAPP, WWICS, Declassified Documents, DDRS-267214-i1-3, a telegram from Beijing to Washington, copied from Carter Library. Former President Jimmy Carter visited China in 1981 and tried to resolve some tensions between the Sino-U.S. relations including the Taiwan issue, delivering the complaints of Chinese leaders as seen in his letter to Reagan, "Jimmy Carter: Memo to Secretary Haig, for Delivery to President Reagan," September 9, 1981, HAPP, WWICS, Declassified Documents, DDRS-273612-i1-2, copied from Carter Library.

<sup>227</sup> The U.S. Secretary of State Haig expressed concern about the breach of U.S.-China relations due to the Taiwan issue, which might bring series of negative implications to U.S. interests in other issues. Alexander M. Haig, Jr., "Downgrading U.S.-China Relations: U.S. Interests," December 1, 1981, HAPP, WWICS, Declassified Documents, DDRS-276807-i1-2, the Secretary of State Memorandum. In the sixth article of the joint communiqué, the United States stated "that it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years" and "that it intends to reduce gradually its sales of arms to Taiwan, leading over a period of time to a final resolution." And the United States acknowledged "China's consistent position regarding the thorough settlement of this issue." From "Joint Communiqué between the People's Republic of China and the United States of America [China-US August 17 Communiqué]," August 17, 1982, cited from <http://www.china.org.cn/english/china-us/26244.htm> (accessed Sept. 14, 2013).

## 2. From a Socialist State to a Developing Country

The pragmatic slogans toward the reform and opening policies at the Third Plenum of the Eleventh Central Committee in 1978 seemed to be a dramatic change in Chinese political discourse compared to the previous revolutionary slogans by the Maoist radicals until 1976. But the pragmatism on economic management had its roots from the late 1950s in the debates on the partial liberalization. The inefficiency problem of the Soviet model and the failure of the Great Leap Forward had ignited the pragmatic reform idea from a number of economists such as Chen Yun. They suggested relatively less control from the center and more use of material incentives, which was similar to the decades-long reform debates in the Soviet Union and Eastern European countries.<sup>228</sup> In the late 1970s, these ideas of limited liberalization played a role in fostering more balanced economic readjustments and restructuring, in cooperation with more radical ideas about the reform and opening led by Deng Xiaoping.

Deng and other pragmatists successfully reinterpreted the political discourses inherited from Mao Zedong to replace Hua Guofeng's "two whatevers" with more pragmatic concepts. Facilitated by the opportunities they caught that arose from changing security relations, the new leadership readjusted the economic policies to achieve a dramatic reorientation of industry and agriculture to move into the initial stage of the reform and opening. For this reorientation of economic policies to hold, the political slogans had to be continuously redefined to support the reform and opening led by Deng Xiaoping.

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<sup>228</sup> In mid-1950s after the failure of the Great Leap Forward, Chen Yun pointed out several problems of the Chinese economy after years of socialist construction, and suggested ways to revitalize the production by decentralizing the enterprise management and pursuing balances between material incentives and common interests. Chen Yun, "Shehuizhuyi Gaizao Jibenwancheng Yihou de Xinwenti [New Problems after the Completion of Basic Socialist Transformation]," A statement of Comrade Chen Yun at the Eighth National Congress of the CCP, September 20, 1956, originally published in the *Renmin Ribao* (People's Daily), February 21, 1956, under the title of "Guanyu Zibenzhuyi Gongshangye Gaizao Gaochao Yihou de Xinwenti [On New Problems after the Period of Transformation of the Capitalist Commerce and Industry], 1-13; and "Zuohao Shangye Gongzuo [Let Us Improve Commerce Works]," A speech of Comrade Chen Yun at the Extended Work Conference of the Department of Commerce, November 19, 1956, 27- 34, both in *Chen Yun Wenxuan III*.

### **(1) Return of Pragmatism Utilizing the Opportunities**

The historical memories of foreign invasions and the revolutionary fever had helped Mao Zedong and revolutionary elites to justify their rule and mobilization campaigns throughout the 1950s and 1960s, including the Cultural Revolution. In the official discourse of the 1970s, however, the comradeship with the socialist countries became meaningless with the increasing threat from the Soviet Union. Throughout the 1970s, different leaders utilized the historical memory arguing their own political approaches. The moderate leaders, Zhou Enlai and Deng Xiaoping, used the past experiences to suggest more cooperation with the West for practical purposes. The Maoist radicals used the memories to emphasize the danger of the West and to criticize the opened relations in protective manor. Due to the political struggle with the radicals, the pragmatic approach for the “four modernizations” was temporarily suspended until the rehabilitation of Deng Xiaoping in 1977. Though hampered by the domestic politics, they succeeded to change the focus of political discourse to initiate the opening toward the West in the early 1970s. This continuous reinterpretation of discourses assisted the reform and opening policies of the pragmatists later in 1978.

#### *To become a “Third World” developing country*

By the end of the 1960s, the anti-U.S. rhetoric was fading away because of the practical needs in security and economy in the face of the Soviet threats. At the same time, the United States and the capitalist West were still not considered to be trustworthy enough since there was the history of the past exploitations. To change the decades-long beliefs in the superpowers’ collusion against China, there were fierce debates among the CCP leaders centering on whether to align with the United States or to stay relatively closer to the Soviet Union. The major debate occurred between Zhou Enlai and Lin Biao. Zhou Enlai suggested the alignment with the weakened United States which he thought unlikely to attack China, whereas Lin Biao promoted a continuous struggle against the United States. Zhou wanted a contact with

the United States as a mean to check the Soviet expansionism. For Lin Biao, the United States still had its imperialist characteristics, and it was better to keep a loose alignment with the Soviet Union. Mao Zedong accepted Zhou's opinion in September 1970 to redirect China's strategy to align with the United States to check Soviet aggressions.<sup>229</sup> After several indirect communications with the Nixon administration, China finally became assured about the United States' intention to withdraw from Vietnam and to improve the Sino-American relations in the early 1970s.

In the early 1970s after the fall of Lin Biao, the moderate leaders started to reinterpret the historical concepts toward more pragmatic ones to stabilize the political and economic relations. The Sino-U.S. rapprochement put an end to the danger of the U.S. containment or a two-front war. China even expected military cooperation with the United States to form a united front against the Soviet Union. Mao Zedong agreed with Zhou and the moderate leaders to gradually change the self-definition of China. Mao Zedong never openly recognized changes in his ideology, but agreed to leave the revolutionary memories in the past and to redirect the policy lines as one of the "Third World" developing countries in the Three World Theory.

In April 1974, Deng Xiaoping presented the Three World Theory at the United Nations General Assembly. This theory defined the two superpowers as the First World, the industrialized countries like Canada and Japan as the Second World, and the developing countries as the Third World. China positioned itself as a Third World country, to justify its new approach toward the West for economic development, and to unite the developing countries for the political opposition against the hegemonic activities of the superpowers, especially the Soviet Union.<sup>230</sup> This ideological redefinition helped moderate leaders like Zhou Enlai and Deng Xiaoping to expand international economic and political relations for national interests rather than the ideological purposes. Mao allowed Zhou and Deng to push ahead the moderate and

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<sup>229</sup> Garver, *Foreign Relations of the People's Republic of China*, 74-76.

<sup>230</sup> On the appearance and impacts of the Three World Theory since 1974, Herbert S. Yee, "The Three World Theory and Post-Mao China's Global Strategy," *International Affairs* 59, no. 2 (1983): 239-249.

pragmatic strategies for China's modernization during the early 1970s.<sup>231</sup> Zhou Enlai pursued pragmatic relations with the capitalist West, using the improved relationship with the United States. Still under Mao Zedong's leadership, China improved its relations with the capitalist West to expand trade and obtain advanced technology.

Following the official redefinition to be a developing country, China tried to represent the interests of the Third World on various occasions. After its admission to the United Nations in 1971, China supported the opinions of the Third World countries in many of the United Nations agenda, for example, the declaration of the Indian Ocean to be a peace zone, and economic jurisdiction over the seas within 200 nautical miles.<sup>232</sup> The increase of interests of the Third World countries had the long-term benefits along the development of Chinese industry seeking more markets to increase trade. China restarted its economic aid programs from 1970, particularly increasing support to the Third World countries. These expanded relations with the Third World countries contributed to China's political confidence and became utilizable resources of the reform and opening later. When the new leadership tried to expand the economic opening in the 1980s, the expanded relations with these countries provided more opportunities and incentives to facilitate economic exchanges.

The pragmatic approach of Zhou Enlai and Deng Xiaoping was still in competition with the revolutionary slogans of the Maoist radicals led by Jiang Qing. Since China still claimed to stand for Marxism-Leninism, the regime became easily protective when security and political relations faced more difficulties than they expected. It was the Maoist radicals who dominated the propaganda, education and culture. They were highly protective against the western culture and idea, and the

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<sup>231</sup> Sheng Hua, Xuejin Zhang, and Xiaopeng Luo, *China: From Revolution to Reform* (The MacMillan Press Ltd., 1993), 20-21; Zhou Enlai, "Xiang Sige Xiandaihua de Hongwei Mubiao Qianjin [Advance toward the Great Purpose of Four Modernizations]," Excerpt from the 'report on the government works' to the First Plenum of the Fourth National People's Congress, January 13, 1975, the report published in the Renmin Ribao (People's Daily), January 21, 1975, *Zhou Enlai Xuanji Xiajuan* [Selected Works of Zhou Enlai Volume II] (Beijing: Renmin Chubanshe, 1980), 479.

<sup>232</sup> Hsueh and North, "Peking's Perceptions of Soviet-American Relations," 66-67.

westward tendency of Zhou Enlai and Deng Xiaoping was vulnerable to the criticism from the Maoist radicals. The clash with the Maoist radicals turned out to be a big obstacle in the mid-1970s. From 1974 to 1977, the United States changed its policy direction under the Ford administration, focused more on the Soviet-U.S. détente in the aftermath of the Vietnam War. Mao and Zhou were concerned that the United States might give up the region and seek the détente with the Soviet Union.<sup>233</sup> The CCP leaders could no longer trust the U.S. position under the Ford administration. The Sino-U.S. relationship was suspended after the Ford visit to China in December 1975 until 1978, during which China also went through domestic political turmoil.<sup>234</sup> The Maoist radicals regarded it as a failed diplomacy hostile to the national security.

Zhou Enlai and the pragmatists were criticized of favoring connections with the capitalist nations and depending too much on western capital and technology. From 1974, criticisms against the Sino-U.S. exchanges appeared more frequently in the Chinese press. The pragmatists tried to carry on with the exchanges but it became difficult to maintain support from the domestic elites when they had no decisive achievements to show them. After the death of Zhou Enlai, Deng Xiaoping was once again removed from his posts in the fall of 1976, and it seemed as if the memory of the socialist revolution and the struggle against the West had defeated the pragmatic ideas for the reform and rapid modernization. But the impact of the historical memories on revolutionary struggles was losing its impact all throughout the 1970s, and the fall of the Maoist radicals immediately revived the pragmatic approaches to seek various ways of economic modernization and development in the late 1970s.

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<sup>233</sup> When Deng Xiaoping first visited New York in April 1974 for a speech at the United Nations, he passed on Mao's message to the United States to conduct a joint strategy "to fix the bear in the north." Kissinger, *Years of Renewal*, 164-165 and 872-873. Ford met Brezhnev in 1974 at Vladivostok, at which China expressed strong displeasure and suspicion. Kissinger cited the People's Daily editorial of May 9 that described the United States as "increasingly vulnerable and strategically passive."

<sup>234</sup> Ford administration disappointed the Chinese leaders on several issues: their different perspectives toward the Soviet Union, the fundamental issue on Taiwan, and the inability in the domestic politics. The position of the United States weighing China and the Soviet Union continued until early 1978 as shown in their discussion in the NSC, "Issues for Decision on Korea and China," April 4, 1978.

*“Seeking truth from facts” defeats “two whatevers”*

Despite attacks from the Maoist radicals in the mid-1970s, Deng drafted several documents for economic reform in 1975. He defined the “overall interest” of China as the “two-stage development of our economy.” The first stage was “to build an independent and relatively comprehensive industrial and economic system by 1980” and the second stage was to construct “a powerful socialist country with modern agriculture, industry, national defense and science and technology” by the end of the twentieth century.<sup>235</sup> At the time, the reform ideas had not changed much from the traditional socialist mobilization on heavy industries. In his speech on the iron and steel industry in May 1975, Deng pushed hard for production target, and directed all major factories to hold mass meetings for campaigns.<sup>236</sup> When Deng finally returned to his positions later in 1977, his reform idea was no longer about these political mobilizations.

The urgent task was to develop the economy and technology. The pragmatists knew that China was seriously lagging behind, and the exchanges with the West were critical for rapid development. Deng was one of the most active supporters for the expansion of economic relations, opposing excessive self-reliance. He knew that “foreign countries all attach great significance to the introduction of new technology and equipment from abroad” and focused on the export “in exchange for high-grade, high-precision, advanced technology and equipment.”<sup>237</sup> He suggested exporting more petroleum, traditional art products, and chemical products and coal, which was similar to Hua Guofeng’s idea later in 1977 and 1978, then criticized by Chen Yun as

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<sup>235</sup> Deng Xiaoping, “Quandang Jiangdaju, Ba Guomin Jingji Gaoshangqu [The Whole Party Should Take the Overall Interest into Account and Push the Economy Forward],” Speech at a meeting of secretaries in charge of industrial affairs from the Party committees of provinces, municipalities and autonomous regions March 5, 1975, in *Deng Xiaoping Wenxuan II*, 4.

<sup>236</sup> Deng Xiaoping, “Dangqian Gangtie Gongye Bixu Jiejue de Jige Wenti [Some Problems Outstanding in the Iron and Steel Industry],” Speech at a forum on the iron and steel industry, May 29, 1975, in *Deng Xiaoping Wenxuan II*, 8-11.

<sup>237</sup> Deng Xiaoping, “Guanyu Fazhan Gongye de Jidian Yijian [Some Comments on Industrial Development],” Remarks at a State Council meeting to discuss the document ‘Guanyu Jiakuai Gongye Fazhan de Ruogan Wenti [Some Questions on Accelerating Industrial Development]’ drafted by the State Planning Commission, August 18, 1975, in *Deng Xiaoping Wenxuan II*, 29.

being unrealistic considering China's actual capability. Though they were not adopted at the time, these ideas provided the backgrounds of the reform and opening policies when Deng Xiaoping and his supporters consolidated power in the late 1970s. They had already proposed to change the trade and investment policies, which would reject the Maoist approach of economic and technical self-reliance.<sup>238</sup>

After the death of Mao Zedong in September, 1976, the new leadership led by Hua Guofeng used the concept "two whatevers," emphasizing the importance of Mao Zedong's will to maintain political authority and political stability in China. Since Hua Guofeng was nominated by Mao Zedong himself, he had the political advantages of being able to utilize Mao's authority for his policies. Deng Xiaoping criticized and resisted against the "two whatevers" to justify his pragmatic approach. Deng chose not to deny Mao's achievements and instead carefully selected concepts and rhetoric from Mao Zedong Thoughts to justify his approach. He used Mao's words selectively, for example, that Mao Zedong said "that some of his statements were wrong," and "if one's work was rated as consisting 70 percent of achievement and 30 percent of mistakes, that would be quite all right, and that he himself would be very happy and satisfied if future generations could give him this '70-30' rating after his death." It was also helpful to deny the completeness of the ideological figures: "neither Marx nor Engels put forward any 'whatever' doctrine, nor did Lenin or Stalin, nor did Comrade Mao Zedong himself."<sup>239</sup>

Deng utilized the phrase "seeking truth from facts" as a tool for pragmatism in his policy suggestions.<sup>240</sup> When the debate between the Deng's article "Practice is the

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<sup>238</sup> Lardy, *Foreign Trade and Economic Reform in China, 1978-1990*, 37.

<sup>239</sup> Deng Xiaoping, "'Lianggefanshi' Bufuhe Makesizhuyi [The 'Two Whatevers' Do Not Accord with Marxism]," Excerpt from a talk with two leading comrades of the Central Committee of the CCP, May 24, 1977, in *Deng Xiaoping Wenxuan II*, 38-39.

<sup>240</sup> Using Mao's words and revolutionary rhetoric, Deng argued that if they "have full faith in the masses, seek truth from facts, ensure democracy and reaffirm and further develop Comrade Mao Zedong's theory of Party building and the Party's style of work, we can certainly bring about the political situation he envisaged." Deng Xiaoping, "Wanzheng de Zhunque de Lijie Mao Zedong Sixiang [Mao Zedong Thought Must be Correctly Understood as an Integral Whole]," Excerpt from a speech at the Third Plenary Session of the Tenth Central Committee of the CCP, July 21, 1977, in *Deng Xiaoping Wenxuan II*, 45-46.

Sole Criterion for Judging Truth”<sup>241</sup> and Hua’s concept “two whatevers” began to intensify, Deng went on his trip to local provinces to garner more support from the locals. He dealt with the debate by criticizing “two whatevers” and stirring up support for his “Practice” article, and promised more efforts to expand reform and opening.<sup>242</sup> In fact, Hua Guofeng was doing his best to establish his power and revive the Chinese economy. He convened the Eleventh Party Congress in August 1977, relying on the Mao Zedong Thought to placate political challenges, focusing on the production campaigns and economic development for the four modernizations following Zhou and Deng.<sup>243</sup> Hua’s plans for development were similar to what Deng had pursued from the mid-1970s, but Deng criticized Hua for not being bold enough to restructure the political and economic system. Deng did not oppose Hua’s basic plans of rapid opening and bringing huge amount of imports from abroad. Deng also had argued that China should expand the relations more quickly to catch up to the rapid-changing world economy and technologies. Both were seeking to find an effective way of modernization, and it was Deng’s political victory over Hua which made him the coordinator of China’s reform and opening in the 1980s.

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<sup>241</sup> “Ziliao: ‘Shijian shi Jiyan Zhenli de Weiyi Biaozhun (Quanwen) [Material: ‘Practice is the Sole Criterion for Judging Truth’ (full text)],” Originally reported in *Guangming Ribao*, May 11, 1978, Xinhua News Agency Website] [http://news.xinhuanet.com/politics/2008-05/09/content\\_8138077.htm](http://news.xinhuanet.com/politics/2008-05/09/content_8138077.htm) (accessed Sept. 18, 2013).

<sup>242</sup> Vogel (2011) listed three “lighting the spark” trips of Deng Xiaoping: Guangzhou in November 1977 to meet PLA officials and civilians to revive economy; Sichuan in February 1978 as a stopover between Burma and Nepal, met Zhao Ziyang to discuss rural and urban reforms; and Northeast in September 13 to 20, 1978, on his way back from North Korea. Vogel, *Deng Xiaoping and the Transformation of China*, 227-228.

<sup>243</sup> The concept of the “four modernizations” was originally suggested by Zhou Enlai in 1963, and was again emphasized in mid-1970s. Deng Xiaoping also used this concept for the formal launch of the reform and opening in 1978. In his report at the Party Congress, Hua presented the rapid revival of the economy in the first half of 1977, and emphasized the importance of the mobilization campaigns. He urged the cadres and the masses “to go all out and fully employ their talents in the great struggle to build our socialist motherland.” There were the models of the mass movements “to learn from Daqing in industry and from Dazai in agriculture.” It was “a new leap forward” campaign “to emulate, learn from, catch up with, help and surpass each other ... not only within and between enterprises but also between departments and between provinces, municipalities and autonomous regions.” Hua Guofeng, “Shiyida shangde Zhengzhi Baogao [Report to the Eleventh National Congress of the CCP],” delivered on August 12 and adopted on August 18, 1977, Zhongguo Gongchandang Lici Quanguo Daibiao Dahui Shujuku [Database of the Past National Party Congress of the CCP], <http://cpc.people.com.cn/GB/64162/64168/64563/65449/4526442.html> (accessed Sept. 15, 2013).

Deng and Hua shared the sense of urgency for modernization, but Deng's idea of the reform and development policies were the ones that successfully expanded to include radical measures to reorient the industrial structure, liberalize the domestic economic system (for example, allowing more autonomy to the enterprises), and open its economy wider for the technology and skills. To complete the reinterpretation of memories and the redefinition of political slogans for a comprehensive reform, Deng persuaded the local-level elites to support his ideas of reform and opening. In his trip to the Northeast provinces, he emphasized the improvements in security environments "which were absent in Comrade Mao's time" that were now supportive to pursue the four modernizations. He did not criticize Mao directly but accused the Gang of Four, for being extremely protective and denounced the international economic relations as "national betrayal" and "sealed China off from the outside world." Deng utilized Mao's Three World Theory to push for more relations and exchanges with the outside. Since China had "secured international conditions that are far better than before," it was the right time to "make use of capital from foreign countries and of their advanced technology and experience in business management."<sup>244</sup>

## **(2) Pragmatism Taking Advantage of "Excellent Environment"**

In his speech in early 1979, Deng Xiaoping showed his confidence about the stabilized security environment which provided favorable conditions for the new leadership to pursue the economic policies with goals defined at the Third Plenum in December 1978. The PLA's limited military operation in Vietnam proved that the Soviet expansionism would not be a serious threat in the region. Deng emphasized that China had achieved "a lot of diplomatic work" in 1977 and 1978, and "secured an excellent international environment for the realization of China's four modernizations," including the improved relations with the United States, Japan and

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<sup>244</sup> Deng Xiaoping, "Gaoju Mao Zedong Sixiang Qizhi, Jianchi Shishiqiushi de Yuanze [Hold High the Banner of Mao Zedong Thought and Adhere to the Principle of Seeking Truth from Facts]," Excerpt from remarks made on hearing a work report by members of the Standing Committee of the Jilin Provincial Committee of the CCP, September 16, 1978, in *Deng Xiaoping Wenxuan II*, 126-128.

other capitalist countries. Deng justified his reform decisions as “brilliant and far-sighted” strategic ones within the frame of the Three World Theory and argued that “China should side with the third-world countries and strengthen its unity with them, try to win over the second-world countries for a concerted effort against hegemonism, and establish normal diplomatic relations with the United States and Japan.”<sup>245</sup> The CCP leaders knew that the Soviet Union was becoming much more cautious in Asia to confront China since it would then have to simultaneously confront the United States or European countries in other regions around including Afghanistan. With this relative stability of security environment, the leaders initiated the radical reform measures of reorientation, liberalization, and opening which were supported by their strengthened political slogans set to pave way for economic development.

*Learning everything Western except for politics*

After the Third Plenum of the Eleventh Central Committee in December 1978, political support for Hua Guofeng’s leadership shrank with the decline of his concept “two whatevers.” The original agenda had focused on the economic development but the discussions were inclined to more demands for a complete political shift out of the Cultural Revolution. The supporters of Deng Xiaoping, including Chen Yun and many former revolutionaries, agreed to replace Hua’s leadership, and supported the new policies of more comprehensive reform and opening.<sup>246</sup> With the complete shift of the political power from Hua to Deng, the debates on the political discourses also came to an end with the victory of pragmatism for economic development over the revolutionary struggle.

Deng Xiaoping had put great emphasis on the science and technology, which he believed to be most critical in China’s efforts to catch up the advanced countries in the West and the Soviet Union. He defined China’s level of technological

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<sup>245</sup> Deng Xiaoping, ‘1. Xingshi de Renwu [The Present Situation and Our Tasks]’ of “Jianchi Sixiang Jiben Yuanze [Uphold the Four Cardinal Principles],” A speech at a forum on the principles for the Party’s theoretical work, March 30, 1979, in *Deng Xiaoping Wenxuan II*, 159-160.

<sup>246</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 229-238.

development as being “fully 20 years behind the developed countries.” China had only a small number of scholars and experts in the sciences compared to the United States and the Soviet Union “who are really competent and can work regularly.”<sup>247</sup> The rapid economic development of China shared the “advantage of backwardness” and the state-led economic strategies with Japan and Asian NICs. Deng even had suggested attracting “a number of foreign scholars of Chinese descent” and “sending people abroad for advanced study” to access to the advanced technology as quickly as possible. Direct contacts and exchanges with other “foreign scholars friendly to China” were also emphasized.<sup>248</sup>

Having been redefined as a developing country fortunately allowed China to face a relatively stabilized security environment for the time being. Along with the process of Sino-U.S. normalization in 1978 and 1979, Chinese top leaders including Deng and Hua Guofeng visited many countries in Europe and Asia. Deng visited Japan in October 1978 and February 1979, and the United States in January 1979 right after the normalization. They were to strengthen anti-Soviet unity, but the more important purpose was to improve economic relations and supports for China’s modernization and development in a relatively stable international environment. When Deng visited the United States in 1979, he focused on the expansion of economic and scientific exchanges. These expanded relations were possible on the basis of security cooperation to contain the Soviets and support China’s coming military operation into Vietnam to “teach it a lesson.”<sup>249</sup> China could seize the momentum of comprehensive reform and opening without being too concerned about regime security.

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<sup>247</sup> Deng Xiaoping, “Zunzhong Zhishi, Zunzhong Rencai [Respect Knowledge, Respect Trained Personnel],” Excerpt from a talk with two leading comrades of the Central Committee of the CCP, May 24, 1977, in *Deng Xiaoping Wenxuan II*, 40-41.

<sup>248</sup> Deng Xiaoping, “Guanyu Kexue de Jiaoyu Gongzuo de Jidian Yijian [Some Comments on Work in Science and Education],” Speech at a forum on work in science and education, August 8, 1977, in *Deng Xiaoping Wenxuan II*, 57.

<sup>249</sup> For a detailed explanation on the China’s calculations and consequences of the invasion of Vietnam, see Xiaoming Zhang, “China’s 1979 War with Vietnam: a Reassessment,” *The China Quarterly* 184 (2005): 851-874.

Along with the initiation of reform and opening of the economic system, Deng Xiaoping stabilized and disciplined the rule of the CCP to support rapid economic modernization not endangering political instability. The new leadership was cautious about the possibility of political turmoil which might undermine the sustainability of the political regime. Lively debates for the future development were needed for sure, but the political debates among elites had to be carefully coordinated for the sake of domestic political stability. The radical reformers supported by Deng initially promoted more freedom and less control over the society, allowing small oppositions and political debates on the reform policies. But when the public opinions and demonstrations turned out to be dangerous for the stability, Deng strictly suppressed the tendency without hesitation. The case of the “Xidan Democracy Wall” from November 1978 to March 1979 showed the limits of political expression the leadership could tolerate. When the articles on the Xidan Wall started to criticize the fundamental rule of the CCP and Deng’s leadership, Deng swiftly decided to suppress the movement.<sup>250</sup>

In the process of implementation of economic reform and opening policies, there began a fierce policy debates among the elites between the radical reformers and the conservative (moderate) reformers. The Conference on Theoretical Principles was held in January 1979 to create some basic principles to guide the Party works. Newly emerging radical reformers such as Hu Yaobang discussed many innovative concepts and liberal thinking, which worried senior and conservative leaders like Chen Yun and Li Xiannian. They complained about the danger of excessive changes. In March 1979, Deng warned about the limitless debates among intellectuals, and instructed that the various opinions and debates that took place among the leadership should not be made public. The Xidan Wall case and the elite debates urged the top leadership to establish principles in order to draw a clear boundary of acceptable political expressions, which resulted in the Four Cardinal Principles declared on March 30,

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<sup>250</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 249-256.

1979.<sup>251</sup> These principles became the basic standard upon which Chinese politics and society would maintain political order and stability throughout the 1980s.

*Expansion of exchanges with new partners*

Deng and Chen could implement their concept of pragmatic approaches after the complete leadership change that became intertwined with the ideological reinterpretation and redefinition. In addition to the political legitimization of leadership changes, Deng justified the new of national identity of a developing country to pursue bolder measures of reform and opening. In the past, it was best to be completely independent from outside and construct a self-reliant economy to keep the socialist regime safe from foreign invasions. The historical memory of external threats from the superpowers was still vivid which began to gradually change only after 1972. Deng proudly explained that China had achieved a certain level of development even when there was no favorable external factor from the mid-1950s to the early 1970s. China was being “forced to exert ourselves” by the revolutionary spirit of self-reliance. He did not mean that a country “shouldn’t seek outside help, but the main thing was to rely on our own efforts,” to overcome the difficulties at the time of internal turmoil and external threats.<sup>252</sup> Deng’s leadership now had the opportunity to utilize favorable international situation for China’s development, which was not to deny the importance of internal unity and political stability but to keep their regime more secure.

The normalization and security cooperation with the United States provided increasingly favorable security environments for China’s reform-oriented leaders. China and the U.S. commonly denied the admission of pro-Vietnamese government in

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<sup>251</sup> The Four Cardinal Principles drew the clear boundary of political debates and challenges: 1) the socialist path, 2) the dictatorship of the proletariat, 3) the leadership of the CCP, and 4) Marxism-Leninism and Mao Zedong Thought. Deng Xiaoping, ‘2. Shixian Sige Xiandaihua Bixu Jianchi Sixiang Jiben Yuanze [The Four Modernizations Must Uphold the Four Cardinal Principles]’ of ‘Jianchi Sixiang Jiben Yuanze [Uphold the Four Cardinal Principles],’ 163-172.

<sup>252</sup> Deng Xiaoping, “Wode Jingji Jianshe de Lishi Jingyan [China’s Historical Experience in Economic Construction],” Remarks at a meeting with the Liberian Head of State, Samuel Kanyon Doe, May 6, 1982, in *Deng Xiaoping Wenxuan II*, 405-407.

Cambodia to the U.N., and commonly opposed the Soviet invasion in Afghanistan. The U.S. military presence in Asia was no more criticized by China, since the leaders decided to recognize its role to contain Soviet expansion.<sup>253</sup> In response to the Chinese requests, the United States expanded its technology transfer and the military equipment sales to China by lifting the trade restrictions which had not been allowed to the Soviet Union.<sup>254</sup> Along with increased confidence in military aspects against the Soviet Union, these developments in Sino-U.S. relations provided China with more opportunities to expand and deepen the political and economic relations with other capitalist countries.

The normalization with the United States promoted the economic opening to the outside world. Alignment with the U.S. provided the basis for political support for the access to the world economy. The Carter administration promoted investments to China, and supported the Chinese participation in international financial organizations like the World Bank and the International Monetary Fund (IMF). Economic exchanges increased dramatically in the early 1980s.<sup>255</sup> The United States allowed China to access technical assistance programs, investment guarantees, and trade credits from U.S. institutions. By signing a trade agreement with extended MFN treatment to China, the commercial exchanges between two countries increased rapidly in the early 1980s. To provide more appropriate infrastructure to facilitate economic exchanges between China and the United States, the two countries made

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<sup>253</sup> The Chinese and U.S. leaders frequently exchanged opinions and had high-level meetings, discussed the issues in Afghanistan, Pakistan, Cambodia, and other areas regarding the Soviet threat. Deng expressed satisfaction with the Sino-U.S. security cooperation and mutual understandings on these issues, and demanded for more technology transfer for military modernization. On one of the high-level meetings including common opinions on these issues, "Memorandum of Conversation with Vice Premier Deng Xiaoping (and U.S. Secretary of Defense Harold Brown)," January 8, 1980, HAPP, WWICS, Declassified Documents, DDRS-276738-i1-17, copied from Carter Library.

<sup>254</sup> The United States decided to sell more advanced military equipment to China, but not arms, and established new policy measures to handle the issue differently from that with other socialist countries, particularly the Soviet Union. About a U.S. NSC meeting on this issue, see "Sale of Sensitive Equipment to China," January 22, 1980, HAPP, WWICS, Declassified Documents, DDRS-272929-i1-4, National Security Council Memorandum, copied from Carter Library.

<sup>255</sup> Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: University of Michigan Press, 1990), 57-82.

agreements not only on trade but also on postal service, commercial air, shipping services, and consular by 1980. Exchange programs including scientific and technological exchanges were conducted by Chinese local authorities and American counterparts.<sup>256</sup> Supported by the Sino-U.S. normalized relations, China was able to expand its economic relations with other capitalist countries and institutions as well.

Along with the Sino-U.S. relations, the improved relations with Japan also facilitated the economic relations. Deng Xiaoping visited Japan in October 1978 and confirmed his economic goals to develop the technology and management system. Deng and his reformers were eager to accept Japanese technology and management skills, which they believed to be the most effective way to maximize the production with higher efficiency.<sup>257</sup> With the upgraded relationship, Chinese leaders promoted economic and cultural exchanges with Japan for more effective reform that entailed reduced control over domestic economy. Except for a temporary stalemate due to China's readjustment policies from 1979 to 1981, the Sino-Japanese economic relations continuously improved throughout the 1980s to promote industrial developments in China.

### 3. Power Shift from Revolutionaries to Technocrats

Throughout the 1970s, the international economic relations were still subordinated to the security and political concerns by the socialist leadership in China, and it was still more important to increase military and political capacity to preserve its independence from foreign enemies. Until 1978, China went through domestic

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<sup>256</sup> The U.S. Vice President W. Mondale met Deng Xiaoping in Beijing, 1979, to discuss the economic and transport agreements. "Summary of the Vice President's Meeting with People's Republic of China Vice Premier Deng Xiaoping," August 27, 1979, HAPP, WWICS, Declassified Documents, DDRS-274194-i1-18, White House Memorandum of Conversation, copied from Carter Library. The officials of China and the United States had negotiations throughout 1980 for various practical agreements, one of the meetings shown in the "Zhang Wenjin's Visit: Fourth Round of Talks," March 28, 1980, HAPP, WWICS, Declassified Documents, DDRS-273868-i1-7, a telegram from Washington to Beijing, copied from Carter Library.

<sup>257</sup> Chinese factories started to learn the Japanese management system and training programs. Vogel, *Deng Xiaoping and the Transformation of China*, 308-310.

turmoil and succession struggles, first between the Maoist radicals and the pragmatists, and then between the nominal leadership of Hua Guofeng and the actual power wielded by Deng Xiaoping. In accordance with the political dynamic of the leadership change before and after the death of Mao Zedong, the policy priorities and personnel managements were rearranged toward reform and opening by the time Deng Xiaoping established his political leadership in 1978.

### **(1) Gradual Rise of the Reformers' Group**

When Mao Zedong and Zhou Enlai decided to initiate contacts with the United States and the West in the early 1970s, this strategic change was welcomed by the pragmatists (the moderates), while the Maoist radicals kept silent after the fall of Lin Biao from power. Following the rapprochement with the United States, China began to shift its economic focus to expand relations with the capitalist West for the four modernizations. The successful forging of new ties with the United States and the West provided more political power to the pragmatists in domestic politics. But this also had the effect of rendering them vulnerable to the criticisms of the Maoist radicals when China's relations with the West deteriorated or failed to produce as much benefit as China had expected. The successful economic and political involvement with the international community provided valuable experience to the pragmatists in the early 1970s, but the counterattack from the Maoist radicals led by Jiang Qing put a halt to the policy changes in the mid-1970s. To expand economic ties, they had to deal with political relations to reduce the security and political obstacles.

#### *Seeking momentum in competition with the Maoist radicals*

Although the revolutionary leaders claimed to pursue economic self-reliance, there had been considerable portion of foreign economic relations throughout the history of the PRC. Mao and Zhou already had the experiences of foreign aids and cooperation in the 1950s from the Soviet Union in the process of constructing the socialist system. Trade plummeted at the end of the 1960s due to the Cultural

Revolution, but rapidly revived right after the peak of the political fever in the early 1970s. The volume of trade quickly increased as China imported industrial plants with advanced technology. China tried to expand its exports of agricultural goods and natural resources to pay for them. Trade increased by more than 250% in only six years between 1970 and 1975.<sup>258</sup> The Sino-U.S. rapprochement in 1972 effectively promoted foreign economic ties. China agreed to use the U.S. dollars to settle their trade accounts, and the United States relaxed controls on the sale of technology to China.<sup>259</sup>

The Sino-U.S. rapprochement also brought the rapid expansion in economic and cultural relations with other capitalist countries. Mao and Zhou had no intention to open up the country yet like the opening policies later in the 1980s, but they clearly knew the need of outward policies to obtain the technologies for modernization. Chinese attitude toward Japan became much softer. Since Japan was the most developed country in Asia, the Chinese leaders tried to separate the politics and economy in order for easier access to the Japanese economic capacity. Japan, on its end, was already trying to separate politics and economy from the 1950s to expand trade with China. Before the Cultural Revolution, Chinese imports from Japan had increased from \$2.8 million in 1960 to \$257 million in 1965. As the Sino-Soviet relationship deteriorated, Japan had been the largest trading partner in early 1960s.<sup>260</sup>

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<sup>258</sup> Harding, *China's Second Revolution*, 131.

<sup>259</sup> Harding (1992) cited the New York Times report on the Sino-U.S. economic relations. American businessmen were allowed to attend the Canton Trade Fair in 1972 to contact Chinese import and export corporations. The United States relaxed controls on the technology transfer to China, and licensed the export of equipment which was banned to the Soviet Union. These included the satellite ground stations to provide television coverage of the Nixon visit in 1972, a fleet of Boeing 707s to modernize China's air service, and the Cyber computers for geological research. Harry Harding, *A Fragile Relationship: the United States and China since 1972* (Washington D.C.: the Brookings Institution, 1992), 55, from New York Times, July 6, 1972.

<sup>260</sup> Harry Harding, *China and Northeast Asia: the Political Dimension* (University Press of America, Inc., 1988), 27-29. When Japanese Prime Minister Tanaka visited China for the normalization, Zhou emphasized the importance of economic and social exchanges for the future relations. Zhou Enlai, "Zhongri Liangguo Renmin Yinggai Shishidaidai Youhao Xiaqu [Chinese and Japanese People Should Continue the Friendship to Generation after Generation]," A speech for toast at the welcoming reception for the Japanese Prime Minister Tanaka Kakuei, February 25, 1972, reported in Renmin Ribao (People's Daily) February 26, 1972, *Zhou Enlai Xuanji Xiajuan*, 477-478.

Japan was aware of the changed attitude of the United States toward China, and there were many political and business groups who supported closer relations with China. Japan severed diplomatic relations with the ROC in Taiwan and acknowledged the PRC's sovereignty over the island. China was assured about the safety of the U.S.-Japan alliance, and the concerns about the potential for military conflict over Taiwan were sharply reduced.<sup>261</sup> The admission to the United Nations and expansion of the diplomatic relations also contributed to China's political confidence, and in turn, accelerated the economic relations as well.

After the rapprochement, the diplomatic and economic exchanges increased between Beijing and Washington until 1973. The prospect for the normalization seemed quite positive. They still had the tricky issue of Taiwan, but Mao and Zhou used much laxer terms on Taiwan requiring the United States to merely confirm the principle of one China, without terminating diplomatic relations or the defense treaty.<sup>262</sup> Mao was focusing more on the strategic balance in the region, and other leaders just followed Mao in reducing Taiwan as a subordinate issue in this honeymoon period. Kissinger and Zhou established liaison offices, and various economic and cultural exchanges soon followed.<sup>263</sup> The alignment with the United States was the best strategic option to deal with the Soviet threats and potential conflicts with Japan, India, or Vietnam. Deng also knew that China needed the United States for economic modernization.<sup>264</sup> But it was still important for the CCP leadership to remain as a socialist revolutionary force. The relations with the United States could make Zhou, Deng and the moderates vulnerable to criticism and political burden whenever the political and economic benefit were reduced or obscured by

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<sup>261</sup> A.M. Halpern, "China and Japan since Normalization," in *Dimensions of China's Foreign Relations*, ed. Hsueh, 105-108.

<sup>262</sup> Harding, *A Fragile Relationship*, 45-47. From other socialist countries' perspectives at the time, Taiwan was not a critical issue for Mao and Zhou in the Sino-U.S. relations. "Information from Consultative Meeting about China July 3-5, 1972 on International Policy and Internal Situation of the People's Republic of China (PRC) under Current Conditions" July, 1972, History and Public Policy Program Digital Archive, National Archive, Prague, CPCz CC presidium 1971-1976, box 49, arch. sign. 49, <http://digitalarchive.wilsoncenter.org/document/110272>.

<sup>263</sup> Kissinger, *White House Years*, 1092-1093.

<sup>264</sup> Kissinger, *Years of Renewal*, 868-869.

political considerations.

From 1974, China was becoming less trusting of the U.S. position under the Ford administration with regard to Taiwan and the Soviet Union. From the Maoist radicals' perspective, the alignment with the United States to contain the Soviet Union seemed ineffective, the Sino-Soviet confrontations had not been yet resolved, and there was no progress on the Taiwan issue. They intensified the criticism against the moderates, and even the moderates began to lose confidence about the U.S. strategies toward China. The Maoist radicals emphasized the need to fortify self-reliance in accordance with Mao's ideology. One of the most useful themes employed to attack the reform-oriented leaders was the danger of "bourgeoisie inside the party" utilizing the sentiments against the Soviet Union and the issue of Taiwan. Jiang Qing and the radicals had harshly criticized Zhou Enlai and Deng Xiaoping about their pragmatic approach in the Sino-U.S. relations, and their attitude on the Soviet Union and the Taiwan issue. Without visible achievements in the U.S. relations, the moderate leaders were criticized for engaging in capitulation to the United States and committing "national betrayal."<sup>265</sup> Practically, Taiwan was only one of the small subjects compared to the greater threat from the Soviet Union. But for China it was always the first question that needed to be resolved in major negotiations with the United States. Any concession over Taiwan was huge political burden for the leaders to explain and justify their position domestically.

Zhou Enlai died in January 1976, and the radicals grabbed the opportunity to attack Deng Xiaoping. They intensified attacks on Deng, and the Tiananmen Incident in April 1976 provided an opportunity to re-purge Deng from his positions. The purge of Deng contributed to the abrupt decline of trade with the United States, and there

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<sup>265</sup> Harding recited the terms like "servility to things foreign" and "capitulation and national betrayal" from *Hongqi [Red Flag]* no.5 and no.7 (1976), cited from *Peking Review* 19 (1976), July: 8-12 and August: 6-9. Harding, *A Fragile Relationship*, 50. An observation of the ideological struggle between the Maoist radicals and the pragmatic moderates after the death of Mao Zedong, 'On the situation in the CCP and on the ideological front-line' in "Current Situation of Chinese Party Leadership" July 06, 1976, History and Public Policy Program Digital Archive, National Archive, Prague, CPCz CC presidium 1976-1981, box 12, arch. sign. 12, <http://digitalarchive.wilsoncenter.org/document/113242>.

was no more progress toward Sino-U.S. normalization. Until Deng's final rehabilitation in 1977, China was governed by the radicals with their rigid economic planning that only allowed economic activities through the centralized bureaucracy. Since the Maoist radicals regarded the United States to be as threatening as the Soviet Union, the economic interdependence with the capitalist economy was considered similarly dangerous which would result in political subordination and economic crisis.<sup>266</sup> The flow of trade showed dynamic rise and fall that also reflected political competition. Right after the Sino-U.S. rapprochement in 1972, trade between China and the United States expanded almost twenty times from \$5 million in 1971 to more than \$900 million in 1974. But this two-way trade was abruptly cut down to nearly half in 1975 and became even less in 1976 and 1977.<sup>267</sup> It can be partially explained by the trade deficit and China's efforts to reduce it, but it was also greatly affected by the political conflicts.

Until the death of Mao Zedong and the rise of Hua Guofeng who decided to arrest the Maoist radicals, the so-called Gang of Four led by Jiang Qing, the extreme form of revolutionary campaigns and the ideological mobilizations continued to exist. Zhou's concept of the "four modernizations" had temporarily disappeared, but it was later revived in the late 1970s by Deng and became the main slogan of the reform and opening throughout the 1980s.

#### *Political victory and economic readjustment*

After the fall of the Gang of Four, Hua Guofeng took the place of the prime leader of China for about two years, and Deng Xiaoping was rehabilitated for the last

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<sup>266</sup> On the detailed dynamics of Chinese domestic politics among the top-tier elites before and after the death of Mao Zedong, Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton University Press, 1994), 27-47.

<sup>267</sup> According to Harding (1992), the Sino-U.S. trade increased from \$5 million in 1971 to about \$90 million in 1972 largely by China's import of agricultural products. China began to purchase American machinery from 1973 which led to huge trade volume increase to nearly \$800 million in 1973 and more than \$900 million in 1974. But the imports from the United States abruptly decreased since 1975 due to a cumulative deficit of \$1.4 billion. American imports from China increased gradually but the two-way trade fell to \$462 million in 1975 and \$350 million a year in 1976 and 1977. Harding, *A Fragile Relationship*, 57-59.

time in 1977. It was Deng Xiaoping who met the U.S. Secretary of the States Vance in August 1977, right after his return to power from the second purge. In addition to the security concerns from the Soviet threat of military expansion, Deng acknowledged the clear need of the improved relations with the United States for the economic development and modernization of China. The experiences of Japan and the Asian NICs demonstrated the importance of American technology and cooperation, which was the fastest way to build close relations with other developed countries.<sup>268</sup> Deng was second in power next to Hua Guofeng, but had a strong power base in the Party and military with a clear leadership in the area of foreign affairs.

Since China still defined the Soviet Union as an expansionist threat in the region, Chinese leaders urged a need to form a united front against the Soviets. The Sino-U.S. normalization could be a great help to build a united front against these instabilities caused by the Soviet Union. But by the end of the 1970s, the level of threat had remarkably declined. Deng reinterpreted the overall international relations as relatively favorable to “gain some additional time free of war.” Referring to the Three World Theory of Mao Zedong, he showed confidence in China’s contribution for “the international struggle against hegemonism.” In his assessment, the Soviet Union had “not yet finished its global strategic deployment,” and the United States had “shifted to the defensive” after its defeat in Vietnam and that it would not be capable of initiating a global scale war in the near future. It was now possible to “win a delay in the outbreak of war.” This was China’s opportunity to promote economic and military modernization.<sup>269</sup> Deng persuaded the leaders and the elites at various levels and at various localities with this idea of long-term stability, promising economic opportunities and benefits along the way of reform and opening.

With the rise of Deng Xiaoping, many reform-oriented elites started competing to attract attention towards their reform ideas using many political and ideological

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<sup>268</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 311-312.

<sup>269</sup> Deng Xiaoping, ‘2. Guanyu Xingshi Wenti [The General Situation]’ of “Zai Zhongyang Junwei Quantihuiyi shangde Jianghua [Speech at a Plenary Meeting of the Military Commission of the Central Committee of the CPC],” December 28, 1977, in *Deng Xiaoping Wenxuan II*, 76-78.

justifications.<sup>270</sup> At the time of 1977 and 1978, the issue of rehabilitation had become the key issue to expand the political power base of reform-minded leadership of Deng. At the Eleventh Party Congress in 1977, the portion of Party officials increased from 33% to 42%, while the mass organizations and the military representatives had visibly decreased. Many rehabilitated elites regained their seats in the Central Committee, which constituted almost one third of the Eleventh Central Committee. Until the Eleventh Party Congress, many elites with Maoist background still remained mixed together with the rehabilitated officials, which was a manifestation of the gradual pace of replacement in order to avoid repeating political turmoil. Hua tried to keep Mao's legacy as the designated successor of Mao, and Deng also did not officially criticize Mao Zedong yet for the ideological stability.<sup>271</sup> From December 1977, Hu Yaobang took the lead of the Central Organization Department and pushed forward for more rehabilitation with political and material recovery. After the Third Plenum of 1978, the rehabilitation of the old generation cadres required more thorough compensations including many special treatments.<sup>272</sup> These measures were well continued into the retirement policy of the old revolutionaries to facilitate the generation change.

Along with the rehabilitation process, Deng instructed the CCP to remove the "rightist" labels on many people as a process of political "correction." From 1978, the class struggle gradually disappeared in China as the political "rightists" were no longer purged as the Cultural Revolution. Some conservative officials worried about the rightward shift, but Deng and the reformers insisted on deleting all the political label of rightists.<sup>273</sup> The political status of other classes such as the rich people or

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<sup>270</sup> Lardy, *Foreign Trade and Economic Reform in China*, 3-11.

<sup>271</sup> Hong-yung Lee, *From Revolutionary Cadres to Party Technocrats in Socialist China* (University of California Press, 1991), 148-150.

<sup>272</sup> *Ibid.*, 171-173.

<sup>273</sup> Chen Yun also worked for the rehabilitation of the purged cadres as shown in his speech, "Jianchi Youcuo Bijiu de Fangzhen [To Uphold the Policy to Correct the Mistakes]," A speech of Comrade Chen Yun at the Northeast Group Meeting in the Central Working Conference, November 12, 1978, in *Chen Yun Wenxuan III*, 232-234. As a conservative reformer, however, Chen Yun emphasized the importance of ideological discipline within the frame of International Communist Movement. Chen

intellectuals also improved gradually, which helped Deng and the reformers to pursue the pragmatic goals and political victory over Hua Guofeng. At the end of 1970s, Deng and Chen Yun, the leading figure of conservative economic experts, sided together in their criticism against Hua's ambitious economic plans and mobilizations, and suggested readjustment and reorientation of the economic strategy to discard the unrealistic plans and provide a more balanced and organized ground for rapid economic modernization and development.

After the Third Plenum in 1978, Hua Guofeng was still the official top leader of the Party, government, and the CMC (Central Military Commission), and Deng was in "vice" positions. But Deng became the actual prime leader, and Chen Yun became almost his equal regarding economic matters. Deng and the new leaders officially recognized Hua's leadership until 1981. The experience of Mao's personality cult made many elites worry about the concentration of power on one prime leader, and Deng had to be cautious not to give such impression.<sup>274</sup>

## **(2) Sustained Reform Dynamic throughout the 1980s**

The Sino-U.S. normalization improved the relationship to develop security cooperation in the early 1980s, creating increasingly more stable regional environment for China. The United States announced in 1978 that it would not oppose the trade of military equipment between China and the Western European countries. High-level military contacts began in 1980, and the United States started to sell arms to China from 1981. The United States silently supported China's military operation against the Soviet-backed Vietnamese invasion in Cambodia, and China also supported the United States' opposition to the Soviet invasion of Afghanistan in 1979.<sup>275</sup> The security cooperation facilitated the exchanges in economy and culture,

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Yun, "Zai Zhongyang Jily Jiancha Weiyuanhui Diyici Quanti Huiyi shangde Jianghua [A Statement at the First Plenum of the Central Commission for Discipline Inspection]," January 4, 1979, in *Chen Yun Wenxuan III*, 242-243.

<sup>274</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 247-248.

<sup>275</sup> The security exchanges and cooperation between the United States and China rapidly increased in

including the technology Deng and reformers most wanted from the United States for China's modernization.

As mentioned before, the normalization with the United States also allowed rapid expansion of economic access to the other capitalist countries, including the support of financial institutions. With the expanded diplomatic relations and economic cooperation, politically confident China no longer worried about the competition with Taiwan, which enabled the outward opening in a bolder manner. The foreign debt problem inherited from Hua Guofeng's plans did have the effect of slightly postponing the strong outward drive for some years, but Chinese economic opening soon became the most visible change in the 1980s.

*Raising the second generation technocrats for reform*

With these supportive changes in regional security, the Deng Xiaoping leadership visibly distanced itself from socialist mobilizations, and launched institutional changes in production system and commercial networks. They tried to provide more autonomy and material incentives for rapid economic development. Deng appointed Hu Yaobang, Zhao Ziyang, and Wan Li to work with him as pragmatic leaders. Hu was one of the leading scientists at the Chinese Academy of Sciences, Zhao was known for his leadership experimenting industrial reform, and Wan Li had successful experiences in railway system.<sup>276</sup> Though they had to work with Chen Yun's conservative leadership in the economy for several years during the readjustment period in the early 1980s, they successfully persuaded the central and local elites to experiment market-oriented measures with less control from the central

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1979 and 1980, as shown in frequent conversations and visits. Some evidences of the high-level meetings and communications, "Call on the Vice President by Chinese Vice Foreign Minister Zhang Wenjin, Wednesday, March 19, 11:00am," March 18, 1980, HAPP, WWICS, Declassified Documents, DDRS-270332-i1-14, Department of State Memorandum for Mr. Denis Clift, the White House, with five attachments on US-China bilateral issues, copied from Carter Library; "Meeting Between Secretary of Defense and Vice-Premier Geng Biao," on May 29, 1980, written on June 10, 1980, HAPP, WWICS, Declassified Documents, DDRS-270271-i1-9, Assistant Secretary of Defense Memorandum of Conversation, copied from Carter Library.

<sup>276</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 351-352.

planners. The stable security environment supported these experimentations along with improved relations with the United States.

The required capability of the Party and state officials changed from 1978, to put more emphasis on the expert knowledge and predictability. Before 1978, recruitment and advancement of the Party cadres were based on: seniority, ideological commitment, political vigilance in the class struggle, and class background. After 1978, the Party cadres had to support the pragmatic approaches, be loyal to the CCP rule, have individual ability, and have a clear understanding of the actual quality of general population's lives. The pragmatic knowledge and ability became the main element of the Party cadres. Since class struggle had diminished, the Party could recruit the officials from any segment of the society.<sup>277</sup> Deng and Hu Yaobang insisted on recruiting experts as the next generation leaders, and there launched a rapid shift in political dynamics as they accepted technicians and specialists into the bureaucracy. Technocrats emerged in large scale from the Twelfth Party Congress in 1982 including Li Peng, Hu Qili, Jiang Zemin, Hu Jintao, Wu Bangguo, and Wang Zhaoguo into the Central Committee of the CCP. Many revolutionary old generation leaders resigned between 1978 and 1985, and the number of technocrats increased in the Politburo during the mid-1980s as well.<sup>278</sup>

The generation change and emergence of technocrats, however, did not mean that there was the outright support on the radical reform policies pursued by Hu Yaobang and Zhao Ziyang. The old revolutionaries were forced to retire from their official position during the early 1980s, but they still had strong political influence through the Central Advisory Commission. The newly appointed officials had to ask the former leading figure to conduct their leadership in official positions. The political influences of the retired old leaders were particularly visible at the time of political instabilities to result in the fall of Hu Yaobang in 1987 and Zhao Ziyang in 1989.<sup>279</sup>

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<sup>277</sup> Hong-yung Lee, *From Revolutionary Cadres to Party Technocrats in Socialist China*, 228-232

<sup>278</sup> Cheng Li, *China's Leaders: The New Generation* (Rowman & Littlefield, 2001), 33-35.

<sup>279</sup> Hong-yung Lee, *From Revolutionary Cadres to Party Technocrats in Socialist China*, 241-243.

The portion of technocrats and economic experts in the Central Committee and other leading positions remarkably increased throughout the 1980s, even after Hu and Zhao were purged in the late 1980s.<sup>280</sup> But the actual political influence of the old generations lasted a lot longer than the official generation changes, which turned the progress of reform and opening into a continuing cycle of retreat and advance throughout the 1980s.

Though frequently influenced by the advice from the old revolutionaries, the generational change and the political advancement of the economic experts and technocrats shifted policy priority from military (political) issues to the economic reform and development. To achieve the reorientation of industrial focus, for example, the reform-oriented top leaders shifted their policy priority to domestic economy rather than military modernizations or war preparations. The tasks of military buildup and modernization were postponed for a while within a relatively stabilized regional security. In the early 1980s, the United States eased restrictions on the technological transfer to China and started to sell military equipment, but it did not fully meet Chinese leaders' wish to obtain the most advanced-level of technology for China's military modernization.<sup>281</sup> The Chinese military elites complained about the slow pace of military modernization, but Deng and the top leaders had changed their policy priority to put economic modernization and development in front of the military buildup. The direct threat from the Soviet Union had been reduced with China's alignment with the United States. After China's military operation in Vietnam from February to March 1979, Deng became optimistic about the regional stability in the near future and became less concerned about Soviet military expansion in Asian region.<sup>282</sup>

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<sup>280</sup> Cheng Li, *China's Leaders*, 37.

<sup>281</sup> The United States knew China's complaints on the military-related technology transfer, which was closely linked with the arms sales issue to Taiwan. "Chinese Military Modernization," December 20, 1982, HAPP, WWICS, Declassified Documents, DDRS-280686-i1-3, a telegram from Beijing to Washington.

<sup>282</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 535.

*Policy cycles within the boundary of reform and opening*

While China's opening toward the West was temporarily hampered by the domestic struggles in the mid-1970s, the world economy also experienced crises including oil shocks. When China started to seek opportunity to expand economic relations under the leadership of Hua Guofeng in 1977 and 1978, which Deng Xiaoping also supported, the capitalist countries like the United States, West Germany and Japan were also looking for markets to put their accumulated capital to use after the recovery from the crises. They needed a market where they could invest, and China emerged as a huge market with endless potential to achieve cooperation and provide loans.<sup>283</sup> China was in conflict with the Soviet expansionism in Asia just as the United States and the West were facing in Europe, which also attracted the United States and other capitalist countries to expand their economic relations with China, and give access to markets and technologies.

The focus moved from security to economy, and China steadily progressed towards its own modernization and development throughout the 1980s. Along with the normalization and rapid improvement in relations with the United States and Japan, the top leaders visited and established relations with many other countries. Deng proudly listed that "Hua Guofeng has visited Korea, Romania, Yugoslavia and four other European countries" and "Li Xiannian and I have visited a number of Asian and African countries," and there were "many other delegations at various levels have been sent to scores of countries throughout the world."<sup>284</sup> In relations with many other countries, China did not have much difficulty in fulfilling their requirement of political and economic cooperation. With the political confidence over Taiwan in the international community, the focus shifted from political to economic competition and exchanges in the 1980s. The economic relations with Taiwan also started to grow as the security started to become subordinate to the economy. The

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<sup>283</sup> Medvedev, *China and the Superpowers*, 113-114.

<sup>284</sup> Deng Xiaoping, "Muqian de Xingshi he Renwu [The Present Situation and the Tasks Before Us]," Speech at a meeting of cadres called by the Central Committee of the CCP, January 16, 1980, in *Deng Xiaoping Wenxuan II*, 247-248.

economic exchanges across the Taiwan Straits expanded during the 1980s, and this added more confidence about the time and China's increasing capacity regarding unification. The successful negotiations on the restitution of Hong Kong and Macao were also perceived in China as positive signs toward the long-term prospects of the Taiwan issue.

Deng basically welcomed the expansion of foreign economic relations to increase the production and learn the advanced technologies and skills. The radical reformers led by Hu Yaobang and Zhao Ziyang, with the political support of Deng, pursued rapid expansion of FDI into China and increase of economic exchanges as much as possible. However, the new experts and technocrats were under the shadow of their political patrons and other old revolutionary leaders as was mentioned before including the leading figures such as Deng, Chen Yun, Wang Zhen, and Yang Sangkun, etc.<sup>285</sup> The so-called second generation leaders were selected and raised by those old revolutionary leaders. It was their plan to institutionalize the succession process so as to not put the regime in danger again. Chen Yun had categorized the leaders like Hu Yaobang, Zhao Ziyang, Yao Yilin, and Song Ping in the Second Echelon, and Li Peng, Hu Qili, Jiang Zemin, Tian Jiyun, and Ding Guangen to be in the Third Echelon.<sup>286</sup> This planned selection naturally formed the political factions following the characteristics of old revolutionary leaders who became patrons of the younger leaders. The leaders around Chen Yun were categorized as the conservatives who put more emphasis on the political stability of the regime, while the protégés of Deng Xiaoping became relatively radical reformers who pushed forward bolder, sweeping reform and opening measures in the 1980s.

The policy competition and balancing between the conservatives and radical

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<sup>285</sup> Joseph Fewsmith, *Elite Politics in Contemporary China* (Armonk: M.E. Sharpe, 2001), 48-50.

<sup>286</sup> It was Chen Yun's suggestion to make the Third Echelon for a succession plan in the early 1980s. Cheng Li, *China's Leaders*, 43-44. Chen strongly insisted the planned promotion of young generation cadres for political stability. Chen Yun, "Tiba Peiyang Zhongqingnian Ganbu shi Dangwuzhiji [It is the Most Urgent Task to Promote and Raise the Middle-Aged and Young Cadres]," An article written by Comrade Chen Yun, printed and distributed at the Extended Meeting of the CCP Central Committee Politburo in June 1981 and the Sixth Plenum of the Eleventh Central Committee, May 8, 1981, in *Chen Yun Wenxuan III*, 292-297.

reformers started soon after the initial stage of Chinese reform and opening. The radicals wanted to speed up the economic modernization and reform, and were willing to be integrated into the world economy and utilize the international economic system such as participating in the IMF and World Bank from 1980. The radical reformers officially insisted on independence in politics and security to appease the conservatives, but separated the economic issue to facilitate a swift development and modernization in the existing framework of world economy.<sup>287</sup> The symbol of this separated policies and strong will of external opening was the SEZs along the southern coast. With no more direct or grave threat for national security, the radical reformers could push forward their policies to focus more on its economic modernization and development, including more market-oriented measures and even wider outward opening.

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<sup>287</sup> Garver, *Foreign Relations of the People's Republic of China*, 174.

## VI. CASE 2: CHINA IN 1992

Throughout the 1980s, the political and military considerations increasingly became subordinated to the economic calculations, which was quite the opposite of the tendencies usually found in the traditional socialist system. Deng's reform era included a period of reorientation and readjustment to rebalance the budget led by Chen Yun until 1982. A period of the bold reform advancements followed from 1983 to 1985 with many institutional changes expanding from the rural to urban area and launching more openings toward the outside world. The CCP leaders interpreted the international structure in the late 1980s as having turned in a way that was more favorable for China's economic development and the expansion of pragmatic relations. Deng and the reformers defined China as one of the Third World countries to substantiate their claims about the need to emphasize the importance of peace and stability, and sought more opportunities for economic modernization. These favorably-interpreted external conditions continued and increased even with the end of the Cold War, which they treated as unavoidable political results of European socialist countries in a totally different context from their "socialism in Chinese characteristics." Although China also underwent political turmoil before and after the Tiananmen Incident, the reform and opening policies came back on track with even more vigor in the early 1990s. The new world order was expected to provide more opportunities and incentives for China to be an active member in the world economy.

### 1. Pushing Forward the Reform amid Crises

Deng Xiaoping and his reformers insisted on continuing the reform measures even including the price reform which caused political risks from rapid inflation. They knew the dangers of political demands along the rapid progress of economic reform and opening. But they did not want to lose the opportunity to carry out bold reforms to establish the economic infrastructure for economic development in a long-term perspective. Even after the Tiananmen Incident, when China was facing

international economic sanctions, Deng Xiaoping had no intention to allow the reform to retreat for a long time. As soon as domestic political stability was achieved with no more political dissent conspicuous, the strong reform and opening agenda came back with Deng's Southern Tour in 1992 and the Fourteenth Party Congress that followed.

### **(1) Larger Reform Advances after Temporary Retreats**

After the period of readjustment and reorientation in the early 1980s, Deng and the radical reformers like Zhao Ziyang and Hu Yaobang launched more reform and opening policies from 1984, based on the expanding relations with the capitalist West. To facilitate economic development, the leadership decided not to put too much control or mobilizations but to promote a more active role of urban and rural actors to make use of economic incentives and individual responsibilities. Hu and Zhao pushed forward the bold reform measures from the Third Plenum of the Twelfth Central Committee in 1984. The progress of the reform and opening was not without difficulties, and one of them had been the price reform to resolve the continuous dual-track system of prices.

The initial success of Chinese reform in the early 1980s had been visible in the rural area. China officially launched the household contract responsibility system to provide material incentives to the individual farmers. Agricultural production increased rapidly and the system expanded widely in the early 1980s.<sup>288</sup> The growth of agriculture slowed down in the late 1980s, but it was clear that the rural economy went through an impressive development by the reorientation of development strategy. Deng and the radical reformers decided to expand the reform actively into the urban area from 1984, inspired from the initial success of the rural reforms. But the reorientation of industrial focus in urban area turned out to be much too complicated

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<sup>288</sup> Under the household responsibility system, each household made a contract to produce and sell a certain amount of agricultural product to the state, and then could trade their products at the open market as much as they wanted. Colin Mackerras, Pradeep Taneja, and Graham Young, *China Since 1978: Reform, Modernization and 'Socialism with Chinese Characteristics'* (New York: Longman Cheshire, 1993), 66-77.

than the rural reform. They could launch urban reform measures after they achieved political consensus with the conservatives. From 1984, along with the contract responsibility system, the factory director responsibility system was launched to place more autonomy on the enterprises, facilitating the decentralization of decision-making process. The market elements were enhanced by the continued dual-track system, by which the SOEs could sell the target-above products freely on the open market. The pragmatic approach of Deng and the reformers also promoted the activities of foreign-funded enterprises and private businesses with the spread of material incentives.<sup>289</sup>

Along with the reorientation and gradual liberalization, the SEZs became the symbol of Chinese economic opening by the mid-1980s. The radical reformers promoted various forms of FDI, although there were many criticisms and concerns from Chen Yun and the moderate reformers. They knew the success story of the Export Processing Zones (EPZs) in Asian NICs like Taiwan and South Korea, and the SEZs were allowed to have special treatments regarding employment, foreign exchange earnings, technology learning, production of export-oriented agriculture, and tourism.<sup>290</sup> After the success of the four initial SEZs, Deng and the radicals attempted to expand them into other coastal areas from 1984. This expansion of opening policies also had many political implications for the CCP's fundamental task of reunification. The Party searched for the possibility of having a liberalized market economy in specialized regions within the socialist rule of the Party.

The expansion of the SEZs, however, became one of the critical issues in political debate at the time. The conservatives did not want to expand the SEZs into other regions due to political concerns over foreign influences. But the radical

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<sup>289</sup> In this process, the issue of market price inflation appeared to get increasingly serious. Zhao Ziyang wanted to reform the prices and abolish the dual-track system, but several attempts of the price reform aggravated the inflation to be a vital political problem in 1988 and 1989. Naughton, *Growing Out of the Plan*, 173-199.

<sup>290</sup> The equity joint ventures increased rapidly up to 12,000 by 1990. During 1980s, China became one of the biggest borrowers from World Bank, IMF, ADB and other organizations. Mackerras, Taneja, and Young, *China Since 1978*, 90-101.

reformers believed that the SEZs would become an effective “medium” for “introducing technology, management and knowledge,” and “the base for our open policy.” Deng listed examples like “public order in Shenzhen is reportedly better,” and “people who slipped off to Hong Kong have begun to return.” The opening of more regions to become SEZs would expand economic opportunities and increase the political support to the CCP regime. Deng urged China to promote “transport and communications” for infrastructure, and to expand the SEZs along the coast area to achieve proper conditions to “encourage high wages and high consumption.”<sup>291</sup>

The radicals dodged the conservatives’ criticisms by reminding them that the 30-year modern Chinese history was lagging behind the industrialized West due to the “closed-door policy.” In order to prevent the closed-door policy from being repeated, which “would hinder construction and inhibit development,” it was necessary to expand the outward opening. Fourteen more coastal cities were opened in 1984 to “welcome foreign investment and advanced techniques.” The conservatives’ concern about the negative effects could not be ignored, but the radical reformers were confident about the size of the Chinese “socialist economic base” that it would “absorb tens and hundreds of billions of dollars’ worth of foreign funds without being shaken.” The benefits from “the positive use we can make of it to accelerate our development” would be considerably larger than some “negative impact.” This was how Deng consistently argued to the need to build “socialism with Chinese characteristics.”<sup>292</sup>

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<sup>291</sup> During his tour he wrote inscriptions in visitors’ books for the places he visited. The one he wrote in Shenzhen was, “The development and experience of the Shenzhen Special Economic Zone prove that our policy of establishing such zones is correct.” In Zhuhai, he wrote, “The Zhuhai Special Economic Zone is a success.” In Xiamen he wrote, “Manage the special economic zones in such a way as to achieve better and faster results.” And for the Baoshan Iron and Steel Complex in Shanghai he wrote, “Master new technologies and techniques, be good at learning and better at innovating.” Deng Xiaoping, “Banhao Jingji Tequ, Zengjia Duiwai Kaifang Chengshi [Make a Success of Special Economic Zones and Open More Cities to the Outside World],” Excerpt from a talk with a few leading members of the Central Committee of the CCP after Deng Xiaoping had returned to Beijing from an inspection tour of Guangdong and Fujian provinces, Shanghai and other areas, February 24, 1984, in *Deng Xiaoping Wenxuan III*, 51-52.

<sup>292</sup> Deng Xiaoping, “Jianshe You Zhongguo Tese de Shehuizhuyi [Building a Socialism With a Specially Chinese Character],” Excerpt from a talk with the Japanese delegation to the second session of the

Until the end of 1980s, foreign firms and investors increased their influences in Chinese economy with their accumulated contacts and exchanges with Chinese businessmen and officials. The private sector grew rapidly in the market and expanded their portion in production and commerce. The emergence of the private economic actors started in the rural economy with rapid rural reforms which exceeded the expectation of the CCP leadership. Varying by each province, the success of the rural reform and development of the local economy greatly facilitated the continued reforms in urban area in the mid-1980s. Although it was not completely “private” when it first started, “the emergence of a large number of enterprises run by villages and townships” had been one of the great successes the leaders had not anticipated. The success of TVEs and rural reform empowered the radical reformers to promote more reform in urban SOEs, more private entrepreneurs, and more opening in various regions. The leadership became confident with certainty about their reform and opening policies that they expanded the measures of “setting up special economic zones and opening 14 coastal cities.”<sup>293</sup> By the end of the 1980s, the expanded and deepened international economic relations made China the market of the world economy, which in turn secured the development path of China with less security threats from outside.

Based on the improved political status and expanded relations with many countries on the global scale, the radical reformers became confident enough to drive more reform and opening policies in the late 1980s. Both the Thirteenth National Party Congress in 1987 and the First Plenum of the Seventh National People’s Congress in 1988 declared that they must “accelerate and deepen the reform” to put an end to the backwardness in “the primary stage of China’s socialism.” In Zhao’s report in 1987, he argued for further reform by giving first priority to “the expansion

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Council of Sino-Japanese Non-Governmental Persons, June 30, 1984, in *Deng Xiaoping Wenxuan III*, 63-64.

<sup>293</sup> Deng Xiaoping, “Gaige de Buzi Yao Jiakuai [We Shall Speed Up Reform],” Excerpt from a talk with Stefan Korosec, member of the Presidium of the Central Committee of the League of Communists of Yugoslavia, June 12, 1987, in *Deng Xiaoping Wenxuan III*, 238-239.

of scientific, technological and educational undertakings,” by pursuing a “balance between total demand and total supply and rationally adjust and reform production structure” by allowing to “open wider to the outside world and constantly expand economic and technological exchange and co-operation with other countries.”<sup>294</sup> The detailed policies of economic restructuring included the ownership of enterprises, the rationalized market system (price reforms), the macro-economic control system (banking and tax reforms), distribution system (income), etc.

Among many reform tasks, the radical reform leaders insisted on implementing price reform, which was one of the trickiest issues related with inflation. Rapid inflation became one of the main causes of social unrest in urban areas and intensified complaints of urban residents combined with their political demand for democracy. Student demonstration and the Tiananmen Incident did affect the leadership’s political confidence over domestic control. This led to several years’ retrenchment of the reform and opening process until the Southern Tour of Deng in 1992. But the temporary retreat and readjustment never meant a complete redirection of the policies. While protecting the socialist political system under the rule of CCP, it was still important for China to secure the momentum for development from both in and out of the country. Deng and his successors argued that it was critical “to draw on the achievements of all cultures and to learn from other countries, including the developed capitalist countries, and all advanced methods of operation and techniques of management that reflect the laws governing modern production” to keep the pace of economic development. They opposed not only the political “Right” but also the “Left” tendencies “regarding reform and the open policy as means of introducing capitalism, and seeing the danger of peaceful evolution towards capitalism as coming

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<sup>294</sup> Zhao Ziyang, ‘II. Shehuizhuyi Chuji Jieduan he Dangde Jiben Luxian [The Primary State of Socialism and the Basic Line of the Party]’ and ‘III. Guanyu Jingji Fazhang Zhanlve [The Strategy for Economic Development],’ in “Zhao Ziyang zai Zhongguo Gongchandang Dishisanci Quanguo Daibiao Dahui shangde Baogao: Yanzhe You Zhongguo Tese de Shehuizhuyi Daolu Qianjin [Report to the Thirteenth National Congress of the CCP: Advance Along the Road of Socialism with Chinese Characteristics],” delivered on October 25, 1987, Zhongguo Gongchandang Lici Quanguo Daibiao Dahui Shujuku [Database of the Past National Party Congress of the CCP], <http://cpc.people.com.cn/GB/64162/64168/64566/65447/4526368.html> (accessed Sept. 15, 2013).

chiefly from the economic sphere.”<sup>295</sup> Except for the fundamental political mechanism, China had to continue the bold reform and opening policies to maximize the opportunity of rapid economic growth.

During his Southern Tour in 1992, Deng encouraged Shanghai to utilize “all the necessary conditions for faster progress” to grab the opportunities before too late. For the continuous economic reform and development, China had to fully utilize “the necessary domestic conditions and a favorable international environment.” The socialist leadership of the CCP was legitimized as a necessary tool to effectively implement the policies to have the “periods of rapid growth with good economic returns” in the coming years. The leadership wanted to see the SEZs and other provinces to “catch up with Asia’s four little dragons in 20 years,” which required not only the economic development but also the “improved public order and general social conduct” for “socialism with Chinese characteristics.”<sup>296</sup> Despite the political backlash after the Tiananmen Incident, the ten-year’ experience of the reform and opening had established the redefined political discourse to drive China towards more dramatic economic growth in the 1990s.

## **(2) Distancing China Further from Immediate Dangers**

Deng emphasized that the “Chinese are no less concerned about international peace and stability than are people in other countries” because they needed “at least twenty years of peace to concentrate on our domestic development.”<sup>297</sup> The CCP leadership tried to expand China’s economic relations with the capitalist or the Third World countries in peaceful security environment. During the 1980s, the leadership kept the concept of the “independent policy” to maintain proper political distance and

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<sup>295</sup> Deng Xiaoping, “Zai Wuchang, Shenzhen, Zhuhai, Shanghai Dengdi de Tanhua Yaodian [Excerpts from Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai],” January 18 - February 21, 1992, in *Deng Xiaoping Wenxuan III*, 373-375.

<sup>296</sup> *Ibid.*, 375-376.

<sup>297</sup> Deng Xiaoping, “Wending Shijie Jushi de Xinbanfa [A New Approach to Stabilizing the World Situation],” Excerpt from a talk with a delegation from the Center for Strategic and International Studies of Georgetown University in Washington, D.C., February 22, 1984, in *Deng Xiaoping Wenxuan III*, 49-50.

economic relations with both the United States and the Soviet Union, while pursuing regional stability by managing pragmatic relations with the regional actors like Japan, the two Koreas, Taiwan, and the Southeast Asian countries. This independent policy helped China focus on its own economic reform and development detached from direct military confrontations, which in turn received attention from both of the superpowers to improve their relations. The Sino-Soviet contacts for normalization gradually made progress throughout the 1980s and it did not hamper China's relationship with the United States and its allies.

*Staying “independent” from the superpowers in the 1980s*

China assumed an “independent foreign policy” between the two superpowers, keeping a certain distance from both the United States and the Soviet Union. After the experience of a temporary stalemate in the Sino-U.S. relations in 1981 caused by the U.S. arms sales issue to Taiwan, the CCP leadership did realize the potential danger of the excessive dependence on the United States. While they clearly recognized the need of advanced technology and capitals from the United States, they also felt that the military and political relationship had to be redefined in a way that would not harm the independence of China. The original purpose of their alignment with the United States had been containment of Soviet expansionism. The Reagan administration's hardline policy toward the Soviet Union in the 1980s brought about a new phase of Cold War between the two superpowers which provided utilizable assistance to the anti-Soviet strategy of China. The direct threat from the Soviet Union had been reduced significantly.

The United States and the Soviet Union resumed military confrontation and competition between them throughout the 1980s. However, China was able to position itself in the middle and maintain a certain strategic distance and linkages with the both superpowers. Deng Xiaoping and the radical reformers promoted economic relations with the United States for reform and modernization but they controlled the security and political relations to remain relatively cool throughout the

1980s. After 1982, China no longer used the concept of a “united front” with the United States. To avoid unnecessary tensions with the Soviet Union, the CCP had changed its attitude pursuing “a correct, independent diplomatic line and foreign policy.” This differed from the united front strategy which was “a line stretching from Japan to Europe to the United States” to deal with “the threat of Soviet hegemonism.”<sup>298</sup> On one side, the security cooperation with the United States continued and on the other side, China gradually improved its relations with the Soviet Union. By adopting this balanced stance of independent policy, China sought stable and cooperative relations with the both superpowers to keep a safe distance and supportive external environment for reform and opening. The changing attitude of the Soviet Union was better than anything else in creating favorable security environment for China’s economic development.

The Reagan administration increased military spending and strengthened security alliances in Europe and Japan to stand firm against the Soviet expansion. The Soviet Union now faced military pressure on both sides, from the West and China. This was an opportunity for China to persuade the Soviets to improve the bilateral relations. Since the United States and the West had taken the job of containment against the Soviet Union, China was able to reopen contacts with the Soviets and announce a reaffirmation of continuing fraternity and to reduce military tensions. The reduced tension allowed the shift of more domestic resources from the military to the economy, decentralizing and liberalizing the production mechanism and management system.

In 1984, Zhao Ziyang visited the United States in January and Reagan visited China in May to deepen their relations in economic and technological exchanges, and agreements concerning functional matters followed to support American firms’ economic activities in China. It seemed as if there were no obstacles in the Sino-U.S.

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<sup>298</sup> Deng Xiaoping, “Zai Junwei Kuoda Huiyi shangde Jianghua [Speech at an Enlarged Meeting of the Military Commission of the Central Committee of the CCP],” June 4, 1985, in *Deng Xiaoping Wenxuan III*, 127-128.

relations unless they touched the Taiwan issue. Nonetheless, China never really agreed with the United States on their anti-Soviet stances and policies. When the Reagan administration criticized the Soviet Union for shooting down a South Korean airplane in 1983, for example, the Chinese official media never published those criticisms.<sup>299</sup> Unless it was directly related with China's vital interest as the Taiwan issue, the Chinese leaders were cautious about becoming involved in the conflicts or competition between the United States and the Soviet Union.

*The Sino-Soviet normalization to fulfill the security conditions*

The gradual improvement of the Sino-Soviet relations was an important achievement of the independent policy throughout the 1980s. In Chinese leaders' interpretation, the power balance between the two superpowers was inclining towards the United States, and the Soviet Union would no longer dare to attack China. The Soviet invasion in Afghanistan failed, and it was difficult for their economy to support another war or a revolutionary event. China was sure that they had achieved a much better security environment between the two superpowers, with no direct threat of war from any of them. The CCP leadership interpreted the military and economic capacity of Soviet Union as being in the phase of gradual decline compared to the United States, and became much more confident about the future improvement of Sino-Soviet relations.

The Soviet Union started to change its attitude toward China from the early 1980s. In his Tashkent speech in 1982, Brezhnev acknowledged China as a member of the socialist bloc, and called for normalization based on mutually beneficial agreements and confidence-building measures along the Sino-Soviet border. Brezhnev repeatedly called for rapprochement throughout 1982, trying to use the better Sino-Soviet relations to offset the worsened U.S.-Soviet relations.<sup>300</sup> China had

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<sup>299</sup> Medvedev, *China and the Superpowers*, 148-151.

<sup>300</sup> Thomas Perry Thornton, "The USSR and Asia in 1982: The End of the Brezhnev Era," *Asian Survey* 23, no. 1 (1983), A Survey of Asia in 1982 Part I: 11-14; Kenneth Lieberthal, "China in 1982: A Middling Course for the Middle Kingdom," *Ibid.*, 28-29.

three conditions of the military withdrawals to the Soviet Union before the Sino-Soviet normalization process. On behalf of Deng Xiaoping, Hu Yaobang reiterated the three issues at the Twelfth Party Congress. First was the “massive armed forces along the Sino-Soviet and Sino-Mongolian borders” which had been a long-time military issue from the 1960s. The second was the Vietnamese “invasion and occupation of Kampuchea” which threatened stability in Southeast Asia and disturbed China’s southern border. The third was the invasion and occupation of Afghanistan. Hu required “deeds, rather than words,” to confirm “a sincere desire to improve relations with China” by taking “practical steps to lift their threat” to China.<sup>301</sup> Deng and the leaders were enjoying stable and supportive situation to focus on domestic reforms, and were in no hurry to improve Sino-Soviet relations within a short period of time.

After several indirect communications through the top leaders’ speeches, the official contacts toward normalization began in October 1982, when the Foreign Minister Huang Hua visited Moscow to attend Brezhnev’s funeral. Since it was difficult for the Soviet Union to respond to the three conditions immediately, they started to expand the economic relations before political negotiations. Economic relations increased rapidly from 1983, along with technological assistance and cultural exchanges.<sup>302</sup> The Sino-Soviet trade volume increased rapidly as border trade resumed. Several economic agreements were signed in 1984 for more economic and technological cooperation. Along the increased economic relations, five rounds of talks on normalization were held from October 1982 to November 1984.<sup>303</sup> But the

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<sup>301</sup> Passing all the responsibility of the deteriorating Sino-Soviet relations to the “hegemonist policy” of the Soviets, Hu accused the Soviet through the three issues putting “grave threats to the peace of Asia and to China’s security.” These three issues were the three conditions China wanted to resolve before moving into any negotiations toward normalization. Hu Yaobang, ‘V. Jianchi Dulizizhu de Duiwai Zhengce [Adhering to an Independent Foreign Policy]’ in “Hu Yaobang zai Zhongguo Gongchandang Dishierci Quanguo Daibiao Dahui shangde Baogao: Quanmian Kaichuang Shehuizhuyi Xiandaihua Jianshe Xinjiumian [Report to the Twelfth National Congress of the CCP: Create a New Situation in All Fields of Socialist Modernization],” delivered on September 1, 1982, Zhongguo Gongchandang Lici Quanguo Daibiao Dahui Shujuku [Database of the Past National Party Congress of the CCP], <http://cpc.people.com.cn/GB/64162/64168/64565/65448/4526432.html> (accessed Sept. 15, 2013).

<sup>302</sup> Garver, *Foreign Relations of the People’s Republic of China*, 100-101.

<sup>303</sup> In the 1984 economic agreement, the Soviets promised to refurbish 24 industrial projects that had been built in the 1950s. When Gorbachev came to power in 1985, these continuing economic and

three conditions were still there as obstacles for Sino-Soviet normalization and remained untouched in the functional agreements for economic and technological cooperation.

The serious steps toward the normalization were taken after the rise of Gorbachev in March 1985. By 1985, there was no reason for tensions between the two big socialist countries. Gorbachev decided to deal with the domestic problems rather than stir up instability in the international environment. To carry out domestic political and economic reform in the Soviet Union, he wanted to guarantee a stable and supportive relationship with China. China was also implementing more and more economic reform measures from the mid-1980s. In his speech at Vladivostok in July 1986, Gorbachev announced significant policy changes which were intended to fulfill two of China's conditions. He promised the imminent withdrawal of Soviet military forces from Afghanistan and the removal of the troops in Mongolia, and suggested a resumption of the negotiations with China to reduce military forces along the Sino-Soviet borderlines.<sup>304</sup> Deng Xiaoping was still cautious and commented that there was "something new in Gorbachev's speech in Vladivostok," which showed his will to have a summit with Gorbachev if there was "a solid step towards the removal of the three major obstacles in Sino-Soviet relations, particularly if he urges Vietnam to end its aggression in Kampuchea and withdraw its troops from there."<sup>305</sup>

The Soviet military influences continuously declined in Europe and Asia as Moscow became increasingly preoccupied with domestic problems. Both China and the United States started to redefine their relations with the Soviet Union in response.

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political relations helped him push the normalization with China. John W. Garver, "The 'New Type' of Sino-Soviet Relations," *Asian Survey* 29, no. 12 (1989): 1137 and 1146.

<sup>304</sup> Zhao explained that China was also hopeful about seeing a fulfillment of all three conditions, particularly the Cambodia issue which remained unresolved for a longer time than other ones. "Transcript of Conversation between Todor Zhivokov and Zhao Ziyang in Beijing," May 6, 1987, History and Public Policy Program Digital Archive, Central State Archive, Sofia, Fond 1-B, Record 60, File 395, Obtained by the Bulgarian Cold War Research Group and translated by Assistant Professor Kalina Bratanova, <http://digitalarchive.wilsoncenter.org/document/110018>.

<sup>305</sup> Deng Xiaoping, "Da Meiguo Jizhe Maike Hualaiishi Wen [Replies to the American TV Correspondent Mike Wallace]," An interview with Mike Wallace, a correspondent for the program "60 Minutes" on CBS TV in the United States, September 2, 1986, in *Deng Xiaoping Wenxuan III*, 167-169.

After the fulfillment of two conditions, the withdrawal from Afghanistan and Mongolia, the Soviet Union finally fulfilled all three conditions by urging Vietnam resolve the situation in Cambodia. The Cambodia issue was resolved with the Vietnamese government's announcement on the complete withdrawal from Cambodia in 1988. The Soviet Union urged the Vietnamese troops to withdraw from Cambodia by 1989 in accordance with the wish of Chinese government.<sup>306</sup> The Sino-Soviet summit took place in May 1989. Deng declared the need "to put the past behind us and open up a new era." By normalizing its relationship with the Soviet Union, China completed all major tasks of the 1980s except for the Taiwan issue, "readjusted our relations with Japan, the United States and the Soviet Union," and "decided to recover Hong Kong and have reached an agreement with Britain in that regard."<sup>307</sup> The normalization with the Soviet Union completed a favorable set of security environments of China for its continuous reform and opening.

*Quick political maneuver to revive Sino-U.S. relations after Tiananmen*

The international structure was undergoing dramatic changes in the late 1980s and early 1990s, but the leadership insisted that there was no grave threat to China's security from the superpowers or any regional actors. Facing the end of the Cold War, it was critical to keep the domestic and international relations stable as long as possible to keep the CCP regime stable with economic prosperity. Deng admitted that "if the United States and the Soviet Union don't fight each other, there will be no world war," which meant that China did not see any possibility of such grave security threat from outside. The emerging threats in the post-Cold War context were regarded as relatively minor conflicts between underdeveloped countries or at the domestic

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<sup>306</sup> China and Vietnam normalized their relationship in 1991. Mackerras, Taneja, and Young, *China Since 1978*, 229-230.

<sup>307</sup> Deng Xiaoping, "Jieshu Guoqu, Kaipi Weilai [Let Us Put the Past Behind Us and Open Up a New Era]," Excerpt from a talk with Mikhail Gorbachev, President of the Presidium of the Supreme Soviet of the USSR and General Secretary of the Soviet Communist Party, May 16, 1989, in *Deng Xiaoping Wenxuan III*, 295.

level.<sup>308</sup> The Chinese leaders deliberately detached the CCP regime from other socialist countries in political transition focusing more on the nationalistic concept of “Chinese characteristics.” While keeping the political system under control, they were making every effort to continue the economic relations utilizing the Soviet-free environment.

The Sino-Soviet normalization never meant that the Sino-U.S. economic relations would deteriorate in response. The Sino-U.S. relations continuously expanded throughout the 1980s until the Tiananmen Incident in 1989. The United States assisted not only in the economic realm but also was involved in China’s military modernization by providing advanced technologies. The trade, technology or cultural exchanges of Sino-Soviet relations did not exceed the developments of Sino-U.S. relations. The only potential obstacle had been the Taiwan issue, but China had become less sensitive as its confidence in economic development grew in the 1980s. China requested the United States to “encourage and persuade Taiwan first to have ‘three exchanges’ with us, namely, the exchange of mail, trade and air and shipping services.” Deng was sure that “over the next few years the growth rate on the mainland will, at the least, be no lower than that in Taiwan,” saying “Taiwan has already tapped its potential, while the potential on the mainland has not yet been tapped and certainly will be soon.”<sup>309</sup> Maintaining flexibility with regard to the Taiwan issue through unofficial and indirect channels, the Sino-U.S. relations could expand without serious constraints.

During the 1980s, however, new issues of conflict emerged between China and the United States due to the different political perspectives, for example, human rights and the liberal democracy. The United States supported China’s reform and opening

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<sup>308</sup> Deng Xiaoping, “Gaijie Kaifang Zhengce Wending, Zhongguo Dayou Xiwang [With Stable Policies of Reform and Opening to the Outside World, China Can Have Great Hopes for the Future],” Excerpt from a talk with leading members of the CPC Central Committee, September 4, 1989, in *Deng Xiaoping Wenxuan III* [*Selected Works of Deng Xiaoping Volume III*] (Beijing: Remin Chubanshe, 1993), 319-320.

<sup>309</sup> Deng Xiaoping, “Da Meiguo Jizhe Maike Hualaiishi Wen [Replies to the American TV Correspondent Mike Wallace],” September 2, 1986, in *Deng Xiaoping Wenxuan III*, 169-171.

toward economic liberalization and institutionalization, and also tried to promote the political liberalization along with economic exchanges. The economic and cultural exchanges with the United States were critical for reform progress in China, but there were increasing side effects of political dangers on the CCP regime. The leaders of both countries recognized the growing political problems, but the economic relations between China and the United States remained favorable and kept expanding until the Tiananmen Incident. The 1989 Tiananmen Incident and its aftermath highlighted these political problems and resulted in temporary suspension of relations. After the Tiananmen, top leaders strived to maintain the relations to avoid a complete rupture.

Deng officially responded to the United States' sanctions with a strict manner, because many leaders had felt a certain danger about the fact that the "disturbances and the counter-revolutionary rebellion that took place in Beijing were fanned by international anti-communism and anti-socialism," influenced by the West "to overthrow the socialist system in China." But Deng urged the United States to "take the initiative in putting the past behind." He never intended to "stop China's reform and opening to the outside world," and expected the Sino-U.S. relations to be continued in a practical sense to "help each other develop their economies and defend their economic interests."<sup>310</sup>

The Bush administration of the United States also clearly knew that it was still important to retain good relations with China. High-level direct contacts continued after the Tiananmen Incident, and Bush tried to minimize the sanctions in some issues, for example, the MFN status of China. The political and economic cost of the Tiananmen Incident was huge, but Deng skillfully urged the United States to revive their relations for the sake of world peace.<sup>311</sup> When he met the U.S. National Security Advisor Scowcroft, Deng emphasized that the development of Sino-U.S. relations had

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<sup>310</sup> Deng Xiaoping, "Jieshu Yanjun de Zhongmei Guanxi Yaoyou Meiguo Caiqu Zhudong [The United States Should Take the Initiative in Putting an End to the Strains in Sino-American Relations]," Excerpt from a talk with former President Richard Nixon of the United States, October 31, 1989, in *Deng Xiaoping Wenxuan III*, 330-333.

<sup>311</sup> Garver, *Foreign Relations of the People's Republic of China*, 103-104.

contributed to the seventeen years of world peace and stability from 1972. He wanted to send his message to “respect the other and consider the other’s interests as much as possible” to settle disputes.<sup>312</sup> The sanctions on China were varied in their kinds and level by countries, but soon turned out not gravely harmful for economic development of China after a certain period. The United States maintained the economic sanctions longer than other countries due to domestic criticisms on the human right issues. But the economic relations revived to facilitate the economic development and international involvement of China in the 1990s.

The international order transformed with the dissolution of the Soviet Union and the German unification in 1991. Facing the end of the Cold War, Chinese leaders accelerated their efforts in two ways: one to protect the CCP rule from the political influence of the West, and another to expand and diversify the linkages with Western technology and economy. It was also important to avoid any small-scale regional conflicts to pursue the economic modernization and development without concerns about regime security.<sup>313</sup> For Deng and the new generation of leaders, the most important task was to continue the reform and opening not to lose the momentum. When the two former superpowers cooperated in the 1991 Gulf War, it was able to witness the advanced weapon systems and military capabilities which might threat China’s security if there ever was going to be a confrontation with the United States or the post-Soviet Russia. The CCP leadership came to refocus on military modernization with a longer-term perspective, which had been temporarily put off to put more efforts on economic development.

In the early 1990s, all the post-socialist countries including the Soviet Union went through certain periods of domestic difficulties to pose any direct threat to China. When Deng Xiaoping reappeared and made his Southern Tour to reactivate the bold

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<sup>312</sup> Deng Xiaoping, “Zhongmei Guanxi Zhonggui Yaohao Qilai Caixing [Sino-U.S. Relations Must be Improved],” Excerpt from a talk with Brent Scowcroft, special envoy of President George Bush of the United States and Assistant to the President for National Security Affairs, December 10, 1989, in *Deng Xiaoping Wenxuan III*, 350-351.

<sup>313</sup> Tow, “China and the International Strategic System,” 115.

reform and opening policies, even the relations with Taiwan were better than any time since 1949. The exchanges across the Taiwan Strait increased throughout the 1980s and the ROC government took comparatively conciliatory attitude to the Tiananmen Incident.<sup>314</sup> The potential of conflict in the Taiwan Strait had not completely been eliminated, but the Taiwan issue was no more an obstacle to hold back China's economic expansion and its deepening relations with the West including the United States. With increasing economic capacity and expanding diplomatic relations, Chinese political confidence over Taiwan also had increased to allow more socio-economic exchanges in a long-term perspective.

## 2. A Developing Country with “Chinese Characteristics”

The Chinese leaders had redefined China's position as a developing country, one of the Third World countries from the late 1970s to concentrate on economic modernization and development. Deng Xiaoping repeatedly assured that the changes in the 1980s would work in China's favor and that they would not pose any imminent danger of a war around China. To maintain the stability of the security environments, the Chinese leadership was determined to “improve our relations with the United States and the Soviet Union.” China had already “made some substantive progress in improving relations with the United States” in the 1970s and early 1980s, and was “trying to improve relations with the Soviet Union, while sticking to our principles.”<sup>315</sup> Deng and the reformers did not want to characterize China as a major power in “a big triangle” in global politics. For China's rapid economic development, the strategic focus should shift from “peace (East-West relations)” to “economic development (North-South relations),” to support the economic development of the Third World countries including China. Deng urged Japanese firms and other capitalist countries to “take a positive attitude towards economic and technological

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<sup>314</sup> Mackerras, Taneja, and Young, *China Since 1978*, 209.

<sup>315</sup> Deng Xiaoping, “Women ba Gaige Dangzuo Yizhong Geming [We Regard Reform as a Revolution],” Excerpt from a talk with Chancellor Helmut Kohl of the Federal Republic of Germany, October 10, 1984, in *Deng Xiaoping Wenxuan III*, 81-82.

cooperation with China.”<sup>316</sup> Since China was a big market with huge potentials for development, the investment and cooperation in China were quite attractive for the firms and institutions in Japan and the West.

While distancing itself from the superpowers’ political and military competition, the Chinese leaders utilized nationalistic agenda to promote a political consensus for rapid economic reform and development during the 1980s. Nationalistic concepts and slogans were added to emphasize the importance of independence and unity, and economic development was also emphasized as a major way to promote them. Since China still had the issue of “occupied” national territories like Taiwan, Hong Kong, and Macao, the nationalistic agenda of territorial issues and political independence remained strong. They were utilized to increase support and loyalty to the CCP rule and its economic policies.

### **(1) Urging Nationalism to Support Reform and Development**

Along with the official maintenance of the socialist system and ideology, the reform leaders started to emphasize nationalism to pursue national interests through the stable progress of reform and opening. Deng and the reformers tried to widen domestic support for their reform policies by interpreting the situation as being safe for China. In domestic politics, the “political stability and unity had been enhanced throughout the Party and the army and among our people of all nationalities, and the situation in all fields is steadily improving.” While they stressed the favorable changes in global security structure with less direct threat to China, they still wanted to keep the mass population somewhat alert to “the intensified rivalry between the superpowers and the quickened pace of global strategic deployment by the Soviet

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<sup>316</sup> The leaders were certain that no countries among the major powers wanted a war on a global or regional scale, and that “the Third World countries, including China, hope for national development, and war will bring them nothing good.” Deng Xiaoping, “Heping he Fazhan shi Dangdai Shijie de Liangda Wenti [Peace and Development are the Two Outstanding Issues in the World Today],” Excerpt from a talk with a delegation from the Japanese Chamber of Commerce and Industry, March 4, 1985, in *Deng Xiaoping Wenxuan III*, 104-106.

hegemonists.”<sup>317</sup> It was to arouse political loyalty to the regime and mitigate the social complaints that emerged on the way of reform and opening by using nationalistic agenda.

*“One country, two systems” to enhance political unity*

China utilized the improved Sino-U.S. relations both in politics and economy but tried to avoid becoming too dependent on outside actors or institutions. There was always apprehension about excessive foreign influences. The leaders had to deal with the historical memories of foreign occupations, and this nationalistic sentiment had to be fulfilled if they were to maintain constant support from the general population for CCP rule. It was critical to resolve the territorial restitution and reunification issues since they were one of the most acute nationalistic issues. Hong Kong and Macao was expected to be returned to China by the end of the 1990s in accordance with the contracts with the United Kingdom and Portugal. These territorial issues were also related with the Taiwan question, and the leaders knew that it would be helpful for their reform decisions to resolve these issues decisively at the right time.

The negotiation regarding the restitution of Hong Kong started from 1982 to make sure that the date of the return would not exceed the year 1997. Deng and his leaders assumed a strict stance and frequently publicized their political arguments and confidence over system management of Hong Kong. The agreement between the United Kingdom and China was reached in September 1984. It concluded that Hong Kong would become a “special administrative region (HKSAR)” of China with a high degree of autonomy except for defense and foreign affairs.<sup>318</sup> Chinese leaders

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<sup>317</sup> Deng Xiaoping, “Jianshe Qiangda de Xiandaihua Zhengguihua de Geming Jundui [Build Powerful, Modern and Regularized Revolutionary Armed Forces],” Speech on reviewing the People’s Liberation Army units taking part in military exercises in northern China (Comrade Deng Xiaoping was elected Chairman of the Military Commission of the Central Committee of the Chinese Communist Party in June 1981), September 19, 1981, in *Deng Xiaoping Wenxuan II*, 394-395.

<sup>318</sup> The Sino-British Joint Declaration (the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People’s Republic of China on the Question of Hong Kong) was signed by Zhao Ziyang and Margaret Thatcher on 19 December, 1984 in Beijing. Hong Kong would maintain capitalist system as a part of China under the socialist regime.

conceptualized this formula as “one country, two systems.” For Deng and the reform-minded leaders, Hong Kong was already doing its role to link Chinese economy with the outside world, and there was no reason to hamper its economic prosperity. The only thing needed was political loyalty under the rule of CCP, promoted by nationalism. Hong Kong was expected to be a great example where it can show that reunification was attractive to the people of Taiwan. Hong Kong soon became the model for the return of Macao in 1999 from Portugal. It also became another special administrative region. The concept “one country, two systems” became Beijing’s slogan for the future of Taiwan.<sup>319</sup> With favorable conclusions of Hong Kong restitution, the Chinese leaders became more confident about their political status over Taiwan.

During the negotiations on Hong Kong, Deng Xiaoping showed clear and constant stance on the issue that it was “the question of sovereignty.” He emphasized the importance of the Hong Kong issue, that “no Chinese leaders or government would be able to justify themselves” if they failed to resolve the issue by 1997. At first the United Kingdom suggested postponing the return date for fifteen more years. But for Deng, the Hong Kong issue was what the people “waited for 33 years.” He insisted on a complete return on the right time of 1997. Otherwise, “the people would no longer have reason to trust” the leadership and it will be a great burden on them to legitimize the CCP rule over the country.<sup>320</sup> Deng repeatedly emphasized that China only wanted “to see an end to the foreign rule.” He criticized “the notion that Chinese cannot manage Hong Kong affairs satisfactorily” as “a leftover from the old colonial mentality.” Deng urged the people in Hong Kong to “share this sense of national pride” and to “run the affairs of Hong Kong” in the hands of the patriots “who respects the Chinese nation, sincerely supports the motherland’s resumption of sovereignty over Hong Kong.” The “one country, two system” concept became a principle in regaining

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<sup>319</sup> Harding, *China and Northeast Asia*, 41-46.

<sup>320</sup> Deng Xiaoping, “Women dui Xianggang Wenti de Jiben Lichang [Our Basic Position on the Question of Hong Kong],” A talk with British Prime Minister Margaret Thatcher, September 24, 1982, in *Deng Xiaoping Wenxuan III*, 12-13.

political jurisdiction that did not touch economic autonomy.<sup>321</sup> They were confident of their ability to resolve the issues in favor of China's economic development without the danger of the military instabilities or political turmoil.

After the success of the Hong Kong negotiations, Deng proudly explained that it was "chiefly because of the rapid progress our country" which had been "thriving and growing powerful and has proved trustworthy." On the implications to the Taiwan question, however, Deng argued that it would take a longer time to resolve, and China "should not be impatient for quick results." For Taiwan, China started to reach out to "more people in handling the Taiwan question," not focusing only on "the Kuomintang authorities and Chiang Ching-kuo." But the CCP leadership never officially gave up "the possibility of using non-peaceful means." Although they did not want a war, Taiwan was the issue that they could not stay in peace in case "the Taiwan authorities refuse to negotiate with us forever."<sup>322</sup> When he was signing the Hong Kong agreement with Thatcher in December 1984, Deng made it clear that the concept "one country, two systems" was fundamentally targeting the Taiwan issue. Deng was positive about China's future to be one of the developed countries in about fifty years. A "stable Taiwan" was also critical for the same fifty years.<sup>323</sup> Fully utilizing the improved status of China, Deng and the leaders requested the rest of the world to learn China's nationalistic concepts in its special situation, and support the CCP policies to promote mutual interests in international politics and economy.

*Nationalistic pragmatism for "socialism with Chinese characteristics"*

Deng Xiaoping emphasized the "independence and self-reliance" to run all the

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<sup>321</sup> Deng Xiaoping, "Yige Guojia, Liangge Zhidu [One Country, Two Systems]," Summation of separate talks with members of a Hong Kong industrial and commercial delegation and with Sze-yuen Chung and other prominent Hong Kong figures, June 22 and 23, 1984, in *Deng Xiaoping Wenxuan III*, 58-61.

<sup>322</sup> Deng Xiaoping, "Zai Zhongyang Guwen Weiyuanhui Disanci Quantihuiyi Shangde Jianghua [Speech at the Third Plenary Session of the Central Advisory Commission of the CCP]," October 22, 1984, in *Deng Xiaoping Wenxuan III*, 85-87.

<sup>323</sup> Deng Xiaoping, "Zhongguo shi Xinshou Nuoyan de [China Will Always Keep Its Promises]," Excerpt from a talk with Prime Minister Margaret Thatcher of the United Kingdom, December 19, 1984, in *Deng Xiaoping Wenxuan III*, 101-103.

policies “according to China’s specific conditions and by the Chinese people themselves.” It was their top priority to protect the “hard-won independence and sovereign rights,” and it became unthinkable “to accept anything that is damaging to China’s own interests.” The outward openings and exchanges were justified as their tool to pursue the national interests, and the strict domestic control over the corruption and “the bourgeois way of life” was also justified by the same purpose.<sup>324</sup> Deng had listed three task of the CCP during the 1980s to deal with the Soviet hegemonism, Taiwan, and the economic construction, and put emphasis on the third one to be the basic task. The security and political issues were to be “determined by the extent of our economic growth,” and the Taiwan issue “also depends on our running our affairs at home well.” Being confident in political competition with the ROC, Deng wanted to “surpass Taiwan, at least to a certain extent, in economic development as well.”<sup>325</sup>

The promotion of nationalism helped the leadership to require the people to endure some complaints and hardships for the better future of the sovereign China with the “socialism with Chinese characteristics.” The problem of economic inequality became increasingly serious which was basically unacceptable in the Communist ideology. But Deng Xiaoping justified this tendency as “a new policy that is supported by everyone,” and argued that it was most urgent to develop the overall economy up to a certain size and level, and that all the projects “should be judged by the criterion of whether it contributes to the welfare and happiness of the people and to national prosperity.”<sup>326</sup> This combination of pragmatism and nationalism was to

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<sup>324</sup> Deng Xiaoping, “Zhongguo Gongchandang Dishierci Quanguo Daibiao Dahui Kaimuci [Opening Speech at the Twelfth National Congress of the CCP],” September 1, 1982, in *Deng Xiaoping Wenxuan III*, 2-3.

<sup>325</sup> In January 1980, Deng defined three tasks of international affairs in the 1980s. First was to “continue to oppose hegemonism and strive to preserve world peace,” pointed the Soviet invasion of Afghanistan and superpowers’ intervention in the Middle East issues. The second was Taiwan, to “endeavor to attain this goal in the 1980s.” He listed the economic construction on the third, but this task was the most important one than the other two. The “four modernizations” were “the essential condition” to solve all the internal and external problems. Deng Xiaoping, “Muqian de Xingshi he Renwu [The Present Situation and the Tasks before Us],” January 16, 1980, in *Deng Xiaoping Wenxuan II*, 239-240.

<sup>326</sup> Deng Xiaoping, “Gexiang Gongzuo Douyao Youzhuyi Jianshe You Zhongguo Tese de Shehuizhuyi

make a new political discourse for reform and opening. Deng and the radical reformers had “insisted that the focus of our work should be rapidly shifted to economic development” to prove the superiority of the socialist regime and sustain political power of the CCP. As the economy started to prosper in the 1980s, they became more confident about their new slogans and decisions.<sup>327</sup>

In addition to promoting political support and unity for reform, the nationalistic slogans combined with the pragmatic approach helped in implementing reform by diluting the revolutionary antagonism against capitalists in general. One exception was the economic relationship with Japan which increased rapidly. China was still sensitive about the revival of Japanese militarism and the CCP leadership repeatedly required Japan to “criticize and expose this tendency” of potential militarism and take care of it before they deepen the economic relations in the future.<sup>328</sup> Chinese leaders had to take cautious look to keep balance between domestic anti-Japanese sentiments and practical benefits from economic relations. Except for some historically sensitive cases like Japan, the increasing nationalism contributed to economic reform and opening to pursue expansion of economic relations with other countries.

Having defined its own position as a Third World developing country, the CCP leadership utilized the new nationalistic and pragmatic political discourses as a great tool to expand economic relations. Deng and the leaders argued that “China will always belong to the Third World” and would “never seek hegemony or bully others, but will always side with the Third World.” The main global issue seemed to be shifting from “the problem of peace” to “the North-South problem,” dealing with the

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[Our Work in All Fields Should Contribute to the Building of Socialism with Chinese Characteristics],” Excerpt from a talk with leading members of the State Planning Commission, the State Economic Commission and departments in charge of agriculture, January 12, 1983, in *Deng Xiaoping Wenxuan III*, 22-23.

<sup>327</sup> Deng Xiaoping, “Yixin Yiyi Gao Jianshe [We Shall Concentrate on Economic Development],” Excerpt from a talk with Kim Il Sung, General Secretary of the Central Committee of the Korean Workers’ Party, while the two men were on their way to Sichuan Province, September 18, 1982, in *Deng Xiaoping Wenxuan III*, 10.

<sup>328</sup> Deng Xiaoping, “Jingti Riben Jishaoshuren Huifu Junguozhuyi [Be on Guard Against Attempts to Revive Militarism in Japan],” Excerpt from a talk with Tokuma Utsunomiya, President of the Japanese-Chinese Friendship Association and member of the Japanese House of Councilors, and other friends from Japan, May 5, 1987, in *Deng Xiaoping Wenxuan III*, 230-231.

increasing economic gap between the developed countries and the developing countries. China redirected the strategic focus to resolve the situation through the “cooperation among Third World countries,” in other words, “South-South cooperation.” During the 1980s, China tried to devote its national capacity “to the modernization program to develop our country and to build socialism with Chinese characteristics.”<sup>329</sup> Being a member of the Third World helped China politically to distance itself from the superpowers and to justify its requests of more assistance for economic modernization and development. The expanded and diversified relations helped China to continue the development even when the economic cooperation with the capitalist West experienced a temporary setback after the Tiananmen Incident in 1989. The relations soon recovered toward more increased interactions in the 1990s.

## **(2) Pursuit of Development in parallel with Stability**

China saw and learned about its reform measures much more from the experience of the West and East Asian NICs than from the socialist countries. But the fact the Asian NICs followed the political path toward the liberal democracy made the top leaders of China cautious about political activities in the process of economic development. China had to deal with the inflow of western political idea from economic and cultural exchanges. In his opening speech at the Twelfth National Congress in 1982, Deng insisted to “unswervingly follow a policy of opening to the outside world and increase our exchanges with foreign countries on the basis of equality and mutual benefit,” but declared that China would “firmly resist corruption by decadent ideas from abroad.”<sup>330</sup> Without political guarantee of the CCP rule, the

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<sup>329</sup> Deng Xiaoping, “Weihsu Shijie Heping, Gaozhao Guonei Jianshe [We Must Safeguard World Peace and Ensure Domestic Development],” Excerpt from a talk with President Joao Baptista de Oliveira Figueiredo of Brazil, May 29, 1984, in *Deng Xiaoping Wenxuan III*, 56-57.

<sup>330</sup> Along the economic development, he urged China to concretely establish and empower the political system in less than twenty years through the “four undertakings”: i) restructuring of the administration and economic system and train the cadres “more revolutionary, younger, better educated and more competent professionally”; ii) building a socialist society “culturally and ideologically advanced”; iii) combat against “economic and other crimes that undermine socialism”; and iv) rectification of the Party works and organizations “on the basis of a conscientious study of the new Party Constitution.”

economic modernization and development was meaningless, and even dangerous in the context of regime security.

Deng's leadership had allowed the party elites to express their "constructive opinions" to prevent tragedy like the Cultural Revolution. But it was not to liberalize the whole political process. The CCP leadership decided policies of economic reform and development in the purpose of safety and continuity of the CCP rule. Economic crisis such as serious inflations could weaken the loyalty to the CCP and Deng's political power, as well as the political dissidents against the socialist regime.<sup>331</sup> Deng and the radical reformers showed relatively more confidence about the political influences from the foreign contacts, and had persuaded the conservatives to allow more reform and opening measures in the mid-1980s. But they also were cautious about the spread of foreign political concepts including liberal democracy, which proved to be a dangerous stimulus in creating a political crisis as was shown in the 1989 Tiananmen Incident.

#### *Coping with "deviations" and "disturbances"*

Political demands toward democratization always existed among the elites and society from the late-1970s. These demands gradually reached a level of serious concern of the leadership from the mid-1980s. The ideological trend of "bourgeois liberalization" had been denied in the modernization process led by the CCP, because this trend promoted "the 'democracy' and 'freedom' of the Western capitalist countries and reject socialism." The tendency of bourgeois liberalization became a serious problem by 1985. Various political expressions appeared, such as "speaking out freely, airing their views fully, putting up big-character posters" and "producing illegal publications." These activities could develop into "political unrest" which was considered as being harmful not only to "socialist construction" but also to the "unity

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Deng Xiaoping, "Zhongguo Gongchandang Dishierci Quanguo Daibiao Dahui Kaimuci [Opening Speech at the Twelfth National Congress of the CCP]," September 1, 1982, in *Deng Xiaoping Wenxuan III*, 3.

<sup>331</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 384.

on the mainland.” The human rights discourse from the West was also dangerous for China’s political unity as much as the idea of liberal democracy was.<sup>332</sup> The increased contacts with the United States and other western countries brought their political concepts together, and the issue of human rights emerged as a new theme of conflicts in the Sino-U.S. relations. Chinese intellectuals and students learned not only technologies and management skills, but also political concepts like liberal democracy and the human rights.

It was true that the Western people and society had their some hopeful prospects on China to soon transform into liberal democracy. But the Chinese leaders were confident and willing to use the socialist mechanism and power to “intervene to correct any deviations.” Since the foundation of the Soviet Union and the whole socialist bloc were being shaken, it was natural that “some decadent bourgeois things” could spread more quickly in China. Deng and the leaders fully utilized the Party and state apparatus “to cope with them.”<sup>333</sup> In the late 1980s, the voice of political opponents grew larger by “a trend of thought among the masses, especially among the young people, in favor of liberalization” influenced by the “support from the sidelines” such as “some comments from people in Hong Kong and Taiwan.” They attempted “to turn China’s present policies in the direction of capitalism,” which would “undermine our political stability and unity.” For Chinese leaders, the criticism from the West saying “there are no human rights in China” was one of the main themes to create political turmoil in China.<sup>334</sup>

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<sup>332</sup> Deng Xiaoping, “Gao Zichan Jieji Ziyouhua Jiushi Zou Zibenzhuyi Daolu [Bourgeois Liberalization Means Taking the Capitalist Road],” Excerpts from a talk with Prof. Chen Ku-ying, formerly of Taiwan University, on May 20, 1985, and a talk with the committee chairmen of a Symposium on the Question of the Mainland and Taiwan on June 6, 1985, in *Deng Xiaoping Wenxuan III*, 123-124.

<sup>333</sup> Deng Xiaoping, “Gage shi Zhongguo Fazhan Shengchanli de Biyouzhilu [Reform is the Only Way for China to Develop Its Productive Forces],” Excerpt from a talk with Robert Mugabe, Prime Minister of Zimbabwe and President of the Zimbabwe African National Union (Patriotic Front), August 28, 1985, in *Deng Xiaoping Wenxuan III*, 138-139.

<sup>334</sup> Deng Xiaoping, “Zai Dang de Shierjie Liuzhongquanhui shangde Jianghua [Remarks at the Sixth Plenary Session of the Party’s Twelfth Central Committee],” A speech made during discussion of the ‘Draft Resolution of the CPC Central Committee on the Guiding Principles for Building a Socialist Society with an Advanced Level of Culture and Ideology,’ September 28, 1986, in *Deng Xiaoping Wenxuan III*, 181-182.

China's political reform was one of the agenda at the Thirteenth Party Congress, which included "democracy and the legal system," but it was not at all similar to American-style of liberal democracy. Deng and the leaders were certain that it was "essential to have a stable political environment" to "strengthen the nation and gradually raise the standard of living." American concepts like "multiparty elections and separation of the three powers" were only dangerous for China's political stability.<sup>335</sup> In his report to the Thirteenth Party Congress, Zhao Ziyang made it clear that the political structure of China would be reformed, but strictly inside the confines of "Chinese characteristics" within the boundary of Marxism to prove the superiority of socialism.<sup>336</sup> The reform in the political sphere was to institutionalize the policy decision and implementation processes throughout the Party and state. It was to strengthen the rule of CCP while pursuing more reform and opening to facilitate the economic development, in a similar form of authoritarian leadership as shown in the East Asian developmental states.

The Tiananmen Incident had demonstrated the harmful effects of the deepening economic relations with the West, especially the United States. It was much harder to separate the economic and politics along with the expansion of the relations. The Tiananmen Incident and the crackdown by the PLA became a hot issue in Sino-U.S. relations. Since it was fundamentally unthinkable for the Chinese leaders to risk losing the CCP rule by a democratization movement, the criticisms from the United

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<sup>335</sup> Deng Xiaoping, "Meiyou Andingde Zhengzhi Huanjing Shenmeshi Dou Gan Bucheng [Nothing Can be Accomplished Without a Stable Political Environment]," Excerpt from a talk with James Carter, former President of the United States, June 29, 1987, in *Deng Xiaoping Wenxuan III*, 244-245.

<sup>336</sup> Zhao Ziyang, 'V. Guanyu Zhengzhi Tizhi Gaige [Reforming the Political Structure],' and 'VII. Zhengqu Makeshuyi zai Zhongguo de Xinshengli [Striving to Win New Victories of Marxism in China]' in "Zhao Ziyang zai Zhongguo Gongchandang Dishisanci Quanguo Daibiao Dahui shangde Baogao: Yanzhe You Zhongguo Tese de Shehuizhuyi Daolu Qianjin [Report to the Thirteenth National Congress of the CCP: Advance Along the Road of Socialism with Chinese Characteristics]," delivered on October 25, 1987, Zhongguo Gongchandang Lici Quanguo Daibiao Dahui Shujuku [Database of the Past National Party Congress of the CCP], <http://cpc.people.com.cn/GB/64162/64168/64566/65447/4526368.html> (accessed Sept. 15, 2013). The section V of the report consisted of political reform measures: separating Party and government, delegating power to lower levels, reforming government organs, reforming the personnel system relating to cadres, establishing a system of consultation and dialogue, improving a number of systems relating to socialist democracy, and strengthening the socialist legal system.

States were perceived as the foreign intervention in China's internal affairs. In the aftermath of the Tiananmen Incident, the image of the United States as the most helpful economic partner was flipped around. Now it was a political imperialist and this revived the traditional conservative thinking regarding the danger of excessive contacts with the outside world.

After the Tiananmen incident on June 4<sup>th</sup>, Deng passed the responsibility of the “disturbance” onto “both the international environment and the domestic environment.” The crackdown by the military forces was supported by “a large number of veteran comrades” who “experienced many disturbances and understand the possible consequences of different ways of dealing with them.” Deng accused the purposes of the demonstration as an attempt to “overthrow the Communist Party” and to “demolish the socialist system.” After the crackdown, for the time being, Deng could not sustain his bold reform measures. But he had no intention to give up or deny “the line, principles and policies” declared at the Third Plenum of 1978. To meet the conservatives' demands and to consolidate political stability, the political themes such as “one central task, two basic points” and the “Four Cardinal Principles” had to be strongly emphasized again. Deng defined the fundamental cause of the Tiananmen Incident as “a conflict between bourgeois liberalization and adherence to the Four Cardinal Principles.”<sup>337</sup> The CCP needed to stand firm to continue reform and opening under “the socialism with Chinese characteristics” to stay on the track of economic development with political stability.

#### *Confidence in both economic reform and political stability*

Diplomatic and the economic sanctions by the United States empowered the conservative logic of the dangers from foreign economic relations to the political stability and the rule of the CCP. Chinese leaders responded with countersanctions,

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<sup>337</sup> Deng Xiaoping, “Zai Jiejian Shoudu Jieyanbudui Jun Yishang Ganbu shide Jianghua [Address to Officers at the Rank of General and Above in Command of the Troops Enforcing Martial Law in Beijing],” June 9, 1989, in *Deng Xiaoping Wenxuan III*, 302-308.

and the Sino-U.S. economic relations temporarily deteriorated. The trade, investment, personnel exchanges all dropped sharply. But it was not the fundamental purpose of the top leaders to abandon the foreign economic relations completely. Despite a conservative backlash, Deng and the Bush administration maintained contacts with each other, and tried to moderate the impact of the sanctions while being cautious not to stir up visible conflicts with domestic oppositions.<sup>338</sup> China had recognized that the United States had become the only superpower after the collapse of the socialist bloc, and had to redefine its position in the international politics under a unipolar structure that formed around the United States. To continue the socialist regime after the disappearance of the socialist bloc, it was best to stick to the pragmatist approach in every relation except for the very fundamental issue of regime security.

In September 1989 after the Tiananmen Incident, Deng Xiaoping warned domestic population that “the West really wants unrest in China,” at the same time insisting that the situation in China was different from the Soviet Union or the Eastern Europe. Deng interpreted “the current situation in China is stable,” and expressed his confidence about the new leadership under Jiang Zemin “will continue the policies of reform and opening to the outside world that have been followed over the past decade, maintain stability and unity and uphold the principle of ‘one central task and two basic points’.”<sup>339</sup> He made his position to put policy priority on domestic stability to protect its political independence clear, but tried to keep the pragmatic opening

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<sup>338</sup> After the Tiananmen Incident, the White House staffs of the Bush administration “felt that it was extremely important to maintain a relationship with China,” concerning that “the conservatives might reassert themselves.” The United States wanted “to make sure that they would evolve in a relationship with the United States and not revert to close ties with Russia.” Brent Scowcroft, “Transcript: Interview with Brent Scowcroft,” interviewed by Philip Zelikow, Ernest May, James H. McCall, and Fareed Zakaria, November 12-13, 1999, George H.W. Bush Oral History Project, Miller Center, University of Virginia, 54-55. The relationship with China was “an extraordinarily important relationship” for the United States, and the Bush administration made it clear that they “don’t need to be an enemy of China and they don’t need to be our enemy.” James A. Baker, “Transcript: Interview with James A. Baker III,” interviewed by Russell Riley, James Sterling Young, and Robert Strong, March 17, 2011, George H.W. Bush Oral History Project, 41.

<sup>339</sup> Deng Xiaoping, “Women You Xinxin ba Zhongguo de Shiqing Zuo de Genghao [We Are Confident That We Can Handle China’s Affairs Well],” Excerpt from a talk with the Chinese-American physicist and Nobel Prize winner Professor Tsung-Dao Lee of Columbia University, September 16, 1989, in *Deng Xiaoping Wenxuan III*, 325-326.

policies in order to continue economic relations.

Deng separated China from “the upheaval in some socialist countries.” He acknowledged that “the upheavals in Eastern Europe and the Soviet Union were inevitable” but urged China to take this transition as an opportunity to “double its GNP in real terms for the second time, according to plan.” Whether the Soviet Union collapsed or not, Deng wanted to continue the reform and opening policies to keep “the banner of China.” No matter how “the developed countries all the more on guard against us,” it was still important to “maintain friendly exchanges,” “observe the situation coolly,” “hold our ground,” and “quietly immerse ourselves in practical work.”<sup>340</sup> This continued discourses with firm standing on the pragmatic approach prevented China from serious retreatment of reform and opening in the early 1990s. With no more visible political dissents in society due to strong political oppressions, the leadership encouraged more reform and opening even more rigorously for both economic prosperity and political legitimacy.

### 3. Technocrats Competing within the Reform Frame

The cycle of advance and retrenchment of Chinese reform and opening reflected the leaders’ concerns to maintain the development without political instabilities. Initial reform measures provided autonomy to individuals, localities and enterprises, and more measures followed later to respond to the bottom-up pressure of actual changes. Domestic politics intervened in the process, resulted in the cycle of bold measures and readjustments.<sup>341</sup> The Tiananmen Incident brought the last retreat of the radical reform for about two years, but the reform and opening regained its initiative after Deng Xiaoping’s Southern Tour in 1992. The end of the Cold War and the dissolution of the socialist bloc did not cause much confusion in China throughout

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<sup>340</sup> Deng Xiaoping, “Gaige Kaifang Zhengce Wending, Zhongguo Dayou Xiwang [With Stable Policies of Reform and Opening to the Outside World, China Can Have Great Hopes for the Future],” September 4, 1989, in *Deng Xiaoping Wenxuan III*, 320-321. In this article, Deng Xiaoping made it clear about the timing and process of his retirement and strongly suggested the continuation of works toward the reform and opening.

<sup>341</sup> Lardy, *Foreign Trade and Economic Reform in China*, 37.

the 1990s. Political dissidents were strictly controlled after the Tiananmen and the leaders regained confidence on their ability to keep a tight grip on the domestic realm and pursuing pragmatic opening policies towards the outside. Since China was now completely engaged with the capitalist world economy, there was no more worry about ideological criticisms or the conservatives' counterattacks in domestic politics.

### **(1) Cycles of Advance and Retreat during the 1980s**

Deng Xiaoping and his reformers initiated experimental measures in the economy and stabilized CCP's political rule during the early 1980s. Deng emphasized the importance of the promotion of new generations and reshuffled the top organizations of the Party and state through the Twelfth Party Congress in 1982 and the National Party Conference in September 1985.<sup>342</sup> Deng's reform and opening did not entail any change of the socialist political mechanism itself. The reform measures were conducted by the decisions of the top leaders and implemented through the same bureaucratic system that trickled down all the way to the lowest levels. In politics, the status quo was best for stability, and it proved to have been a safe choice after the end of the Cold War considering all the confusions that unfolded in the former Soviet Union and Eastern Europe.<sup>343</sup>

#### *Radical reformers' advance in the early 1980s*

Deng Xiaoping wanted to gain more access to advanced science and technology through more international exchanges of personnel and information. China had to adapt to the "world standard and must become competitive internationally." He promoted more learning from the West among the Party officials and the general population. In principle, "the Party should assume leadership" but Deng insisted that the officials and the leaders had to have professional knowledge learned from abroad if they were to be aware of problems that needed to "be conscientiously studied and

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<sup>342</sup> Harding, *China's Second Revolution*, 65.

<sup>343</sup> Shirk, *The Political Logic of Economic Reform in China*, 12-14.

solved” for the sustainability of the Party rule.<sup>344</sup> When the conservatives worried about the negative impacts from the foreign contacts and exchanges, Deng and the radicals urged to “make use of the intellectual resources of other countries.” Separating the political impacts and economic learning effects, they tried to invite more foreign experts to “make the best use of their skills.” Since China had “neither experience nor technical knowhow,” it was necessary to expand its economic relations with foreign firms and people to utilize “their cooperation, so as to speed up our technological transformation.” Deng and the leaders clearly knew that China was a big market and “many countries wish to develop cooperation or do business with us. We should seize this opportunity. It is a matter of strategic importance.”<sup>345</sup>

The radical reformers wanted to expand the experimentations of economic institutional changes toward more market-oriented liberalization. After the initial readjustments until 1981 led by Chen Yun, it was now time to allow more autonomy and market-like incentives, and less control or mobilization. The radicals emphasized the balanced foreign relations and regional stability which were critical for the advancement of reform. The most important task of China at the time was to “waste no time in launching projects that should be launched.” There was no imminent external threat and the war was not likely, “so there is no need to fear it and no problem of risk.” Deng was certain that there was no possibility of a war “for at least the next ten years.”<sup>346</sup> They made positive interpretations that they were keeping a certain distance from the United States to facilitate the political and economic relations with the socialist and the Third World countries along with slow improvement of Sino-Soviet relations. It was the right time to promote reform along the expansion of security and economic cooperation with the United States. Moreover,

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<sup>344</sup> Deng Xiaoping, “Muqian de Xingshi he Renwu [The Present Situation and the Tasks before Us],” January 16, 1980, in *Deng Xiaoping Wenxuan II*, 269-270.

<sup>345</sup> Deng Xiaoping, “Liyong Waiguo Zhili he Kuoda Duiwai Kaifang [Use the Intellectual Resources of Other Countries and Open Wider to the Outside World],” Excerpt from a talk with leading members of the Central Committee of the CCP, July 8, 1983, in *Deng Xiaoping Wenxuan III*, 32.

<sup>346</sup> Deng Xiaoping, “Shicha Jiangsu Dengdi Hui Beijing Houde Tanhua [Remarks After an Inspection Tour of Jiangsu Province and Other Places],” Made in Beijing to leading members of the Central Committee of the CCP, March 2, 1983, in *Deng Xiaoping Wenxuan III*, 25.

they could utilize regional stability achieved through the independent policy by not becoming fully dependent or inclined toward either superpower.

Focusing on economic development and remaining independent from superpowers, the Chinese leaders could see and learn from the dramatic developments of Japan and Asian NICs throughout the 1980s. These East Asian developmental states showed how efficient a government-led economic development could be under a market-oriented structure. Japan and South Korea achieved remarkable economic growth and modernization with political and economic support of the United States. It was important for these regional economic actors to keep regional stability and avoid military conflict, to continue rapid economic development. Since China caught the opportunity of relatively stable and supportive environment throughout the 1980s, it worked in China's favor to establish pragmatic relations with these countries. The CCP leadership promoted economic and political cooperation with these countries to utilize their economic and political capability.

Japan had been one of the most important partners for China's economic reform and opening since it provided valuable learning experiences including Japan's advanced technology and management skills. Japanese firms started to invest in China beginning in the late 1970s. This was temporarily suspended by the readjustment policies of Chen Yun in the early 1980s but revived rapidly. Since Japan was geographically close and had a huge economic capacity, only next to the United States, Deng tried to expand the Sino-Japan relations in "the non-governmental economic and technological cooperation," attracting Japanese enterprises. He urged the Japanese government to "encourage them (the firms) to take a longer-range view" to take opportunity in China. He argued that China's economic potential to achieve the "objective of quadrupling the annual gross value of industrial and agricultural output by the end of the century."<sup>347</sup>

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<sup>347</sup> Deng Xiaoping, "Fazhan Zhongri Guanxi Yaokan de Yuanxie [We Should Take a Longer-Range View in Developing Sino-Japanese Relations]," Excerpt from a talk with Prime Minister Yasuhiro Nakasone of Japan, March 25, 1984, in *Deng Xiaoping Wenxuan III*, 53-55.

China tried to separate politics and economy in its relationship with Japan, and the leaders tended to take same attitude towards the Korean Peninsula. On the one hand, China's political support to the North Korean regime did not change. On the other hand, however, China started to expand economic and cultural relations with South Korea. While China reassured North Korea about the continuing political supports,<sup>348</sup> the CCP leadership also made it clear that they would expand a friendly relationship with South Korea for economic purposes. A breakthrough in China-ROK relations occurred when a Chinese airliner was hijacked into South Korean territory in May 1983. China started direct negotiations with the then South Korean government, and South Korea responded actively to resolve the situation. They continued contacts through non-political exchanges in areas like culture, sports, and tourism. China participated in the 1986 Seoul Asian Games and the 1988 Seoul Olympic Games despite North Korea's protests.<sup>349</sup> China was confident about its control over North Korea in its abilities to prevent military instabilities which was critical for its continuous reform and opening.

By 1984, the leadership was certain and confident about their reform policies based on their achievements after 1978, which had far exceeded their initial expectations. China actively participated in the international economic order, involved in international organizations like the World Bank, the IMF and the Asian Development Bank (ADB), international conferences, and sporting events. China indeed became an important market for many countries and multinational corporations (MNCs) through trade relations and FDIs. The continuous pragmatic approach of Deng and the leaders changed China's image of being reliable negotiations partner, which worked in China's favor to successfully conclude

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<sup>348</sup> The actual military or economic assistance to North Korea had not increased much, but China continued the political exchanges and supported North Korea's unification policies to prevent Pyongyang from growing closer to Moscow. In particular, China supported North Korea's unification issue, such as the simultaneous admission to the United Nations or the four-party dialogues with the United States, because they could negatively influence the Taiwan question.

<sup>349</sup> Harding, *China and Northeast Asia*, 33-40.

agreements with the United Kingdom on the Hong Kong issue.<sup>350</sup> With very much favorable and supportive international economic environment, it became easier for Deng to deal with the domestic policy oppositions of the conservatives to forge a political consensus for more outward opening.

*Progress of reform until 1988 despite conservatives' uneasiness*

Deng and his reformers prepared to launch another strong drive for more reform and opening in year 1984. Right before the Third Plenum of the Twelfth Central Committee, Deng proudly explained that “the first Third Plenary Session focused on rural reform, whereas this Third Plenary Session will focus on urban reform, including the reform of industry, commerce and other sectors” that is would be “a comprehensive reform.” They wanted to focus more on urban reform by providing more autonomy to the SOEs and expanding the SEZs into more cities and regions “to increase our cooperation with other Third World countries and at the same time to expand our relations with Europe and Japan and increase our cooperation with them.” Deng had a clear concept that China could not develop without a long-time peace, and “since we want a peaceful environment we must cooperate with all of the world’s forces for peace.”<sup>351</sup> To facilitate and utilize the peaceful international environment, China continued to expand the economic and political relations with the capitalist West and the Third World.

This shift of focus was closely related with the reorientation of resources from military to economy. The changing international relations in the mid-1980s proved that only the superpowers were “in a position to launch world war” but that the United States and the Soviet Union “neither dares to start a war.” Deng reduced the material support to the PLA and decided to “reduce the People’s Liberation Army by one million men.” The leadership expressed their confidence that “reducing the army

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<sup>350</sup> Harding, *China and Northeast Asia*, 17.

<sup>351</sup> Deng Xiaoping, “Women ba Gaige Dangzuo Yizhong Geming [We Regard Reform as a Revolution],” October 10, 1984, in *Deng Xiaoping Wenxuan III*, 81-82.

by one million men will not weaken but enhance its combat effectiveness” and wanted to show that China was “willing to take concrete actions to help maintain world peace.”<sup>352</sup> With the logic of less and less possibility of war in the region, the security and political issues tended to subordinate to the economy toward more opening and cooperation with outside. This was not because Deng underestimated the importance of military modernization. By slightly postponing military modernization, the PLA focused on more discipline and rationalized its organization to deal with a smaller budget from the government. Downsizing and efficiency-enhancing were the key issues in PLA throughout the 1980s.<sup>353</sup> Military modernization was one of the long-term tasks that would be achieved after the rapid economic development. Later, the newly developed economy would, in turn, facilitate military modernization with more advanced technology that the leaders saw in the 1991 Persian Gulf War.

There were continuous debates on reform measures between the radical reformers and the conservatives. The radicals, Hu Yaobang and Zhao Ziyang, were relatively less concerned about the danger of “spiritual contamination.” But the conservatives’ concerns about foreign idea and culture could not be ignored. To push forward more reform measures, the radicals tried to assure the conservatives that foreign capitalism would “have no effect on socialism.” Their logic was that “even when our per capita GNP reaches several thousand dollars, no new bourgeoisie will emerge, because the basic means of production will still be state-owned or collectively owned – in other words, publicly owned.” Even the joint ventures with foreign firms would not harm the socialism, since their “half is socialist-owned” and China would “take more than half of the earnings” which means “it is the country and the people who will benefit most from them, not the capitalists.”<sup>354</sup> One of the issues

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<sup>352</sup> Deng Xiaoping, “Zai Junwei Kuoda Huiyi shangde Jianghua [Speech at an Enlarged Meeting of the Military Commission of the Central Committee of the CCP],” June 4, 1985, in *Deng Xiaoping Wenxuan III*, 126.

<sup>353</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 540-551.

<sup>354</sup> Deng Xiaoping, “Zai Zhongyang Guwen Weiyuanhui Disanci Quantihuiyi Shangde Jianghua [Speech at the Third Plenary Session of the Central Advisory Commission of the CCP],” October 22, 1984, in *Deng Xiaoping Wenxuan III*, 90-91.

was the expansion of the SEZs which the conservatives were extremely cautious to allow. Deng supported the radical leaders to promote more reform and opening, and tried to persuade the conservatives not to hold back progress “taking several years to resolve just a few of them.”<sup>355</sup> Deng did not want to lose the momentum that was available thanks to favorable environment, which was liable to change anytime by when threats and issues arose.

One of the most serious problems was the issue of price reform. Attempts of radical price reform by Zhao Ziyang resulted in rapid inflations, giving more credence to criticisms from the conservatives and urban populations. Deng tried to appease criticisms by suggesting a long-term perspective for the economic success “not in terms of just three to five years, but in terms of the last 20 years of this century and the first 50 of the next.” He recognized the difficulty of price reform but insisted on establishing a “foundation for sustained development.”<sup>356</sup> The radicals believed that they could not “speed up the reform without rationalizing prices” and were determined to carry out price reform “despite all risks and difficulties.” Since China achieved “gratifying progress in economic development” over the past ten years,” Deng and the leaders thought that “the people can tolerate some price rises.”<sup>357</sup> But the price reform failed and the political pressure from the inflations resulted in even more debates and cycles of readjustments. Combined with other political factors, these trends constituted the causes toward the downfall of Hu Yaobang in 1987 and the Tiananmen Incident in 1989. Despite their confidence in economic development and political stability, the appeal of a “bourgeoisie liberalization” turned out to be

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<sup>355</sup> When the issue came up in 1983 about the establishment of Economic Cooperation Zones, Deng strongly argued “such an arrangement should not be confined to Shanghai and Shanxi Province. Nor should we remain locked in an experimental stage.” Deng Xiaoping, “Shicha Jiangsu Dengdi Hui Beijing Houde Tanhua [Remarks After an Inspection Tour of Jiangsu Province and Other Places],” March 2, 1983, in *Deng Xiaoping Wenxuan III*, 24.

<sup>356</sup> Deng Xiaoping, “Zhuazhu Shiji, Tuijin Gaige [Seize the Opportune Moment to Advance the Reform],” Excerpt from a talk with leading members of the Central Committee of the CPC who were reporting on the current economic situation, July 11, 1985, in *Deng Xiaoping Wenxuan III*, 131-132.

<sup>357</sup> Deng Xiaoping, “Lishun Wujia, Jiasu Gaige [We Must Rationalize Prices and Accelerate the Reform],” Excerpt from a talk with a military delegation from the Democratic People’s Republic of Korea, headed by O Jin U, Minister of the Korean People’s Armed Forces, May 19, 1988, in *Deng Xiaoping Wenxuan III*, 262-263.

stronger than their expectation in 1989, which led to the last conservative backlash for a while in China.

Since the Third Plenum in 1978, the reform leaders stressed “the principle of keeping to the socialist system.” They were confident about their choice “to open to the outside world, combine a planned economy with a market economy and introduce structural reforms” and keeping the socialist principles at the same time. The leaders clearly knew what the conservatives were worried about and they agreed that there were political dissents influenced by foreign concepts and ideas. But they were also confident about their control over those dissents, saying that “the negative phenomena that can now be found in society will gradually decrease and eventually disappear as the economy grows, as our scientific, cultural and educational levels rise and as democracy and the legal system are strengthened.”<sup>358</sup> The internal political stability, however, became one of major concerns to continue their reform and opening without any danger for the CCP regime.

The debates between the radical reformers and the conservatives continued until the end of the 1980s. Hu Yaobang even mentioned political liberalization in the process of economic reform, but lost his position in 1986 after a series of demonstrations. Zhao Ziyang took his position to continue reform and concentrated more on the radical economic reforms including the prices reform to facilitate market-oriented rationalization. Deng Xiaoping basically supported the reform measures conducted by Zhao but made it clear that there should not be any political turmoil which might harm the regime security. The conservatives were led by Chen Yun, who constantly argued the importance of economic and political balance and maintaining the basic socialist frame of planned economy. The Third Plenum of the Thirteenth Central Committee in September 1988 revealed sharply divided opinions about the

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<sup>358</sup> Deng Xiaoping, “Shehuizhuyi de Shichang Jingji Bu Cunzai Genben Maodun [There is No Fundamental Contradiction Between Socialism and a Market Economy],” Excerpt from an interview with a delegation, including senior American entrepreneurs, organized by Time Inc., October 23, 1985, in *Deng Xiaoping Wenxuan III*, 149-150.

prices and enterprise autonomies.<sup>359</sup> The Tiananmen Incident temporarily shifted the balance in favor of the conservatives for a while. But it was not a complete retreat of the radical reform policies despite the fall of Zhao Ziyang.

## **(2) Quick Return of the Radical Reform in 1992**

The Tiananmen Incident in June 1989 caused a significant retrenchment of reform until Deng's Southern Tour in 1992. It was the explosion of contradictions that had accumulated throughout the decade of reform and opening, during which China experienced the rapid economic development without political liberalization. The direct motivation for street demonstrations was the problem of price reform in the late 1980s which had caused a series of inflations and social unrests. The problem of inflation had already begun to emerge from the mid-1980s, and a short retrenchment had reappeared in 1986 with the downfall of Hu Yaobang. The demonstrations and the Tiananmen Incident in 1989 reflected the combination of economic crises and political dissatisfaction at the time of system transitions in other socialist countries. The political austerity and violent suppression of the demonstrations had been criticized by many Western countries including the United States, who went on to suspend the economic relations for a while.

Economic relations with the capitalist West went through a short stalemate, but the sanctions did not last long. The system transition and the end of Cold War provided more opportunity than challenge to the Chinese economy which had already achieved considerable development and involvement in world economy. The radical reform initiatives temporarily retreated in China for another period of readjustment and coordination. But the policy direction of reform and opening did not change and Deng revived the policy momentum in 1992 with his Southern Tour with even stronger support for economic growth. There was no more concern on regime security

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<sup>359</sup> "China: Central Committee Plenum Reveals Divisions Over Reform," in *Trends*, Foreign Broadcast Information Service, FB TM 88-040, October 5, 1988, HAPP, WWICS, Declassified Documents, DDRS-242670-i1-30, 19-24; Hong-yung Lee, *From Revolutionary Cadres to Party Technocrats in Socialist China*, 409-413.

from the domestic actors or the international environment.

*Last conservative backlash after the Tiananmen Incident*

The strong but short political turmoil resulted in severe oppression on political movements before the end of the Cold War, which later proved to be quite effective in protecting the political regime of CCP rule in the post-Cold War era. There were a series of student demonstrations in December 1986, and Hu Yaobang was removed from his Party post in January 1987. He was held responsible for the political demonstrations. Deng linked the student demonstrations and the replacement of Hu Yaobang arguing that it reflected “weak leadership.” The “major mistake made by Comrade Hu Yaobang” was that he “failed to provide adequate leadership in combating” the ideological trend of bourgeois liberalization for years. But these two events would affect neither the “policy of opening up both domestically and internationally, nor the reform of our economic and political structures.”<sup>360</sup> Deng was still firm in his support to the reform and opening, and designated Zhao Ziyang as Hu Yaobang’s replacement to keep the reform momentum going.

In 1989, the student demonstrations once again erupted after the death of Hu Yaobang combined with many political and economic complaints in urban areas at the time. Various forms of dissident movements appeared in China, mainly in the urban areas demanding democracy. Demonstrations on a massive scale erupted in the spring of 1989 following the economic crisis caused by rapid inflation of prices. Deng and

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<sup>360</sup> Deng Xiaoping, “Jiaqiang Sixiang Jiben Yuanze Jiaoyu, Jianchi Gaige Kaifang Zhengce [We Must Promote Education in the Four Cardinal Principles and Adhere to the Policies of Reform and Opening to the Outside World],” Excerpt from a talk with Prime Minister Robert Mugabe of Zimbabwe, January 20, 1987, in *Deng Xiaoping Wenxuan III.*, 201-202. Student demonstrations started from December 1986, demanding political liberalization. A series of official speeches were published related with these political demonstrations, criticizing the tendency of liberalism among the students. “Qizhi Xianming de Fandui Zichan Jieji Ziyouhua [Take a Clear-Cut Stand Against Bourgeois Liberation],” December 30, 1986; “Paichu Ganrao, Jixu Qianjin [We Have to Clear Away Obstacles and Continue to Advance],” January 13, 1987; “Yong Zhongguo de Lishi Jiaoyu Qingnian [We Must Tell Our Young People About China’s History],” February 18, 1987; “Zhongguo Zhineng Zou Shehuizhuyi Daolu [China Can Only Take the Socialist Road],” March 3, 1987; “You Lingdao You Zhixu de Jinxing Shehuizhuyi Jianshe [We Must Carry Our Socialist Construction in an Orderly Way under the Leadership of the Party],” March 8, 1987, etc.

the leaders sought various ways to achieve the political stability and safety for the CCP regime. They waited and tried to appease the crowd gathered in the Tiananmen Square. Right before the Tiananmen Incident, many observers forecasted the retreat of the reform and opening tendencies seeing the dismissal of Zhao Ziyang.<sup>361</sup> Since they could never accept the idea of “liberalization” in politics, the leadership resorted to martial law. The military crackdown of the demonstrations resulted in the tragedy of June fourth. In May 1989, Zhao Ziyang had to step down from his post, due to his disagreement with other leaders about the firm oppression on the Tiananmen demonstrations.

Deng had been planning to retire from the top leadership but that was only possible when the new leaders successfully took over managing the situation and political stability was achieved with the unity among the Party leaders. Before, Zhao Ziyang had been regarded as his successor but the political turmoil both in the Party and out on the streets required strategic and decisive choices to keep the situation under control. Deng categorized the third and fourth generations during his meeting with other top leaders on June 16, 1989, soon after the Tiananmen Incident. He pushed for the establishment of a new collective leadership under Jiang Zemin as the third generation, replacing Zhao Ziyang.<sup>362</sup> Deng urged the CCP leadership to quickly stabilize the situation under the leadership Jiang Zemin, showing “a promising new lineup of leaders who will carry out reform.” Some “tangible results” like the economic development or fighting corruptions were important for “the third generation of leaders” to “win the trust of the people.”<sup>363</sup>

After 1989, the conservative backlash lasted about two years. The political disagreement between Deng Xiaoping and Chen Yun was pronounced after the

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<sup>361</sup> “Information Note from Romanian Embassy in Beijing to Ministry of Foreign Affairs (1),” June 03, 1989, History and Public Policy Program Digital Archive, AMAE, Telegrams, folder Beijing/1989, vol. 3, 105-107, trans. Mircea Munteanu, <http://digitalarchive.wilsoncenter.org/document/113150>.

<sup>362</sup> Cheng Li, *China's Leaders*, 8.

<sup>363</sup> Deng Xiaoping, “Zucheng Yige Shixing Gaige de You Xiwang de Lingdao Jiti [We Must Form a Promising Collective Leadership That Will Carry Out Reform],” Excerpt from a talk with two leading members of the CPC Central Committee, May 31, 1989, in *Deng Xiaoping Wenxuan III*, 299-300..

Tiananmen Incident. While Deng promoted the market-oriented reform and opening throughout the 1980s, Chen Yun constantly argued for the importance of the planned-economy. After Tiananmen, Chen Yun's fear about capitalism gained more political power in comparison to Deng's attempt to utilize capitalism. Facing the collapse of the Soviet Union in 1991, Deng argued that it was because the Communist Party of the Soviet Union (CPSU) leadership did not respect the demand of its people and failed in its attempts to promote economic development. But Chen interpreted that the CPSU leadership had failed to grasp class struggle and urged the CCP to fight the capitalist tendencies. Deng still had his supporters in the top tier positions but the conservatives supporting Chen Yun took the advantage after the Tiananmen to enhance the political campaigns in central and local level and even attempted to abolish the SEZs.<sup>364</sup> As the conservative backlash lasted longer than two years with stronger attacks on the reform measures, Deng decided to take action to reverse the political atmosphere before the Fourteenth Party Congress in late 1992. He chose January 1992 to start the Southern Tour which became a clear sign of revival of radical reform policies and rapid economic development of China afterwards.

#### *Return of the radical reform with Deng's Southern Tour in 1992*

The CCP leaders in general clearly knew the importance of the economic performance to maintain political strength and legitimize its rule toward both the domestic and international actors. Deng had argued that China did not have any reason to oppose or worry about the end of the Cold War. The end of the military confrontation was basically welcomed for more stable economic exchanges and developments. Having experienced the Tiananmen Incident, the domestic confusion

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<sup>364</sup> Deng's associates were "the two Yangs (Yang Shangkun and Yang Baibing), Liu Huaqing in the military, Qiao Shi and Li Ruihuan from the Standing Committee of the Politburo, and Zhu Rongji and Tian Jiyun of the State Council," while Chen had strong supporters as "Li Peng, Yao Yilin, and Song Ping of the Politburo Standing Committee, and those in charge of major ideological organizations including the CCP Central Propaganda Department, the Ministry of Culture, and major newspapers in Beijing (including Renmin Ribao)." Suisheng Zhao, "Deng Xiaoping's Southern Tour: Elite Politics in Post-Tiananmen China," *Asian Survey* 33, no. 8 (1993): 742-745.

and political turmoil in Eastern Europe was also not much surprising to the Chinese leaders. He welcomed the “encouraging tendency towards disarmament” between the United States and the Soviet Union, and was glad to be free from the bipolar structure between the two superpowers. China was facing international sanctions imposed by the western powers which was interpreted as the new type of hegemonism to “safeguard the interests of the strong, rich countries, which take advantage of their strength to bully weak countries” by imposing their values of human right, liberalism, etc.<sup>365</sup> The impact of the sanctions after the Tiananmen did not last long but the Chinese economic opening experienced a period of retrenchment until 1992. Since both China and the West needed each other for economic expansion and development, the economic exchanges after 1992 increased even more rapidly than before.

Deng urged to the new Jiang Zemin leadership to take every opportunity in the new international structure. The world would be a kind of multi-polar system and “China too will be a pole.” In this changing international system, he stressed the importance to “maintain our contacts with all other countries” including the United States and the Soviet Union. China was prepared to deal with the Soviet Union with “whatever changes take place” in the Soviet’s domestic politics. The topmost priority was to take care of the “question of the drop in the economic growth rate.” Deng acknowledged one or two years of readjustment after 1989 at a lowered growth rate of about four or five percent a year. But he worried that such a low growth rate might cause China’s relative decline “compared with the growth in the rest of the world, especially in the East Asian and Southeast Asian countries and regions.” To keep the political regime of the CCP stable with enough domestic support, Deng argued that the core task was “whether we can prevent the economy from going downhill and quadruple the GNP by the end of this century.”<sup>366</sup>

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<sup>365</sup> Deng Xiaoping, “Jianchi Shehuizhuyi, Fangzhi Heping Yanbian [We Must Adhere to Socialism and Prevent Peaceful Evolution towards Capitalism],” A talk with Julius Kambarage Nyerere, former President of Tanzania, Chairman of the Tanzanian Revolutionary Party and Chairman of the South Commission, November 23, 1989, in *Deng Xiaoping Wenxuan III*, 344-346.

<sup>366</sup> Deng Xiaoping, “Guoji Xingshi he Jingji Wenti [The International Situation and Economic

After 1989 Deng Xiaoping had significantly reduced the number of his public appearances until 1992. On January 17, 1992, however, Deng started his Southern Tour to Wuhan, Shenzhen, Zhuhai, and then Shanghai which ended on February 20. The official Chinese media started to publish news about the trip from a month later, after all the political discussions and consensus was set on the issue of reform policies.<sup>367</sup> It was to re-launch the bold economic reform and opening to accelerate the economic development. When Deng visited Shenzhen, he argued that “once we are sure that something should be done, we should dare to experiment and break a new path,” and promoted the reform and opening policies which had been successful in Shenzhen and other SEZs.<sup>368</sup> It was unrealistically difficult to expect a dramatic agreement between Deng Xiaoping and Chen Yun right away. It was reported that the two leaders met twice in Shanghai during the Chinese New Year in 1992 but failed to reach an agreement on policy issues. Chen still insisted that the CCP could avoid the collapse of the political system only by strengthening socialist mobilizations and constructions. The conservative resistance continued until the Fourteenth Party Congress in October 1992. Two top figures among the third generation leadership, Jiang Zemin and Li Peng, represented the two old patrons at the Party Congress.<sup>369</sup>

In the post-Cold War era, the post-Deng leadership of China did not deviate from the reform and opening policies with strict control on political system as Deng Xiaoping insisted in early 1992. In his report to the Fourteenth Party Congress in October 1992, Jiang Zemin directly referred to Deng’s talks that he gave in the Southern Tour as “a great encouragement” for the political unity toward faster development. Jiang also shared Deng’s assessments that the domestic conditions and the international environments were favorable for more rapid economic reform and

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Problems],” Excerpt from a talk with leading members of the Central Committee, March 3, 1990, in *Deng Xiaoping Wenxuan III*, 354-355.

<sup>367</sup> After 1989 until 1992, Deng made only one public appearance at the National People’s Congress in 1990. Zhao, “Deng Xiaoping’s Southern Tour,” 741.

<sup>368</sup> Deng Xiaoping, “Zai Wuchang, Shenzhen, Zhuhai, Shanghai Dengdi de Tanhua Yaodian [Excerpts from Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai],” January 18 - February 21, 1992, in *Deng Xiaoping Wenxuan III*, 372.

<sup>369</sup> Zhao, “Deng Xiaoping’s Southern Tour,” 753-756.

opening, presenting “opportunities for us to accelerate our advance.” Jiang Zemin’s leadership followed the guidance of Deng Xiaoping and succeeded the “theory of building socialism with Chinese characteristics.” The CCP leaders had to seize the momentum “to quicken the pace of the reform, the opening to the outside world, and the drive for modernization.” The goal of the reform was “to liberate the productive forces” for the modernization, and it was necessary to maintain favorable external environment. Jiang and the new leadership continued the “independent foreign policy of peace” and the opening policies to the world economy.<sup>370</sup>

Jiang reiterated Deng’s argument to set the economic target for the 1990s to increase the GNP annually by 6 percent or higher, possibly 8 or 9 percent, to achieve or exceed “the goal of quadrupling the GNP of 1980.” He suggested the ten major tasks to accelerate the reform and opening up<sup>371</sup> and emphasized the need to make use of the supportive and utilizable external factors and circumstances in the 1990s. By 1992, it seemed obvious that the international structure would become multipolar in “a long and complex process,” which would secure China a relatively peaceful environment for a considerable period to come. Jiang’s leadership continued “to develop their relations with foreign countries” to pursue more international economic relations “based on equality and mutual benefit,” and to utilize China’s improved

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<sup>370</sup> Excerpts from Jiang Zemin, ‘I. Shisnian Weida Shijian de Jiben Zongjie [General Summary of the Great Practice of the Last 14 Years]’ in “Jiang Zemin zai Zhongguo Gongchandang Dishisici Quanguo Daibiao Dahui shangde Baogao: Jiakuai Gaige Kaifang de Xiandaihua Jianshe Bufa, Duoqu You Zhonggou Tese de Shehuizhuyi Shiye de Gengda Shengli [Report to the Fourteenth National Congress of the CCP: Accelerating the Reform, the Opening to the Outside World and the Drive for Modernization, so as to Achieve Greater Successes in Building Socialism With Chinese Characteristics],” delivered on October 12, 1992, Zhongguo Gongchandang Lici Quanguo Daibiao Dahui Shujuku [Database of the Past National Party Congress of the CCP], <http://cpc.people.com.cn/GB/64162/64168/64567/65446/4526308.html> (accessed Sept. 15, 2013).

<sup>371</sup> The ten tasks addressed in the Jiang Zemin’s Report at 14th Party Congress were: 1) To accelerate economic reform while establishing a socialist market economy; 2) To open wider to the outside world; 3) To readjust and optimize the structure of production; 4) To accelerate progress in science and technology; 5) To exploit the particular advantages of each region; 6) To push forward reform of the political structure (socialist democracy and in the legal system); 7) To reform the administrative system and the organizational structure of the Party and the government; 8) To continue to foster both material progress and cultural and ideological progress; 9) To continue improving people’s living standards (population growth control and environmental protection); and 10) To strengthen the army and increase our defense capabilities.

status in the United Nations “to preserve world peace, promote disarmament, push forward global development and settle international disputes.” While China continued building solidarity with the Third World countries, the CCP leadership also tried to improve its economic relations with the West and tried to avoid their criticisms on the human rights issue. The leaders insisted that “the question of human rights is a matter within each country’s sovereignty” and denounced the Western criticisms as interferences in their internal affairs.<sup>372</sup> In the 1990s, only the pragmatic approach for more modernization and development was the “just cause” worthy of being upheld while criticisms were the “unjust causes” deemed unhelpful and thus deserving denunciation.

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<sup>372</sup> Excerpts from Jiang Zemin, ‘III. Guoji Xingshi he Women de Duiwai Zhengce [The International Situation and Our Foreign Policy]’ in “Jiang Zemin zai Zhongguo Gongchandang Dishisici Quanguo Daibiao Dahui shangde Baogao [Report to the Fourteenth National Congress of the CCP],” delivered on October 12, 1992.

## VII. CASE 3: NORTH KOREA IN 1984

After the Sixth Party Congress of the KWP in 1980, Kim Jong Il emerged as the official successor and actual leader of North Korea, and Kim Il Sung partially retired from his position except in the areas of foreign affairs and unification issue.<sup>373</sup> Following the official rise of Kim Jong Il, the new leadership of North Korea attempted a limited reform in 1984. Kim Jong Il and the young generation of leaders announced several pro-reform economic measures. These included strengthening the “self-supporting accounting system” in factories and enterprises and the “8.3 Production of People’s Consumer Goods Program” allowing families and small units to sell their products in local markets. Regarding foreign economic relations, they attempted to attract FDIs from the capitalist countries through the “Equity Joint Venture Law” of September 1984. These initiatives were to supplement the basic strategy of political mobilization to overcome the increasing difficulties that North Korea was facing after the termination of the Second Seven-Year Plan, rather than to change the fundamental direction of economic policies.

These measures had some potential of economic reform following China, in spite of its limited allowance of economic autonomy and material incentives. The reform attempts in the mid-1980s, however, remained partial and limited without progress in the late 1980s. The system change in socialist bloc, increasing threat from the South, and the political and economic isolation shifted the policy priority to military buildup and regime security. Facing rapidly increasing external threats in the late 1980s, the political discourses and dynamics of Kim Jong Il’s leadership retreated to focus more on political unity and mobilization. The “traditional” Juche ideology and the personality cult resurfaced and intensified for regime security. Political slogan

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<sup>373</sup> Since 1982, the number of Kim Il Sung’s speech and articles has decreased rapidly. There are only three major speeches which can be considered important: in April 1982 on the people’s rights, in June and July of 1983 on Juche ideology to the Peruvian delegation visiting North Korea, and in May 1986 at the Kim Il Sung Advanced Party School (lecture). They were retrospective explanations, not future-oriented policy suggestions. Dae-sook Suh, *Kim Il Sung: The North Korean Leader* (New York: Columbia University Press, 1988), 276-292.

of the anti-foreign struggles intensified together with the habitual activities of political mobilization and campaigns. Due to the deteriorating security environments, the Chinese style reform for rapid economic modernization was regarded as dangerous for North Korea. The need for autonomy and material incentives was clear in the economic sector. Still, they chose to retain their anti-foreign slogans to push for economic production, and forced the economic units to prove the political loyalty to the regime by earning the foreign currency. The partial and limited reform initiatives were not developed towards more comprehensive reform in the late 1980s.

## 1. Short-lived Reform Insufficient for Revival

While China was making progress with reform and opening policies, the Second Seven-Year Plan of North Korea from 1978 to 1984 still concentrated more on domestic mobilization, emphasizing the importance of a self-reliant economy. The need for economic exchange was increasing due to lack of technology and capital but the leadership enhanced the trade relations only with the socialist countries or the Third World countries rather than the capitalist West.<sup>374</sup> North Korea officially announced the success of the Second Seven-Year Plan but neither published concrete numbers nor held celebration. By 1984, the new leadership led by Kim Jong Il decided to initiate new policy measures while they pursued a readjustment of the economy for two years. They attempted some pragmatic economic experiments around the year 1984 to normalize and invigorate the economy. However, the rapidly changing international environment in the late 1980s did not allow North Korea to continue the experimentation and take risk on their political stability. The prolonged habit of the Juche ideology and political mobilizations rapidly took over after 1986 in the midst of growing security threats and severely limited these pro-reform policy initiatives. These pro-reform measures lasted several years until they faced rapid deterioration of security environment in the late 1980s.

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<sup>374</sup> Mu-chul Lee, "Industrial Structure," in *Bukhan ui Gyeongje*, ed. Sejong Institute North Korea Research Center, 27-72.

### **(1) Partial Reform Initiatives still Limited by Juche**

At first in 1980, the new generation leaders continued the mobilization campaigns including the Three-Revolution Teams (TRT) Movement.<sup>375</sup> It was safer for them to stay with the “traditional” way of anti-foreign struggle and mobilization campaigns, and Kim Jong Il launched the “Struggles to Create the 1980s Speed” to urge the Party officials to work harder once again.<sup>376</sup> But these prolonged mobilization campaigns revealed increasing contradictions and increased the need of material incentives. By the end of 1982, the speed battles like the “500% Movement” or “1,000% Movement” proved to be “impossible to guarantee the earnings in production and construction, and unable to raise the product quality.” The policy focus shifted from the quantitative accomplishments to the qualitative improvements, and Kim Jong Il started to emphasize the importance of “the normal working system,” not the short-term campaigns with highly ambitious targets.<sup>377</sup> Kim Jong Il and the new leaders sought to adapt to the changing external environment and focus more on the normalization and rationalization of economic system.

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<sup>375</sup> Kim Jong Il, “Dang Je 6-cha Daehoe reul Majeumyeo Dang eul Deouk Ganghwahago Hyeokmyeong gwa Geonseol eseo Saeroun Angyang eul Irukaja [Let Us Strengthen the Party and Bring About a New Uplift in Revolution and Construction before the 6<sup>th</sup> Party Congress],” A speech at a conference of officials of the Organizational Leadership Department and the Propaganda and Agitation Department of the Central Committee of the KWP, January 8, 1980, in *Kim Jong Il Seonjip [Kim Jong Il Selected Works] 6: 1978-1980* (Pyongyang: Joseon Rodongdang Chulpansa, 1995), 396-402.

<sup>376</sup> Kim Jong Il, “Widaehan Suryeongnim eul Nopi Mosigo Sahoejuui Geonseol eul Dageuchimyeo Joguk Tongil eul Apdanggija [Let Us Serve the Great Suryong and Push Forward the Socialist Construction and the National Unification],” A talk with officials of the Central Committee of the KWP, September 9, 1982, in *Kim Jong Il Seonjip 7: 1981-1983* (Pyongyang: Joseon Rodongdang Chulpansa, 1996), 251.

<sup>377</sup> Kim Jong Il, “Inmin Gyeongje Modeun Bumun eseo Jeungsan gwa Jeoryak Tujaeng eul Jalhameyo Haengjeong Gyuryul eul Gangwahal De Daehayeo [On Improving the Production and Frugality Struggle and Enhancing the Administrative Rules in Every Economic Sector],” A speech at a meeting of officials of the Organizational Leadership Department and the Propaganda and Agitation Department of the Central Committee of the KWP, November 14, 1982, in *Kim Jong Il Seonjip 7*, 294-298. The mobilization campaigns in the early 1980s such as “the ten prospect targets of socialist economic construction,” “the four nature reconstruction plan”, “the ‘1980s Speed’ creation movements,” and the “Kim Jong Il agricultural methods,” all failed to achieve the goals and provided causes of environmental disasters at the end of the 1980s. The energy problem like electricity had already become quite serious in the mid-1980s. Hak-joon Kim, *Bukhan 50 Nyeonsa [North Korea 50 Years]* (Seoul: Dong-A Publishing & Printing, 1995), 337-338.

*Pro-reform economic measures from 1984*

Among many of the economic attempts, three policies were particularly visible as mentioned above: the expansion of the “self-supporting accounting system,” the “8.3 Production of People’s Consumer Goods Program,” and the Equity Joint Venture Law. First one of them, the self-supporting accounting system of the factories and enterprises was not a new initiative in the North Korean history. Kim Il Sung already had emphasized the self-supporting accounting system several times in the 1970s but had failed to develop the system continuously. The production management system of North Korea had been the Cheongsanni Method<sup>378</sup> and the Dae-an Working System<sup>379</sup> from the 1960s. These systems emphasized political mobilization than material incentives and centralized all the process under the plan of the KWP. The Three Revolutions in the 1970s also emphasized the mobilization campaigns with intense ideological educations.<sup>380</sup> The balance between political motivation and material incentives was clearly inclined to the political side. The self-supporting accounting system had been initiated to take the material incentives into account, but the principle was always the centralized control to prevent “excessive autonomy” of factories or enterprises.<sup>381</sup> It was the dilemma of the self-supporting accounting

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<sup>378</sup> The Cheongsanni Method was initiated in February 1960, explained by Kim Il Sung as a method to combine generalized guidance and individual guidance together in every level of production units. The people in higher position should help the people in lower position, go into the working level units to observe the actual situation and instruct proper solutions putting priority to the political campaigns.

<sup>379</sup> Dae-an Working System had become one of the two representative economic management system with the Cheongsanni Method. It was to abolish the Soviet-style One Man Management System (Edinochalie), and establish group guidance by the factory-level Party committee. The Party committee had the highest decision-making power to increase the productions, put priority to the political incentives than the material incentives.

<sup>380</sup> Dealing with the chronic problem of short supply of resources and quality control in the light industry, Kim Il Sung criticized the ideological relaxation of the workers as the cause of the problems. The university staffs and students were mobilized as the Three-Revolution Teams and were dispatched to the factories at least for one and a half year. Kim Il Sung, “Gyeonggonggeop Bumun eseo Sasang Hyeokmyeong, Gisul Hyeokmyeong, Muhwa Hyeokmyeong eul Himitge Beoligi Wihayeo [For Enterprising Ideological, Technical and Cultural Revolutions in the Light Industry Sector],” Speech delivered at a consultative meeting of university instructors and students who had been mobilized to help light industry factories during the “Month of Light Industry,” January 31, 1973, in *Kim Il Sung Jeojakjip [Kim Il Sung Works] 28: January – December 1973* (Pyongyang: Joseon Rodongdang Chulpansa, 1984), 90.

<sup>381</sup> The self-supporting accounting system (also called cost-accounting system in Kim Il Sung Works)

system: searching for priority between the political motivations and material incentives.

The lack of material incentives had been diagnosed as a structural problem. The solution suggested in the 1970s was to stir up even more political vigilance using the Juche ideology. Kim Jong Il ordered more campaigns to follow the “anti-Japanese partisans” at the end of the 1970s but the production targets were not met without material incentives.<sup>382</sup> Until the first half of 1984, the speed battles and the ideology-oriented mobilizations were sustained in order to extract all the reserved resources and operate the factories and the SOEs at their full capacity, respectively.<sup>383</sup> But North Korea failed to achieve the targets of the Second Seven-Year Plan which ended in 1984, and the new leaders finally revived and strengthened the self-supporting accounting system to enhance the financial accountability and autonomy of the SOEs. The central authority reduced the subsidies and increased the number of “integrated enterprises” from 1985.<sup>384</sup>

Kim Il Sung, Kim Jong Il, and many North Korean elites visited China during the early 1980s and learned about China’s rapid economic development. The Chinese

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required the central government detailed plans to “utilize the economic levers such as cost, price and profit” in the principle of “centralized planned management by the state and combine the political and moral incentives with material incentives correctly” to prevent any side-effects. Kim Il Sung, “Sahoejuui Gyeongje Gwalli reul Gaeseonhagi Wihan Myeotgaji Munje e Daehayeo [On Some Problems for the Improvement of the Management of the Socialist Economy],” Concluding speech at the Enlarged Meeting of the Political Committee of the Central Committee of the KWP, February 1, 1973, in *Ibid.*, 126.

<sup>382</sup> Even the coal industry, one of the “ten prospect targets,” did not “struggle vigorously” enough to produce the targeted amount of coal. Kim Jong Il, “Dangjojikdeul i Teureojwigo Nagaya Hal Myeotgaji Gwaep e Daehayeo [On Some Tasks the Party Organs Must Carry Out Thoroughly],” A speech at a conference of officials of the Organizational Leadership Department and the Propaganda and Agitation Department of the Central Committee of the KWP, November 10, 1978, in *Kim Jong Il Seonjip 6*, 146-148.

<sup>383</sup> Kim Jong Il, “Hyeokmyeongdaeo reul Teunteuni Kkurimyeo Sahoejuui Geonseol eul Deouk Himitge Dageuchil De Daehayeo [On Strengthening the Revolutionary Lines and Vigorously Carry Out the Socialist Construction],” A speech to officials of the Central Committee of the KWP, March 10, 1984, in *Kim Jong Il Seonjip 8: 1984-1986* (Pyongyang: Joseon Rodongdang Chulpansa, 1996), 32-39.

<sup>384</sup> North Korea expanded the “integrated enterprises” for autonomy and efficiency but continued the Dae-an model to support the collective leadership of managers and workers through party committees. In this system, all the problems of the SOEs such as the soft budget problem, collusive behavior, and free-riding were common, but they did not abandon their own model while China did. Doo-won Lee, “North Korean Economic Reform: Past Efforts and Future Prospects,” 317-336.

leaders urged North Korea to take a pragmatic stance, and recommended their style of economic reform and opening policies.<sup>385</sup> But Kim Jong Il did not like the Chinese “revisionist” way of reform and opening. When North Korea established “integrated enterprises,” they were instructed not to follow the Chinese “manager responsibility system” but to enhance the Dae-an Working System that were already in place.<sup>386</sup> The economic units were still under the political control, and the autonomy of working groups were allowed only for a more accurate implementation of the Party policies and targets. During the coordination period until 1986, the limited pro-reform measures made some changes in the management system such as the “performance-related payment system,” allowing factories and SOEs to reinvest their extra profit for the welfare of their workers. But the impact was soon obscured by the political slogans to raise the national unity in the late 1980s, to prevent the ideological invasion of foreign tendencies.<sup>387</sup>

Another domestic economic measure was the 8.3 Production of People’s Consumer Goods Program to promote local light industry productions and limited form of commercial networks. Since North Korea had focused more on the heavy industry and the military buildup, the light industry and agriculture were relatively less supported by the center. The “local budget system” had been implemented to hand over the light industry production to the local authorities. Each local community had to earn money on their own for everyday life without government subsidy, and

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<sup>385</sup> “Widaehan Suryeong Kim Il Sung Dongji kkeseo Junghwa Inmin Gonghwaguk eul Bigongsik Bangmun [The Great Suryong Comrade Kim Il Sung had an unofficial visit to the PRC],” *Joseon Jungang Nyeongam [North Korean Central Yearbook] 1985* (Pyongyang: Joseon Jungang Tongsinsa [Korean Central News Agency], hereafter KCNA, 1985), 157-158; “North Korea: Moving in New Directions or Reworking Old Tactics?” January 11, 1985, North Korea International Documentation Project, History and Public Policy Program, Woodrow Wilson International Center for Scholars, Central Intelligence Agency, Directorate of Intelligence, a paper by the Northeast Asia Division and China Division of the Office of East Asian Analysis and by the Office of Soviet Analysis.

<sup>386</sup> Kim Jong Il, “Dang Seonjeonbu ui Yeokal eul Nopil De Daehayeo [On Enhancing the Role of the Propaganda Department of the Party],” A speech to officials of the Propaganda Department of the Central Committee of the KWP, October 23, 1985, in *Kim Jong Il Seonjip* 8, 281.

<sup>387</sup> Kim Jong Il, “Dang gwa Hyeokmyeongdaeo ui Ganghwabaljeon gwa Sahoejuui Gyeongje Geonseol ui Saeroun Angyang eul Wihayeo [For the Enhancement and Development of the Party and Revolutionary Lines and a New Uplift in the Socialist Economic Construction],” A speech to officials of the Central Committee of the KWP, January 3, 1986, in *Kim Jong Il Seonjip* 8, 348-352.

was required to submit the extra earnings to the state.<sup>388</sup> It appeared that this local system was in difficulty already in 1975 and 1976, incapable of meeting all the demands of the local community and the central authority. To meet the demands of the food and consumer products, Kim Jong Il initiated another “light industry revolution” in early 1984. This time it was more focused on consumer products like fabric, foodstuff, shoes, daily necessities, stationery, etc. Since the light industry factories could not meet all the demands, the leadership launched a mass campaign for the production of convenience goods.<sup>389</sup>

These campaigns were officially announced as the 8.3 Production of People’s Consumer Goods Program allowing the production of daily necessities outside the plan to be sold in the market. Still, it was not the reorientation of the industrial policy focus or liberalizing reforms. It was more like another form of mobilization campaigns. Factories and family units all had to produce food and consumer goods without subsidy from the state. The commercial sector was encouraged to develop more appropriate supply networks and establish the purchase order system to produce exact the same quantity of goods with higher quality. The “commodity sales by autonomous services” were allowed and encouraged to stir up the commercial activities. It was an initial attempt to institutionalize the market-like element, partially liberalizing the market transactions. The commercial system had to be reformed to facilitate the market and the officials were encouraged to learn from other country’s experiences including China.<sup>390</sup>

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<sup>388</sup> Kim Il Sung, “Jibang Yesanje reul Deouk Baljeonsikil De Daehayeo [On Developing a Local Budget System],” Speech delivered at the Fifth Session of the Fifth Supreme People’s Assembly of the Democratic People’s Republic of Korea, April 8, 1975, in *Kim Il Sung Jeojakjip 30: January – December 1975* (Pyongyang: Joseon Rodongdang Chulpansa, 1985), 224-228.

<sup>389</sup> Other industrial factories and SOEs were instructed to organize working groups to produce consumer goods using the by-products and waste materials. Family units were also mobilized to produce consumer goods. Kim Jong Il, “Inminsaenghwal eul Deouk Nopil De Daehayeo [On Improving the People’s Life],” A speech to a conference of officials of the Central Committee of the KWP, February 16, 1984, in *Kim Jong Il Seonjip 8*, 12-19.

<sup>390</sup> Kim Jong Il, “Jumindeul e Daehan Sangpum Gonggeupsaep eul Gaeseonhaneun Deseo Naseoneun Myeotgaji Munje e Daehayeo [On Some Problems in Improving the Product Supply Project to the People],” A talks to officials in charge of the commerce sector, August 3, 1984, in *Kim Jong Il Seonjip 8*, 131-144.

With these domestic economic measures, a remarkable policy appeared regarding the foreign economic relations: the Equity Joint Venture Law. Before 1984, North Korea did not allow FDIs or long-term loans. The economic relations with the capitalist countries almost stopped by 1975 due to the issue of foreign debts and the leadership tried to get over the problem by fully utilizing domestic resources.<sup>391</sup> Trade expansion had been only with the socialist countries and the Third World countries. Kim Il Sung had criticized the “aids” and “cooperation” of the imperialists as their “neo-colonialist policies” to dominate the developing economies. The major trading partner was still the socialist countries, mainly the Soviet Union and China.<sup>392</sup> When Kim Il Sung met the GDR leader Honecker in his trip to Europe in 1984, he emphasized the importance of deepening trade relations between the socialist countries and requested the GDR to expand the range of economic agreement to import more of North Korea’s heavy industry products and mineral resources.<sup>393</sup>

The Supreme People’s Assembly (SPA) in January 1984 approved the expansion of trade and the south-south cooperation, and in September enacted the Equity Joint Venture Law to allow FDI. It was mainly targeting the south-south cooperation but also included the capitalist West.<sup>394</sup> North Korea actively promoted

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<sup>391</sup> Kim Il Sung argued that the North Korean economy was “not affected by the worldwide crisis of the capitalist economy and there are no fluctuations in our production due to lack of raw materials,” but this did not mean there was continuous economic development in North Korea. Kim Il Sung, ‘3. 3-dae Hyeokmyeong eso Irukan Seonggwa [Achievements in the Three Revolution Team Movement]’ in “3-dae Hyeokmyeong-eul Himitge Beolloe Saheojui Geonseoleul Deouk Dageuchija [Let Us Promote the Building of Socialism by Vigorously Carrying Out the Three Revolutions],” Speech at the Meeting of Active Industrial Workers, March 3, 1975, in *Kim Il Sung Jeojakjip* 30, 122-125.

<sup>392</sup> Kim Il Sung, “Namnam Hyeopjo wa Daewoe Gyeongjesaeop eul Ganghwahamyeo Muyeoksaep eul Deouk Baljeonsikil De Daehayeo [On Strengthening the South-South Cooperation and Foreign Economic Projects and Developing the Trade Relations],” Decision of the SPA of the DPRK, January 26, 1984, in *Kim Il Sung Jeojakjip* 38: June 1983 – December 1984 (Pyongyang: Joseon Rodongdang Chulpansa, 1992), 223-229.

<sup>393</sup> The main topic was the economic cooperation with GDR on a semi-conductor plant including the technology transfer but Kim Il Sung expressed his wish to expand the cooperation in other fields like the electronics and synthetic rubber as soon as possible so that North Korea would not have to buy those materials from the capitalist countries any more. “Memorandum of Conversation between Erich Honecker and Kim Il Sung,” June 1, 1984, History and Public Policy Program Digital Archive, SAPMO-BA, DY 30, 2460, translated by Grace Leonard, <http://digitalarchive.wilsoncenter.org/document/113199>.

<sup>394</sup> This Equity Joint Venture Law was focusing on five fields, industry, transportation, construction,

and propagandized the implementation of Equity Joint Venture Law as shown in *Joseon Sinbo* published by Jochongnyeon, celebrating the establishment of North Korea-France joint venture to operate a hotel in Pyongyang. North Korea was eager to expand joint ventures with Jochongnyeon-related firms with publishing more detailed guidelines.<sup>395</sup> It was indeed an impressive start to initiate economic opening like the Chinese FDI policies, but the terms of the contract were unattractive compared to China or Vietnam. Moreover, it was difficult for the North Korean government to assure the investors about their commitment to not renege, because they had lost their credibility before.<sup>396</sup>

All the organizations and units were urged to produce and export various goods for foreign currency. But the economic relations with the capitalist West had to be conducted strictly under the principle of “independence, equality, and mutual interests.” In his official communication with the Cambodian leader, Kim Jong Il explained his policy to expand economic exchanges even with the capitalist West through the Equity Joint Ventures. But the exchanges should strictly adhere to these

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science and technology, and tourism. “Joseon Rodongdang Jungangwiwonhoe Je 6-gi Je 10-cha Jeonwonhoeui [The 10<sup>th</sup> Plenum of the Sixth Central Committee of the KWP],” *Joseon Jungang Nyeongam* 1985, 120.

<sup>395</sup> The news on Equity Joint Venture Law in *Joseon Sinbo* appeared in parallel with the news on the North Korean suggestion to South Korea for the North-South economic talks. “Uri Nara eseo Habyeongbeop Silhaeng eul Bongyeokhwa [The Equity Joint Venture Law Implemented in Full Scale in Our Country],” and “Gonghwaguk Jeongbu ga Buknam Gyeongje Hoedam eul Gajigiro Gyeoljeong [The Republic Government Decided to Have North-South Economic Talks],” *Joseon Sinbo*, October 17, 1984, p.1

<sup>396</sup> Lee (1996) provided a table of comparison of the terms between North Korea and China (and Vietnam). Doo-won Lee, “North Korean Economic Reform,” 328, sources from Korea Development Institute (1992), as below:

	North Korea	China and Vietnam
Foreign investor’s share	Less than 100%	Up to 100%
Decision making by the board of directors	Unanimity rule for the entire agenda	Unanimity rule for important agenda items
Labor management	Employment and layoffs through labor administrative authorities only	Direct employment possible through a labor contract
Corporate income tax fee	25%	China 33% (15% in SEZs), Vietnam 15 to 25%
Sale of output	Export only	Domestic sales possible

three principles.<sup>397</sup> Kim Jong Il and the economic leaders clearly knew their lagging technological development compared to the advanced West and even to South Korea. Kim Jong Il urged the officials and workers to accept and learn the advanced science and technology, to import modernize factories from other countries, and then develop independent production method based on what they learned from these.<sup>398</sup> Except for the strong emphasis on the independence, it was quite similar to the way of Asian NICs or China in its early stage. It was not to be left isolated in the world economy and to keep up with the economic and technological development as possible before it was too late.

#### *Decline of the reform initiatives after 1986*

North Korea's pro-reform economic measures in the 1980s reached their heights in 1984 and 1985, although even these still remained partial and limited. In the late 1980s, situation changed due to deteriorating security environment. Some complementary policies appeared in the following years, but overall results turned out to be unsatisfactory until the end of the decade. In fact, these measures had constituted only a small part of plans and campaigns. Even in 1985, the One and Only Ideology was emphasized with slogans like "unity in one heart and mind."<sup>399</sup> The KWP still promoted various production campaigns in the 1980s such as the Mass Technical Innovation Movement, Exemplary Machine Rack Creation Movement, 3.16

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<sup>397</sup> Kim Jong Il, "Minjujuui Kambojya Juseok i Jegihan Jilmun e Daehan Daedap [Answers to Questions Raised by the Premier of Democratic Cambodia]," May 2, 1985, in *Kim Jong Il Seonjip* 8, 232-233. Economic experts were not unknown about the importance of political principles that there principles were constantly emphasized in articles and speeches from the very start of the measure. Gi-bok Yun, "Habyeongbeop eun Uri Nara Siljeong e Matge Mandeun Uri-sik ui Geosida [The Equity Joint Venture Law is the "Uri-sik" Law Created to Meet Our Country's Situations]," *Joseon Sinbo*, October 17, 1984, p. 2.

<sup>398</sup> Kim Jong Il, "Gwahakgisul eul Deouk Baljeonsikil De Daehayeo [On Developing Science Technology]," A speech to officials of the Central Committee of the KWP, August 3, 1985, in *Kim Jong Il Seonjip* 8, 249-253.

<sup>399</sup> It was to unite whole country to be loyal to the Party and Suryong like "the one in body and soul," not to allow any dissent. Kim Jong Il, "Ilsim Dangeol ui Gichi reul Nopi Deulgo Na-agaja [Let Us Go Forward Holding High the Banner of Unity in One Heart and Mind]," A talk to officials of the Central Committee of the KWP, January 26, 1985, in *Kim Jong Il Seonjip* 8, 165-169.

Exemplary Family Creation Movement, 8.3 Exemplary Household Working Unit Creation Movement, etc.<sup>400</sup> Kim Jong Il also empowered the mobilization system of the Three Revolutions and the Three-Revolution Red Flag Winning Movement. Kim Jong Il even ordered the officials to promote the “revolutionary enthusiasm” like the old days of “the Total Mobilization Campaign of Thought for the State Building” and the “Chollima Movement” in the 1950s.<sup>401</sup> Although there were some pro-reform economic measures in 1984, the overall economic system could not be reformed rapidly without fundamental shift in political discourses and dynamics. North Korea had stopped publishing detailed statistics reflecting the state of its economy way back in the mid-1960s, and Hwang Jang-yeop argued that the North Korean economy started to decline with minus growth rates from about 1975, and plummeted sharply from 1986.<sup>402</sup> The pro-reform potentials soon disappeared due to the increasing emphasis on political unity and military preparedness to deal with the rapidly changing security environment in the late 1980s.

The Third Seven-Year Plan started in 1987 with some additional economic measures to supplement the 1984 measures. North Korea established the Ministry of Joint Venture Industry under the Administration Council in September 1988 to promote international investment and cooperation. But the results were not successful with only a number of Jochongnyeong-related corporations in light industry and service sectors, despite additional laws and measures enacted to complement the joint venture system during the late 1980s.<sup>403</sup> The international changes including the transition in the socialist bloc put the leadership in dilemma between the regime

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<sup>400</sup> Kim Jong Il, “Geullodanche Saeop e Daehan Dangjeok Jido reul Ganghwahal De Daehayeo [On Enhancing the Party Guidance to the Labor Association Projects],” A letter to participants of a short course for officials of the Party labor association projects, April 30, 1985, in *Kim Jong Il Seonjip* 8, 208-209.

<sup>401</sup> Kim Jong Il, “3-dae Hyeokmyeong Bulgeungi Jaengchwi Undong eul Deouk Himitge Beollija [Let Us Vigorously Promote the Three-Revolution Red Flag Winning Movement],” A letter to participants of the Three-Revolution Red Flag Movement pioneers’ mass meeting, November 23, 1986, in *Kim Jong Il Seonjip* 8, 484.

<sup>402</sup> Hwang testified that Kim Jong Il had instructed not to report the exact statistics even to Kim Il Sung and to had published fabricated statistics. Jang-yeop Hwang, *Hwang Jang-yeop Hoegorok*, 276.

<sup>403</sup> Jong-seok Lee, *Bukhan ui Yeoksa 2: Juche Sasang gwa Yuil Cheje 1960-1994 [History of North Korea 2: Juche Ideology and Yuil System 1960-1994]* (Seoul: Yuksa Bipyongsa, 2011), 122-126.

security and the pro-reform economic policies.

In the 1980s and 1990s, international trade was no longer the major part of North Korean economic policies due to the economic decline of former socialist countries and self-imposed restrictions to prevent foreign influences.<sup>404</sup> In managing its isolated economy, the leadership tried to prop up productivity by combining some material incentives with the political incentives. For example, each production unit was instructed to apply the “socialist labor payment system” more properly, calculating the payments of the workers by their quantity and quality of products.<sup>405</sup> The self-supporting accounting system was once again emphasized in official documents, implying the repeated failures of the past attempts. But these were still in the Dae-an frame to keep the political control over the production units. The price had to be controlled, balanced and imposed by the state to prevent the inflation. Each production unit had to produce the quota for the state, and then allowed to use the extra profits for their expenses.<sup>406</sup> These domestic measures were to raise the productivity in the boundary of the socialist planning and not allow too much autonomy in each of the units.

As the political isolation and economic difficulties got serious, the North Korean government put a halt on the rationalization of economic system to prevent

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<sup>404</sup> This tendency continued throughout the Arduous March along with the economic sanctions posed by the United States. Yong-seung Dong, “Foreign Trade,” 73-103.

<sup>405</sup> For the accurate implementation of the labor payment system, the authorities had to set up certain standards of “the required amount of labor” in every sector. In industrial sectors, a payment system was applied through the “living expenses rating system,” and in agricultural sectors through the “labor day evaluation system.” Kim Jong Il, “Rodong Haengjeong Saeop eul Deouk Gaeseon Ganghwahal De Daehayeo [On Improving and Strengthening the Labor Administration Works],” A letter to participants of a short course of officials of the labor administration, November 27, 1989, in *Kim Jong Il Seonjip 9: 1987-1989* (Pyongyang: Joseon Rodongdang Chulpansa, 1997), 430-438.

<sup>406</sup> The frame of Dae-an Working System continued not to lose political and revolutionary motives, according the principle of combining the material incentives and economic calculations. The important point was the balance of the political and material incentives, and the leaders emphasized the political ones for the state-led mobilizations. There were already tendencies of dual-price with some market-like private commercial activities but it was still important for the center to control the prices in the principle of economic planning. Kim Jong Il, ‘3. On Improving the Budget Managements in Factories and Enterprises,’ in “Jaejeong Eunhaeng Saeop eul Gaeseon Ganghwahal De Daehayeo [On Improving and Strengthening the Works of Bank],” A letter to participants of a mass meeting of the officials of financial banks, September 18, 1990, in *Kim Jong Il Seonjip 10: 1990* (Pyongyang: Joseon Rodongdang Chulpansa, 1997), 175-182.

domestic instabilities. Economic measures with potentials of gradual liberalization were suspended, and the mobilization campaigns were revived to prevent the foreign influences from seeping into the system. The decline of the socialist bloc left North Korea as “the arena of acute confrontation between the socialist and imperialism” with the panicked feeling of imminent crises. The production targets and campaign slogans became stronger with the continuation of the “200-day battle” of production to be 2000-day, 20000-day battles urging the whole population to behave like “heroes” in the production struggles.<sup>407</sup> To detach North Korea from any “revisionist” influences, Kim Jong Il defined China’s reform as a “counter-revolutionary scheme to demolish the socialism and revive the capitalism” of the revisionists and reformists. He focused more on the inner-Party political campaigns prior to the production campaigns. The officials were instructed to put priority on the political campaign to promote the “revolutionary spirit of self-reliance” to accelerate the productions. The officials had to extract every reserves and potentials to resolve the shortages and problems by themselves in the spirit of self-reliance. The import of advanced technology was unavoidable but had to be accompanied with the fierce struggle against the infiltration of “anti-socialist elements.”<sup>408</sup>

In practice, however, the urgent needs of consumer goods and food could not be ignored. Kim Jong Il instructed a rearrangement of the budget allocation of the heavy industry-related constructions to increase the investments in the light industry. But the shortage of electricity and energy sources became obstacles in every sector. The plans on the heavy industries were reorganized to support the light industry, and focused

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<sup>407</sup> Kim Jong Il, “Modu Da Yeongungeok euro Salmyeo Tujaenghaja [Let Us Live and Struggle Like a Hero],” A talk to officials of the Central Committee of the KWP, May 15, 1988, in *Kim Jong Il Seonjip* 9, 264-265.

<sup>408</sup> The Tiananmen Incident proved that it was intrinsically dangerous to apply capitalist elements in socialist construction process. The political liberalization to allow the multi-party system or the separation of the power could not be accepted in North Korea as the results in other countries were seen. Kim Jong Il, “Dang eul Ganghwahago Geu Ryeongdojeok Yeokhal eul Deouk Nopija [Let Us Strengthen and Raise the Leading Role of the Party],” A talk to officials of the Central Committee of the KWP and the provincial-level Party secretaries, June 9 and 12, 1989, in *Kim Jong Il Seonjip* 9, 342-346.

more on the exports to earn the foreign currency.<sup>409</sup> Due to the problem of foreign debt, the factories were urged to export their goods to earn foreign currency. The processing trade like the Asian NICs promoted to gain more foreign currency, and the joint ventures were once again promoted to expand the export. But the main focus was still the domestic mobilizations campaigns which maintained the 8.3 Production of People's Consumer Goods Program to utilize the "idle labors" in households and production units.<sup>410</sup>

Since the country-wide economic reform had become difficult due to the deteriorating international environment, the economic experts in the Administration Council took their last attempt of limited opening policy to deal with the rapidly declining economy, especially the problem of foreign debt. It was strictly limited opening in a restricted area of Rajin-Sonbong region which was no longer related with the domestic changes of economic system. In December 1991, North Korea declared the Rajin-Sonbong Free Economic and Trade Zone (FETZ), and added

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<sup>409</sup> Kim Jong Il instructed to hold the expansion of heavy industry integrated enterprises, normalize the productions using the existing facilities, and rationalize the production targets to reflect the actual capabilities. Some construction projects like the Pyongyang-Huicheon expressway was also postponed for a while. Even the plans on the machinery industry were reexamined to put priority on the consumer goods. This slight shift was also propagandized as in line with the "Korean People First" concept to show the superiority of North Korea by improving the people's quality of life. The machinery production of the year 1990 was instructed to export the products to earn foreign currency, none for the domestic use. The production of cement and steel were also in difficulties that the leadership had to search for alternatives to earn the foreign currency. Kim Jong Il, "Dang Saeop gwa Sahoejuui Geonseol eseo Jeonhwan eul Ireukyeo 1990-nyeondae reul Bitnaeija [Let Us Raise an Upswing in the Party Works and Socialist Construction to Glorify the 1990s]," A talk to officials of the Central Committee of the KWP and the Administration Council, January 1, 1990, in *Kim Jong Il Seonjip 10*, 13-24.

<sup>410</sup> The extra products were allowed to be sold for profits, but the market-oriented tendencies were controlled by the ideological trainings and political restrictions. Kim Jong Il, "Gyeonggonggeop Hyeokmyeong eul Cheoljeohi Suhaenghal De Daehayeo [On Carrying Out the Light Industry Revolution Thoroughly]," A letter to participants of the national light industry mass meeting, June 2, 1990, in *Kim Jong Il Seonjip 10*, 123-160. Kim Jong Il referred to Kim Il Sung's speeches, "Sinnyeonsa," January 1, 1990; "Jeungsan gwa Jeoryak Tujaeng eul Himitge Beolloe Sahoejuui Geonseol eseo Daegojo reul Ireukija [Let Us Raise a Great Wave in Socialist Construction Through Production and Frugality Struggle]," Conclusion of the 17<sup>th</sup> Plenum of the Sixth Central Committee of the KWP, January 5 and 9, 1990; and "Uri Nara Sahoejuui ui Uwolseong eul Deouk Nopi Balyangsikija [Let Us Highly Promote the Superiority of Our Socialism]," A policy speech at the First Session of the Ninth SPA of the DPRK, May 24, 1990, all in *Kim Il Sung Jeojakjip 42: June 1989 – December 1990* (Pyongyang: Joseon Rodongdang Chulpansa, 1995).

several legal measures in 1992 and 1993.<sup>411</sup> This limited opening was rather to restrict the economic contacts with the outside world in a particular area while the domestic pro-reform economic changes came to a halt. When Kim Il Sung visited the Northern Hamgyeong province where the Rajin-Sonbong FETZ was located, he particularly ordered the local Party officials to increase the ideological trainings in order to prevent the influences from neighboring China and the exchanges through the FETZ. The residents and workers were strictly controlled not to “be contaminated by the capitalist disease” and received more ideological trainings to “be armed with the collectivist spirit.”<sup>412</sup>

It was not easy to attract foreign investments with poor infrastructure, and having China and other more attractive countries around. There were still many restrictions to the joint ventures for the sake of the political safety. North Korea wanted technology and capital but insisted on managing the companies and requested more profit to be allotted to North Korea.<sup>413</sup> The joint ventures had to be repeatedly reassessed as to whether they were politically safe and economically beneficial for the regime. Kim Jong Il criticized some joint ventures for not being managed properly. For example, some firms were not paying enough for their usage of electricity or water.<sup>414</sup> These reassessments and restrictions negatively affected the FETZ. It soon

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<sup>411</sup> The SPA had enacted more laws on foreign investment: the Foreign Investment Law, Joint Venture Law, and Foreign Enterprise Law in October 1992, the Tax Law on Foreign Investment Companies and Foreigners, Foreign Exchange Control Law, and the FETZ Law in January 1993, and the Land Lease Law and Foreign Investment Bank Law in October and November 1993. Hak-joon Kim, *Bukhan 50 Nyeonsa*, 396-397.

<sup>412</sup> Kim Il Sung was also cautious about the possibility that “the South Korean clique schemed to spread the “wind of freedom” into our inside through Yeonbyeon region of China.” Kim Il Sung, “Hamgyeongbuk-do Dang Wiwonhoe Ale Naseoneun Myeotgaji Gwaep e Daehayeo [On Some Tasks Raised to the Party Committee of Northern Hamgyeong Province],” A speech at the Extended Plenum of the Party Committee of Northern Hamgyeong Province, September 4, 1992, in *Kim Il Sung Jeojakjip 43: January 1991 – October 1992* (Pyongyang: Joseon Rodongdang Chulpansa, 1996), 418-421.

<sup>413</sup> Kim Il Sung, “Hyeonsigi Jeongmuwon Ape Naseoneun Jungsim Gwaep e Daehayeo [On the Core Tasks to the Present Administration Council],” A speech at a joint meeting of the DPRK Central People’s Committee and the Administration Council, December 14, 1992, in *Kim Il Sung Jeojakjip 44: December 1992 – July 1994* (Pyongyang: Joseon Rodongdang Chulpansa, 1996), 16.

<sup>414</sup> The partner firms were required to increase the payments for North Korea, and some joint ventures managed by individual foreigners were prohibited to prevent the infiltration of capitalist ideology. Kim

turned out that North Korea was being too ambitious to expect rapid development of the FETZ. Some Jochongnyeon-related firms and South Korean companies had expressed interest but the actual investment did not increase as the leaders expected. The KWP leadership demanded that the officials to work with more passion to attract the investments.<sup>415</sup> The failure of the limited opening resulted in the end of pro-reform attempts in North Korea until the end of 1990s. The nuclear crisis and the death of Kim Il Sung made the reform or opening impossible, and the leadership continued the traditional policy of “simultaneously building up the economy and defenses.”<sup>416</sup> It was too late to stop the vicious cycle of the great famine and the Arduous March in the mid-1990s.

## **(2) Between Unreliable Comrades and Growing Enemies**

Until the early 1980s, North Korea sought ways to adapt to the changing international structure conducting limited economic reforms. But in the late 1980s, the issue of regime security became too serious a matter to risk the temporary instability of economic reform. The growing threat from the rapidly growing South Korea and the military presence of the United States hugely affected North Korea’s security environment. Its relations with China and the Soviet Union had not been enough to counter the growing threats from the South. Moreover, it was difficult for North Korea to gain political or economic support even from the Third World countries due to their inclination toward South Korea.

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Jong Il, “Dang, Gukga, Gyeongje Saeop eseo Naseoneun Myeotgaji Munje e Daehayeo [On Some Problems Rising in the Party, State, and Economic Works],” A speech to officials of the Central Committee of the KWP, November 12, 1992, in *Kim Jong Il Seonjip 13: February 1992 – December 1994* (Pyongyang: Joseon Rodongdang Chulpansa, 1998), 228-229.

<sup>415</sup> Kim Il Sung ordered to reassess the plan in his speech of June 1994 to expand the size and function of the FETZ with more state budget for the project and allow more investors by giving out more autonomy and benefits. Kim Il Sung, “Rajin-Seonbong Jayu Gyeongje Muyeok Jidae Gaebal gwa Suryeok Baljeonso Geonseol eul Dageuchil De Daehayeo [On Vigorously Carrying Out the Rajin-Sonbong FETZ and the Hydro-Electric Plant Construction],” A speech at conference of officials in the related sectors of the Rajin-Sonbong FETZ development and the plant constructions, June 14, 1994, in *Kim Il Sung Jeojakjip 44*, 453-459.

<sup>416</sup> Mu-chul Lee, “Industrial Structure,” 27-72.

*Socialist big brothers: useful but undependable*

North Korea had established cooperative relations with both the CCP and the CPSU from the 1950s. After the Korean War, the KWP reconstructed the country with the military and economic aids from the Soviet Union, China, and other socialist countries, based on the Soviet model of planned economy. It was the reason why the main reconstruction efforts focused on heavy industry, and sacrificed the agriculture and light industries in the process.<sup>417</sup> North Korea had signed “the Treaty of Friendship, Cooperation and Mutual Assistance” with both the Soviet Union and China in 1961, and officially maintained alignment with both countries. During the Sino-Soviet split, however, the North Korean position increasingly leaned closer to China which provided one of the causes that the Soviets decided to stop providing aids in the early 1960s.<sup>418</sup> The North Korea-Soviet relations revived slowly from the mid-1960s but it was never restored to the same level of intimacy as was before.

The North Korea-China relations stayed close and stable, except for a temporary deterioration during the Cultural Revolution when the Red Guards criticized Kim Il Sung as a revisionist. After the rise of Deng Xiaoping, the North Korea-China relations improved rapidly in the political sphere due to China’s desire for stability in the region. But the new Chinese leaders’ pragmatic approaches drove them to normalize the Sino-U.S. relations as well. North Korea had secured the political support of China but had different opinions on the threats coming from the Soviet Union and the presence of the U.S. forces. The political support did not necessarily mean that there was more economic cooperation. China had to focus on its own economy. China also was clearly aware of the North’s inability to pay and thus reduced its exports.<sup>419</sup> China only needed stability in the Korean Peninsula for

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<sup>417</sup> The rapid reconstruction of economy was impressive in the 1950s, but the poverty was still predominant in rural area, and the production of food and consumer goods were still in short supply in the early 1970s. “Report on the Democratic People’s Republic of Korea,” 1970, History and Public Policy Program Digital Archive, AQPPSH, MPP Korese, V. 1970, D 1, translated for NKIDP by Enkel Daljani, <http://digitalarchive.wilsoncenter.org/document/114402>.

<sup>418</sup> Dae-sook Suh, *Kim Il Sung*, 176-181.

<sup>419</sup> “On Relations between DPRK and PRC,” November 17, 1977, History and Public Policy Program

the larger goal of improvement of Sino-U.S. relations. Similar to the renewed North Korea-Soviet relations, the renewed North Korea-China relations in the early 1970s was not same as before.

As a member of the socialist bloc, the KWP leaders tried to remain neutral and independent in the Sino-Soviet split and other conflicts in the International Communist Movement (ICM). But the Soviet-leaning socialist countries suspected that North Korea was much closer to China than the Soviet Union.<sup>420</sup> In the eyes of the Soviet Union and other socialist countries, North Korea was no longer pursuing proletarian internationalism, but nationalistic pragmatism. They concluded that North Korea was clearly inclined to China and was utilizing China to achieve a North Korea-favored form of unification based on their unique political discourse of Juche ideology.<sup>421</sup> After the failures of the North-South dialogues in the mid-1970s, North Korea tried to revive its relations with the Soviet Union. The KWP requested the Soviets to invite Kim Il Sung to Moscow in 1975, but the Soviets refused.<sup>422</sup>

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Digital Archive, Political Archive of the Federal Foreign Office, Berlin (PolA AA), MfAA C 6857, translated by Bernd Schaefer, <http://digitalarchive.wilsoncenter.org/document/114128>.

<sup>420</sup> With an increasing number of high-level delegation exchanges that went on, they could tell the rapid restoration of the North Korea-China relations. The North Korea-China relations officially restarted with Choe Yong-geon [Choe Yong Gon]'s visit to Beijing in October 1969 and Zhou Enlai's visit to Pyongyang in April 1970. North Korea even suggested building a united front among the five countries in Asia – China, North Korea, the two Vietnams, Cambodia, and Laos – against the United States and Japan. "Report on the Democratic People's Republic of Korea," 1970, translated for NKIDP by Enkel Daljani.

<sup>421</sup> The emergence of Juche ideology was accepted as another danger to the ICM, combined with North Korea's political inclination toward China. 'Some Aspects of KWP Activity in the Communist World Movement' in "Note on a Conversation with the 1st Secretary of the USSR Embassy, Comrade Kurbatov, on 10 March 1972 in the GDR Embassy," March 13, 1972, History and Public Policy Program Digital Archive, PolA AA, MfAA, C 1080/78, obtained for NKIDP by Bernd Schaefer and translated for NKIDP by Karen Riechert, <http://digitalarchive.wilsoncenter.org/document/110820>.

<sup>422</sup> The official purpose of the visit was to discuss the issue of the "simultaneous recognition (cross-recognition)" of North and South Korea. The North Korean leaders were worried about the Soviet-U.S. summit of October 1974 in Vladivostok, especially regarding the ongoing issue of the "simultaneous recognition (cross-recognition)" of North and South Korea by both the capitalist and the socialist countries. But this request for Kim Il Sung's visit to Moscow was rejected by the Soviets. The refusal was the result of previous cancellations of visits by North Korea. "Note On a Conversation with USSR Embassy Counselor Comrade Pimenov on 24 January 1975 in the Soviet Embassy," January 28, 1975, History and Public Policy Program Digital Archive, PolA AA, MfAA, C 295/78, obtained and translated for NKIDP by Bernd Schaefer, <http://digitalarchive.wilsoncenter.org/document/116672>; "Report from the GDR Embassy in the DPRK," September 1, 1975, History and Public Policy Program Digital Archive, Political Archive of the Federal Foreign Office, Berlin (PolA AA), MfAA,

Economic cooperation with the Soviet Union continued but the trade volume was sharply reduced because the North Koreans could not pay.

At the beginning of the 1980s, the strategic focus of the Soviet Union was definitely not the Korean Peninsula. It was the same for China. According to a 1978 CIA report, both big socialist powers consistently appeared to support North Korea on the issue of unification and the withdrawal of the U.S. forces but in reality, the two had little interest on the issues. They wanted to keep the Korean Peninsula as stable as possible without giving cause for any particular tension which might harm their relations with the United States.<sup>423</sup> The biggest concern came from China who pursued the Sino-U.S. normalization which might lead to a decrease in its support to North Korea both in military and economic aspects.

North Korea did continue to have intimate relations with China but that did not mean that the KWP leaders really trusted the CCP. The relations remained close only because China had become the largest trade partner with the most impact on the North Korean economy.<sup>424</sup> The Sino-U.S. rapprochement in 1972 and the Sino-U.S. normalization in 1978 were not positively seen by the North Korean leaders. Kim Il Sung officially defined the 1972 Nixon visit as “the defeat of United States” in his public speech,<sup>425</sup> and China sent high-level officials to offer explanations on the issue

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translated for NKIDP by Bernd Schaefer, <http://digitalarchive.wilsoncenter.org/document/114284>.

<sup>423</sup> “The Pyongyang-Peking-Moscow Triangle,” May 10, 1978, NKIDP, HAPP, WWICS, Central Intelligence Agency, National Foreign Assessment Center, an Intelligence Memorandum prepared by the East Asia – Pacific Division of the Office of Regional and Political Analysis.

<sup>424</sup> Despite the increasing suspicions, North Korean leaders did not criticize China which might harm the economic relations. “Report from the GDR Embassy in the DPRK, ‘Note concerning a Conversation in Moscow on 12 May, 1976, with the Head of the Far East Department, Comrade Kapitsa, and the Head of the Southeast Asia Department, Comrade Sudarikov’,” May 27, 1976, History and Public Policy Program Digital Archive, Political Archive of the Federal Foreign Office, Berlin (PolA AA), MfAA, C 6857, translated for NKIDP by Bernd Schaefer, <http://digitalarchive.wilsoncenter.org/document/114290>.

<sup>425</sup> Kim Il Sung defined the Nixon’s visit as the United States’ recognition of the PRC to be the sole legitimate government of China and “an ignominious end” of “the US imperialists’ policy of blockading China,” meaning “the US imperialists have at last succumbed to the pressure of the mighty anti-imperialist, revolutionary forces of the world.” Kim Il Sung, “Mije reul Bandaehaneun Asea Hyeokmyeongjeok Inmindeul ui Gongdong Tujaeng eun Bandeusi Seonggonghal Geosida [The Revolutionary Peoples of Asia Will Win Their Common Struggle Against US Imperialism],” Speech at the Pyongyang Mass Meeting Welcoming Samdech Norodom Sihanouk, Head of State of Cambodia

and reaffirmed its commitment of continuous military and economic aid.<sup>426</sup> But these close consultations did not lead to a dramatic increase of economic assistance. Still, North Korea had to ask for military and economic assistance to China. China did continue military cooperation by exchanging high-ranking military delegations and providing advanced military equipment,<sup>427</sup> which was to maintain stability on the Korean Peninsula so that the continuous improvement of the Sino-U.S. relations was not impeded. This was never enough to offset the constant threat emanating from South Korea and the United States.

The increased Sino-U.S. interactions from 1978 became a bigger concern of North Korea. The improved Sino-U.S. and Sino-Japan relations had clearly anti-Soviet characteristics which North Korea was trying to avoid as a neutral country. China no longer regarded the United States as the main enemy and criticized the Soviet Union as a dangerous “hegemonist.” China did not seem to want the U.S. military’s withdrawal from South Korea and even expressed their concern to the United States that the withdrawal might “leave a vacuum for the Soviets to fill.”<sup>428</sup> Before the Sino-U.S. normalization, the Chinese leaders again visited North Korea to assure the KWP leaders about their unchanging political supports. Hua Guofeng visited in May and Deng Xiaoping visited in September 1978. Despite the assurances North Korea remained skeptical about China’s promises for continued military and political supports. To keep the KWP on their side, the Chinese leaders decided to provide more economic assistance, despite being fully aware that North Korea was

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and Chairman of the National United Front of Kampuchea, August 6, 1971, in *Kim Il Sung Jeojakjip 26: January – December 1971* (Pyongyang: Joseon Rodongdang Chulpansa, 1984), 225-226.

<sup>426</sup> China offered detailed explanations sending Li Xiannian and Li Desheng to Pyongyang in July, and the North Korea-China Mutual Aid and Economic Cooperation Agreement and the Military Aid Agreement were renewed in August and September. China also supported the North Korean position in the United Nations as they had promised. Hak-joon Kim, *Bukhan 50 Nyeonsa*, 268-271.

<sup>427</sup> There were also some probabilities that North Korea might receive tactical nuclear weapons. “Report, Embassy of Hungary in North Korea to the Hungarian Foreign Ministry,” November 22, 1973, History and Public Policy Program Digital Archive, MOL, XIX-J-1-j Korea, 1973, 69. doboz, 81-20, 00804/7/1973, obtained and translated for NKIDP by Balazs Szalontai, <http://digitalarchive.wilsoncenter.org/document/111467>.

<sup>428</sup> “The Pyongyang-Peking-Moscow Triangle,” May 10, 1978, NKIDP.

unable to make payments.<sup>429</sup> It became a dilemma for North Korea since they could not agree with China about the Sino-U.S. normalization but was in no position to refuse China its offer to provide economic aids.

The North Korea-China relations seemed like it had improved in the early 1980s because there were frequent visits of high-level officials. Zhao Ziyang, Hu Yaobang, and Deng Xiaoping all visited North Korea between 1981 to 1984, and Kim Il Sung, Kim Jong Il, and other officials visited China for various purposes.<sup>430</sup> The Chinese economic influence on North Korea had increased in the 1980s, but the portion of trade with China remained at about 10 to 20 percent of previous trade volume due to the policy changes in China and the different political opinions. Trade was always strictly one-sided with a large deficit, always on the North Korean side.<sup>431</sup> Still, China showed official support for North Korea's political position, recognized the succession of Kim Jong Il, and provided explanations about their reform and opening policies

*Comrades no longer helpful in the late 1980s*

From the early 1980s, China pursued economic cooperation with South Korea in a practical sense. There was an incident where a Chinese civilian aircraft was hijacked and made an emergency landing in South Korea in May 1983. China and South Korea signed an official document to resolve the situation and this occasion

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<sup>429</sup> China still needed North Korea on their side against the Soviet expansionism. In 1978, China provided an assistance of over \$150 million in long-term loans and the volume of Chinese export of petroleum surpassed the Soviet levels at particularly low prices. "Intelligence Memorandum: Chinese Leverage on North Korea," January 23, 1979, NKIDP, HAPP, WWICS, Central Intelligence Agency, National Foreign Assessment Center, a memorandum prepared by the East Asia – Pacific Division of the Office of Regional and Political Analysis in response to an NSC request.

<sup>430</sup> Chinese leaders visited Pyongyang were Zhao Ziyang in December 1981, Deng Xiaoping and Hu Yaobang in April 1983, Hu Yaobang in May 1984, and North Korean leaders visited Beijing were Kim Il Sung in September 1982, Kim Jong Il in June 1983, Kim Il Sung in August (Dalian) and in November 1983. Among lower level visits, Wu Xueqian visited Pyongyang in May 1983, and Kim Yeong-nam visited Beijing in February 1984.

<sup>431</sup> Samuel S. Kim and Tai-hwan Lee, "Chinese-North Korean Relations: Managing Asymmetrical Interdependence," in *North Korea and Northeast Asia*, eds. Samuel S. Kim and Tai-hwan Lee (Rowman & Littlefield Publishers, Inc., 2002), 109-138.

evolved into a series of contacts between the two countries.<sup>432</sup> China still showed friendly attitude and political support for the North Korean regime when Kim Jong Il visited China in June, just a month after the incident.<sup>433</sup> However, it was obvious that the calculation of Chinese interests on the Korean Peninsula was undergoing a gradual change. When the Rangoon Bombing took place in October 1983, China criticized North Korea in an indirect manner.

Whereas the relations with China focused more on the political support, the North Korea-Soviet relations focused more on economic cooperation. North Korea consistently asked the Soviets for economic and technological assistance, including power plant constructions and large amounts of military equipment. The problem of export debts had not been resolved.<sup>434</sup> A pattern where the North Korea would ask the Soviet Union to defer the repayment of credits and extend the economic agreements had been established, and the Soviets had no choice but to agree. From 1981, North Korea wanted even more advanced technologies and requested “the delivery of a nuclear power plant” which the Soviet Union could not immediately fulfill.<sup>435</sup> Also, the Soviet leaders were growing tired of North Korean requests that

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<sup>432</sup> Hak-joon Kim, *Bukhan 50 Nyeonsa*, 340-342.

<sup>433</sup> Kim Jong Il visited China “unofficially” at Hu Yaobang’s personal invitation, and some analysts interpreted the occasion as a Chinese effort to placate North Korea regarding the complaints about the South Korea-China negotiations on the hijacking incident. But many others thought that the visit might have been agreed earlier when Kim Il Sung visited China in September 1982. North Korea symbolized the visit as China’s acknowledgement of Kim Jong Il’s succession and Chinese support for “generation after generation” of North Korean leaders. “Kim Chong-Il’s Visit to China,” July 29, 1983, NKIDP, HAPP, WWICS, Central Intelligence Agency, Directorate of Intelligence, a Memorandum prepared by Korea Branch, Northeast Asia Division, with contributions of Foreign Policy Branch, China Division, Office of East Asian Analysis.

<sup>434</sup> For the Soviet Union, the maintenance of the economic cooperation was only to keep its arm of political influence on North Korea, despite the accumulation of the deferred payments. “Report from the GDR Embassy in the USSR, ‘Note about a Conversation between Comrade Bauer and Comrade Basmanov, Deputy Head of the 1st Far Eastern Department of the USSR Foreign Ministry, on 10 May, 1976’,” May 13, 1976, History and Public Policy Program Digital Archive, Political Archive of the Federal Foreign Office, Berlin (PolAAA), MfAA, C 6857, translated for NKIDP by Bernd Schaefer, <http://digitalarchive.wilsoncenter.org/document/114288>.

<sup>435</sup> North Korean delegations repeatedly requested the Soviets to speed up the reconstruction and expansion of the Kim Chaek Iron Works integrated enterprise, from the capacity of one million metric tons to a capacity of 4.1 million metric tons by 1985. The Soviets continuously deferred the process due to the accumulated debt of North Korea, though it did promise to deal with the issue. The Soviet side complained about North Korea’s political stances on the regional issues such as the situations in

only led to mounting uncollected payments. The differences in political opinions between the two countries were also growing larger in the mid and late 1980s.

Kim Il Sung visited the Soviet Union and Eastern Europe in mid-1984 for continuous support and friendship, and requested more military support in the form of modernized weapons from the Soviet Union.<sup>436</sup> It was also to improve relations with the Soviet Union and other socialist countries to avoid international isolation. The Soviets officially promised to provide more supports. But from the mid-1980s, the Soviet Union tried not to invest more in North Korea since it was becoming more concerned about North Korea's ability to repay than maintaining political influence.<sup>437</sup> After Gorbachev came into power in 1985, the mutual visits of high-level delegations still continued including another visit by Kim Il Sung in October 1986. But Gorbachev's policies of Perestroika and Glasnost became increasingly uncomfortable for North Korea.<sup>438</sup> The KWP leadership sought reliable support also from the Gorbachev regime as before.<sup>439</sup> It seemed like they were going well in the first year of Gorbachev's rule until 1986 since it received promises of assistances. But the attitudes of the Soviet leadership changed when a strong reform-oriented tendency began to appear. Kim Il Sung reconfirmed the military and economic cooperation in his 1986 visit. Gorbachev, however, began to redirect his economic and foreign

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Southeast Asia or the dangers of Chinese hegemonic aspirations. "Report, Embassy of Hungary in North Korea to the Hungarian Foreign Ministry," March 12, 1981, History and Public Policy Program Digital Archive, MOL, XIX-J-1-j Korea, 1981, 86. doboz, 103, 002477/1981, obtained and translated for NKIDP by Balazs Szalontai, <http://digitalarchive.wilsoncenter.org/document/110136>.

<sup>436</sup> Hak-joon Kim, *Bukhan 50 Nyeonsa*, 346-348.

<sup>437</sup> "North Korea: Moving in New Directions or Reworking Old Tactics?" January 11, 1985, NKIDP.

<sup>438</sup> Kim Yeong-nam visited Moscow met Gromyko in April 1985; a delegation led by Aliyev visited Pyonyand in August 1985 with military support; Kim Yeong-nam visited Moscow met Shevardnadze, agreed to participate in NPT in December 1985; Shevardnadze visited Pyongyang in January 1986; a delegation led by Gang Seong-san visited the CPSU Party Congress in February 1986, concluded the Agreement on Economic, Scientific, and Technical Cooperation which was to assist the nuclear power plant constructions in North Korea. Hak-joon Kim, *Bukhan 50 Nyeonsa*, 374-375.

<sup>439</sup> North Korea even went on to change its political positions on some of the regional issues such as Mongolia and Cambodia so that they became more similar to the Soviet position. "Improving Soviet-North Korean Relations: A New Phase in the Moscow-Beijing-Pyongyang Triangle," June 21, 1985, NKIDP, HAPP, WWICS, Central Intelligence Agency, Directorate of Intelligence, a memorandum prepared by Mel Goodman of the Office of Soviet Analysis in coordination with the Office of East Asian Analysis.

policies toward the normalization of Sino-Soviet relations and the improvements of relations with Japan and United States.<sup>440</sup>

In 1985 and 1986, North Korea was becoming increasingly isolated in the region and losing trust in its relations with both China and the Soviet Union. North Korea-China relations gradually cooled down and became even less close than the North Korea-Soviet relations. Top-level visits continued until 1987 but China participated in the 1986 Seoul Asian Games and expanded relations with South Korea. The Soviet Union was gradually leaning toward South Korea after the Gorbachev reforms. The relationship with North Korea deteriorated sharply, especially after the 1988 Olympics in Seoul which the Soviet Union participated.<sup>441</sup> North Korea realized that the two socialist big brothers would no longer provide unconditional support. They only wanted stability in the Korean Peninsula. As long as there was no direct military tension, the two big brothers were content.

The official relationship with the Soviet Union ruptured after the South Korea-Soviet normalization in September 1990. North Korea had now lost the biggest portion of its international trade. The Soviet Union demanded that North Korea resolve the debt problem and make payments in hard currency. This was a serious blow to the North Korean economy which was already experiencing difficulties. Kim Jong Il and the KWP leadership criticized the move as an act of betrayal on the part of Soviet Union and this made the situation even worse. They condemned the Soviet Union as a traitor who colluded with the U.S. imperialists to sacrifice the fraternal parties for their own interest.<sup>442</sup> After the complete dissolution of the Soviet Union and the birth of the Russian Federation led by Boris Yeltsin, the relations with North

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<sup>440</sup> Elizabeth Wishnick, "Russian-North Korean Relations: A New Era?" in *North Korea and Northeast Asia*, eds. Kim and Lee, 139-163.

<sup>441</sup> Gorbachev had supported North Korea's position on a nuclear-free zone in his first major speech on Asia policy in 1986. But by September 1988, he stated in a speech in Krasnoyarsk that Moscow would contemplate opening economic relations with South Korea. Ibid.

<sup>442</sup> Kim Jong Il, "Juche ui Danggeonseol Riron eun Rodonggyegeup ui Danggeonseol eseo Teureojwigo Nagaya Hal Jidojeok Jichim ida [The Party Construction Theory of Juche is the Guideline that Must be Followed in the Party Construction of the Proletariat]," A speech to the officials of the Central Committee of the Workers' Party of Korea (hereafter the KWP), October 10, 1990, in *Kim Jong Il Seonjip 10*, 284-289.

Korea further deteriorated.

China consistently desired stability in the Korean Peninsula and was gradually moving toward the South for economic motivations. Right before the Tiananmen Incident, Zhao Ziyang visited Pyongyang and urged North Korea to follow the trend of reform and opening. China remained ambiguous for two more years than the Soviet Union before it normalized relations with South Korea in 1992. China made several statements and high-level visits to appease North Korea by expressing political supports. But it was never enough to assure North Korea. When Gorbachev and Jiang Zemin held a summit in May 1991, the joint communiqué expressed the increasing wish for the relaxation of tensions and stability in the region.<sup>443</sup> For North Korea, the socialist transitions in the late 1980s and the end of the Cold War took away the remaining political and economic supports from the socialist neighbors, which left it with the option of deal directly with the enemies – South Korea and the United States – for security guarantee and economic support.

#### *Growing threats from the enemies in the south*

Until the 1970s, Kim Il Sung and the KWP leaders had expressed their continuous distrust of the “U.S. imperialists” and “Japanese militarists.” The Nixon Doctrine was considered as another form of “war strategy” to mobilize the Asian counter-revolutionary puppets and the Japanese militarists to invade the socialist countries.<sup>444</sup> North Korea had a fundamental condition for a peaceful unification: the

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<sup>443</sup> It urged North and South Korea to continue dialogues. The Soviet Foreign Ministers Eduard Shevardnadze met Qian Qichen of China on September 1, 1990, in Harbin, and had talked about the situation of Korean Peninsula, and had agreed that “the dialogue between North and South parts of Korea is important in the easing of the tensions.” As North Korea criticized the Gorbachev and Yeltsin and supported the aborted coup in August 1991, Russia did not revive the relations with North Korea in the early 1990s. Unlike the Soviet Union, however, China still sent military delegation in August 1990, made supportive statements in October 1990, and had another high-level visit by Li Peng in May 1991. Chae-jin Lee, *China and Korea: Dynamic Relations* (Hoover Press Publication, 1996), 86-89.

<sup>444</sup> The “New Asia Policy” of the United States was criticized as a conspiracy to revive the Japanese militarism in Asia for the imperialistic purposes. Kim Il Sung, ‘IV. Gukje Hyeokmyeong Ryeokryangwa ui Dangyeol eul Ganghwahagi Wihayeo [For the Strengthening of Solidarity with the Revolutionary Forces of the World],’ in “Joseon Rodongdang Je 5-Cha Daehoe eseo Han

withdrawal of the U.S. forces from South Korea. For the KWP leaders, the peaceful unification was possible only when the U.S. forces left South Korea completely and the South Koreans established a North-friendly government.<sup>445</sup> But the North Korean leaders had to acknowledge some structural changes in the security environment with the improvement of the Sino-U.S. relations.

The North-South dialogue in the early 1970s was urged by both the United States and China to keep the stability in the Korean Peninsula. The KWP propagandized the dialogue as their strategy of “peace offensive”<sup>446</sup> and suggested a North-South peace treaty instead of the armistice agreement. Basic conditions were the withdrawal of the U.S. forces from South Korea, as always, and they insisted to deal directly with the fundamental unification issues, which South Korea could not accept.<sup>447</sup> After the July 4<sup>th</sup> North-South Joint Statement in 1972, the practical-level dialogues continued until the summer of 1973. Despite all these efforts, the contacts came to a halt and were finally stopped by North Korea on August 1973, after Kim Dae-jung was kidnapped in Tokyo.

After the failure of the “peace offensive”, North Korea sought ways to establish

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Jungangwiwonhoe Saeop Chonghwa Bogo [Report to the Fifth Congress of the KWP on the Work of the Central Committee],” November 2, 1970, in *Kim Il Sung Jeojakjip 25: January – December 1970* (Pyongyang: Joseon Rodongdang Chulpansa, 1983), 318-324.

<sup>445</sup> In addition, Japanese militarists should not replace the United States or invade South Korea through economic relations. “Minutes of Conversation on the Occasion of the Party and Government Delegation on behalf of the Romanian Socialist Republic to the Democratic People’s Republic of Korea,” June 10, 1971, History and Public Policy Program Digital Archive, Archives of the Central Committee of the Romanian Communist Party, 43/1971, obtained and translated for NKIDP by Eliza Gheorghe, <http://digitalarchive.wilsoncenter.org/document/112790>.

<sup>446</sup> The purpose of this peace offensive was to detach the South Korean regime from the United States and Japan, by reducing the military or economic aids to South Korea. North Korean leaders expected that the reduction of foreign aids would redirect the South Korean people to support North Korea, close toward the South Korean revolution to establish pro-North government. “Note on Information from DPRK Deputy Foreign Minister, Comrade Ri Man-seok, on 17 July 1972 between 16:40 and 18:00 hours in the Foreign Ministry,” July 20, 1972, History and Public Policy Program Digital Archive, PolA AA, MfAA, C 951/76, obtained for NKIDP by Bernd Schaefer and translated for NKIDP by Karen Riechert, <http://digitalarchive.wilsoncenter.org/document/113237>.

<sup>447</sup> Kim Il Sung, “Joseon Minjujuui Inmin Gonhwaguk ui Dangmyeonhan Jeongchi, Gyeongje Jeongchaekdeul gwa Myeotgaji Gukje Munje e Daehayeo [On the Present Political and Economic Policies of the Democratic People’s Republic of Korea and Some International Problems],” Answers to questions raised by newsmen of the Japanese newspaper Yomiuri Shimbun, January 10, 1972, in *Kim Il Sung Jeojakjip 27: January – December 1972* (Pyongyang: Joseon Rodongdang Chulpansa, 1984), 46.

a direct contact with the United States from 1973<sup>448</sup> which turned out also to be a failure that did not receive any response. North Korean leaders recognized that the issues like the withdrawal of the U.S. troops needed a long process, and it was best to have a direct contact bypassing South Korea. North Korea sent a letter to the U.S. Congress in 1973 to initiate direct contacts, and again in 1974,<sup>449</sup> but there was no answer.<sup>450</sup> The letter in March 1974 suggested the negotiations for a peace treaty to deal with the topics of the mutual non-aggression, arms reduction, the withdrawal of the U.S. forces from South Korea, etc.<sup>451</sup> Again the United States kept silent, showing no intention to deal with North Korea directly without involvement of the South Korean government.

Without any improvement in relations with the United States, the security environment was deteriorating and threats continued to grow. Kim Il Sung conducted many interviews with foreign media and emphasized the danger of the U.S. military operation plans and the deployment of nuclear weapons in South Korea.<sup>452</sup> In North

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<sup>448</sup> Some informed the secret talks between North Korea and the United States in Paris already from 1972. They speculated that Kim Yeong-ju had been missing from September 1972, having secret talks with Kissinger and other American and South Korean officials including Lee Hu-rak. "Telegram from Pyongyang to Bucharest, SECRET, Urgent, No. 061.041," February 07, 1973, History and Public Policy Program Digital Archive, Archives of the Romanian Ministry of Foreign Affairs, Matter 220 - Relations with the Democratic People's Republic of Korea, 1973, obtained by Izador Urian and translated for NKIDP by Eliza Gheorghe, <http://digitalarchive.wilsoncenter.org/document/114580>.

<sup>449</sup> The first official letter was adopted at the Second Session of the Fifth SPA held in April 6, 1973, which passed the responsibility of the stalemate of the dialogue to the United States, required to cut the military aid to South Korea, and confirmed North Korea's main principles of the withdrawal of the U.S. forces and the dissolve of the the U.N. Commission for the Unification and Rehabilitation of Korea (UNCURK). "Seungni ui Hae, Yeonggwang ui Hae 1973-nyeon [The Year of Victory, the Year of Glory 1973]," "Choego Inmin Hoeui Je 5-gi Je 2-cha Hoeui [The Second Session of the Fifth SPA]," and "Miguk Gukhoe e Bonaeneun Pyeonji [A Letter to the United States Congress]" in *Joseon Jungang Nyeongam 1974* (KCNA, 1974), 147, 155 and 640.

<sup>450</sup> "Telegram from Washington, DC, No.084.605, Urgent, SECRET," June 26, 1973, History and Public Policy Program Digital Archive, Romanian Ministry of Foreign Affairs Archives, Matter 210, 1973, Democratic People's Republic of Korea, Secret, MFA, Folder no. 1495, obtained and translated for NKIDP by Eliza Gheorghe, <http://digitalarchive.wilsoncenter.org/document/114068>.

<sup>451</sup> "Choego Inmin Hoeui Je 5-gi Je 3-cha Hoeui [The Third Session of the Fifth SPA]," in *Joseon Jungang Nyeongam 1975* (KCNA, 1975), 258-259.

<sup>452</sup> Kim Il Sung, "Aljeri Minju Inmin Gonghwaguk Jeongbu Gigwanji 'El Mujahideu' Sinmun Gija ga Jegihan Jilmun e Daehan Daedap [Answers to Questions Put by a Journalist of *El Moudjahid*, Official Newspaper of the Government of the Algerian Democratic and People's Republic]," May 29, 1975, in *Kim Il Sung Jeojakjip* 30, 344-355. From North Korea's perspective, the United States seemed to be turning its strategic target from Indochina to the Korean Peninsula after the defeat of Vietnam War, to

Korea's eyes, the United States, Japan, and South Korea had built up a trilateral alliance system which constituted serious threat to North Korea with their regular joint military exercise programs.<sup>453</sup> The annual "Team Spirit" military exercise programs started from March 1976 which was interpreted as a grave threat with the deployment of strategic nuclear weapon along the DMZ. When the Panmunjeom Incident (the Axe Murder) occurred in August 1976, the military operation of the U.S. forces right after the incident was regarded as being quite serious.<sup>454</sup> North Korea repeatedly broadcasted the incident to activate the "readiness for battle" and the population was mobilized to prepare for war. There were military drills in Pyongyang and local districts.<sup>455</sup>

The inauguration of the Carter administration in January 1977 elevated Kim Il Sung's expectations of the withdrawal of the U.S. forces for a while, which soon became another disappointment. The annual joint military exercises continued as before and Kim Il Sung criticized Carter for not having kept his election pledge on the withdrawal of the U.S. forces.<sup>456</sup> The hope of direct negotiations with the United

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use South Korea as their "major stronghold for bolstering up its system of colonial rule which is heading towards total ruin in Asia." Kim Il Sung, "Indo Jugansinmun 'Beulijjeu' Chaekim Jupil i Jegihan Jilmun e Daehan Dapbyeon [Answers to Questions Raised by the Editor-in-Chief of the Indian Weekly *Blitz*]," August 6, 1975, in *Ibid.*, 421.

<sup>453</sup> North Korea severely criticized the U.S.-Japan Joint Communiqué in August 1975 talking about the importance of the security of South Korea for the stability in the Northeast Asia including Japan. The establishment of "a consultative body for US-Japan defense cooperation" was considered as "a military setup for invading Korea and the rest of Asia," and the reinforcement of Japanese Self-Defense Force was regarded as showing the coordinated conspiracy between the United States and Japan. Kim Il Sung, "Ilbon 'Yomiuri Sinbung' Pyeonjipgukjang i Jegihan Jilmun e Daehan Daedap [Answers to the Editor-in-Chief of Yomiuri Shimbun]," September 28, 1975, in *Ibid.*, 512-516.

<sup>454</sup> North Korea had to prepare for the war for a while and Kim Il Sung expressed a regret about the incident. Kim Il Sung, "Ilbon Sahoe Hwaldongga wa Han Damhwa [Talk to a Japanese Public Figure]," November 9, 1976, in *Kim Il Sung Jeojakjip 31: January – December 1976* (Pyongyang: Joseon Rodongdang Chulpansa, 1986), 389-391; for more detailed description about the incident, James Munhang Lee, "Panmunjom Ax-Murder," in *Panmunjom, Korea* (Baltimore: American Literacy Press, Inc., 2004), 101-114.

<sup>455</sup> "Telegram from Pyongyang to Bucharest, SECRET, Urgent, No. 067.212," August 21, 1976, History and Public Policy Program Digital Archive, Archives of the Romanian Ministry of Foreign Affairs, Matter 220 - Relations with the Democratic People's Republic of Korea, 1976, obtained by Izador Urian and translated by Eliza Gheorghie, <http://digitalarchive.wilsoncenter.org/document/114116>.

<sup>456</sup> The United States did announce a plan to reduce the military forces, but gradually for years, leaving the air force, only under the agreements and understandings of both South Korea and Japan. Kim Il Sung, "Ilbon Yomiuri Sinmunsa Sangmu Chwicheyeok in Pyeonjipgukjang Ilhaeng gwa Han Damhwa

States was rejected repeatedly throughout the Carter administration. By the end of the 1970s, North Korea no longer publically discussed their desire to see a South Korean revolution. The political turmoil and street demonstrations in South Korea were now interpreted as dangerous instabilities which might lead the country to another war, in addition to the constant U.S. threat such as the exercises of the B-57 strategic bomber.<sup>457</sup> Kim Il Sung urged the Korean People's Army (KPA) and whole country to be alert with ideological vigilance. When Park Chung Hee died in October 1979, it was not an opportunity but another threat with the emergence of another military regime and continued U.S. support to the regime.

The election of Reagan in the United States was a bad sign for North Korea. The annual Team Spirit joint military exercise was growing in its scale every year, deploying more weapons and personnel into South Korea. There was no particular issue that could ignite a war but the increasing military capacity of South Korea led North Korea to prepare for a war that could break out anytime soon.<sup>458</sup> The Reagan administration publicly pursued the containment policy against the socialist bloc, and seemed prone to war than ever before with increased military budget and nuclear capability.<sup>459</sup> The Team Spirit 82 joint military exercise was interpreted as "the war simulation to prepare attack on North Korea and open hostilities against us" using the "nuclear weapons and the weapons of mass destruction (WMD)." The military coalition of the United States, Japan, and South Korea was becoming more dangerous

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[Talk with Executive Managing Editor of Japanese *Yomiuri Shimbun* and His Group],” April 23, 1977, in *Kim Il Sung Jeojakjip 32: January – December 1977* (Pyongyang: Joseon Rodongdang Chulpansa, 1986), 192-195.

<sup>457</sup> Kim Il Sung, “Teukmujang ui Wichi wa Immu e Daehayeo [On the Position and Duties of the Sergeant Major],” Speech at the ceremony to close the short course for the sergeant majors of the Korean People's Army, October 25, 1979, in *Kim Il Sung Jeojakjip 34: January – December 1979* (Pyongyang: Joseon Rodongdang Chulpansa, 1987), 427-428.

<sup>458</sup> Kim Il Sung had interpreted the global situation that there would not be a major war due to the economic difficulties in the United States and their remaining memory of the defeat in Vietnam. Kim Il Sung, “Ilbon Sahoedang Jungang Jiphaengwiwonjang gwa Han Damhwa [A talk with the Chairman of the Central Executive Committee of the Japanese Socialist Party],” March 14, 1981, in *Kim Il Sung Jeojakjip 36: January – December 1981* (Pyongyang: Joseon Rodongdang Chulpansa, 1990), 40-47.

<sup>459</sup> Kim Il Sung, “Italia Ansatongsinsa Busajang gwa Han Damhwa [A talk with the Vice-President of Ansa Italian News Agency],” December 6, 1981, in *Ibid.*, 375-377.

and standing on the verge of another war in the Korean Peninsula.<sup>460</sup>

To reduce the threat or at least prevent the acceleration of the military pressure, North Korea again sought ways to have direct contacts with the United States. In 1983, North Korea once again suggested the direct contact, this time in the form of trilateral dialogue including South Korea. But the suggestion was still rejected due to the lack of trust and the overlapping issues like the Rangoon Bombing in the same year. North Korea needed to recover its tainted image from the aftermath of the Rangoon Bombing. North Korea had had some informal relations with Japan by separating the practical issues from the political considerations. But the Rangoon Bombing in 1983 finally cut off informal ties and resulted in Japan's sanction on North Korea until 1988.<sup>461</sup> When the sanctions were officially lifted in 1988, there were not many opportunity left on the North Korean end to revive the relationship with Japan before the end of the Cold War.

North Korea's behavior in 1983 and 1984 confused other countries. North Korea sent a message to the United States to suggest a trilateral dialogue with the United States and South Korea, almost simultaneously with the Rangoon Bombing assassinating South Korean leaders in October 1983. From 1984, North Korea started the bilateral talks with the South but continued the military buildup for the war preparation. Both the terrorist attacks and the contacts for dialogues were efforts to gain attention and support either from the socialist countries or the capitalist enemies. In 1984, the North Korean leadership started "to put more emphasis on economic development and contacts with the West," gradually shifting from "the single-minded

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<sup>460</sup> Kim Il Sung, "Juche ui Hyeokmyeong Wieop eul Muryeok ero Teunteuni Dambohaja [Let Us Thoroughly Guarantee the Revolutionary Work of Juche by Force]," A speech at the banquet celebrating the fiftieth anniversary of the foundation of Korean People's Army, April 25, 1982, in *Kim Il Sung Jeojakjip 37: January 1982 – May 1983* (Pyongyang: Joseon Rodongdang Chulpansa, 1992), 150-151.

<sup>461</sup> The social-level exchanges restarted in 1985, but the improvement in North Korea-Japan relations once again hampered by the issue of Fujisan Maru in the same year. North Korea sentenced the crew of Japanese fishing vessel, the Fujisan Maru in 1985. Japan responded by again imposing sanctions against North Korea, which North Korea responded with its own countermeasures. The sanctions were lifted in September 1988. Myon-woo Lee, "Japanese-North Korean Relations: Going in Circles," in *North Korea and Northeast Asia*, eds. Kim and Lee, 89-108.

focus on Korean reunification that has characterized Kim Il Sung's rule."<sup>462</sup> North Korea was trying to avoid international isolation to resolve their economic problems.

### *Isolated North and rising South*

The increase of international support toward South Korea had been already a visible trend from the 1980s following the economic logic. In the early 1980s, North Korea was seeking ways to directly contact with United States which turned out to be perplexing combination of terrorist attacks and reach out efforts for dialogues. But in the late 1980s, the security environment became clearly worse with the remarkable growth of South Korea and the accelerated inclination toward Seoul. While the level of threat had been growing gradually in the early 1980s urging the leaders to seek various ways of limited reform and opening, it became too serious in the late 1980s to attempt reforms or foreign exchanges anymore.

North Korea needed more international attention and support for their political and economic needs. A series of North-South dialogues started in the mid-1980s after the North Korean suggestion of the flood relief supplies to South Korea in September 1984. The initiative developed into another round of North-South Red Cross Talks. North Korea also suggested the North-South economic talks in November 1984 and the parliamentary talks in 1985. As a result of the North-South Red Cross Talks, the separated families of South Korea visited their family members in the North for the first time after the division of the country.<sup>463</sup> The dialogue became the last chance for some improvement of North-South relations in the context of Cold War era, but did not last long without any meaningful result.

The North-South dialogues ended without success and the increase of international support toward South Korea created serious sense of crisis in the late 1980s. North and South Korea had been in competition to be a legitimate representative of the Korean Peninsula in international society. In the 1970s, both

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<sup>462</sup> "North Korea: Moving in New Directions or Reworking Old Tactics?" January 11, 1985, NKIDP.

<sup>463</sup> Dae-sook Suh, *Kim Il Sung*, 292-295.

tried to expand diplomatic relations and memberships in the international organizations. North Korea actually made some achievements in the United Nations and the Non-Aligned Movement (NAM) in 1973 and 1975.<sup>464</sup> After 1975, however, the North Korean status in the international society stopped improving. The adoptions of the U.N. resolutions were assessed as a victory, but Kim Il Sung could not be sure about the effect of the resolutions.<sup>465</sup> North Korean strategy to utilize the NAM to isolate South Korea could not gain many positive responses from the NAM member countries.<sup>466</sup> By the early 1980s, North Korea still supported the fundamental goal of NAM but distanced itself from the conflicts between the member countries.<sup>467</sup> Kim Il

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<sup>464</sup> In December 1973, the 28th United Nations General Assembly decided to dissolve the UNCURK, which the KWP leaders asserted as a diplomatic success for the North Korea-favored unification. North Korea got admitted to the NAM as a member in summer 1975, while South Korean admission was rejected. In the United Nations, the resolution for the dissolution of the UNC (United Nations Command) and withdrawal of the foreign forces was adopted in 1975, though simultaneously with the South Korea-favored resolution. It was the first time North Korean position got accepted in the United Nations. Kim Il Sung, "Olhae Saeop Chonghwa wa Daeumhae Saeop Banghyang e Daehayeo [On the Review of This Year's Work and the Direction of Next Year's Work]," Speech at a meeting of the Political Committee of the Central Committee of the Worker's Party of Korea, December 31, 1973, in *Kim Il Sung Jeojakjip* 28, 627-628; Chi-young Pak, *Korea and the United Nations* (Kluwer Law International, 2000), 16-21.

<sup>465</sup> Before the U.N. General Assembly in 1975, the United States suggested a condition that the U.S. and South Korean military forces would replace the UNC while agreeing to the dissolution of the UNC. North Korea criticized the suggestion as interference in the internal affairs. "Telegram from New York to Bucharest, No. 052648," July 1, 1975, History and Public Policy Program Digital Archive, Romanian Ministry of Foreign Affairs Archives, Matter 220/Year 1975/Country: Democratic People's Republic of Korea -US, Folder 1642, Concerning the Democratic People's Republic of Korea's Relations with the US, Started on: 11.03.1975, Completed on: 16.12.1975, Filing deadline: Permanent, obtained and translated for NKIDP by Eliza Gheorghe, <http://digitalarchive.wilsoncenter.org/document/114099>; Kim Il Sung, "Ilbon 'Mainijji Sinbung' Pyeonjipgukjang Ilhang gwa Han Damhwa [Talk with the Editor-in-Chief of the Japanese Newspaper *Mainichi Shimbun* and his Party]," November 26, 1975, in *Kim Il Sung Jeojakjip* 30, 659-660.

<sup>466</sup> Kim Il Sung prepared for the 1976 Colombo Conference of NAM to pursue more political supports, funding 500,000 dollars for the conference. The Colombo conference did adopt the resolution North Korea wanted, but had many oppositions and reservations. Kim Il Sung partially passed the responsibility of the difficulties in NAM relations to "the aftereffects of imperialist colonial rule and to their present schemes for division and alienation," but it was mainly due to the aggressive diplomatic tactics of North Korea which did not fit to the purpose of the NAM. Kim Il Sung, "Ilbon Sahoe Hwaldongga wa Han Damhwa [Talk to a Japanese Public Figure]," November 9, 1976, in *Kim Il Sung Jeojakjip* 31, 396-398; "Report from the GDR Embassy in the DPRK, 'Note concerning a Conversation in Moscow on 12 May, 1976, with the Head of the Far East Department, Comrade Kapitsa, and the Head of the Southeast Asia Department, Comrade Sudarikov'," May 27, 1976.

<sup>467</sup> The disputes and conflicts among the NAM members even elevated to a war between them involving the imperialist powers. Kim Il Sung, "Jungguk Sinhwatongsinsa Daepyodan i Jegihan Jilmun e Daehan Daedap [Answers to Questions Raised by a Delegation of the Chinese Xinhua News Agency],"

Sung once said that North Korea had been a member of NAM since 1975 but became as a non-member in 1984.<sup>468</sup> The political supports from the Third World countries were easily got affected by economic considerations.

In the late 1980s, the relations with the NAM deteriorated along with their changing attitudes toward South Korea for economic purposes. Moreover, North Korea was losing trust due to the terrorist attacks including the Rangoon Bombing in 1983 and the Korean Air Flight 858 Bombing in November 1987. The economic success of South Korea and international event such as the Olympic Games shifted more attention toward the South. The Olympic Games had a huge impact in accelerating contacts and relations with South Korea. Knowing this effect, North Korea tried to co-host the 1988 Olympic Games in Seoul and Pyongyang. After the rupture of the sport talks with Seoul, the North Korean leaders visited other countries to persuade them to boycott the Seoul Olympics.<sup>469</sup> But South Korea successfully held the 1986 Asian Games with many countries participating, including China. The 1988 Olympic Games also turned out to be a success and many Third World and developing countries expanded their relations with South Korea afterwards.

South Korea's Roh Tae-woo administration announced the 7.7 Declaration in 1988 along with the "Northern Policy," suggesting principles of independence, peace, and democracy for the unification. Facing the growing capacity of South Korea, North Korea insisted on negotiating the issue of "mutual non-aggression" between North and South Korea, the peace treaty between North Korea and the United States, and the reduction of the U.S. forces and nuclear weapons in South Korea.<sup>470</sup> At the

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April 23, 1981, in *Kim Il Sung Jeojakjip* 36, 80-82.

<sup>468</sup> In Kim Il Sung's assessment, the NAM was turning out to be "incapable to fulfill the demand for a new economic order" because the members had "no self-reliant national economies." "Memorandum of Conversation between Erich Honecker and Kim Il Sung," June 1, 1984.

<sup>469</sup> "Conversation between the Secretary of the CC CPSU A.N. Yakovlev with the Secretary of the CC KWP Hwang Jang-yeop," May 16, 1986, History and Public Policy Program Digital Archive, State Archive of the Russian Federation (GA RF), fond 10063, opis 2, delo 55, listy 1-8, obtained and translated for NKIDP by Sergey Radchenko, <http://digitalarchive.wilsoncenter.org/document/113919>.

<sup>470</sup> Kim Il Sung, "Sinnyeonsa [New Year Address]," January 1, 1988, 9-12; "Sahoejuui Geonseol gwa Joguktongil eul Wihan Uri Inmin ui Tujaeng e Daehayeo [On Our People's Struggle toward the Socialist Construction and National Unification]," A talk with a delegation of the U.S. Communist

North-South high-level talks from 1990, North Korea insisted in touching the peace and security issues directly while South Korea wanted to build up trust from relatively easier issues of social-level exchanges.<sup>471</sup> In his New Year Address in 1991, Kim Il Sung expressed his distrust about the South Korean precondition of “trust-building first” before discussing the mutual non-aggression. The Northern Policy of South Korea toward the former socialist countries disturbed North Korea and it seemed like the South was aiming for “unification by absorption” like Germany.<sup>472</sup>

The political transition in the socialist bloc isolated the KWP in its lonely struggle for regime security. The Tiananmen Incident in June 1989 was a strong warning on the importance of political stability. The North Korean leaders tried to remain aloof about the transition taking place in the Soviet Union and Eastern European countries. But it was not easy for them to be nonchalant about their state of international isolation. Even the Soviet Union and China participated in the 1988 Olympic Games and went on to normalize relations with Seoul. The normalization of relations with South Korea was a complete betrayal to North Korea. This political isolation aggravated the economic situation which was already worsening rapidly. As a last attempt to reduce the danger, North Korea softened its attitudes in politics and economic approaches. In political aspects, North Korea changed its attitude to accept the idea of “simultaneous admission” to the United Nations with South Korea as a

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Party, June 24, 1988, 158-160; “Juche ui Hyeokmyeongjeok Gichi reul Nopi Deulgo Sahoejuui, Gongsanjuui Wieop eul Kkeukkaji Wanseonghaja [Let Us Hold the Banner of Revolution High and Complete the Socialist and Communist Works to the End],” Report to the briefing session celebrating the fortieth anniversary of the foundation of Democratic People’s Republic of Korea, September 8, 1988, 239-242; “Joseonbando ui Bihaekhwa wa Asea, Taepyeongyang Jiyeok ui Pyeonghwa wa Anjeon e Gwanhan Gukjehoewi Chamgajadeul ege Bonaen Chukhamun [A Congratulatory Note Delivered to the Participants of the International Conference on the Denuclearization of Korean Peninsula and the Peace and Safety of Asia-Pacific region],” October 18, 1988, 258-262; and other articles and interviews in *Kim Il Sung Jeojakjip 41: January 1988 – May 1989* (Pyongyang: Joseon Rodongdang Chulpansa, 1995).

<sup>471</sup> Dong-won Lim, *Lim Dong-Won Hoegorok, Piseu Meikeo: Nambuk Gwangye wa Bukhaek Munje 20-nyeon [Peace Maker: the 20 Years of the North-South Relations and the Nuclear Issue]* (Seoul: Joongang Books, 2008), 180-181.

<sup>472</sup> For North Korea, the non-aggression had become the most urgent issue to guarantee its regime security from the late 1980s. The long-term process of trust-building should follow afterwards. Kim Il Sung, “Sinnyeonsa [New Year Address],” January 1, 1991, in *Kim Il Sung Jeojakjip 43*, 8-14.

separate member in September 1991,<sup>473</sup> and agreed to some impressive statements between the two Koreas in the same year.<sup>474</sup> In economic aspects, North Korea established the Rajin-Sonbong Free FETZ to exploit the opportunities in improved relations with South Korea. But it was too late to conduct economic experiments and was unable to prevent the extreme poverty and famine that led to more deterioration in the security environment after the first nuclear crisis. North Korea could finally have direct negotiation with the United States in the first nuclear crisis in 1993 and 1994 but they lost the opportunity to revive the economy before spiraling into the famine. The death of Kim Il Sung in 1994 became the starting point of economic hardships in the 1990s.

## 2. No Expiration Date for Anti-Foreign Discourse

At the start of the 1980s, the leaders of North Korea and China had clearly different ideological rhetoric on their level of the socialist development process. Deng Xiaoping defined China as situated at the “primary stage of socialism” to pursue reform and opening to accept technology and capital from the West. China reoriented the industrial focus to agriculture and light industries and held back the heavy industries for a while. In North Korea, by contrast, the leaders declared their level to be at the “complete victory of socialism” despite their low production capacity. They tried to construct the ideal society under the Juche idea<sup>475</sup> and continuously emphasized the heavy industry and military buildup which was possible only by

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<sup>473</sup> The Soviet Union notified North Korea about the South Korea-Soviet normalization September 1990 which was severely criticized by North Korea as the betrayal and incapacitation of the Soviet-DPRK alliance. The situation became even worse when the Soviet Union required the hard currency repayments in 1991 and China followed the same direction. North Korea finally gave up the idea of “one Korea” when China announced its support to the South Korean position of the “simultaneous admission” to the United Nations. Kim Il Sung, “Ilbon Gyodo Tongsinsa Sajang i Jegihan Jilmun e Daehan Daedap [Answers to Questions Raised by the President of Japanese Kyoto News Agency],” June 1, 1991, in *Ibid.*, 68-77; Dong-won Lim, *Piseu Meikeo*, 188-190.

<sup>474</sup> The high-level talks continued to conclude the “the Agreement on Reconciliation, Non-aggression, and Exchanges and Cooperation (North-South Basic Agreement)” and the “Joint Declaration of the Denuclearization of the Korean Peninsula” in December 1991.

<sup>475</sup> Jong-seok Lee, *Bukhan ui Yeoksa 2*, 127-128.

depending on mobilization and control. The KWP established and strengthened the Juche discourse to resist foreign interventions and intensify domestic loyalty. Slogans emphasizing the uniqueness of the unification task and the struggle against the imperialists persisted and prevented the reorientation, liberalization, or opening.

In the early 1980s, the new leadership of Kim Jong Il tried to shift its focus to the economy while continued to utilize the discourse of Juche. If they were to put the Chinese way of reform and opening into place, an economy-oriented pragmatic approach, detached from the ideological propaganda for struggles, was needed. However, the priority on the military buildup and the heavy industry could not be redirected to the light industry or agriculture unless the “imperialist” threats were reduced and the political discourse on the anti-foreign struggles changed simultaneously. The new leadership decided and implemented some pro-reform economic measures, and it was necessary to create and utilize relatively favorable security environments to facilitate pro-reform political discourses.

### **(1) Utilizing Anti-Imperialism for Economic Goals**

The most influential concept in the political discourse of the KWP had been the historical memory of war and foreign invasions. The experience of the Korean War had defined the task of unification as the most urgent and important issue. Kim Il Sung and the KWP leaders deliberately separated the situation from other countries emphasizing the uniqueness of the national division. According to Kim Il Sung, the European socialist countries “have only the task of building socialism, but we have to build socialism in the northern half of the Republic and, at the same time, fulfill the tasks of the national-liberation revolution to free South Korea and the democratic revolution.” The task of unification and socialist construction required more political unity and alertness.<sup>476</sup> The concept of the anti-foreign struggle was also emphasized

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<sup>476</sup> Kim Il Sung, ‘1. Ganbudeul Sok eseo Dang ui Yuilsasang Chegye reul Se-umyeo Hyeokmyeonghwahagi Wihan Saeop eul Ganghwahal Piryoseong [The Necessity of Strengthening the Work of Establishing the Monolithic Ideological System of the Party Amongst Cadres and of Revolutionizing Them],’ of “Ganbudeul Sok eseo Dang ui Yuilsasang Chegye reul Se-umyeo

since Kim Il Sung and the revolutionary leaders were consistently concerned about the U.S. imperialism and Japanese militarism. They were also unsure that the Soviet Union or China would not interfere with North Korea's political independence.

### *Building Juche for independence and self-reliance*

The memory of the Korean War and the foreign occupations from the Japanese colonial era provided material for the Juche idea to emphasize the importance of political independence and economic self-reliance. The changing dynamics between China and the Soviet Union in the 1960s facilitated the idea. The "Juche" appeared in the *Rodong Sinmun* in 1962 defined as "an ideology 'creatively applied' the Marx-Leninism to the Korean Revolution" and the ideology of "our Party and Kim Il Sung."<sup>477</sup> In his speech in April 1965, Kim Il Sung described the four features of Juche idea, the ideological Juche (originality), political independence, economic self-reliance, and military self-defense.<sup>478</sup> The article "Let Us Defend Independence" in 1966<sup>479</sup> and many other speeches and articles frequently mentioned Juche as the official ideology. Throughout the 1960s, Kim Il Sung and the KWP leaders chose "the line of simultaneous economic and defense construction"<sup>480</sup> and the "four basic

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Hyeokmyeonghwahagi Wihan Saeop eul Ganghwahal De Daehayeo [On Strengthening the Work of Establishing the Monolithic Ideological System of the Party Amongst Cadres and the Work of Revolutionizing Them],” Concluding speech at the 21<sup>st</sup> Enlarged Plenary Meeting of the Fourth Central Committee of the KWP, July 6, 1970, in *Kim Il Sung Jeojakjip* 25, 145.

<sup>477</sup> Recited from Jong-seok Lee, *Bukhan ui Yeoksa* 2, 41-42.

<sup>478</sup> Kim Il Sung, “Joseon Minjujuui Inmin Gonghwaguk eseuui Sahoejuui Geonseol gwa Namjoseon Hyeokmyeong e Daehayeo [On Socialist Construction in the Democratic People’s Republic of Korea and the South Korean Revolution],” April 14, 1965, in *Kim Il Sung Jeojakjip* 19, 304-316.

<sup>479</sup> “Jajuseong eul Ongghohaja [Let Us Defend Independence],” in *Joseon Jungang Nyeongam 1966-1967* (KCNA, 1967), 505.

<sup>480</sup> On “the line of carrying on economic construction in parallel with defense building,” had been adopted at the Fifth Plenum of the Fourth Central Committee in 1962. Kim Il Sung defined the strategy as “to reorganize the whole work of socialist construction in line with the requirements of the prevailing situation and, especially, to carry on the building of the economy and defenses in parallel so as to further increase our nation’s defense capacities to cope with the enemy’s aggressive maneuvers,” focused more on “increasing our defense capabilities still more in the face of intensified aggressive moves by the imperialists,” such as the Cuban Missile Crisis and the Vietnam War. Kim Il Sung, ‘2. Saheojiui Geonseol eul Chokjinhameyo Uri ui Hyeokmyeong Giji reul Ganghwahal De Daehayeo [On the Acceleration of Socialist Construction and the Strengthening of Our Revolutionary Base]’ of “Hyeon Jeongse wa Uri Dang ui Gwaup [The Present Situation and the Tasks of Our Party],” Report

military line of the Party,”<sup>481</sup> which led the North Korean economy into difficulties with serious development imbalance between heavy industry and light industry and the shortages of consumer goods and food supply.

Juche began as an ideological tool to unite the country under the charismatic leadership of Kim Il Sung. Later it was expanded into the One and Only Ideology (Yuil Sasang) from the late 1960s after the purges of the Gapsan faction. There were two principal purposes of this Juche ideology. One of them was the task of national unification. It was the most powerful slogan for mobilization campaigns in the mid and late 1970s. North Korea had not officially given up the strategy based on the Theory of South Korean Revolution.<sup>482</sup> The fifth article of the Socialist Constitution of DPRK in 1972 still reflected the hope of “reunifying it on the basis of having democratized South Korean society.”<sup>483</sup> One of the purposes of the “peace offensive” was to demonstrate the superiority of the North Korean system to the people in South Korea throughout the process of North-South dialogues.<sup>484</sup> The problem of labor

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to the Conference of the Worker’s Party of Korea, October 5, 1966, in *Kim Il Sung Jeojakjip 20: November 1965 – December 1966* (Pyongyang: Joseon Rodongdang Chulpansa, 1982), 415-423.

<sup>481</sup> The four basic military line of the Party also had been adopted at the Fifth Plenum of the Fourth Central Committee held in December 1962. The four points were: 1) to make our army a cadre army; 2) to modernize the army; 3) to arm all the people; and 4) to turn the whole country into a fortress. ‘1. Joseongdoen Jeongsewa Gwallyeonyhayeo Gukbangryeok eul Deouk Ganhwahal De Daehayeo [On Promoting Defense Capacity Considering the Changed Situation],’ in “Joseon Rodongdang Jungangwiwonhoe Je 4-gi Je 5-cha Jeonwon Hoeui e Gwanhan Bodo [A Report on the Fifth Plenum of the Fourth Central Committee of the KWP], in *Joseon Jungang Nyeongam 1963* (KCNA, 1963), 157-159.

<sup>482</sup> The Theory of a South Korean Revolution was to let the South Korean people first “overthrow Park Chung Hee, seize power, and start negotiations with the DPRK about the peaceful unification of the motherland.” “Report, Embassy of Hungary in North Korea to the Hungarian Foreign Ministry,” December 12, 1970, History and Public Policy Program Digital Archive, MOL, XIX-J-1-j Korea, 1970, 54. doboz, 81-108, 002584/3/1970, obtained and translated for NKIDP by Balázs Szalontai, <http://digitalarchive.wilsoncenter.org/document/116596>.

<sup>483</sup> The fifth article of the Constitution said “the Democratic People’s Republic of Korea is working to achieve the complete victory of socialism in the northern half of the Republic, drive out foreign forces on a national scale, reunify the country peacefully on a democratic basis and attain complete national independence.” “Joseon Minjujuui Inmin Gonghwaguk Sahoejuui Heonbeop [The Democratic People’s Republic of Korea Socialist Constitution],” in *Joseon Jungang Nyeongam 1973* (KCNA, 1973), front pages.

<sup>484</sup> Kim Il Sung tried to isolate the Park Chung Hee regime through its “peace offensive” to make the South Korean people realize that North Korea was a real help for a peaceful unification. “Telegram, Embassy of Hungary in North Korea to the Hungarian Foreign Ministry,” December 20, 1971, History and Public Policy Program Digital Archive, MOL, XIX-J-1-j Korea, 1971, 66. doboz, 81-25,

shortage had been serious but the leadership never allowed the reduction of army because of its need for war preparation, purportedly for unification. Kim Il Sung instead emphasized the technical revolution as a way to overcome the labor shortage.<sup>485</sup> Unification remained as a constant variable in the Juche discourse to emphasize the importance of unity and regime security.

Another principal purpose of the Juche discourse was continuous anti-foreign struggles. The KWP leaders were always on alert about the possibility of the U.S. invasion in cooperation with the South Korean “counter-revolutionaries.” Japanese militarism also remained as a constant threat. The anti-imperialism was also applied to the Soviet Union and China. Although the assistances from the Soviet Union and China were critical for the regime security, their political influences had been never welcomed by Kim Il Sung.<sup>486</sup> In the early 1970s, Kim Il Sung called for some economy-oriented policies and promoted the expansion of economic relations “not only with socialist countries but also with newly independent states and capitalist countries.”<sup>487</sup> However, they were still suspicious about the “unchanging”

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001995/6/1971, obtained and translated for NKIDP by Balázs Szalontai, <http://digitalarchive.wilsoncenter.org/document/116621>.

<sup>485</sup> The “three major tasks of the technical revolution” were officially announced at the Fifth Party Congress to facilitate the mobilization and production by organizing the population with more efficiency. Kim Il Sung, “Sasang Hyeokmyeong, Gisul Hyeokmyeong, Munhwa Hyeokmyeong eul Deouk Himitge Dageuchija [Let Us Further Advance the Ideological, Technical and Cultural Revolutions],” Concluding speech delivered at the Gangseo (Kangso) Enlarged Meeting of the Political Committee of the Central Committee of the KWP, March 14, 1973, in *Kim Il Sung Jeojakjip* 28, 269-271.

<sup>486</sup> The KWP leadership kept a tight grip on the Party and the state and did not allow any “divergences of opinion” about the imperative to maintain North’s independence while it was “surrounded by the Japanese, the Chinese, the Americans and the Soviets.” “Minutes of Conversation on the Occasion of the Party and Government Delegation on behalf of the Romanian Socialist Republic to the Democratic People’s Republic of Korea,” June 10, 1971. The Soviets “modern revisionism” and Chinese “dogmatism” were regarded similar to the imperialism in North Korea. Kim Il Sung, “Dang Ganbu Yangseong Saeop eul Gaeseon Ganhwahal De Daehayeo [On Improving and Strengthening the Training of Party Cadres],” Speech delivered before the teachers of Party Cadre-Training Institutions, December 2, 1971, in *Kim Il Sung Jeojakjip* 26, 520-521.

<sup>487</sup> Kim Il Sung gave instructions to the factories that “under a ten-year program starting from this year, we should strive to ensure at least a 10 percent annual increase in the output of exportable consumer goods, thus bringing the quality of all light industrial goods on a par with that of exports. Our provisional target, therefore, is to increase their production to over 50 percent by 1975.” Kim Il Sung, ‘II. 2. Inmin Sobipum ui Jil eul Deouk Nopil De Daehayeo [On Improving the Quality of Consumer Goods],’ in “Jibang Gongup eul Baljeonsikyeyo Inmin Sobipum Saengsan eseo Saeroun Jeonhwan eul

imperialists of the United States and Japan. Despite the détente mood, the leaders were worried about the imperialist conspiracies and the revival of the Japanese militarism.<sup>488</sup> The KWP did not allow joint ventures or FDI and insisted only on direct trade which included buying plants and making payments in foreign currency.<sup>489</sup> This was one of the causes of the increasing burden of foreign debt from 1973. North Korea imported technology and equipment for the heavy industry and had to mobilize domestic resources and labors to pay the debts.<sup>490</sup> The debt problem became more serious in the mid-1970s despite the constant mobilizations and production campaigns.

This strict anti-foreign discourse brought difficulties in gaining advanced technologies. With no notable improvement in relations with the United States, the North Korean economic relations with the capitalist countries were limited by continuous restrictions on trade and technological transfers.<sup>491</sup> The economic

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Ireukija [Let Us Develop Local Industry and Bring About a Fresh Upswing in the Production of Mass Consumer Goods],” Speech at the National Conference of Workers in Local Industry, February 27, 1970, in *Kim Il Sung Jeojakjip* 25, 58.

<sup>488</sup> For North Korea, the Nixon Doctrine was to “openly set up the Japanese militarists as a shock force for aggression in Asia” and to “expand the Japanese armed forces of aggression on a large scale for use instead of US troops in their aggressive operations against Asia and to perfect the ‘system of US-Japan-South Korea joint operations’ in South Korea.” Japanese militarism grew into another imminent threat through the Nixon-Sato Joint Statement in 1969, the automatic renewal of U.S.-Japan Security Treaty, and the Okinawa Reversion Agreement in 1971. Kim Il Sung, “Mije reul Bandaehaneun Asea Hyeokmyeongjeok Inmindeul ui Gongdong Tujaeng eun Bandeusi Seonggonghal Geosida [The Revolutionary Peoples of Asia Will Win Their Common Struggle Against US Imperialism],” August 6, 1971, in *Kim Il Sung Jeojakjip* 26, 227-228.

<sup>489</sup> North Korea sought to expand economic relations with Japan, but it was important not to become dependent on the Japanese economy like South Korea did through FDIs and long-term loans. Kim Il Sung emphasized “the principle of equality” that North Korea “does not permit the Japanese to gain the right of industrial management of ownership,” nor want “to receive long-term loans from Japan.” Kim Il Sung, “Ilbon Jeongchi Riron Japji ‘Sekikai’ Pyeonjipgukjang gwa Han Damhwa [Talk with the Managing Editor of the Japanese Politico-Theoretical Magazine *Sekai*],” October 6, 1972, in *Kim Il Sung Jeojakjip* 27, 448-450.

<sup>490</sup> The KWP launched “a mass drive to earn foreign currency” throughout the 1970s, “to earn a large sum of foreign currency” by selling heavy industry products such as machines and construction materials, not consumer goods. Kim Il Sung, “Joseon Rodongdang Jungangwiwonhoe Je 5-gi Je 5-cha Jeonwon Hoewi eseo Han Gyeollon [Concluding Speech Delivered to the Fifth Plenary Meeting of the Fifth Central Committee of the KWP],” October 23 to 26, 1972, in *Ibid.*, 488-489.

<sup>491</sup> For example, the economic relations with Japan had been expanded only on the private level (including Jochongnyeon firms), not on the state level. When North Korea ordered “two blast furnaces, each with a capacity of 2,000 cubic meters, in order to introduce modern technology into the steel

difficulties aggravated in the mid-1970s by the global economic crises such as the oil shocks and increasingly mounting burden of foreign debts. The solution contrived by the North Korean leaders was the stronger anti-imperialist rhetoric for more political vigilance. The emphasis on the war preparation increased sharply from 1974 to 1976, stressing the danger of “invasion conspiracy of the U.S. imperialists” to mobilize resources in every field of production.<sup>492</sup> Kim Jong Il took part in the propaganda and mobilizations, emphasized “the material war preparation” and urged the whole country to “push hard toward the major targets” as fast as possible.<sup>493</sup> While the direct war preparation was to deal with the United States, the “ideological infiltration of opportunism” was more about the influences from the Soviet Union and China.<sup>494</sup> It was to enforce political unity and loyalty toward Kim Il Sung’s leadership, which also helped Kim Jong Il to establish his own power base as the successor in a longer-term perspective.

The task of unification and the struggle against imperialism were effective mobilization slogans under the Juche ideology. Kim Jong Il actually led the propaganda and mobilization campaigns from the mid-1970s including the TRT

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industry,” the Japanese firm “could not sell the equipment because, under the pressure from the United States, their government had refused to sanction the sale.” Whether it was really the U.S. restriction or the inability of payment on their side, North Korea could not buy the plant and had to use “their initiative and build blast furnaces for themselves.” Kim Il Sung, “Pperu ‘Ekseuppeureso’ Sinmun Jupil Bubuwa Han Damhwa [Talk to the Editor-in-Chief of the Peruvian Newspaper *Expreso* and His Wife],” June 2, 1974, in *Kim Il Sung Jeojakjip 29: January – December 1974* (Pyongyang: Joseon Rodongdang Chulpansa, 1985), 258-259.

<sup>492</sup> Even in agricultural sector, Kim Il Sung mentioned the danger of war that “may break out again at any moment in our country,” and urged the task of “producing more grain and storing sufficient provisions” in war preparations. Kim Il Sung, “Modeun Him eul Algok 800-man-ton Goji Jeomnyeong eul Wihayeo [All Efforts to Attain the Goal of Eight Million Tons of Grain],” Speech at the National Agricultural Congress, January 15, 1975, in *Kim Il Sung Jeojakjip 30*, 36.

<sup>493</sup> Kim Jong Il, “Hyeon Jeongse ui Yogu e Matge Hyeokmyeong Ryeokryang eul Teunteuni Kkurimyeo Dangsaeop eul Deouk Gaeseon Ganghwahal De Daehayeo [On Strengthening the Revolutionary Capacities to Meet the Present Situation and Improving the Party Works],” A speech at a conference of secretaries, ministers, and vice-ministers of the Central Committee of the KWP, May 2, 1975, in *Kim Jong Il Seonjip 5: 1975-1977* (Pyongyang: Joseon Rodongdang Chulpansa, 1995), 102-110.

<sup>494</sup> Kim Jong Il organized campaigns and surveillance system to prevent “any opportunistic ideology, including the revisionism” among the Party officials. Kim Jong Il, “Hyeon Sigi Dangsaeopeso Jegidoeneun Myeotgaji Munje-e Daehayeo [On Some Problems Arising in the Present Party Works],” A speech at a conference of the provincial-level Party secretaries and the vice-ministers of the Organizational Leadership Department of the Party Central Committee, June 13, 1975, in *Kim Jong Il Seonjip 5*, 155-156.

Movement. He also launched the Three-Revolution Red Flag Winning Movement from 1975, and empowered the Juche idea to mobilize and concentrate all the possible resources for the war preparation.<sup>495</sup> Many “speed battles” throughout the 1970s and 1980s had the same basic purpose of war preparations and socialist construction against the threat of imperialists, in the name of Juche.

*Dilemma in using anti-imperialism to “normalize” production*

Kim Jong Il had consolidated his power by 1980. Along Kim Jong Il’s rise as the successor during the 1970s, the Juche ideology was utilized as a strong legitimizing tool and mobilization slogan emphasizing anti-foreign concepts. After the Fifth SPA in December 1972, the DPRK Socialist Constitution declared the Juche ideology as the only official ideological guideline of North Korea.<sup>496</sup> Kim Jong Il elevated the Juche ideology to be the One and Only Ideology, named as Kim Il Sung-ism with the highest authority. The Kim Il Sung-ism was defined as a creative ideological framework with an independent concept, theory, and methodology based on Juche.<sup>497</sup> In 1980, the KWP deleted “Marx-Leninism” from the Party Constitution at the Sixth Party Congress and Kim Jong Il published an article “On the Juche Idea” in 1982 to establish the Juche ideology as the only guideline of the Party works and policies.<sup>498</sup>

Since the new leadership legitimized its political power by the legacy of Kim Il

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<sup>495</sup> Kim Jong Il, “Olhae Dangsaeop eso Teureojwigo Nagaya Hal Myeotgaji Jungsimjeok Gwaeop e Daehayeo [On Some Core Tasks in the This Year’s Party Works],” A speech at a conference of the provincial-level Party secretaries and the vice-ministers of the Organizational Leadership Department and the Propaganda and Agitation Department of the Party Central Committee, January 1, 1976, in *Kim Jong Il Seonjip* 5, 232-250.

<sup>496</sup> The fourth article of the Socialist Constitution said that North Korea would “take the Juche Ideology, which creatively applied the Marx-Leninism to North Korean reality, as the governing idea of every activity.” *Joseon Jungang Nyeongam* 1973, front pages.

<sup>497</sup> It was not to deny Marx-Leninism, but to distinguish the Kim Il Sung-ism as a different revolutionary ideology. Kim Jong Il, “Kim Il Sung-Juui ui Dokchangseong eul Olke Insikal De Daehayeo [On Correctly Understanding the Creativity of Kim Il Sung-ism],” A talk to the officials in charge of propaganda of the Party theories, October 2, 1976, in *Kim Jong Il Seonjip* 5, 321-328.

<sup>498</sup> Kim Jong Il, “On the Juche Idea,” Treatise sent to the National Seminar on the Juche Idea held to mark the 70<sup>th</sup> birthday of the Great Comrade Kim Il Sung, March 31, 1982, in *On the Juche Idea of Our Party* (Pyongyang: Foreign Languages Publishing House, 1985), 14-80.

Sung, it was impossible for them to avoid the task of unification and the anti-imperialist struggle. Among the two principal purposes, however, unification was no more an imminent task to Kim Jong Il but a very long-term goal. Kim Il Sung had put priority on the unification issue, but there was no improvement in the situation facing the U.S. forces in South Korea.<sup>499</sup> Park Chung Hee died in 1979 but the Gwangju Incident in 1980 proved the unchanging support of the United States on the military dictatorship. Kim Jong Il succeeded the leading role on the unification and foreign affairs as well in the early 1980s. There was no official change in the unification strategy but they all knew that the situation was not favorable to pursue the unification in a short-term.<sup>500</sup> It was unrealistic to expect a peaceful unification when there were increasing security threats from the South Korean military modernization and the Team Spirit joint military exercises.

Instead of the unification issue, the increasing dangers of the imperialism or the revisionism were emphasized under the new leadership. For a continuous struggle against the imperialist threats, the industrial focus still stayed on heavy industries primarily for military preparations, despite urgent needs of consumer goods and foodstuffs. However, the new leaders knew that it was not possible to quickly improve its economy only by a struggle-oriented political vigilance. The KWP had consistently emphasized the political vigilance to resolve economic problems throughout the 1970s and Kim Jong Il also had managed the TRT Movement and the

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<sup>499</sup> Kim Il Sung was still in charge of the foreign affairs in the early 1980s. Kim Il Sung, “Pperu Joseon Chinseon Munhwa Hyeophoe Daepyodan gwa Han Damhwa [Talk to a Delegation from the Peru-Korea Institute of Culture and Friendship],” June 14, 1980, in *Kim Il Sung Jeojakjip 35: January – December 1980* (Pyongyang: Joseon Rodongdang Chulpansa, 1987), 151-156. Kim Il Sung criticized the U.S. support to the military regime, and announced the idea of “Democratic Confederal Republic of Koryo (DCRK)” as his new unification policy. At the Sixth Party Congress he again declared the three principles of unification, “independence, peaceful unification, and national unity.” Kim Il Sung, ‘3. Joguk ui Jajujeok Pyeonghwa Tongil eul Irukaja [Let Us Reunify the Country Independently and Peacefully]’ of “Joseon Rodongdang Je 6-cha Daehoe eseo Han Jungangwiwonhoe Saeop Chonghwa Bogo [Report to the Sixth Congress of the Worker’s Party of Korea on the Work of the Central Committee],” October 10, 1980, in *Ibid.*, 338-356.

<sup>500</sup> Kim Il Sung, “Ilbon Jeongchi Riron Japji ‘Sekikai’ Pyeonjipgukjang i Jegihan Jilnum e Daehan Daedap [Answers to Questions Raised by the Chief Editor of the Japanese Political Magazine *Sekai*],” June 9, 1985, in *Kim Il Sung Jeojakjip 39: January 1985 – May 1986* (Pyongyang: Joseon Rodongdang Chulpansa, 1993), 84-93.

“speed battles” during the 1970s. The “battle” meant that the targets were separated from the original plan and there were endless extra works to achieve these highly-set, ambitious goals.<sup>501</sup> To facilitate the campaigns, the KWP sent out “Red Letters” to accomplish the production targets in various fields.<sup>502</sup> By the early 1980s, it had become obvious that the battle-like campaigns did not succeed in accomplishing production goals on regular basis. The new leadership started to emphasize a new way of struggle by normalizing the production mechanism on longer-term perspective, instead of short-term mobilization campaigns.

To normalize the productions and develop the economy, the urgent task was to learn advanced technologies and rationalize the management. But there was a dilemma. The official purpose of normalizing the production was to improve the capacity for anti-imperialist struggle. But it was difficult to import advanced technologies when North Korea was maintaining strict anti-imperialist attitudes against the United States.<sup>503</sup> The KWP leadership harshly criticized South Korea and

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<sup>501</sup> Kim Jong Il delegated more political power to the TRT leaders to guide the production processes for quick accomplishments. The TRT leaders were dispatched to lower production units to do “the role of political commissar” in the factories and enterprises. The “speed battles” reflected the deteriorating infrastructure like the shortage of electricity, that more battles like the “electricity frugality struggle” were added to the production battles to achieve short-term goals like the completion of Six-Year Plan in five years. Kim Jong Il, “Dang Saeop Bangbeop eul Deouk Gaeseonhameyo 3-dae Hyeokmyeong eul Himitge Beollyeo Sahoejuui Geonseol eseo Saeroun Angyang eul Ireukil De Daehayeo [On Improving the Party Work Methods and Promoting the Three-Revolution toward a New Phase of Socialist Construction],” A speech at a meeting of officials of the Central Committee of the KWP, January 28, 1975, in *Kim Jong Il Seonjip* 5, 45-58.

<sup>502</sup> The “Red Letter” was one of the tactics North Korea employed during the last phase of Korean War to mobilize the Party members and people toward the final life-or-death battle. Kim Jong Il explained that the “Red Letter” in the 1980s was a strong stimulus to promote the ideological campaign throughout the Party to promote big progress in the socialist economic construction. Kim Jong Il, “Jaryeok Gaengsaeng ui Hyeokmyeongjeok Guho reul Nopi Deulgo Jeondang, Jeongmin eul Buleoireukyeo Je 2-cha 7-gaenyeon Gyehoek eul Apdanggyeo Suhaenghaja [Let Us Hold Up the Slogan of Self-Reliance and Achieve the 2<sup>nd</sup> 7-Year Plan Earlier by Mobilizing the Whole Party and Whole People],” A speech to the officials of the Organizational Leadership Department and the Propaganda and Agitation Department of the Central Committee of the KWP, January 1, 1978, in *Kim Jong Il Seonjip* 6, 16-17. At the Sixteenth Plenum of the Fifth Central Committee of KWP was held in January 1978, and adopted the letter to mobilize all the domestic resources for the “ten prospect targets” in electricity, coal, steel, metals, machinery, chemical fertilizer, cement, marine products, grain, and tideland reclamation. “Joseon Rodongdang Jungangwiwonhoe Je 5-gi Je 16-cha Jeonwonhoeui [The 16<sup>th</sup> Plenum of the Fifth Central Committee of the KWP],” in *Joseon Jungang Nyeongam* 1979 (KCNA, 1979), 141.

<sup>503</sup> North Korea continuously criticized the United States which was still imposing economic embargo

the United States until 1983, lashing out against the “Team Spirit 83” military exercises.<sup>504</sup> From late 1983, however, North Korea took a new approach to change its international image and its attitude to the enemies. The anti-U.S. criticism reached its peak when Reagan visited Seoul in November but they soon subsided. After the Burma Rangoon Bombing in October 1983, many countries including Burma terminated their diplomatic relations with North Korea. The leaders denied the charge of the bombing, but many inner-Party elites were well known that it was another attack planned by North Koreans.<sup>505</sup> North Korea had to take flexible and responsive attitudes to remove the terrorist image and not lose support from other countries.

The changing attitude of North Korea in 1983 and 1984 reflected the dilemma between the political discourse and the practical needs. They had declared to not have direct talks with Chun Doo-hwan government but still needed the North-South talks to ameliorate their isolation. North Korea suggested a social level leaders’ joint conference in January 1983, but this was ignored by South Korea. After the Rangoon Bombing, North Korea suggested a trilateral dialogue between the North, South Korea, and the United States. In January 1984, North Korea took a step further and presented a detailed agenda of the dialogue at the Central People’s Committee and the SPA Presidium.<sup>506</sup> North Korea became much more flexible about the withdrawal of the U.S. forces and the unification. It seemed that the leaders realized that the security environment would not improve unless they showed some new elements first.

Although they still upheld the political independence and economic self-reliance of Juche ideology, the new leadership pursued a few economic measures to normalize the domestic economy and more economic cooperation with other

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on North Korea which led to restrictions on the U.S.-patented technology transfers. Kim Il Sung, “Gwahak Yeongu Saeop eso Saeroun Jeonhwan eul Ireukil De Daehayeo [On Bringing About a Fresh Upswing in the Scientific Research Works],” A speech to the scientists in the institute of science, March 23, 1983, in *Kim Il Sung Jeojakjip* 37, 404-406.

<sup>504</sup> The “quasi-state of war” was declared over the country in the name of the KPA Supreme Commander, from February 1 to May 16, 1983. *Joseon Jungang Nyeongam 1984* (KCNA, 1984), 110-112.

<sup>505</sup> Jang-yeop Hwang, *Hwang Jang-yeop Hoegorok*, 252.

<sup>506</sup> The SPA of North Korea suggested the United States a negotiation for the North Korea-U.S. peace agreement, the withdrawal of the U.S. forces from South Korea, and the North-South mutual non-aggression treaty, etc. *Joseon Jungang Nyeongam 1985*, 121-123.

countries to gain foreign currency and technology. The wide variation of North Korean activities from the terrorist attacks to the talks with South Korea showed the contradictions in improving security and economy simultaneously. The terrorist attacks were to expose the increasing threat from South Korea to gain political support from the socialist neighbors. Kim Jong Il also discussed the growing dangers from the United States and South Korea with continuous military exercises and counter-revolutionary activities against the progress of the North-South talks.<sup>507</sup> But at the same time, North Korea had to reduce the tension to expand economic and technological exchanges with other countries, which was not an easy task since North Korea had rapidly developing enemy in the south and unreliable socialist big brothers in the north.

## **(2) Return to the Traditional Use of Anti-Foreign Slogans**

The security environment rapidly deteriorated in the late 1980s toward the end of the Cold War. North Korea leaders saw the decline of the socialist bloc and the tremendous gap of its national capacity in comparison with South Korea. Having lost their confidence in dealing with growing capacity of South Korea, the KWP leaders had to find ways to develop its own capacity in economic aspects, and gain political supports from other countries. But the socialist countries were in transition abandoning the revolutionary principles and accepting capitalist elements. These unreliable tendencies of socialist comrades instigated the KWP leadership to search for an independent path to protect the regime, while they remained isolated. This also included activities that appeared to be contradictory. They combined carrying out acts of terror sponsored by the state and reaching out to establish contacts for dialogues. This took place with considerable frequency throughout the late 1980s.

Regarding domestic production, the KWP leaders chose to return to the “traditional” way of Juche which they believed to be a proved method to maintain at

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<sup>507</sup> Kim Jong Il, “Minjujuui Kambojya Juseok i Jegihan Jilmun e Daehan Daedap [Answers to Questions Raised by the Premier of Democratic Cambodia],” May 2, 1985, in *Kim Jong Il Seonjip* 8, 220-221.

least a gradual economic development and political stability. Despite the serious need for economic change, the leaders turned to their traditional way of mobilization and control. The imbalances between heavy and light industries and between military and civilian economies were aggravated as the leaders chose to intensify their political discourse on the anti-foreign struggles.<sup>508</sup> Facing the end of the Cold War, the North Korean leaders emphasized the “Uri-sik (Our Style) Socialism” combined with the filial motivations of patriotism, to separate North Korea from other socialist countries.<sup>509</sup> Since North Korea could not expect military or economic supports from the socialist countries in transition, the leaders had to resort to upping domestic mobilization with strong political slogans which were full of “revolutionary spirit for the self-reliance and struggle.”<sup>510</sup>

*Resurgence of anti-foreign discourse in “Uri-sik” way*

Even during the peak of pro-reform economic attempts, the discourse of anti-imperialist struggle was officially emphasized along the pragmatic economic measures for domestic political stability. While Kim Jong Il promoted the young and educated elites into positions where they could design economic measures, he enforced more training programs for the “revolutionary ethos” and loyalty to the Suryong and the Party at the same time.<sup>511</sup> Following Kim Il Sung’s long-time slogan of struggle against both the capitalist imperialism and the socialist interventions, Kim

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<sup>508</sup> Mu-chul Lee, “Industrial Structure,” 27-72.

<sup>509</sup> North Korean leaders had no choice but to emphasize nationalism to legitimize the continuity of their regime. The leaders stressed the achievements of Kim Il Sung and Kim Jong Il to establish an independent and unique system to prosper on their own ways. This “Uri-sik Socialism” was a form of extreme nationalism. Dong-man Seo, “Bukhan Chejewa Minjokjuui [North Korean Regime and Nationalism],” in *Bukjoseon Yeongu: Seo Dong-man Jeojakjip*, 236.

<sup>510</sup> Kim Jong Il, “Jeondang e Hyeokmyeongjeok Dangpung eul Cheoljeohi Se-ujja [Let Us Uphold the Revolutionary Spirit Thoroughly in the Whole Party],” A speech to the officials of the Organizational Leadership Department of the Central Committee of the Worker’s Party of Korea, January 10, 1988, in *Kim Jong Il Seonjip* 9, 120-122.

<sup>511</sup> Kim Jong Il, “Dangdaeryeol ui Tongil gwa Dangyeol eul Ganghwahagi Wihan Dangjojikdeul ui Gwaep [Tasks of Party Organs to Strengthen the Unity and Solidarity of the Party Units],” A speech at a meeting of officials of the Organizational Leadership Department and the Propaganda and Agitation Department of the Central Committee of the KWP, September 7, 1982, in *Kim Jong Il Seonjip* 7, 232-236.

Jong Il also frequently stressed the anti-imperialist struggle. Kim Jong Il synchronized his slogan of “Uri-sik (Our Style)” with the Juche idea to “continue the revolution and construction in a proper way for the North Korean interest and circumstances.”<sup>512</sup> North Korea criticized the “trilateral military alliance system” of the United States, Japan, and South Korea, accusing the conspiracy of a northbound invasion by the South Korean regime.<sup>513</sup> Until the early 1980s, however, these imperialist threat discourses were more for the domestic propaganda to normalize the production. The leadership purposefully emphasized the danger of an imminent war in the Korean Peninsula to urge the Party and the whole country to campaigns.<sup>514</sup> It was to deal with the chronic foreign debt problem and other accumulating difficulties in its economy.

Facing the rapidly changing security environment in the late 1980s, however, the anti-foreign discourse was intensified to prevent the political influences that may penetrate North Korea from the changing environments. Kim Jong Il defined the tendency of the transition as the “imperialists’ conspiracy to bring the socialist countries and the progressive people into submission through military threats, economic bribe, and ideological disintegration.” The Party officials and the people were urged to strengthen the “independent (Juche) capability” to prevent the infiltration of imperialistic ideology and culture.<sup>515</sup> The anti-imperialist and anti-

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<sup>512</sup> Kim Jong Il, “Uri Sikdaero Saranagal De Daehan Dang ui Jeollyakjeok Bangchim eul Cheoljeohi Gwancheolhaja [Let Us Thoroughly Carry Out the Strategic Policy of the Party to Live in Uri-sik (Our Style)],” A talk to officials of the Central Committee of the KWP, December 19, 1979, in *Kim Jong Il Seonjip* 6, 354-355.

<sup>513</sup> “3-gak Gunsadongmaeng Jojak Chaekdong [Triangle Military Alliance Manipulation Scheme]’ in “Eomjunghan Dangye e Ireun Sae Jeonjaeng Jojak Chaekdong [A New War Manipulation Scheme Reached to a Serious Level],” in *Joseon Jungang Nyeongam* 1984, 322-323.

<sup>514</sup> In North Korea’s analysis, the Japanese Prime Minister Nakasone visited Seoul before his visit to the United States, and agreed with the South Korean regime to provide “credit” up to \$4 billion in the name of economic assistance. This amount of money was interpreted as military assistance to increase military budget of South Korea for their war preparation. Kim Jong Il, “Hyeon Jeongse ui Yogu e Matge Dangsaep eseo Hyeokmyeongjeok Jeonhwan eul Ireukija [Let Us Raise a Revolutionary Upswing in the Party Works to Meet the Demand of Present Situation],” A speech to a meeting of officials of the Organizational Leadership Department and the Propaganda and Agitation Department of the Central Committee of the KWP, January 14, 1983, in *Kim Jong Il Seonjip* 7, 349-350.

<sup>515</sup> The KWP officials were urged to promote the Juche ideology to overcome the economic difficulties

foreign slogan of the Juche ideology was combined with nationalistic concepts, stressing the familial connections between the Suryong, the Party, and the mass. The idea of “Socio-political Life Form” was frequently used to promote political unity by emphasizing the emotional feelings of loyalty and comradeship.<sup>516</sup>

It was obvious that the Third Seven-Year Plan from 1987 would be in serious trouble. Due to the intensified political propaganda to organize every project in line with the Juche ideology,<sup>517</sup> the inward-mobilization became the only option for the leaders. In the North Korean eyes, the inclination of the international society toward South Korea around the 1988 Seoul Olympic Games was all plotted by the U.S. imperialists and the South Korean regime. Many socialist countries, including China, were trying to establish contact with South Korea for economic purposes and this was a betrayal of the socialist principles. The North Korean leaders insisted that the economic difficulties were going to be only temporary. To overcome these temporary difficulties and achieve the dream of “white rice and beef soup,” the only task was the political unity and coherence among the Party officials to guide the mass towards the direction the leaders wanted.<sup>518</sup>

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rather than seek for institutional changes. Kim Jong Il, “Banje Tujaeng ui Gichi reul Deouk Nopi Deulgo Sahoejuui, Gongsanjuui Gilo Himchage Na-agaja [Let Us Hold High the Banner of Anti-Imperialist Struggles and March Toward the Road of Socialism and Communism],” A talk to officials of the Central Committee of the KWP, September 25, 1987, in *Kim Jong Il Seonjip* 9, 32-35, 41-43.

<sup>516</sup> Kim Jong Il, “Juche ui Hyeokmyeongwan eul Teunteuni Se-ul De Daehayeo [On Firmly Building the Revolutionary Vision of Juche].” A talk to officials of the Central Committee of the KWP, October 10, 1987, in *Kim Jong Il Seonjip* 9, 51-56. The concept of “Socio-political Life Form” was established in Kim Jong Il’s earlier thesis in 1986, mentioned that “the mass people would be ideologically organized and united under the guidance of the Party led by the Suryong, and become one socio-political life form with independent and eternal life force.” Kim Jong Il, “Juche Sasang Gyoyang eseo Jegidoeneun Myeotgaji Munje e Daehayeo [On Some Problems Which Arouse in Training the Juche Ideology],” A talk to officials of the Central Committee of the KWP, July 15, 1986, in *Kim Jong Il Seonjip* 8, 446-452.

<sup>517</sup> To separate North Korea from other socialist countries in transition and keep the regime safe, the ideological campaign to strengthen the blockade against revisionism and reformism was more important than the economic exchanges or learning from outside. Kim Jong Il, “Seonjeon Ilgundeul eun Jeongchaekjeok Dae reul Se-ugo Il eul Silsokitge Hayeoya Handa [The Propaganda Officials Should Uphold the Policy Line and Take the Work with Efficiency],” A speech at a meeting of officials of the Propaganda Department of the Central Committee of the KWP, December 15, 1987, in *Kim Jong Il Seonjip* 9, 98-116.

<sup>518</sup> The complaints about the economic system management and the shortage of materials were all passed to the regional or the field officials so that they would take the blame. Even the lagging

Right after the Tiananmen Incident in China, Kim Il Sung's concluding remark to the Sixteenth Plenum of the Sixth Central Committee in June 1989 included strong cautions against any possibility of political dissents. The main focus was the "light industry revolution" which was not to reform the system but to reinforce the political spirit of the officials and people to operate the factories in full capacity. In the official speeches, the causes of low production in consumer goods were not the shortage of electricity or materials but the lack of revolutionary spirit.<sup>519</sup> The economic situation was deteriorating rapidly but the KWP required the mass to continue its "struggle with strong conviction on the legitimacy of Party line and policies." The North Korean situation was declared to be different from other countries and the officials were prohibited from searching for any new approaches from outside experiences. The comprehensive opening was unthinkable seeing the political turmoil in China. It was safer to keep the established system with strong political slogans to manage the economic problems in a long-term perspective, without losing control over the society.

*"Korean People First" to block out the foreign influences*

In the late 1980s, the international structure transformed rapidly toward the end of the Cold War. The North Korean leadership put more emphasis on the fundamental principle of socialism and insisted on its leading role as "the eastern guard post of the

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constructions of plants were defined as the result of a lack of revolutionary spirit and political vigilance of the officials. Kim Jong Il, "Ilgundeul eun Hyeokmyeongseong eul Balhwihayeoye Il eul Chaekimjeok euro Hayeoya Handa [Officials Should Prove the Revolutionary Spirit and Take Responsibility of Their Works]," A talk to officials of the Central Committee of the KWP, October 10, 1988, in *Kim Jong Il Seonjip* 9, 285-286.

<sup>519</sup> Kim Il Sung criticized the officials for not doing their work diligently to extract all the potentials and reserves for productions. Electricity had been one of the most serious problems, and the leadership wanted to expand the cooperation to construct the nuclear power plant with other countries than the Soviet Union. They wanted to resolve the railway transportation issue by increasing the weight of freight rather than double-tracking the railways for the time being. The irrigation, mechanization, and the tideland reclamations were still major issues to increase the agricultural production. Kim Il Sung, "Ilgundeul ui Hyeokmyeongseong, Dangseong, Rodonggyeupseong, Inminseong eul Deouk Nopyeoye Dang ui Gyeonggonggeop Hyeokmyeong Bangchim eul Gwancheolhaja [Let Us Accomplish the Party Policy of Light Industry Revolution by Raising the Spirits of Officials on the Revolution, Party, Proletariat, and the Mass People]," Conclusion of the 16<sup>th</sup> Plenum of the Sixth Central Committee of the KWP, June 7 to 9, 1989, in *Kim Il Sung Jeojakjip* 42, 3-16.

socialism.” In his speech, Kim Il Sung argued that the Korean Peninsula was in danger with increasing threats from the United States and South Korea and tried to argue the importance of unity and cooperation in the principles of “collective self-reliance” and “south-south cooperation.”<sup>520</sup> These efforts could not attract the attention of international society. The fall of the Berlin Wall and the rapid transitions in the Eastern Europe intensified the control and restrictions on the foreign political influences while attempting to separate the economic exchanges for practical needs of trade and technology transfers.

The term “the Spirit of Korean People First (Joseon Minjok Jeiljuui Jeongsin)” appeared in Kim Jong Il’s speech in January 1986, and had been used in his speeches mainly regarding the artistic activities. From 1989, the usage of the term expanded into general political and economic activities to emphasize the uniqueness of North Korea from other socialist countries.<sup>521</sup> The nationalistic slogans became more emotional and radical to emphasize the uniqueness of North Korea. While China had utilized nationalism to promote the reform and opening with pragmatic approaches, North Korea used the nationalistic propaganda to protect the uniqueness of the KWP regime. They set the political goal to establish the “Uri-sik Socialism” to strengthen the Juche ideology and block off flunkyism and dogmatism. Combined with the concept of “Socio-Political Life Form” to unite the Suryong, the Party, and the mass, this nationalist concept shifted the policy priority to the protection of the regime, and then the economic development with limitations not to hurt the independence and self-reliance.<sup>522</sup>

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<sup>520</sup> Kim Il Sung, “Sinnyeonsa [New Year Address],” January 1, 1990, in *Kim Il Sung Jeojakjip* 42, 241-243.

<sup>521</sup> Kim Jong Il, “Dang gwa Hyeokmyeongdaeo ui Ganghwabaljeon gwa Sahoejuui Gyeongje Geonseol ui Saeroun Angyang eul Wihayeo [For the Enhancement and Development of the Party and Revolutionary Lines and a New Uplift in the Socialist Economic Construction],” January 3, 1986, in *Kim Jong Il Seonjip* 8, 337-342; Kim Jong Il, “Jakga, Yesulindeul Sok eseo Hyeokmyeongjeok Changjakgipung gwa Saenghwalgipung eul Se-ul De Daehayeo [On Building the Spirit of Revolutionary Creation and Life Among Writers and Artists],” A talk to officials of the Propaganda Department of the Central Committee of the KWP and the officials in charge of literary arts, November 30, 1987, in *Kim Jong Il Seonjip* 9, 87-88.

<sup>522</sup> Kim Jong Il, “Joseonminjok Jeiljuui Jeongsin eul Nopi Baryangsikija [Let Us Highly Promote the

This “Spirit of Korean People First” concept was not just for keeping and protecting what they had achieved in politics and economy. It was to show the greatness of North Korean people who were dealing with the “temporary” difficulties. Thus, the international events like the World Festival of Youth and Students had to be successful and the construction of modernized Pyongyang had to be quick and magnificent. These projects increased the economic burden but the leadership did not give up displaying the greatness of political system. They also needed some progress in economic development to prove the “self-reliant” North Korea. The slogan of “the 1990s Speed” appeared in Kim Il Sung’s New Year Address in 1990 and the military were also mobilized to speed up the construction projects. The priority was still on the heavy industry which was also a critical part of the “Uri-sik” socialism.<sup>523</sup> The light industry and agriculture were also emphasized, but the official priority was never reoriented from the heavy industry.

Facing the end of the Cold War, regime security became the key issue. The KWP leadership knew that the United States would be the only superpower for quite some time, and China and the Soviet Union commonly wanted long-term stability in Asia and the Korean Peninsula.<sup>524</sup> The anti-imperialist discourse was intensified for the purpose of overcoming the deteriorating circumstances. The economic aids from the capitalist countries were criticized as the conspiracy of economic invasion. The Northern Policy of the South Korean government was also criticized as the conspiracy to achieve the “absorbed unification.” The leadership condemned the capitalist enemies who imposed economic sanctions and also the socialist countries who surrendered to the imperialist conspiracy.<sup>525</sup> The slogan “let us live in Uri-sik

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Spirit of Korean People First],” A talk to officials of the Central Committee of the KWP, December 28, 1989, in *Kim Jong Il Seonjip* 9, 450-462.

<sup>523</sup> Kim Il Sung, “Sinnyeonsa [New Year Address],” January 1, 1990, in *Kim Il Sung Jeojakjip* 42, 234-235.

<sup>524</sup> In essence, the China and the Soviet Union had already practiced a de facto “two Koreas” policy in the late 1980s. Chae-jin Lee, *China and Korea*, 84-85.

<sup>525</sup> Kim Jong Il, “Uri Nara Sahoejuui neun Juche Sasang eul Guhyeonhan Uri-sik Sahoejuui ida [Our Nation’s Socialism is Uri-sik (Our Style) Socialism Realizing the Juche Ideology],” A speech to officials of the Central Committee of the KWP, December 27, 1990, in *Kim Jong Il Seonjip* 10, 503.

(Our Style)” repeatedly appeared to distinguish North Korea from the others. Blocked off from the world economy with the newly strengthened Juche and nationalism, domestic mobilization was the only option left to accomplish the production targets under the slogans like the “one for all, all for one.”<sup>526</sup>

By the early 1990s, the Juche ideology became an extreme form of nationalism obsessing over political unity. Ideology was compared to the human blood, and the Juche ideology of the Suryong Kim Il Sung should not be mixed with any other foreign ideologies. To continue the struggle against the imperialist conspiracies, the KWP would never allow any “liberalization” of ideology or any “creativity” of individuals in political opinion.<sup>527</sup> The continuous promotion of the Dae-an Working System was to restrict the individual economic activities and tighten up the collectivist method with centralized control.<sup>528</sup> There had been gradual expansion of farmers’ markets but the increasingly tightened control of the Party affected these economic activities negatively in the early 1990s.<sup>529</sup>

Along with the nationalistic combination of Juche discourse, the military-oriented slogans revived the effort to keep the national independence from the imperialist invasions. The military was defined as the most important force to accomplish the revolution and the material support for the KPA became the policy priority of the budget allocation. There were some diplomatic achievements such as the North-South high-level talks and the Basic Agreement in 1991 but these were not enough to change the slogans of the anti-foreign struggles. They were fragile without a solid foundation of mutual trust. In his speech after the signing of the Basic

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<sup>526</sup> Kim Il Sung, “Sinnyeonsa [New Year Address],” January 1, 1991, in *Kim Il Sung Jeojakjip* 43, 4-7.

<sup>527</sup> Kim Jong Il, “Juche ui Dang Genseol Wieop eul Dae reul Ieo Bitnaeyeo Nagal Chamdoen Dangilgun eul Kiwonaaja [Let Us Raise the True Party Officials to Continue the Party Construction Task of Juche for Generations],” A letter to teachers and students of the Kim Il Sung Advanced Party School for its 45<sup>th</sup> anniversary, June 1, 1991, in *Kim Jong Il Seonjip 11: January – July 1991* (Pyongyang: Joseon Rodongdand Chulpansa, 1997), 318-319.

<sup>528</sup> Kim Jong Il, “Juche ui Sahoejuui Gyeongje Gwalliron euro Teunteuni Mujanghaja [Let Us Firmly Armed by the Socialist Economic Management Theory of Juche],” A letter to teachers and students of the People’s Economic College for its 45<sup>th</sup> anniversary, July 1, 1991, in *Kim Jong Il Seonjip 11*, 350-363.

<sup>529</sup> Yeon-chul Kim, *Bukhan ui Saneophwa wa Gyeongje Jeongchaek*, 338-347

Agreement, Kim Il Sung ordered the KPA not to lessen the military preparedness against the foreign threats including South Korea. Kim Jong Il was appointed to the supreme commander of KPA in 1991, and there were a series of campaigns to enhance the loyalty among the KPA.<sup>530</sup> Kim Jong Il required unconditional loyalty of the KPA to the top leadership and shifted the policy priority more toward the military supports and modernization.<sup>531</sup> North Korea declared the Rajin-Sonbong FETZ in December 1991, but they had to focus more on the domestic control for the regime stability. The military and political loyalty had to be fortified to prevent the influences from the economic relations.

The dissolution of the Soviet Union and the demise of the Communist regimes were serious cautions to disallow any concession from the socialist principles.<sup>532</sup> The official discourse intensely focused on the Three Revolutions and the Juche, denied the need for liberalizing reforms to allow more creativity of economic actors. The traditional slogans of the Three Revolutions continued to appear in Kim Jong Il's speeches.<sup>533</sup> The Socialist Constitution in 1992 erased the article on the Marx-Leninism to separate North Korea completely from other socialist countries.<sup>534</sup> The leadership knew it was better and efficient to import products than keep trying to

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<sup>530</sup> Although the Basic Agreement officially promised to reduce tensions in the Korean Peninsula, the leadership had no intention to lessen the war preparation of the KPA. Kim Il Sung, "Inmin Gunda Jungdae Jeongchi Jidowondeul ui Uimu e Daehayeo [On Duties of the Political Advisors in the Level of Infantry Company of the KPA]," A speech at a mass meeting of the political advisors in the infantry companies of the KPA, December 25, 1991, in *Kim Il Sung Jeojakjip* 43, 270-272.

<sup>531</sup> Kim Jong Il, "Dang Saeop eul Ganghwahayeo Uri Sik Sahoejuui reul Deok Bitnaeija [Let Us Enhance the Party Works to Glorify Uri-sik Socialism]," A talk to the officials of the Central Committee of the KWP, January 1, 1992, in *Kim Jong Il Seonjip 12: August 1991 – January 1992* (Pyongyang: Joseon Rodongdang Chulpansa, 1997), 270-274.

<sup>532</sup> Kim Jong Il, "Ilsim Danyeol eul Deok Ganghwahameyo Joseon Minjok Jeiljuui Jeongsin eul Nopi Balyangsikija [Let Us Strengthen the Unity in One Heart and Mind and Highly Promote the Spirit of Korean People First]," A talk to officials of the Central Committee of the KWP, February 4, 1992, in *Kim Jong Il Seonjip 13*, 10-12.

<sup>533</sup> Kim Jong Il argued that if each enterprise gain enough autonomy and profit-seeking opportunities without state guidance and control, it might be dangerous for the socialist regime. The economic plan should be leveled up along the growth of the economy using technological developments to manage the whole economy in their own socialist way. Kim Jong Il, "Sahoejuui Geonseol ui Ryeoksajeok Gyohun gwa Uri Dang ui Chongroseon [Historical Lesson of the Socialist Construction and the Grand Strategy of Our Party]," A talk to officials of the Central Committee of the KWP, January 3, 1992, in *Kim Jong Il Seonjip 12*, 303-308.

<sup>534</sup> Jong-seok Lee, *Bukhan ui Yeoksa* 2, 143-146.

resolve all the shortage problems on their own but they did not allow the foreign economic influences. They also knew that the level of heavy industry was lagging behind but it was impossible to receive foreign aid for the heavy industry due to both political and economic reasons.<sup>535</sup> The central authority tried to reorganize the production targets to reflect the actual situation and sought for ways to earn foreign currency. But it was too late to take the momentum of economic development through a systemic reorientation of the industrial focus.

The North Korean leadership required the Party and the mass to prepare for the worst possible scenarios. The military buildup was clearly defined as the top most priority by the end of 1992 and Kim Jong Il reused the military-oriented terms of the “four basic military lines” from the 1960s.<sup>536</sup> The military modernization had surely included nuclear capability which was under the inspection of IAEA throughout 1992 and spiraled into the first nuclear crisis from the early 1993. There was no more time or capacity to consider pursuing dramatic changes in economic policies for Chinese-style reforms. Combined with the dogmatized Juche and nationalistic slogans, the intensified discourse of anti-foreign struggle hampered the last limited attempt of the economic opening in the early 1990s and led North Korea into the famine and extreme poverty with no other options in the mid-1990s.

### 3. Limited Political Powers of the Economic Experts

When Kim Jong Il took the lead in domestic affairs from 1980, many new leaders were economic experts. The younger generation of economic experts

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<sup>535</sup> In April 1992, Kim Jong Il urged the officials to make visible achievements in light industry production campaigns for the eightieth birthday of Kim Il Sung. Kim Jong Il, “Gyeonggonggeop eul Baljeonsikimyeo Gyeongje Gwalli Yeongu Saeop eul Jalhalde Daehayeo [On Developing light Industry and Improving the Economic Management Research Projects],” A talk with the official in charge of economy after an inspection on the light industry goods produced before the April 15<sup>th</sup>, April 4, 1992, in *Kim Jong Il Seonjip* 13, 17-26.

<sup>536</sup> The “four basic military lines” were to “make our army a cadre army, modernize the army, arm all the people, and turn the whole country into a fortress.” Kim Jong Il, “Uri Inmin Jeongwon ui Uwolseong eul Deouk Nopi Balyangsikija [Let Us Highly Promote the Superiority of Our People’s Regime],” A letter to participants of a short course for officials of people’s administrative organizations, December 21, 1992, in *Kim Jong Il Seonjip* 13, 271.

attempted to revive the economy with several economic measures in the mid-1980s. Before implementing the experimental economic measures of 1984, the KWP leaders visited China and also tried to improve relations with the Soviet Union in an effort to empower the pro-reform dynamics in the leadership.<sup>537</sup> The economic experts were promoted in the Party Secretariat and the Administration Council so that they had certain power to implement these measures. But it was not easy to initiate a dramatic policy change because they were still limited in their political power. Since Kim Jong Il needed the support of the military for power consolidation, he separated the jurisdiction of economic policies and the Party and the military policies. The political power over important issues still resided with the military and old revolutionary leaders remained at the top of the echelon.

The young generation economic experts continued to advance in their administrative posts to implement the limited reform policies. Even in the economic sector, however, there were limitations on the boundary of economic changes. Despite the serious demands in food and consumer goods, it was impossible to radically reorient the heavy industry-oriented strategy or apply market-oriented elements in the factories and commercial sectors. They prepared and implemented pro-reform measures in 1984. But the political dynamics soon reverted in order to meet the urgent needs of military preparation for regime survival when North Korea faced increasing security threats in the late 1980s. With increasing threats at the end of the Cold War, the pro-reform political dynamics were not sustainable.

### **(1) Young Experts Gaining Power for Reform**

The new leader Kim Jong Il had prepared his succession for over a decade through the 1970s and the young generation of leaders had been gradually promoted

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<sup>537</sup> Since productions and constructions were far behind schedule, Kim Il Sung visited both Beijing and Moscow, and high-level economic delegations visited the Chinese SEZs to learn development strategy in 1984. The Equity Joint-Venture Law was declared in September “shortly after the Premier Gang Seong-san (Kang Song San) returned from a trip to China.” China supported the North Korea’s efforts for reform and even lobbied foreign visitors to induce them to invest in North Korea. “North Korea: Moving in New Directions or Reworking Old Tactics?” January 11, 1985, NKIDP.

to higher posts along the succession process. Young generation experts were promoted during the 1970s with ample experience of political mobilizations and production campaigns. With the succession of Kim Jong Il, these young generation leaders appeared in the leading positions by the early 1980s. Around the Sixth Party Congress in 1980, Kim Jong Il consolidated his power base and focused on the domestic economy with the young generation of elites. Kim Il Sung officially represented North Korea in foreign relations but it was Kim Jong Il who made the decisions on domestic economic policies.<sup>538</sup>

Under Kim Jong Il's leadership, the leading group of elites consisted of a number of young generation leaders closer to Kim Jong Il in each organs of the Party, the military, and the Administration Council (later expanded to the Cabinet in 1998). The official "power elites" of North Korea had been the people who became the regular or alternative members of the Central Committee, and the military leaders higher than the major general. The top leaders were the regular and alternative members of the Central Committee Politburo, the secretaries of the Secretariat, the officials attended the National Military Commission (after 1998), and the military leaders at higher ranks than the general.<sup>539</sup> They did not have full power to decide on any policies without Kim Jong Il's approval but they were influential in the policy debates especially on economic and foreign affairs, which Kim Jong Il himself had not been quite confident about. Economic experts gained some political power to announce a series of partial reform measures. But the pro-reform dynamics still had fundamental limitations since there were military and revolutionary leaders at the top-tier political posts.

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<sup>538</sup> The "on-the-spot guidance" of Kim Jong Il increased rapidly from 1980, with rigorous production campaigns including the "1980s Speed Creation Movement" to achieve the production targets of the Second Seven-Year Plan, which had been unmet according to its original plans. Jong-seok Lee, *Bukhan ui Yeoksa 2*, 117-119.

<sup>539</sup> Hyeong-jung Park, Kyo-duk Lee, Chang-hyun Jung, and Ki-dong Lee, *Kim Jong Il Sidae Bukhan ui Jeongchi Cheje: Tongchi Ideologi, Gwollyeok Elliteu, Gwollyeok Gujo ui Jisokseong gwa Byeonhwa [North Korean Political System in Kim Jong Il Era: Continuities and Changes of the Ruling Ideology, Power Elite, and Power Structure]* (Seoul: Korea Institute for National Unification, 2004), 52; Ku-seop Kim and Du-hyeogn Cha, *Bukhan ui Gwolleok Gujo wa Gwollyeok Elliteu [North Korean Power Structure and Power Elite]*, 125.

*Gradual rise of economic elites with Kim Jong Il*

Until the 1970s, Kim Il Sung had established his absolute political power through a series of purges of other factions,<sup>540</sup> and had promoted economic development to construct a self-reliant socialist economy. The economic elites had been promoted for the purpose of socialist construction throughout the 1960s and 1970s.<sup>541</sup> But the majority of the top leaders were military-oriented revolutionaries with anti-Japanese guerilla background and they concentrated more on the military buildup under the frame of “the line of simultaneous economic and defense construction.” When Kim Il Sung decided to expand economic relations with the capitalist West in the early 1970s, the young generation of experts emerged along this initial opening attempts. North Korea sought to improve its economic relations to prove the superiority of the socialist system which was an ambitious plan considering its economic capacity in the early 1970s.<sup>542</sup> This initial opening attempt failed with increased foreign debt, created a huge burden to North Korean economy.<sup>543</sup> The

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<sup>540</sup> North Korean domestic politics went through several factional conflicts from the 1950s until the end of 1960s. Kim Il Sung defeated and purged other political factions linked to China or the Soviet Union after the Korean War, and succeeded in consolidating his power by the early 1960s. The purge of the Gapsan faction around 1967 was the last political struggle before the consolidation of the absolute power of Kim Il Sung with the personality cult. The purges of some prominent leaders including Pak Geum-cheol [Pak Kum Chol] and Ri Hyo-sun [Ri Hyo Sun] were officially completed at the KWP Fifth Party Congress in 1970. After 1970, the power consolidation of Kim Il Sung was completed with no more political opposition. Hwang Jang-yeop [Hwang Jang Yop] included Kim Jong Il’s role in the purges of Gapsan faction in the late 1960s. About the process of the political purges and the consolidation of Kim Il Sung’s power, Jong-seok Lee, *Bukhan ui Yeoksa 2*, 20, 45-48; Jang-yeop Hwang, *Hwang Jang-yeop Hoegorok*, 178-179.

<sup>541</sup> When North Korea started the First Seven-Year Plan from 1961, Kim Il Sung promoted many technocrats and experts from younger generation for economic growth. They initiated some policy measures to rationalize and give more incentives for production like “the county cooperative farm management committee” turning the county into a basic production unit, “the rural industrial centers” to reduce the urban-rural gap, and the “self-supporting accounting system” in each local community. Dae-sook Suh, *Kim Il Sung*, 211-220.

<sup>542</sup> “Telegram from Pyongyang, No.061.087, Urgent, SECRET,” March 31, 1973, History and Public Policy Program Digital Archive, Romanian Ministry of Foreign Affairs Archives, Matter 220, Democratic People’s Republic of Korea, Republic of Korea, Secret, MFA, Folder no. 1515, First Directorate – Relations, Regarding Relations between North and South Korea and the Position of Various States on this Topic, January 16 – July 30, 1973, obtained and translated for NKIDP by Eliza Gheorghe, <http://digitalarchive.wilsoncenter.org/document/114044>.

<sup>543</sup> They pursued plant constructions mainly through short-term foreign loans, and tried to increase export to earn foreign currency for the payments. Due to the lack of experience, many contracts turned out impossible to hold, damaged the national credit, and the North Korean economy defaulted in the

economic relations with the capitalist countries had declined since the mid-1970s with the rapidly increasing burden of foreign debts.

This failure of the opening attempt in the early 1970s had prevented North Korea from adopting the opening policies until the early 1980s. The economic policy returned to domestic mobilization campaigns in order to earn a large sum of foreign currency, by increasing the export of heavy industry products.<sup>544</sup> The burden of foreign debt also affected the direction of North Korea's ideological education to be geared towards strengthening the political vigilance. The policy priority on the ideological education empowered "the Department of Propaganda and Agitation" and "the Department of Organization" led by Kim Jong Il. They planned and implemented the campaigns to educate the mass, instruct guidelines to the mass, and systematically mobilize them to accomplish the Party policies.<sup>545</sup> Kim Jong Il became a member of the Central Committee in October 1972, the permanent member of Politburo in February 1974, and mainly worked on the Party organization and propaganda.<sup>546</sup> Kim Jong Il took the leading role of the Three-Revolutions Teams Movement from 1973, and this campaign became the sign of generation change of the leadership with more focus on the economy.

In the 1970s, Kim Jong Il took care of the personnel management through the Department of Organization under the Secretariat. The personnel management of

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mid-1970s. The major domestic causes of the failure were the concentrated investments in the heavy industry and excessive amount of military budget. The international causes aggravated the situation, such as the oil shocks and the price changes of natural resources, especially the nonferrous metals North Korea exported as its main products. Mu-chul Lee, "Industrial Structure," 27-72.

<sup>544</sup> Kim Il Sung ordered more aggressive campaigns to earn foreign currency as fast as possible. Light industry or agricultural products were not proper items that could earn that much money to resolve the debt problem. North Korea continued to emphasize more on the heavy industry-oriented self-reliance and economic independence, rather than depending on the trade and technology from the non-socialist countries. Kim Il Sung, "Jeongmuwon Saeop eul Gaeseon Ganghwahal De Daehayeo [On Improving the Work of the Administration Council]," Speech delivered at the First Plenary Meeting of the Administration Council of the DPRK, April 30, 1976, in *Kim Il Sung Jeojakjip* 31, 114-119.

<sup>545</sup> Kim Il Sung also recognized and promoted the political status and power of the Department of Organization and the Department of the Propaganda and Agitation in the Party, which were led by Kim Jong Il. Kim Il Sung, "Hyeonsigi Dang Sasang Saeopeul Gaeseon Ganghwahagi Wihan Myeotgaji Gwaeop [Some Tasks in Improving Present Party Ideological Work]," June 13, 1973, in *Kim Il Sung Jeojakjip* 28, 360-362.

<sup>546</sup> Jong-seok Lee, *Bukhan ui Yeoksa* 2, 89-93.

every important position had to go through Kim Jong Il's approval. By the end of 1970s, Kim Jong Il had almost undisputed power over the appointment of the KWP Politburo members, Party secretaries, and directors.<sup>547</sup> The power elites around him consisted of young generation of Party officials who started their career during the 1960s, the Kim Il Sung university colleagues, and the alumni of the Mangyeongdae Revolutionary School. Kim Jong Il appointed university-educated experts to the high-level officials of the Administration Council and the SPA, who had both political loyalty to his leadership and professional capacities in the field of economy, administration, or foreign relations.<sup>548</sup>

When the Second Seven-Year Plan started in 1978, the leading positions of the Party, Administration Council, and the SPA were still occupied by the old generation revolutionaries with military-background. The young generation experts were on their way of gradual promotion. The Second Seven-Year Plan still followed the previous mobilization policies which aimed to double the production of heavy industries by 1984. To resolve the foreign debt problem, they decided not to import foreign capital or resources and instead mobilize domestic resources under "the principle of self-reliance."<sup>549</sup> To import the needed materials without risking self-reliance, every economic sector had to earn foreign currency on their own. Earning foreign currency was also organized by Kim Jong Il. To expand the financial sources of the Party, he established the "Pyongyang Trading Company" under the Department of Trade. In 1978, the "Office #39" was established for the task of earning the foreign currency and the Pyongyang Trading Company became the Korea Daesong General Trading Corporation (later expanded to be the Daesong Group) under the Office #39.<sup>550</sup>

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<sup>547</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 121-123.

<sup>548</sup> Kap-sik Kim, "Kim Jong Il Sidae Gwollyeok Elliteu Byeonhwa [The Change of Power Elites in the Kim Jong Il Era]," *Tongil gwa Pyeonghwa* no. 2 (2009): 104.

<sup>549</sup> Though they could not completely quit the import of advanced technology, the leaders wanted to fully utilize the "self-reliant national economy" to resolve the problems without foreign assistance. Kim Il Sung, "Ilbon Yomiuri Sinnmunsa Sangmu Chwicheyeok in Pyeonjipgukjang Ilhaeng gwa Han Damhwa [Talk with Executive Managing Editor of Japanese *Yomiuri Shimbun* and His Group]," April 23, 1977, in *Kim Il Sung Jeojakjip* 32, 190-192.

<sup>550</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 124-125.

Foreign currency earning became one of the major slogans in every sector. In the agricultural sector, the rural units were urged to produce more to export extra foodstuffs and purchase what they needed.<sup>551</sup> In the light industry, local factories had to earn the foreign currency to import the resources, materials, and components.<sup>552</sup>

The problems of export commitment, timetable, and product quality had not improved much, even at the end of the 1970s. It was beyond the capacity of each factory or enterprise without fundamental changes in the economic infrastructure. The continued difficulties clearly showed the limits of “traditional” mobilization methods. Economic experts gradually increased in numbers in the bureaucracy and were promoted to higher posts after the Sixth SPA in 1977. When Kim Jong Il was officially announced as the heir of Kim Il Sung and became the actual head of domestic affairs at the Sixth Party Congress in 1980, the number of military elites increased in the top-tier groups. This was intended to stabilize the new leadership. The number of economic experts also increased in the Politburo which indicated the heightened possibility of pragmatism, even if they were limited by the security concerns.<sup>553</sup> The old revolutionaries were still there but many leading positions of the Party Secretariat were occupied by younger bureaucrats from the Departments of Organization and the Propaganda who worked with Kim Jong Il to establish the power base of the new leadership.<sup>554</sup>

In the late 1970s, the military leaders loyal to Kim Jong Il and the graduates of

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<sup>551</sup> Kim Il Sung, “Nonggeop Saengsan Gyehoek eul Sebuwhahal De Daehayeo [On Drawing Up a Detailed Plan for Agricultural Production],” Speech delivered at the Joint Meeting of the Political Committee of the Party Central Committee, the Central People’s Committee and the Administration Council, January 10, 1979, in *Kim Il Sung Jeojakjip* 34, 74-77.

<sup>552</sup> For example, in 1979, the light industry sector was instructed to earn at least 30 million pounds to buy the needed materials. If they failed to earn that much and earned 20 million pounds, they had to manage their production with it. The light industry factories had to produce some saleable goods like cigarette or fabrics outside their original production plan, to earn foreign currency. Kim Il Sung, “Gyeonggonggeop eul Baljeonsikimyeo Inmin Bongsaeop eul Gaeseonhal De Daehayeo [On the Development of Light Industry and the Improvement of Public Welfare Services],” Speech at a consultative meeting of senior officials in the light industry and public service sectors, November 3, 1979, in *Kim Il Sung Jeojakjip* 34, 446-452.

<sup>553</sup> Hak-joon Kim, *Bukhan 50 Nyeonsa*, 326-330.

<sup>554</sup> Park, Lee, Jung, and Lee, *Kim Jong Il Sidae Bukhan ui Jeongchi Cheje*, 59.

the Mangyeongdae Revolutionary School were promoted first to establish the new leadership. From 1980, the emergence of economic experts became visible.<sup>555</sup> Kim Jong Il promoted the new generation of elites without worrying about the political resistance from other factions. Professional knowledge and administrative capability became important elements for high-level officials. Many military and economic experts were promoted in the Party Politburo (Yeon Hyeong-muk [Yon Hyong Muk], Gang Seong-san [Kang Song San]), the Secretariat (Kim Hwan, Hong Si-hak [Hong Si Hak]), and the Defense Committee (O Geuk-ryeol [O Kuk Ryol], Ri Bong-won [Ri Pong Won]) as leaders of each sector.<sup>556</sup>

At the 1980 Sixth Party Congress, the Political Committee of the KWP Central Committee became the Politburo with an increased number of 34 members (19 regular members and 15 alternative members) compared to 16 at the Fifth Party Congress held in 1970. The actual power was concentrated to the five members of the Politburo Standing Committee, in which Kim Jong Il was the only member with actual power on domestic affairs.<sup>557</sup> Since Kim Jong Il needed the support of the military to establish the domestic control and deal with the security threats, the number of military leaders in Politburo increased from 3(18%) to 9(26%). To revive the economy, Kim Jong Il's leadership tried to put more emphasis on the light industry and attempted limited liberalization and opening with continuous promotion of the young generation of economic experts.<sup>558</sup>

With the enlargement of the Politburo, the actual leading power shifted to the

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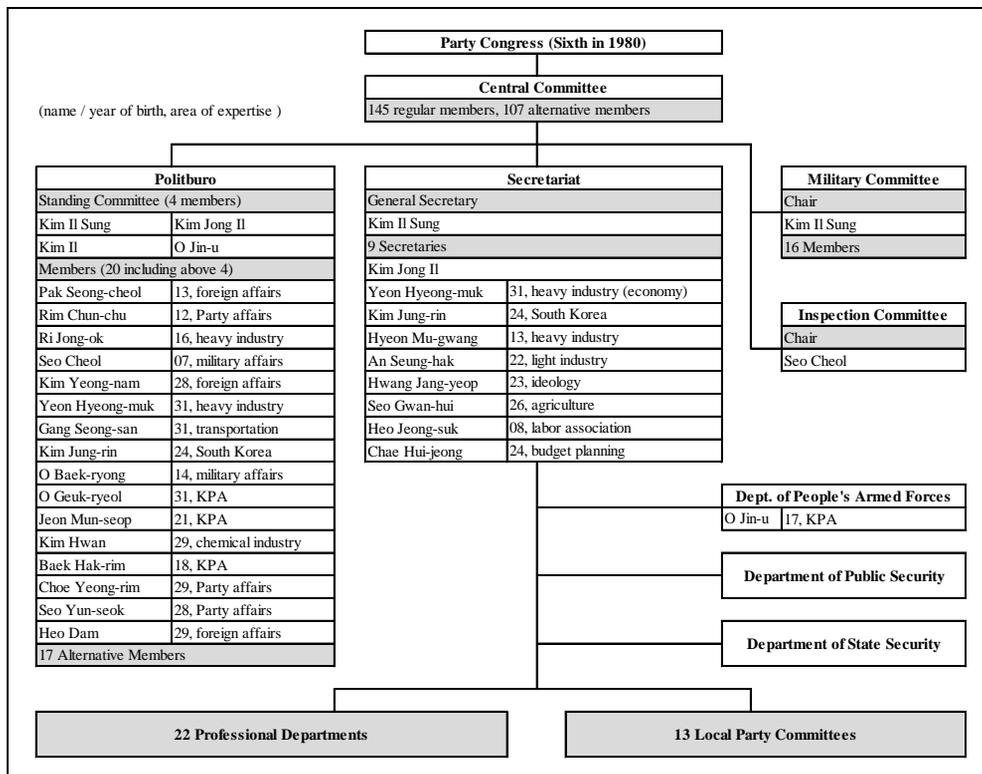
<sup>555</sup> The Fifteenth Plenum of Fifth Central Committee of the KWP in December 1977 and the First Session of the Sixth SPA (the Sixth Cabinet) to be analyzed. Hyun-jun Jeon, In-hae Ahn, and Woo-yeong Lee, *Bukhan ui Gwollyeok Elliteu Yeongu [A Study on North Korean Power Elite]* (Seoul: Korea Institute for National Unification, 1992), 52-54.

<sup>556</sup> Sung Choi, *Bukhan Jeongchisa: Kim Jong Il gwa Bukhan ui Gwollyeok Elliteu [North Korean Political History: Kim Jong Il and North Korean Power Elite]* (Seoul: Pulbit Publishing, 1997), 246.

<sup>557</sup> At first the members of the Politburo Standing Committee were five in number, Kim Il Sung, Kim Jong Il, Kim Il, O Jin-u, and Ri Jong-ok. But there was no one who could be an opposition to Kim Jong Il among other four members. Kim Il Sung was semi-retired, Kim Il was no longer healthy enough to take any political role, O Jin-u was one of the most loyal members to Kim Jong Il, and Ri Jong-ok was a typical economic expert without political power. Ri Jong-ok soon became a regular member (became the prime minister in Administration Council) from 1982, and Kim Il died in 1984.

<sup>558</sup> Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 56.

Secretariat under Kim Jong Il's influence. The Secretariat already had the power of personnel management. The Politburo and the Central Committee approved their decisions for implementation. With the establishment of the sole leadership of Kim Jong Il in domestic affairs, some young generation leaders in the Secretariat increased their political influence on the policy decisions.<sup>559</sup> The changed leadership structure after the Sixth Party Congress is described in Figure 7 below. The new structure reflects the gradual rise of the economic elites in the early 1980s.



**Figure 7 Structure and Political Dynamics in the KWP, 1983<sup>560</sup>**

<sup>559</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 281-283.

<sup>560</sup> Sources are: Board of National Unification, Bureau of Materials Management, *Bukhan Gigwan, Danchebyeol Inmyeongjip 1983/12* [A Directory of North Korean Organizations and Associations, December 1983], 1983, Seoul, 7-27; Ministry of Unification, Bureau of Information Analysis, *Bukhan Juyo Inmul Jaryojip 1999* [Sourcebook of Important Figures in North Korea 1999], 1999, Seoul.

The young generation of economic experts increased in number in the KWP Central Committee, particularly in the Secretariat where Kim Jong Il actually conducted his leadership in domestic affairs. By 1983, economic experts such as Yeon Hyeong-muk (born in 1931, expert in heavy industry), Hyeon Mu-gwang [Hyon Mu Gwang] (1913, heavy industry), and An Seung-hak [An Sung Hak] (1922, light industry) took the position of Party Secretaries close to Kim Jong Il. These promotions showed the political dynamics toward professional economic elites and technocrats in the top leadership.<sup>561</sup> Many military leaders and revolutionaries kept their position in the Politburo with slow generation change but the emergence of economic elites was visible as they became regular members. They were also increasing in number as alternative members.<sup>562</sup>

The generation change and the rise of economic elites were most rapid in the Administration Council where Kim Jong Il instructed to lead the economic and administrative works, while the Party concentrated on the military and political affairs with ideological disciplines. Economic expert Ri Jong-ok became the prime minister, and Gang Seong San [Kang Song San] (1931, transportation) rose to the first deputy prime minister with other new generation elites as deputy prime ministers.<sup>563</sup> Since the role of Administration Council was policy implementations and administrative works, it was important for the economic elites to be promoted in the Party (the

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<sup>561</sup> Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 56-57.

<sup>562</sup> In the Politburo after the Seventh and Eighth Plenum (1983), the young generation of economic leaders Yeon Hyeong-muk and Gang Seong-san established their political status as regular members following the long-time leading economic expert Ri Jong-ok (1916, heavy industry). The emergence of younger economic elites were more visible among the alternative members, 11 out of 17: Hyeon Mu-gwang (1913, heavy industry), Jeon Byeong-ho (1926, military industry), Gong Jin-tae (1927, economic cooperation), Gye Eung-tae (1925, public security), Ri Geun-mo (1926, heavy industry), Gang Hui-won (1921, construction), Jo Se-ung (1928, construction), Hong Seong-nam (1929, economic plan), An Seung-hak (1922, light industry), Han Seong-ryong (1923, heavy industry), and Kim Bok-sin (1925, light industry). Other alternative members were Choe Gwang (1918, KPA), Jeong Jun-gi (1924, Party affairs), Kim Du-nam (1930, KPA), Jeong Gyeong-hui (1928, Party affairs), Kim Gang-hwan (1931, KPA), and Ri Seon-sil (1918, South Korea). Board of National Unification, *Bukhan Gigwan, Danchebyeol Inmyeongjip 1983/12*, 8.

<sup>563</sup> In the Administration Council, many young elites from various fields were promoted along the bureaucracy. The majority of the departments and agencies focused on the economic sector, such as economic planning, industrial productions, energy, agriculture, trade, and economic cooperation. *Ibid.*, 30-48.

Politburo or the Secretariat) to gain actual political power on the policy decisions. The pro-reform dynamics among elites, however, was still vulnerable to the military or political concerns influenced by the changing security environment after 1984.

*Reaching the height of pro-reform dynamics in 1984*

It was until the mid-1980s that North Korea sought for ways to overcome the lagging economy and political isolation by attracting international attention and establishing contacts with other countries. The expanded international contacts, though confusing and limited, promoted the pro-reform dynamics toward domestic economic rationalization and partial openings. The rise of the new generation of elites accelerated in the mid-1980s as the old revolutionaries passed away or were purged. The old revolutionary and military leaders such as Kim Il and O Baek-ryong died in 1984 and were replaced by young generation leaders. Ri Jong-ok replaced Kim Il's place as vice-premier, and Gang Seong-san was promoted to be the prime minister of Administration Council to initiate many economic measures. There were many personnel changes in the Administration Council. More than two-third of deputy prime ministers turned out to be economic experts in 1984.<sup>564</sup> At the same time, Kim Dal-hyeon [Kim Tal Hyon] (1941, economic cooperation), appointed as the director of the Office of Councilors, showed a strong tendency toward economic opening and cooperation with other countries. He took a leading role later at the end of the 1980s to expand trade and cooperation through the joint ventures, and establish economic cooperation with South Korea. In the Secretariat, Pak Nam-gi (1928, economic plan) was added as another economy-oriented Party secretaries.<sup>565</sup> Such progress in political dynamics showed the strong will of Kim Jong Il to normalize domestic

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<sup>564</sup> Except for Choe Yeong-rim, Kim Yeong-nam, and Jeong Jun-gi, 6 out of 9 deputy prime ministers in 1984 were economic experts: Kim Hwan (1929, chemical industry), Gong Jin-tae (1927, economic cooperation), Han Seong-ryong (1923, heavy industry), Jo Se-ung (1928, construction), Kim Bok-sin (1925, light industry), and Kim Chang-ju (1922, agriculture). Board of National Unification, Bureau of Materials Management, "2. Administrative Organs," in *Bukhan Gigwan, Danchebyeol Inmyeongjip 1984/12* [A Directory of North Korean Organizations and Associations, December 1984], 1984, Seoul; Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 58-59.

<sup>565</sup> "1. The Worker's Party," in *Bukhan Gigwan, Danchebyeol Inmyeongjip 1984/12*.

productions and expand foreign economic relations.

These promotions of the economic elites were to assist Kim Jong Il to revive the economy during the two-year readjustment period after the failure of Second Seven-Year Plan. The upswing of the economic experts reached its heights in 1984 and 1985. Even in these peak years, the military and political concerns limited the pro-reform policies. The security environments never had remarkably improved in the 1980s, and were slowly deteriorating due to the increasing military and economic capacity of South Korea, more military cooperation in the frame of ROK-U.S. and U.S.-Japan alliances, and unreliable attitudes of the socialist brothers caught up in transitions. Kim Jong Il tried to revive the economy with experts but could never ignore the importance of military sector and Party discipline in maintaining political stability. The KPA leaders occupied about one-third of the regular members in the Central Committee Politburo including O Jin-u, one of the closest supporter of Kim Jong Il, the permanent member of the Politburo Standing Committee, and the leader of the Department of the People's Armed Forces.<sup>566</sup> Compared to the economic elites, there was little personnel change among the KPA leaders except when the death of old revolutionary generals took place.

Kim Jong Il had separated the policy goals of military and economy to deal with both security threats and economic difficulties. The economic elites were promoted mainly in the Administration Council to take care of the declining economy but they could not directly touch the military budget or the privileged status of KPA. The Department of the People's Armed Forces (the control tower of the KPA) and the Department of Public Security (semi-military organization) had been under the direct control of the Secretariat from 1982, and Kim Jong Il tried to get support from the military from every generation: the revolutionary partisan generation such as O Jin-u, the Korean War generation such as Baek Hak-rim [Paek Hak Rim], and the second

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<sup>566</sup> Board of National Unification, Bureau of Materials Management, "5. The People's Army," in *Bukhan Gigwan, Danchebyeol Inmyeongjip 1982* [A Directory of North Korean Organizations and Associations, 1982], 1982, Seoul, 76-79.

generation military elites such as O Geuk-ryeol [O Kuk Ryol]. All the KPA generals were promoted to a rank higher in 1984 and this was to increase their loyalty to the new leadership.<sup>567</sup> The economic changes were gradually ongoing but it never meant that there was less emphasis on the military development. This separation and balance between economy and security soon inclined toward security in the late 1980s, at the end of the Cold War.

Even among the economic experts, there were contradiction and shifting dynamics between the heavy industry-oriented technocrats linked with military buildup and the light industry-oriented experts supported market elements and opening. Yeon Hyeong-muk had become the highest official among the economic experts in the Politburo and Secretariat. He was known as an expert in the heavy industry, especially the munitions industry including the nuclear weapons and missile technology.<sup>568</sup> Gang Seong-san, known to be relatively pro-opening, maintained his position of prime minister in the Administration Council until 1986. But many technocrats from the heavy industry sector expanded their influences in the Administration Council from 1985: Yeon Hyeong-muk became the first prime minister, and Hyeon Mu-gwang became one of the deputy prime ministers.<sup>569</sup>

Since the actual political power and influences were held and exercised by the Party Secretariat than the Politburo or the Administration Council, the closest officials and staffs to Kim Jong Il were mostly military or political leaders than economic experts. The closest staff members to Kim Jong Il in the Secretariat were the people in the Department of Organization and the Department of Propaganda and Agitation who concentrated on political control. The economic experts attempted various economic measures but it was hard for them to produce visible accomplishments in

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<sup>567</sup> Kim and Cha, *Bukhan ui Gwolleok Gujo wa Gwollyeok Elliteu*, 100-102.

<sup>568</sup> Hyeon (2007) analyzes that the heavy industry-oriented technocrats were rapidly promoted in the late 1980s, such as Jeon Byeong-ho and Pak Seong-bong [Pak Song Bong] (1932, military industry) to be the closest staff of Kim Jong Il, which reflected the leaders' interest in the nuclear development. Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 235-236.

<sup>569</sup> Board of National Unification, Office of Politics and Military Attaché, "3. Administrative Organs," in *Bukhan Gigwan, Danchebyeol Inmyeongjip 1985 [A Directory of North Korean Organizations and Associations, 1985]*, 1985, Seoul, 54.

the economy in a short-time before North Korea became isolated in the international society and faced threats to regime security in the late 1980s. The foreign investment from the capitalist West could not be expanded with the economic sanctions after the Rangoon Bombing, and North Korea was not a particularly attractive place to invest compared to the rapidly developing China or Vietnam which had better conditions.

The transitions in other socialist countries and their inclination toward South Korea warned North Korean leaders about the danger of rapid expansion of economic relations. By 1986, Kim Jong Il stressed the importance of “the principle of Juche,” to not accept anything dangerous to the political system. Trade expansion was still important to import natural resources and technical equipment but they should be beneficial not only for practical purposes but also for the political purposes of independence.<sup>570</sup> The North Korean economic opening in the 1980s still focused on the relations with the socialist or Third World countries and stayed in the traditional socialist format of state monopoly in the form of barter deals. Basically, North Korea pursued economic self-reliance in the name of Juche. Allowing FDI was one of the methods to reduce the foreign debt problem and it was not a comprehensive opening measure as one China pursued in the SEZs.<sup>571</sup> Still without proper infrastructure or economic institutions, it was difficult for North Korea to adapt to the rapidly changing international economic environment after the end of the Cold War.

## **(2) The Descent of Pro-Reform Experts**

In the late 1980s, the degree of international isolation was aggravated with rapidly deteriorating security environment. Both China and the Soviet Union were inclined to South Korea. They maintained the relations with North Korea only to keep

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<sup>570</sup> Kim Jong Il, “Dang gwa Hyeokmyeongdae ui Ganghwabaljeon gwa Sahoejuui Gyeongje Geonseol ui Saeroun Angyang eul Wihayeo [For the Enhancement and Development of the Party and Revolutionary Lines and a New Uplift in the Socialist Economic Construction],” January 3, 1986, in *Kim Jong Il Seonjip* 8, 315-355.

<sup>571</sup> Myung-chul Cho et al., *Bukhan Gyeongje ui Dae Jungguk Uijondo Simhwa wa Hanguk ui Dae-eung Bangan* [The Increase of North Korea's Economic Dependence on China and Its Implications of South Korea] (Seoul: Korea Institute for International Economic Policy, 2005); Yong-seung Dong, “Foreign Trade,” in *Bukhan ui Gyeongje*, ed. Sejong Institute North Korea Research Center, 73-103.

the Korean Peninsula stable. Kim Jong Il and the economic leaders tried to continue the economic measures to normalize production and earn foreign currency but the increased threats and isolation shifted the focus to regime security. The pro-reform dynamics of the economic experts continued in the Administration Council but they could not persuade the military and political leaders to accelerate the economic changes risking stability. Among the economic elites, the heavy industry or military industry-related experts became closer to Kim Jong Il than the light industry experts. The reform initiatives came to an end with the last and late experiment of limited opening in the early 1990s, and the pro-reform dynamics faded into the background throughout the 1990s.

*Reversed dynamic in the face of security concerns*

The military-oriented tendency became increasingly prominent among the North Korean leading organs. The Party and the military leaders had their own economic organs and enterprises to earn foreign currency and took many profitable part of the production units. The economic experts in the Administration Council complained about the intervention and extraction of the Party and military authorities, but the economic officials including the prime minister did not openly express their complaints due to the lack of their own political clout.<sup>572</sup> Unlike the CCP leadership of China who tried hard to accelerate the retirement of old revolutionaries, the KWP leadership kept the old partisan revolutionaries at the highest positions in the Party and military. This showed the conservative tendency of those organs. The old

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<sup>572</sup> There was an episode in 1983 that one of the deputy prime ministers Kim Gyeong-ryeon [Kim Kyong Ryon] (1925, economic cooperation) had expressed his criticism at an economic meeting that “how can the Administration Council revive the economy if the Party takes all the factories and enterprises properly working and left only empty ones,” and was sent to the political prisoner camp with his family. Even though Kim Jong Il tried to empower the Administration Council (late the Cabinet), the political superiority of the Party and military over the economic and administrative organs never changed. The political and military-oriented leaders frequently intervened to the economic projects to for political purposes. The situation did not change fundamentally with the Cabinet after 1998, and the newly appointed Prime Minister Hong Seong-nam did not even tried to overcome this political limitations. Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 314-315.

generation kept their post until their death and some of them remained in their leading posts even in the late 1990s and 2000s in the KPA.

In the late 1980s, the political atmosphere rapidly detached from the pro-reform initiatives of the Administration Council. Hyeon (2007) recorded an episode about a thesis written on agricultural productions in 1986. The thesis made the argument that it was necessary to accept some of the positive aspects of the Chinese agricultural reform such as the household responsibility system. At first it was assessed as being impressive since it had implications for the integrated enterprises, the self-supporting accounting system, or the 8.3 Production of People's Consumer Goods Program. However, Kim Jong Il concluded that this thesis had counter-revolutionary tendency. He thus purged the author and some of the responsible officials in the Secretariat, including the Economic Party Secretary Kim Hwan (1929, chemical industry).<sup>573</sup> North Korea was concerned about the "revisionist" tendencies of China and other socialist countries that were gradually inclined toward South Korea. The economic reform initiatives and the FDI opening had not been successful enough facing the deteriorating foreign relations, which influenced the pro-reform dynamic negatively.

While the Party and the military leaders stayed in their position without much change, the economic experts in the Administration Council were frequently changed as the economic projects showed not much progress. Their political power in the Party Central Committee Politburo or the Secretariat declined rapidly after 1986, particularly those of the economic experts who had worked on the light industry or the economic cooperation (trade or FDIs). At the Eleventh Plenum of the Sixth Central Committee in February 1986, Gong Jin-tae [Kong Jin Tae] (1927, economic cooperation) and An Seung-hak (1922, light industry) was dismissed from the position of alternative members of the Politburo. At the First Session of the Eighth SPA in November 1986, Gang Seong-san was moved to the Party secretary, and Ri Geun-mo [Ri Kun Mo] (1926, heavy industry) became the prime minister of the Administration Council. Hong Seong-nam became the 1<sup>st</sup> deputy prime minister, and

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<sup>573</sup> Ibid., 154-155.

the number of deputy prime minister was reduced to six.<sup>574</sup> The appointment of economic officials in the Administration Council did not have much political importance compared to that of the Party organs. But it showed a shift of policy focus from light industry to heavy industry, and from economic opening to domestic mobilizations. In 1988, Yeon Hyeong-muk became the prime minister, who was closer to Kim Jong Il as an expert in heavy industry, particularly in the military industry including missile and nuclear technologies.<sup>575</sup>

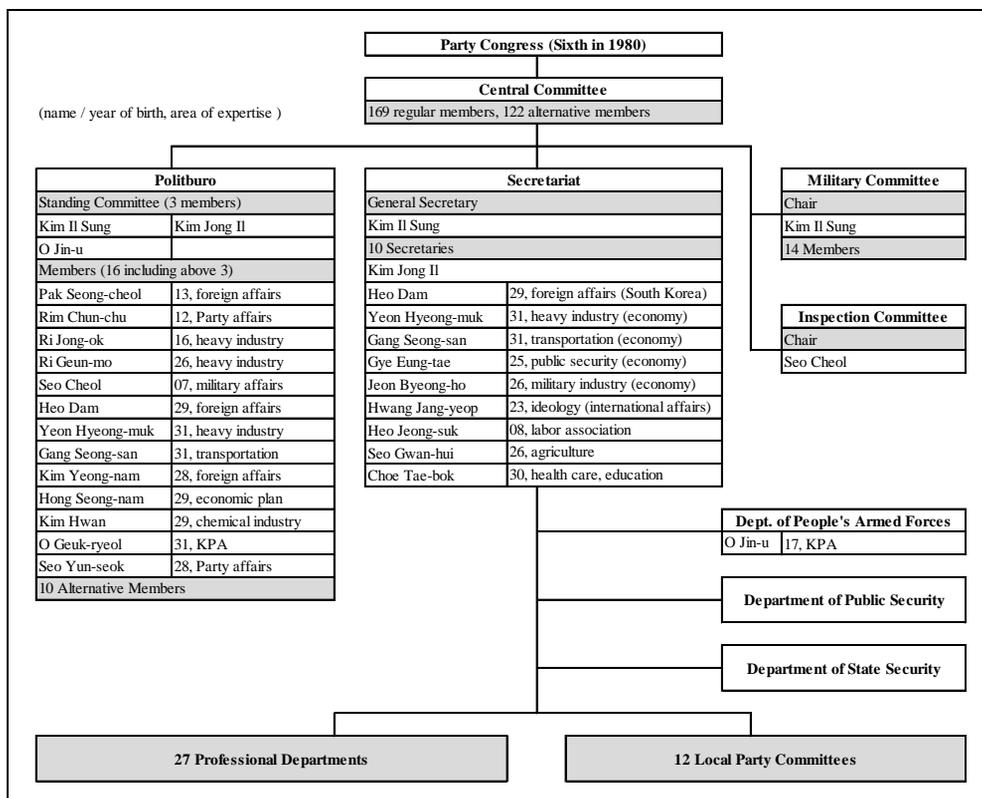


Figure 8 Structure and Political Dynamics in the KWP, 1987

<sup>574</sup> Board of National Unification, Office of Politics and Military Attaché, *Bukhan Gigwan Mit Danchebyeol Inmyeongjip 1987* [A Directory of North Korean Organizations and Associations, 1987], 1987, Seoul; Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 60-61.

<sup>575</sup> Ministry of Unification, Bureau of Information Analysis, *Bukhan Juyo Inmul Jaryojip 2000* [Sourcebook of Important Figures in North Korea 2000], 2000, Seoul, 304-305.

By 1987, the members of the Party Central Committee Politburo and Secretariat were rearranged as Figure 8. The former prime minister Gang Seong-san stayed in both the Politburo and the Secretariat. Some analysts pointed out that he was working in the Northern Hamgyeong Province as the local Party secretary preparing for the opening of Rajin-Sonbong FETZ until 1991, though it seemed as he was dismissed from the post of prime minister. Except for Gang Seong-san, other economy-related Party secretaries in 1987 were experts on heavy or military industries. Gye Eung-tae was specialized in the surveillance and intelligence and one year later also became the regular member of the Politburo. Jeon Byeong-ho, an expert in munitions industry, also became another regular member of the Politburo in 1988.<sup>576</sup> The rise and fall of the economic experts showed the rapidly changing political dynamics in the top-tier of North Korean leadership which was facing the decline of the socialist bloc with increasing pressures from the capitalist counterpart in South Korea.

The economic measures from 1984 with some pro-reform potentials came to a stalemate in the late 1980s. Though not publicly expressed, there were serious concerns about the economy among the North Korean elites who knew of the economic changes in China and transitions in the Soviet Union and Eastern Europe. Kim Jong Il seemed have also searched for “the revolutionary strategy adapted to the changed environment” to continue the KWP regime.<sup>577</sup> But it was not easy to find any effective way without comprehensive reform or opening. When the North-South talks restarted in the mid-1980s, North Korea focused more on keeping the status quo, detached from changing environments. For the North Korean leaders, the collapse of the Soviet Union was understood as having been caused by the renunciation of Communist party’s monopoly of power. It was thus important for them to firmly hold the top-down Party leadership structure so that they would not fall from power like their counterparts in the Soviet Union had. North Korea detached itself from other socialist countries, emphasizing political and economic independence from the Soviet

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<sup>576</sup> Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 60-61.

<sup>577</sup> Jang-yeop Hwang, *Hwang Jang-yeop Hoegorok*, 264.

Union.<sup>578</sup>

Although the new generation of experts became more visible in the top-tier leading positions to manage the declining economy, the focus of the economic policy retreated from the market-oriented reform to the traditional way of heavy-industry oriented planning and mobilizations. In 1990, the portion of new generation elites in the Central Committee Politburo were significantly increased, to the extent of constituting 10 out of 15 regular members and 9 out of 10 alternative members.<sup>579</sup> They also became the majority in the Party Secretariat and the military but their political tendency became conservative regarding the economic reform measures. The economy-related Secretaries in the year 1990 were Jeon Byeong-ho (1926, military industry) and Han Seong-ryong (1923, heavy industry) from military and heavy industries. Other Secretaries were Gye Eung-tae (1925, public security), Choe Tae-bok [Choe Thae Bok] (1930, education), Kim Jung-rin (1924, labor association), Kim Gi-nam [Kim Ki Nam] (1926, propaganda), Seo Gwan-hui (1926, agriculture), Kim Guk-tae [Kim Kuk Tae] (1924, ideology), Kim Yong-sun (1934, South Korea), and Hwang Jang-yeop (1923, foreign affairs), all technocrats more focused on political control.<sup>580</sup> In the KPA, the new elites close to Kim Jong Il constituted the leading group, such as Ri Bong-won [Ri Pong Won] (1925), Kim Il-cheol [Kim Il Chol] (1930), Jo Myeong-rok [Cho Myong Rok] (1928), O Ryong-bang (1930), and the closest second generation elites O Geuk-ryeol, Kim Du-nam [Kim Tu Nam] (1930), and Kim Gang-hwan [Kim Kang Hwan] (1931).<sup>581</sup> These personnel appointments

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<sup>578</sup> It was impossible to deny the role of Soviets in the process of foundation of the regime but the KWP leadership tried to emphasize their own way of socialist construction. Kim Il Sung, "Miguk Sahoerodongdang Daepyodan gwa Han Damhwa [A Talk to Delegation of the U.S. Socialist Labor Party]," October 5, 1990, in *Kim Il Sung Jeojakjip* 42, 398-402.

<sup>579</sup> Kim and Cha, *Bukhan ui Gwolleok Gujo wa Gwollyeok Elliteu*, 133.

<sup>580</sup> Compared to the portion of economic experts among the secretaries in the mid-1980s which was more than half, the policy focus had shifted to the political control over the Party and society. The newly appointed secretaries, Kim Ki-nam and Kim Guk-tae were experts from the Department of Propaganda and Agitation led by Kim Jong Il. Ministry of Unification, *Bukhan Juyo Inmul Jaryojip* 2000.

<sup>581</sup> Except for some death of old revolutionaries or the appointment transfers, there were not many changes among the leading figures in the Party and military until the late 1990s throughout the Arduous March. Kim and Cha, *Bukhan ui Gwolleok Gujo wa Gwollyeok Elliteu*, 134.

showed the conservative tendency in the domestic politics to keep the regime secure from the changing international environments.

The Party and the military leaders concentrated on the ideological discipline and the political mobilizations to keep the loyalty to the regime, while the domestic pro-reform economic policies came to a halt and returned to the short-term campaign methods. To enhance regime safety with political propaganda, Kim Jong Il and the Party officials again pushed forward some symbolic constructions and ceremonial projects with high cost. North Korea held “the Thirteenth World Festival of Youth and Students” in July 1989, to demonstrate the unchanged international status with continuing socialist struggle. But the Festival was remembered as the last luxurious international event in North Korea, and many officials became seriously concerned about economy spiraling into crisis.<sup>582</sup> The trade partners, most of them the former socialist countries including China, pursued their own economic interests and openly expanded the relations with South Korea. In the early 1990s, North Korea lost the socialist trade partners which had consisted over 70% of foreign economic relations. The former socialist partners required North Korea to make the payments in hard currency, including the Soviet Union from 1991. Even China required hard currency payment from 1993. This change of international trade system became a huge burden to North Korea who already had a serious foreign debt problem.<sup>583</sup> This foreign debt was one of the main reasons behind the FETZ policy seeking foreign investments after the shift of economic focus from the country-wide institutional reform to the limited opening of a restricted area.

#### *A long retreat of reform initiatives*

While the Party and military organs were promoting political vigilance and military preparedness, the task of economic management was passed to the

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<sup>582</sup> Jang-yeop Hwang, *Hwang Jang-yeop Hoegorok*, 278-279.

<sup>583</sup> Myung-chul Cho et al., *Bukhan Gyeongje ui Dae Jungguk Uijondo Simhwa wa Hanguk ui Dae-eung Bangan*, 60.

Administration Council to take the responsibility of failures. North Korea criticized the betrayal of China and the Soviet Union, but the North did not have alternative sources of energy and electricity aside from them. To resolve the foreign debt problem and expand the imports of resources and materials, the Administration Council and local officials were instructed to put priority on the productions for exports than urgent domestic needs. Foreign currency earnings became the major task for all economic organs. Factories and enterprises were urged to organize the “foreign currency earning bases.”<sup>584</sup> But it was not easy to produce enough export-oriented goods without proper amount of resources and skills. Moreover, it was getting difficult to find appropriate trade partner. The end of the Cold War made the economic situation extremely urgent that North Korea had to find any partner for trade and investment, regardless of ideology. The Rajin-Sonbong FETZ was declared to expand trade not only with the socialist but also the capitalist countries. To support this limited opening of restricted area, the government announced a “new trade management system” in November 1992.<sup>585</sup> The leadership was in a hurry to expand the trade to resolve the foreign debt problem. All the Party and state committees and departments were encouraged to establish their own trade companies to earn foreign currency.<sup>586</sup>

Taking advantage of the North-South Basic Agreement, North Korea tried to reactivate the foreign economic exchanges through the Rajin-Sonbong FETZ and initiate more contacts with South Korea. In the Party Secretariat, the economic expert

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<sup>584</sup> The processing trade was recommended for more profit than the trade of raw materials. Kim Il Sung, “Jungang Inminwiwonhoe wa Jeongmuwon ui Saeop Banghyang e Daehayeo [On the Policy Direction of the Central People’s Committee and the Administration Council],” A speech at the First Session of the Ninth DPRK Central People’s Committee and the First Plenum of the Ninth Administration Council, May 28, 1990, in *Kim Il Sung Jeojakjip* 42, 335-338.

<sup>585</sup> This new trade system included the goals of foreign currency earning, the normalization of domestic production by expanding the imports, the resolution of shortages in resources and technology, and the institutional enhancement of export-import management. Myung-chul Cho et al., *Bukhan Gyeongje ui Dae Jungguk Uijondo Simhwa wa Hanguk ui Dae-eung Bangan*, 60-61.

<sup>586</sup> Kim Il Sung, “Byeonhwadoen Hwangyeong e Matge Dae-oe Muyeok eul Baljeonsikil De Daehayeo [On Developing Foreign Trade to Meet the Changed Environment],” A speech at a conference of leading officials of the Party, state, and economy, November 23 and 26, 1991, in *Kim Il Sung Jeojakjip* 43, 230-237.

Yun Gi-bok [Yun Ki Bok] (1926, South Korea) was appointed as the Secretary on South Korea affairs for economic cooperation.<sup>587</sup> With the urgent need in economy, there were more frequent changes in the personnel appointments of the Administration Council. Even the prime minister was replaced frequently along the economic priorities and performances. After Ri Jong-ok became the vice-premier in 1984, Gang Seong-san had been the prime minister of Administration Council to lead the pro-reform measures. Gang was dismissed in 1986 when Ri Geun-mo (1926, heavy industry) took the post of prime minister. After Ri, Yeon Hyeong-muk was the prime minister from December 1988 to 1992 until he was dismissed and demoted for a while to the Jagang province. Gang Seong-san again became the prime minister in 1992 to take the last attempt of the FETZ.<sup>588</sup>

When Gang Seong-san became the prime minister for the second time at the Fourth Session of the Ninth SPA in December 1992, the post of deputy prime minister was also reshuffled to support the his policies. Except for Kim Yeong-nam and Jang Cheol [Jang Chol] (1926, culture), about eight out of ten deputy prime ministers were economic experts with some pro-opening preferences: Choe Yeong-rim [Choe Yong Rim] (1929, Party affairs), Hong Seong-nam [Hong Song Nam] (1929, economic plan), Kim Bok-sin [Kim Pok Sin] (1925, light industry), Gang Hui-won [Kang Hui Won] (1921, construction), Kim Yun-hyeok [Kim Yun Hyok] (1925, construction), Kim Dal-hyeon (1941, economic cooperation), Kim Hwan (1929, chemical industry), Kim Chang-ju (1922, agriculture).<sup>589</sup> They tried to implement limited economic

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<sup>587</sup> Yun Gi-bok had a long-time career on South Korea affairs, worked for the Committee for the Peaceful Reunification of the Fatherland, and chaired the North Korean headquarter of the Pan-Korean Alliance for Reunification in 1990 and 1991. Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 79; Ministry of Unification, *Bukhan Juyo Inmul Jaryojip 2000*, 328-329.

<sup>588</sup> Ministry of Unification, *Bukhan Juyo Inmul Jaryojip 2000*.

<sup>589</sup> Choe Yeong-rim started his career as a Party official in organization, but already had the experience of the deputy prime minister of the Administration Council under Gang Seong-san in 1984, and was dismissed in 1985. He also came back in 1990 for his second time as the deputy prime minister focusing on the economic plan and metal industry. Hong Seong-nam, Kim Bok-sin, Kim Chang-ju, and Kim Hwan also had been once the deputy prime minister in the mid-1980s. Among these economic vices, Kim Yun-hyeok only had kept the post of the deputy prime minister consistently from 1986. Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 62-63; Ministry of Unification, *Bukhan Juyo Inmul Jaryojip 2000*.

opening policies throughout 1992 and 1993, until when the failure of trade or investment became obvious.

Gang Seong-san had the experience of creating the Equity Joint Venture Law in 1984. This time he took the responsibility to establish and institutionalize the Rajin-Sonbong FETZ linked with the development project of the Dumangang (Duman River) region by the United National Development Program (UNDP). One of the deputy prime ministers Kim Dal-hyeon also specialized in the economic cooperation with relatively strong pro-opening tendency. To resolve the problems of foreign debts and shortage of hard currency, he pushed hard to achieve more economic cooperation with other countries, especially with South Korea.<sup>590</sup> The leaders in the foreign affairs under the Administration Council, such as Kim Yong-sun, Kim Yeong-nam and Gang Seok-ju (Kang Sok Ju, 1939, foreign affairs) also assisted the pro-opening policies to make progresses in relations with South Korea, United States, and Japan.<sup>591</sup> Seeking any available partner, the ideological consideration gradually became invisible as North Korea sought to find trade opportunities with Southeast Asia or other developing countries.<sup>592</sup>

With the growing security crisis, the Party shifted the policy priority to the military modernization and preparedness. By the end of 1993, the opening policies were assessed as failed to achieve targets. The year 1993 was the last year of the Third Seven-Year Plan and the leadership had to declare two or three years of readjustment period to keep up the agriculture, light industry, and trade developments.

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<sup>590</sup> Kim Dal-hyeon visited Seoul in July 1992 to discuss the economic cooperation for several construction projects: the gas pipelines toward Russia, the nuclear power plants, and the Nampo industrial complex. But his efforts of North-South economic cooperation failed to make any achievements, which resulted in his dismissal in 1993. Dong-won Lim, *Piseu Meikeo*, 269-272.

<sup>591</sup> Kim Yeong-nam had been the expert on foreign affairs, particularly in relations with the Third World countries. In 1991, he visited Southeast Asia and gained 500,000 tons of grain as economic aids. After the admission to the United Nations in 1991, Gang Seok-ju appeared to be the representative of North Korea and made a speech in the United National in September 1991. Jeon, Ahn, and Lee, *Bukhan ui Gwollyeok Elliteu Yeongu*, 98-103.

<sup>592</sup> The slogan of “south-south cooperation” among NAM countries was repeated to promote the mutual economic support and cooperation. Kim Il Sung, “Seuweriye Gongsanjuuija Rodongdang Wiwonjang gwa Han Damhwa [A Talk with the Chairman of Swedish Communist Labor Party],” June 29, 1992, in *Kim Il Sung Jeojakjip* 43, 386-388.

The chronic problems of electricity, energy, and transportation were again on the agenda, and the production campaigns returned with more political mobilizations.<sup>593</sup> The FETZ project also came to a stalemate after Kim Il Sung's death and the first nuclear crisis, and the economy went down into the extreme isolation and famine in the mid-1990s.<sup>594</sup>

This failure of the FETZ project also reflected in the personnel appointments in the Administration Council. Gang Seong-san managed to maintain his post of the prime minister but Kim Dal-hyeon took the responsibility of the failure of the Third Seven-Year Plan and the economic opening and dismissed from the vice-minister's post. Yun Gi-bok was also dismissed from the Secretariat in 1993 who had been working for the North-South cooperation. Throughout the mid-1990s, conservative economic experts on military or heavy industry, such as Jeon Byeong-ho and Han Seong-ryong, maintained the leading posts in Secretariat and the Administration Council as closer officials to Kim Jong Il.<sup>595</sup> During the mid-1990s, there had been no major changes in the personnel managements. The pro-reform economic measures had to wait until the early 2000s while North Korea endured the Arduous March of extreme poverty and famine.

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<sup>593</sup> Kim Jong Il, "Dang Saeop eul Jalhayeo Sahoejuui Hyeokmyeong Jinji reul Deouk Teunteuni Dajija [Let Us Improve the Party Works to Strengthen the Socialist Revolutionary Base]," A speech to officials of the Central Committee of the KWP, January 1, 1994, in *Kim Jong Il Seonjip* 13, 396-399.

<sup>594</sup> North Korea announced that they achieved 49 FDI projects by 1996, accounting to around 350 million U.S. dollars. But the actual implementation showed that there were only 22 projects around 34 million U.S. dollars. Seong-chang Cheong, *Hyeondae Bukhan ui Jeongchi: Yeoksa, Inyeom, Gwollyeok Chegye* [Contemporary North Korean Politics: History, Ideology, and Power System] (Paju: Hanul Academy Publishing, 2011), 199.

<sup>595</sup> Sung Choi, *Bukhan Jeongchisa*, 309-312; Ministry of Unification, *Bukhan Juyo Inmul Jaryojip* 2000.

## VIII. CASE 4: NORTH KOREA IN 2002

The North Korean economy slowly recovered from extreme poverty in the late 1990s. Kim Jong Il embarked on his official leadership based on the reorganized political structure of the new Constitution in 1998. The security environments seemed to be improving around the year 2000 when North Korea was faced with the Kim Dae-jung government of South Korea and the Clinton administration of the United States. North Korea once again attempted the reform and opening in 2002 by choosing a pragmatic stance in economy which was reflected in “the July 1<sup>st</sup> Measures (the economic management improvement measures).” The foreign economic relations gradually increased in trade, investment, and aids along the newly attempted economic measures such as the opening of the Sinuiju Special Administrative Region. Kim Jong Il visited China three times in the 2000s to attract more aids and economic cooperation. There were also numerous high-level visits by the North Korean top leaders.<sup>596</sup> These upgraded attempts, however, again disappeared after a while due to the re-emergence of the nuclear crisis and other security issues, which influenced the political discourse and dynamics so that they were reversed again to regime security.

### 1. Geared for Reform but Trapped in Crises

The potential of the reform and opening planned in the July 1<sup>st</sup> Measures were much more impressive than the pro-reform measures before the 2000s. The North Korean leaders took a more pragmatic approach to facilitate the economic revival, though the political goals and slogans basically remained immersed in the struggle-oriented memory of foreign dangers. With the empowerment of the state bureaucracy by extending the Administration Council into the Cabinet, the economic experts were once again encouraged to implement changes in the economic policy. The economic

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<sup>596</sup> Myung-chul Cho et al., *Bukhan Gyeongje ui Dae Jungguk Uijondo Simhwa wa Hanguk ui Dae-eung Bangan*, 63-64.

cooperation projects such as the Geumgangsan tourism and the Gaeseong Industrial Complex were expected to be more effective than the Rajin-Sonbong FETZ, and would bring a large sum of foreign currency.<sup>597</sup> The domestic measures also had some potential for the long-term reforms in economic system. But these pro-reform policies quickly became invisible in the mid-2000s due to the security concerns as the previous reform initiatives did.

### **(1) Giving Reform a Bold Try in July 2002**

Along with the official inauguration of Kim Jong Il's reign in North Korea in 1998, some practical policy changes aimed at economic revival appeared, albeit still cautious and controlled by political considerations. The 1998 Constitution included some partial economic changes such as allowing the expansion of non-state and individual property rights, stipulating the self-supporting accounting system, abolishing the state supervisory authority over the foreign trade, and urging the establishment of special economic zones. At the Second Session of the Tenth SPA in April 1999, the "People's Economic Planning Law" was adopted. The law basically enhanced the importance of the central planning system with strict control but promoted some rationalized way of mobilizations for practical economic benefits and introduced the plans urging more creative activities in factories and enterprises to produce export products.<sup>598</sup>

By 2000, the KWP leadership clearly knew what the problems were and what tasks were needed to be done to revive the economy. Kim Jong Il instructed the local communities to promote light industry for consumer goods but knew that North Korean products could not compete in international market to earn foreign currency. The light industry and agricultural production had to resolve domestic demands first,

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<sup>597</sup> After the North-South summit in 2000, the working-level meeting was continued on the Gaeseong Industrial Complex. But progress was much slower than expected due to the security concerns on North Korean side. Jeong (2011) pointed the lack of political will in the North Korean leaders as the main cause of the postponement of project. The construction of complex finally started in June 2003, in the middle of the nuclear crisis. Seong-chang Cheong, *Hyeondae Bukhan ui Jeongchi*, 199-200.

<sup>598</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 317-318.

while continued export to earn foreign currency. There was an urgent need to learn the advanced technology which was seriously lagging behind. Kim Jong Il frequently mentioned the importance of computer education to keep up with the advanced technologies.<sup>599</sup> In 2001, the North Korean leadership became much more positive about the prospects of economic development. North Korea announced some economic rules such as the “processing trade act” and the “copyright law” in 2001 to revive the economic exchanges.<sup>600</sup> There had been newly emerging market-like economic activities among North Korean society during the Arduous March, outside the centralized economic system. Based on the gradually revived productions in industry and agriculture, the central authority attempted to draw those unofficial economic activities into the state-controlled system which turned out to be the accumulation of economic policy changes called the July 1<sup>st</sup> Measures in 2002.

### *The July 1<sup>st</sup> Measures*

The July 1<sup>st</sup> Measures were a series of economic measures announced in July 2002, to rationalize the domestic economic system under the central plan. Several documents implied the various economic measures taken by the state before the announcement of the July 1<sup>st</sup> Measures. Kim Jong Il officially announced several ongoing economic measures in October 2001, through a document titled “Improvement and Enhancement of the Socialist Economic Management for the Construction of Powerful and Prosperous Nation.”<sup>601</sup> The document included some

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<sup>599</sup> Kim Jong Il, “Jagangdo Saramdeul eun Gangye Jeongsin ui Changjojadapge Gangseongdaeguk Geonseol ui Gisu ga Doeyeoya Handa [People of Jagang Province Should be the Flag Bearers of the Powerful and Prosperous Nation Construction as the Creators of the Ganggye Spirit],” A talk to officials during the on-the-spot guidance of various sectors in Jagang Province, December 19 to 23, Juche 90 (2001), in *Kim Jong Il Seonjip 15: 2000-2004* (Pyongyang: Joseon Rodongdang Chulpansa, 2005), 235 and 251.

<sup>600</sup> “Joseon Minjujuui Inmin Gonghwaguk Choego Inmin Hoeui Je 10-gi Je 4-cha Hoeui [The 4<sup>th</sup> Session of the Tenth SPA of the DPRK],” in *Ibid.*, 120-122. The report said that 42.3% of budget was turned to economic construction. 38.1% went to additional policies and people’s life such as free education, medical treatment, insurance, and social security. Officially it was only 14.4% went to the military. “Gyeongje: Juche 90 (2001)-nyeon Gyeongje Seonggwa [Economy: Economic Achievement of the Year Juche 90(2001)],” in *Joseon Jungang Nyeongam Juche 91 (2002)* (KCNA, 2002), 163-164.

<sup>601</sup> The South Korean media reported on this document by Kim Jong Il after the July 1<sup>st</sup> Measures were

noticeable changes toward decentralization of production plan and pricing to local factories and enterprises. The state would instruct only broad strategic targets, allowing the factories and enterprises to plan their own targets. They could organize the “socialist resources exchange market” to exchange needed materials and resources and put more emphasis on the material incentives according to the actual productivity and profit.<sup>602</sup> The document implied the expansion of market elements, saying that there would be no more free provisions in the economy, with less state subsidies or social welfare. The wage system would be reformed so that the people would have to pay for their own food and housing.

The promotion of material incentives and enterprise autonomy was frequently argued by various economic experts throughout 2001 and 2002, and this was proven by the articles in the official economic journal *Gyeongje Yeongu*. The enterprise consortiums were revived and rearranged to be state-owned companies under the control of the Cabinet, and were urged to pursue profit with a certain level of autonomy in management.<sup>603</sup> The Cabinet also rearranged the local accounting system to strengthen the autonomy of local-level plan and budget for their own profit. The local production units and authorities were encouraged to be creative for their

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announced. The document dated back to the October 2001, and seemed like instructions to the Party officials who were working on economic projects. “Jungang Ilbo Dandok Ipsu Kim Jong Il Jisimun Yoyak [Summary of Kim Jong Il’s Instructions Exclusively Obtained by Joongang Daily],” *Joongang Daily*, August 2, 2002.

<sup>602</sup> The summary of Kim Jong Il’s document “Gangseong Daeguk Geonseol ui Yogu e Matge Sahoejuui Gyeongje Gwalli reul Gaeseon Ganghwahal De Daehayeo [On Improving and Strengthening the Socialist Economic Management to Meet the Demand of Powerful and Prosperous Nation Construction],” in October 2001 was recited from Hyeong-jung Park, “Bigyo Sahoejuui Gwanjeom eseo Bon ‘Silli Sahoejuui’ Ron ui Wichi wa Jeonmang [The Position and Prospects of the Practical Socialism from the Perspective of Comparative Socialism],” in *Kim Jong Il Jeonggwon 10-nyeon: Byeonhwa wa Jeonmang [Kim Jong Il Regime 10 Years: Changes and Prospects]*, Papers presented at the KINU academic conference on April 7, 2004 (Seoul: Korea Institute for National Unification, 2004), 158-159.

<sup>603</sup> Heung-yeop Pak, “Gukyeong Gieopso ui Gyeongyeong sang Sangdaejeok Dokjaseong gwa Geu Pyohyeon [Relative Autonomy in Management of the State-Owned Enterprises and its Expression],” *Gyeongje Yeongu* 111, 2001, no. 2: 19-21, recited from KDI North Korean Economy Team, “‘Gyeongje Yeongu’ e Natanan Choegun Bukhan ui Gyeongje Insik: Choegun Gyeongje Jochi wa Gwallyeonghayeo [Recent Economic Perceptions of North Korea Appeared in ‘Gyeongje Yeongu’: Regarding Recent Economic Measures],” *KDI Bukhan Gyeongje Review*, August 2002: 92.

own economy, after they carried out the state quota imposed on each unit.<sup>604</sup> Many articles had explained the importance and the need of material incentives, enterprise autonomy, rationalization of the production management, and the limited allowance of the commercial networks.

The July 1<sup>st</sup> Measures were the official recognition of these accumulated economic measures of the Cabinet until 2002, including another major decision on the rise of wages and prices. Jochongnyeon newspaper *Joseon Sinbo* had explained the decision of wages and price changes from July 2002, that North Korea raised the wages of general production from 110 North Korean won to 2,000 won, and to 6,000 in case of the mining workers. The price of rice changed drastically that the state started to procure the rice at 40 won per kilogram and sell at 44 won. Before, it had been procured at 80 jeon (1/100 won) and sold at 8 jeon.<sup>605</sup> The prices of other products were also increased dramatically, at least eightyfold in average than before 2002, though the official announcement argued that it was only twenty-five fold in average.<sup>606</sup> This measure was implemented to match the official prices and wages to the actual living expenses and price level established through the “second economy.” The new price of rice (44 won) was almost same was the unofficial price of the

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<sup>604</sup> Seon-hui O, “Jibang Yesan Pyeonseong eul Gaeseonhaneun Deseo Naseoneun Myeot Gaji Munje [Some Problems Raised in Improving the Local Budget Compilation],” *Gyeonje Yeongu* 115, 2002, no. 2: 41-44, also recited from the article above, *KDI Bukhan Gyeongje Review*, August 2002: 95.

<sup>605</sup> It was almost a 500-fold rise. The newspaper explained that the wages were raised to respect the “principle of special treatment for producers” and was determined by the calculation of “how much the workers needed for the basic life according to the new prices of rice, housing, etc.” The motive for the price hike of rice was explained to “consider the international price of rice and the balance of supply and demand in domestic economy.” “Gyeongje Buheung eul Wihan Changjo wa Byeonhyeok: Bongyeokjeok euro Chujindoeneun Gyeonje Gwalli Gaeseon [Creations and Changes for Economic Revival: the Economic Management Improvement to be Carried Out in Full-Scale]” and “Changjo Uiyok Deok Baryangsikineun Gyegiro: Roim Mit Jeonban Gageok ui Insang [A Motive to Enhance the Creative Passion: Wages and General Price Rise],” *Joseon Sinbo*, July 26, 2002, pp. 1, 2.

<sup>606</sup> From a North Korean material of lecture and explanation talks, limited for internal-use, “Gageok gwa Saenghwalbi reul Jeonbanjeok euro Gaejeonghan Gukgajeok Jochi reul Jal Algo, Gangseong Daeguk Geonseol eul Himiteg Apdanggija [Let Us Fully Understand the National Measure Generally Revised the Price and Living Expenses, and Strongly Advance the Powerful and Prosperous Nation Construction Forward],” July, Juche 91 (2002), published by Joseon Rodongdang Chulpansa, recited from the *KDI Bukhan Gyeongje Review*, January 2003: 40-45; Sung-min Mun, “Gumaeryeok Pyeongga Iron e Geungeohan Bukhan Gageok Mit Hwanyul Bunseok [An Analysis on North Korean Prices and Exchange Rates Based on the Theory of Purchasing Power Parity],” *Tongil Jeongchaek Yeongu* 17, no. 2 (2008): 88.

farmer's market at the time. These measures were intended to reduce the gap between the official economy and the second economy, and manage the economy under control.<sup>607</sup> This measure on wages and prices were to rationalize and normalize the domestic economic system which was critical in driving forth more economic measures with efficiency under the control of the Cabinet.

After this July 1<sup>st</sup> Measures, North Korea also attempted several economic opening projects which were possible due to the improved relations with South Korea and the United States from 2000. The Sinuiju Special Administrative Region was established in September 2002, and Gaeseong and Geumgangsán were also designated as special economic zones in November 2002. All of them legally guaranteed the protection of foreign properties, the transport of the foreign currency, and foreign direct management. The Sinuiju Special Administrative Region also provided the special treatments on the customs and taxes. However, the Sinuiju project suddenly came to a halt in December 2002 when China arrested Yang Bin, who had been appointed to be the first governor of the region by the SPA.<sup>608</sup> North Korea concentrated on Gaeseong and Geumgangsán through continuous negotiation with South Korea but the progress was far from satisfactory due to the increased military tension with the United States, also with South Korea and Japan, because of the second nuclear crisis.

*Lack of follow-ups to the reform initiatives*

Kim Jong Il accepted the policy suggestions of the Cabinet to launch the pro-reform measures in the early 2000s. However, there was no sign that he instructed any complementary policies to the Party or military sector to adjust their policy directions to support the pro-reform economic changes. The limited recognition of market-

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<sup>607</sup> Hyeong-jung Park, "'Noim Mit Mulgainsang' Mit 'Gyeongje Gwalli ui Gaeseon Ganghwa' Jochi e Daehan Pyeongga," 81-83.

<sup>608</sup> These special zones, Sinuiju, Gaeseong, and Geumgangsán, were described as the "four-point opening belt" including the Rajin-Sonbong FETZ from 1991. Seong-chang Cheong, *Hyeondae Bukhan ui Jeongchi*, 200-201.

oriented economic activities did not mean a complete departure from the planned economy. The leadership cautioned against the tendencies of individual profit-seeking activities and promoted the collective interest of the nation.<sup>609</sup> The July 1<sup>st</sup> Measures had been assessed as having a potential to be the starting point of the comprehensive reform and opening, but again hampered by the rapid deterioration of the security environments which shifted policy priority away to military preparation and political control.

The efforts of economic reform and development persisted for several more years in the mid-2000s, although they remained limited in the boundary of political priority on the military preparation. North Korea took various measures to develop the economy by mobilizing domestic capacities with priority on defense industries to meet the need of the Military First era. One example was the People's Livelihood Bond, adopted at the Sixth Session of the Tenth SPA in March 2003. It was ten-year bond to mobilize domestic capital to increase the fiscal income. The central authority organized ad hoc committees at every central and local level to promote the bond, forcing the people to purchase it to prove nationalism.<sup>610</sup> The official economic report of North Korea in 2003 proudly announced that electricity production had been increased by 1.5 times compared to the year 2002, with more achievements in mining and heavy industries. But the priority had clearly shifted to the military preparation and modernization to deal with the increasing threat of the United States. The military budget officially occupied 15.6% of total government budget in the reports, which did not include the size of the second (military) economy and the military-related portion of budget in other sectors.<sup>611</sup>

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<sup>609</sup> Kim Jong Il, "Gongminjeok Jagak eul Ango Gonghwaguk Gongmin ui Bonbun eul Dahae Nagaja [Let Us Have the Consciousness of Citizen and Fulfill the Duty of Citizen of the Republic]," A talk to officials of the Central Committee of the KWP, September 5 and 8, Juche 91 (2002), in *Kim Jong Il Seonjip* 15, 309-313.

<sup>610</sup> "Joseon Minjujuui Inmin Gonghwaguk Naegak Gongbo [The DPRK Cabinet Official Report]," in *Joseon Jungang Nyeongam Juche 93 (2004)* (KCNA, 2004), 580.

<sup>611</sup> The number 15.6% was a slight increase, but the official rate of the military budget had remained around 10~15% from the 1990s. There was no detailed explanation about why this was so. The 2003 economic report announced that the 41.3% of budget was used for people's economy, and another 40.8%

The urgent tasks of electricity, energy, and transportation were repeated in 2004 and again afterwards, reflecting the continuing difficulties of economic hardships in North Korea. The pro-reform initiatives shown in the July 1<sup>st</sup> Measures did not bring about visible changes in official economic system. While the Party put the policy priority on the military and heavy industry, the light industry and agriculture had to use and reuse the existing resources and technology through self-development led by the Administration Council.<sup>612</sup> North Korea intensified the anti-foreign discourses as the nuclear crisis became a constant security constraint in North Korea-U.S. relations.

But to continue the economic revival, it was necessary to continue the economic cooperation with South Korea. North Korea still announced some more economic measures in the mid-2000s for management, finance, and technology, and tried to continue the high-level visits and working level meetings regardless of the conflicts with the United States.<sup>613</sup> The leadership still tried to separate the issue of the North-South cooperation from the ongoing military tension with the United States, emphasizing the importance of the June 15<sup>th</sup> Joint Declaration as a symbol of “national cooperation.” The cooperation with China, Russia, and South Korea continued but were easily influenced by the security issues and tensions along the nuclear crisis. Many cooperation projects and exchanges stopped, but North Korea managed to push forward some long-term projects including the Geumgangsan tourism and the Gaeseong Industrial Complex. Under the increased and prolonged

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was for society and culture. “Juche 93-nyeon Gyeongje Seonggwa [Economy: Economic Achievement of the Year Juche 93(2004),” in *Joseon Jungang Nyeongam Juche 94 (2005)* (KCNA, 2005), 184-185.

<sup>612</sup> Enhancement of anti-imperialist military force with rapid development in defense industry was the top priority in economic plan. Every other economic project had to consider the military purposes, and conduct each project following military methods. “Dang ui Ryeongdo Mit e Gangseong Daeguk Geonseol ui Modeun Jeonseon eseo Hyeokmyeongjeok Gongse reul Beollyeo Olhae neun Jarangchan Seungni ui Hae ro Bitnaeija [Let Us Launch Revolutionary Offensive in Every Line of Powerful and Prosperous Nation Construction under the Leadership of Party and Glorify This Year as a Victorious Year Full of Pride],” Joint editorial in *Rodong Sinmun*, *Joseon Inmingun*, and *Cheongnyeon Jeonwi*, January 1, Juche 93 (2004), in *Joseon Jungang Nyeongam Juche 94 (2005)*, 565-572.

<sup>613</sup> David Kang assessed the economic reform efforts of North Korea in the early 2000s separated from the military logic at the time, and argued the usage of the nuclear issue as the political tool to negotiate with the United States to achieve enough safety for the economic revival. David Kang, “North Korea’s Quest for Economic and Military Security,” in *North Korea and the World*, ed. Byung-chul Koh, 66-80.

pressure of the second nuclear crisis, the negotiations had to be rearranged several times. The Gaeseong Industrial Complex finally started the first-stage construction in June 30, 2003 and started to operate in December 2004. It was the year 2007 when the first stage construction of the complex was complete.<sup>614</sup>

Along with the economic cooperation projects, the Cabinet also pushed forward some domestic economic measures until 2004, such as the household farming system, the enterprise of a sideline farming system, and allowed more autonomy to the enterprise management. They also attempted more reforms in economic management, including the commodity flow, prices, and banking system. But these attempts could not be realized as quickly as it had hoped, and had to retreat from 2005 due to its conflicts with the Party policies.

## **(2) Short-lived Improvements and Extended Tensions**

Around 2000, North Korea tried to take opportunity of the improving North-South relations along the so-called “sunshine policy” of Kim Dae-jung administration, through which the leadership wanted to improve the relations with the United States. Unless the tension with the United States reduced to guarantee regime security, it was impossible to open up the country to the outside world as China did, in order to develop its economy. North and South Korea achieved the June 15<sup>th</sup> Joint Declaration in 2000, but the relations with the United States worsened with the missile test and the nuclear issue together with the military-oriented approach of the Bush administration. The economic cooperation with South Korea could not be free from the deteriorating relations with the United States. North Korea announced the July 1<sup>st</sup> Measures in 2002 to continue the momentum of economic revival. But the second nuclear crisis erupted from October 2002 after James Kelly’s visit to Pyongyang.<sup>615</sup> The prolonged nuclear crisis shifted the focus of foreign relations back to the military confrontation which made it difficult for North Korea to find more opportunities for

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<sup>614</sup> Seong-chang Cheong, *Hyeondae Bukhan ui Jeongchi*, 201-202.

<sup>615</sup> Dong-won Lim, *Piseu Meikeo*, 72-73, 531-538, and 632-665.

economic reform and opening in the mid and late 2000s.

*Opportunity and crisis in North Korea-U.S. relations*

To maintain the KWP rule without security concern, the North Korean leadership still wanted a peace treaty with the United States instead of the armistice agreement. Based on the 1994 North Korea-U.S. Agreed Framework (Geneva Agreement), the KWP leaders wanted to normalize the relationship with the United States to guarantee non-aggression and put an end to the annual military exercises. They also wanted to improve relations with Japan though they still showed strict attitude on the history issues.<sup>616</sup> To finish the Arduous March without external military threats, the relations with the United States, Japan, and South Korea had to be improved for economic recovery in the late 1990s and the early 2000s.

After the 1994 Agreed Framework, the direction of the U.S. domestic politics changed when the Congress was taken over by the Republicans. The economic sanction on North Korea had not been lifted until 2000. North Korea test-fired a rocket launch on August 31, 1998 which the KWP declared as a successful launch of their first satellite “Gwangmyeongseong-1 (Kwangmyongsong-1).” The official announcement claimed that this satellite launch was to celebrate the 50-year anniversary of the DPRK and the First Session of the Tenth SPA. But analysts in South Korea, Japan, and the United States viewed the rocket launch as a test of ICBM missile “Daepodong-1,” a matter of serious security concern.<sup>617</sup> Japan was particularly sensitive about the missile test and the United States showed tendency to link the issue with the implementation of 1994 Agreed Framework.<sup>618</sup> North Korea

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<sup>616</sup> Kim Jong Il, “Widaehan Suryeong Kim Il Sung Dongji ui Joguk Tongil Yuhun eul Cheoljeohi Gwancheolhaja [Let Us Firmly Follow the Teachings of National Unification Left by the Great Suryong Comrade Kim Il Sung],” August 4, 1997, in *Kim Jong Il Seonjip 14: 1995-1999* (Pyongyang: Joseon Rodongdang Chulpansa, 2000), 358-359.

<sup>617</sup> “Uri Nara eseo Cheot Ingong Jigu Wiseong Seonggwajeok euro Balsa [The First Artificial Earth Satellite of Our Country Launched Successfully],” and “Gukjejeok Banhyang [International Responses],” in *Joseon Jungang Nyeongam Juche 88 (1999)* (KCNA, 1999), 92-93, 95-96.

<sup>618</sup> “Uriga Wiseong Boyuguk euro Doeneun Geoseun Neomudo Dangdanghan Jajugwon ui Haengsaida [It is a Fully Legitimate Exercise of National Independence of Us to be a Satellite-Having Power],”

repeatedly denied the suspicions insisting the peaceful purpose of the rocket launch, but the United States already had many suspicions about the nuclear and conventional weapon capabilities in North Korea. The activities around the nuclear facilities and the missile launch led to the hardliners in the United States to establish the missile defense system.

Due to the suspicions on North Korean intentions and weapon capabilities, the 1994 Agreed Framework had not been implemented which was to provide economic support and improve North Korea-U.S. relations. The KWP complained that the United States had spent more than four years without concrete implementation of the Agreed Framework, such as the constructing a light-water (nuclear) reactor or supplying crude oil. The economic sanctions and trade restrictions were not lifted but rather intensified as North Korea was included to the “list of state sponsors of terrorism.”<sup>619</sup> The four-party talks from 1997 between North Korea, South Korea, the United States, and China had not made much progress. The negotiations between North Korea and the Korean Peninsula Energy Development Organization (KEDO) also did not make visible progress. After Clinton’s visit to Seoul in November 1998 emphasizing the ROK-U.S. alliance, the KPA announced a statement in December with strong terms like “fire to fire” and “destructive blow” against the United States and its allies. North Korea again argued the military exercises in South Korea as clear proofs of the U.S. war preparations to invade North Korea.<sup>620</sup>

Despite the tensions, North Korea in the late 1990s needed to improve its relations with the United States for economic recovery. The provision of crude oil was critical to resolve the energy shortage. The United States requested more inspections of the suspicious underground facilities, which North Korea announced as civilian

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Statement of the DPRK Foreign Ministry Spokesman, in *Ibid.*, 492.

<sup>619</sup> “Jomi Gibon Habuimun eul Pagi ero Moragan Miguk ui Ban Gonghwaguk Apsal Chaekdong [The Anti-North Korea Pressure to Death Scheme of the United States which Drove the North Korea-U.S. Basic Agreed Framework to Abrogation],” in *Ibid.*, 238.

<sup>620</sup> “Uri ui Hyeokmyeong Muryeok eun Mije Chimryakgun ui Dojeon e Chuhodo Yongseo Eopsi Seommyeoljeogin Tagyeok euro Daedaphal Geosida [Our Revolutionary Forces Will Reply to the Challenge of U.S. Imperialist Forces by Destructive Blow without Any Mercy],” Statement of the KPA General Staff Department Spokesman, in *Ibid.*, 493.

facilities. They finally announced the lifting of some of the economic sanctions on North Korea in September 1999, after North Korea allowed an inspection team's visit to the Geumchang-ri facilities in May to reduce the tension on the nuclear issue.<sup>621</sup> The North Korean authority still had threat perception on the South Korea-U.S. and the U.S.-Japan military alliances, and the four-party talks ended without any agreement in 1999. But the negotiations with the United States and the KEDO made some progress at the end of 1999 with the supply of 500,000 tons of crude oil and the conclusion of a basic contract on construction of the KEDO light-water reactor.

The North Korea-U.S. relations seemed to improve temporarily during 2000 in accordance with the improvements in North-South relations around the June 15<sup>th</sup> summit. The North Korean special envoy Jo Myeong-rok visited Washington, and then the U.S. Secretary of State Madeline Albright visited Pyongyang in October 2000. Through these visits, they agreed to cooperate for the actual improvement of relations. Both countries officially opposed terrorism which was important in order to remove North Korea from the "list of state sponsors of terrorism." The United States lifted some economic sanctions to partially allow investments, transportation, and financial exchanges which had been North Korea's long-time request from 1994.<sup>622</sup> It seemed that the relationship was improving in a way that would be supportive of the North Korea's economic revival in the year 2000 – the last year of the Clinton administration. North Korea offered to end exporting or testing of long-range missiles, and invited Clinton to Pyongyang to put an end to the suspicions and confrontations.<sup>623</sup> But Clinton's visit was not realized due to the U.S. domestic situation along the presidential election, and the North Korea-U.S. negotiations in 2000 ended without a clear conclusion.

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<sup>621</sup> "Jomi Gwangye [North Korea-U.S. Relations]," in *Joseon Jungang Nyeongam Juche 89 (2000)* (KCNA, 2000), 246.

<sup>622</sup> "Jomi Gwangye [North Korea-U.S. Relations]" and "Joseon Minjujuui Inmin Gonghwaguk gwa Mihapjungguk Sai ui Gongdong Commyunike [A Joint Communique between the DPRK and the United States of America]," in *Joseon Jungang Nyeongam Juche 90 (2001)* (KCNA, 2001), 251, 534.

<sup>623</sup> Leon V. Sigal, "North Korean Nuclear Brinkmanship, 1993-94 and 2002-03," in *North Korea and the World: Explaining Pyongyang's Foreign Policy*, ed. Byung-chul Koh (Kyungnam University Press, 2004), 46-48.

The relationship deteriorated sharply in 2001 with the inauguration of Bush administration. The Bush administration designated North Korea as one of “rogue states” and emphasized the seriousness of the missile threat. They required more inspections and transparency on the nuclear facilities, and also took a strict attitude on the problems of conventional weapons. The tension increased even more rapidly after the 9.11 terrorist attacks in 2001. North Korea still wanted more economic support as a compensation of the delayed construction of the light-water nuclear reactors but the 9.11 attacks affected the supports negatively. North Korea changed its attitude to emphasize the need of war preparation against the threat from the United States, again criticizing the annual military exercises as a proof of the danger of “the second Korean War.”<sup>624</sup> The term “axis of evil” of the Bush administration came out in January 2002, and the North also increased its criticisms on the U.S. war preparations in the Korean Peninsula. The second nuclear crisis started after the visit of the U.S. Special Envoy, the Assistant Secretary of State James Kelly in October 2002.

The United States raised the nuclear issue as the most important problem to be resolved prior to engaging in any other cooperation with North Korea. The Bush administration decided to discontinue the supply of crude oil which meant the end of the 1994 Agreed Framework to North Korea. During November and December 2002, North Korea decided to restart the nuclear facilities and banished the IAEA inspectors, and finally declared the withdrawal from the NPT in January 2003.<sup>625</sup> The second nuclear crisis reached its peak in 2003. There were the three-party talks in April and the six-party talks in August 2003 neither of which made any progress. The United States consistently demanded a complete renunciation of the nuclear weapons

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<sup>624</sup> “Miguk ui Dae Joseon Gorip Apsal Chaekdong [The Anti-North Korea Isolation and Pressure to Death Scheme of the United States],” in *Joseon Jungang Nyeongam Juche 91 (2002)*, 242-244.

<sup>625</sup> North Korea argued that the withdrawal from the NPT had been temporarily postponed from June 1993, as long as the United States kept the promises of Agreed Framework. “Miguk ui Dae Joseon Ganggyeong Gorip Apsal Chaekdong, Gonghwaguk Jeongbu ui Choganggyeong Dae-eung [The Anti-North Korea Strong Isolation and Pressure to Death Scheme of the United States, the Extremely Strong Response of the Republic Government],” in *Joseon Jungang Nyeongam Juche 92 (2003)* (KCNA, 2003), 279-282; “Joseon Minjujuui Inmin Gonghwaguk Jeongbu Seongmyeong [The DPRK Government Statement],” in *Joseon Jungang Nyeongam Juche 93 (2004)*, 581-582.

capability. But North Korea announced that it already had the technical capability to change the use of nuclear facilities and reprocess plutonium to deal with the threats coming from the United States.<sup>626</sup> The military tension aggravated as the United States increased the military forces in the region and strengthened the cooperation with South Korea and Japan. The KWP leadership no longer denied about having nuclear weapon programs and justified the programs with the need of nuclear deterrence capability for regime security.<sup>627</sup> The six-party talks continued for several years afterwards without concrete progress.

Along with the tension in North Korea-U.S. relations, North Korea-Japan relations deteriorated even more sharply due to the issue of abducted Japanese. North Korea had tried to normalize the relationship with Japan for economic and food aids, but it was difficult to make progress due to the missile launch and the abduction issue. The abduction issue appeared on the negotiation table from 1997, and the missile launch of 1998 suspended the negotiation and stopped the food aids. The government-level negotiations restarted in 2000 but made no progress due to these missile and abduction issues.<sup>628</sup> After the 9.11 attack in the United States, military cooperation of Japan and the United States was strengthened to put military pressure on North Korea. When the Prime Minister Koizumi visited Pyongyang in September 2002, Kim Jong Il expressed his wishes to improve the relations with Japan.<sup>629</sup> The North Korea-Japan “Pyongyang Declaration” was interpreted as Japan’s promise to increase the economic aids along the process of normalization.<sup>630</sup> The normalization negotiations,

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<sup>626</sup> “Jomi Gwangye [North Korea-U.S. Relations],” in *Joseon Jungang Nyeongam Juche 93 (2004)*, 248-251.

<sup>627</sup> “Jomi Gibon Habuimun eul Pagihan Miguk ui Beomjoe Haengwi [The Criminal Act of the U.S. to Abrogate the North Korea-U.S. Basic Agreed Framework],” A KCNA Indictment, in *Ibid.*, 582-590.

<sup>628</sup> “Joil Gwangye reul Choe-ak ui Sangtae ro Moragan Ilbon Danggukjadeul ui Ban Gonghwaguk Sodong [The Anti-North Korea Commotion of Japanese Authorities who Drove the North Korea-Japan Relations to the Worst Situation],” in *Joseon Jungang Nyeongam Juche 88 (1999)*, 237; “Joil Gwangye [North Korea-Japan Relations],” in *Joseon Jungang Nyeongam Juche 90 (2001)*, 254-256.

<sup>629</sup> North Korea could not retreat from the requirement of apologies about the past and so tried to avoid the sensitive issues to bring down military tensions. Kim Jong Il, “Ilbon Gyodotongsinsa Sajang i Jegihan Jilmun e Daehan Daedap [Answers to Questions Raised by the President of Japanese Kyoto News Agency],” September 14, *Juche 91 (2002)*, in *Kim Jong Il Seonjip 15*, 323-325.

<sup>630</sup> The contents of the “Pyongyang Declaration” were: i) to make progress toward the normalization; ii)

however, resulted in a failure due to the unresolved problems of the nuclear issue, the missile problem, and the abduction issues.<sup>631</sup> Japan's economic sanctions on North Korea increased, and the activities of Jochongnyeon became more and more difficult in Japan.<sup>632</sup> Koizumi once again visited Pyongyang in 2004 but the consequences were worse with more economic sanctions, particularly due to the abduction issue.<sup>633</sup>

The second nuclear crisis continued years afterwards, and the United States consistently expressed suspicions about North's nuclear activities along with other issues such as the human right problems. The six-party talks ended without any meaningful results. North Korea criticized the U.S. requirement of the "Complete, Verifiable and Irreversible Dismantlement (CVID)" of North Korean nuclear plan before negotiating the compensations.<sup>634</sup> According to the North Korean logic, it was the United States who hampered the efforts for a peaceful resolution. By 2004, North Korea officially declared that they would continue to develop the defense capability for national independence and war deterrence, to stand against the U.S. nuclear war plans (including all the military exercises).<sup>635</sup> The North Korea leaders could no

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to expand the economic aids and cooperation, and discuss the historical past and the Jochongnyeon issue along the normalization process; iii) to stop the threatening activities to each other including the issue of Japanese people's safety (abduction issue); and iv) to cooperate for the trust-building among the countries in the region to resolve the nuclear issue. "Joil Pyeongyang Seoneon [North Korea-Japan Pyongyang Declaration]," in *Joseon Jungang Nyeongam Juche 92 (2003)*, 276.

<sup>631</sup> "Joil Gwangye [North Korea-Japan Relations]," in *Ibid.*, 275-277.

<sup>632</sup> "Geukdoro Akhwadoen Joil Gwangye [The Extremely Worsened North Korea-Japan Relations]," in *Joseon Jungang Nyeongam Juche 93 (2004)*, 251; "Gyeongjeok euro Jilsiksikiryoneun Akralhan Jejae Chaekdong [Vicious Sanction Schemes to Suffocate the Economy]," in *Joseon Jungang Nyeongam Juche 93 (2004)*, 253.

<sup>633</sup> The Japanese government prohibited the money transfer from Japan to North Korea by revising the foreign exchange control law. North Korea sent the body remains of Yokota Megumi but the DNA analysis showed that it was not Megumi's remains. This deteriorated the relations for the worse. "Sinui Eopneun Ilbon ui Joil Pyeongyang Seoneon Rihaeng Uji, Akralhan Dae Joseon Jejae Sodong [The Faithlessness of Japan's Will to Fulfill the North Korea-Japan Pyongyang Declaration, the Vicious Anti-North Korea Sanction Commotion]," in *Joseon Jungang Nyeongam Juche 94 (2005)*, 255-256.

<sup>634</sup> The "North Korean Human Rights Act" of the United States was also regarded as a security threat to North Korea. North Korea was still on the "list of the state sponsors of terrorism" of the United States. "Juche 93 (2004)-nyeong Jeongchi Gaegwan [Political Overview]," and "Deouk Akralhage Ganghaengdoen Miguk ui Dae Joseon Alsae Jeongchaek [The Anti-North Korea Pressure to Death Policy of the United States Being Enforced More Viciously]," in *Ibid.*, 20 and 252-254.

<sup>635</sup> "Daehwa ui Mak Dwi eseo Haek Daegyeol eul Gyeokhwasikineun Miguk ui Beomjoe Haengwi [The U.S. Criminal Acts to Intensify the Nuclear Conflict Behind the Scene of Dialogues]," A KCNA Indictment, April 8, 2004, Pyongyang, in *Ibid.*, 586-588.

longer expect the improvement of political or economic relations with the United States. They tried to separate economic cooperation with South Korea from the influence of the nuclear tension with the United States.

*North-South cooperation held hostage to the nuclear crisis*

The North-South relations had shown no improvements from 1994 until 1999. But the year 2000 brought dramatic improvement in North-South relations in economic aspects. The summit in June and the series of political, economic and social exchanges softened the direct conflicts for several years. The June 15<sup>th</sup> Joint Declaration clarified the purpose of national unification, set the terms for exchanging the separated families and economic cooperation.<sup>636</sup> Although suspicions still remained, the June 15<sup>th</sup> Joint Declaration did help North Korea to temporarily reduce the tension with the United States as was seen in the mutual high-level visits in October 2000.

Kim Dae-jung government took office from 1998 and tried to gain access to North Korea by allowing trade and investments. Hyundai group started development projects in Geumgangsan area from 1998.<sup>637</sup> The initial government-level talks on the issues of fertilizer provision and the meeting of divided families turned out to be a failure. There was a military conflict on the West Sea in June 1999 and the tensions on the “northern limit line (NLL)” continued without clear conclusion about the military borderline on the sea.<sup>638</sup> It was early 2000 when North and South Korean government agreed to exchange special envoys and prepare for the summit in June.

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<sup>636</sup> “Joguk Tongil gwa Buknam Gwangye, Juche 89 (2000)-nyeon [National Unification and North-South Relations, Juche 89 (2000)],” and “Buknam Gongdong Seoneon [North-South Joint Declaration],” in *Joseon Jungang Nyeongam Juche 90 (2001)*, 259 and 263-264.

<sup>637</sup> Dong-won Lim, *Piseu Meikeo*, 359-373.

<sup>638</sup> “Jeokdeul Seohae eseo Eomjunghan Mujang Chungdol Sageon Dobal, Joseon Inmingun Chongchammobu Seohae Haesang Gusa Bungyeseon Seonpo [The Enemy Provoked a Serious Armed Clash in West Sea, the KPA General Staff Department Declared the Military Demarcation Line on West Sea],” and “Joseon Seohae Haesang Bungyeseon eul Seonpohal De Daehayeo: Joseon Inmingun Chongchammobu Teukbyeol Bodo [On Declaration of the Military Demarcation Line on the Korean West Sea: the KPA General Staff Department Special Report],” September 2, Juche 88 (1999), in *Joseon Jungang Nyeongam Juche 89 (2000)*, 81 and 506.

The Kim Dae-jung administration of South Korea had conducted the engagement policy (the “sunshine policy”). With the principles of “separation of politics and economy” and “reciprocity,” the South Korea tried to achieve actual peace and cooperation with North Korea. Kim Dae-jung and his staff members tried to persuade the United States, Japan, and China from 1998 to 1999 about the importance of long-term and actual peace in Korean Peninsula and economic support and cooperation to achieve that peace.<sup>639</sup> Despite the unexpected security issues such as the Geumchang-ri underground facilities in 1998, the military clash in the West Sea in 1999, and an incident of tourist detainment in Geumgangsán, the Kim Dae-jung government continued the engagement policy and tried to persuade the United States.<sup>640</sup> After William Perry’s visit to Pyongyang in May 1999, Kim Jong Il responded positively by making rapid progresses in communications with South Korea for the summit in June 2000.

In the North-South Joint Declaration, they agreed to improve the relationship for a long-term and peaceful unification, and declared the commitment to work on the unification issue independently (“Uri-Minjokkiri”) between North and South Korea. This independent unification process was insisted by North Korea to be the first article, which later became their political tool to criticize the South Korea-U.S. cooperation. Along with the agreements to hold humanitarian events regarding the divided families and political prisoners, the major point of the agreement was to increase the economic cooperation.<sup>641</sup> After the summit, North and South Korea suspended its political propaganda (criticisms) to each other, and tried to jumpstart the economic relations. To implement the agreed projects, practical meetings were

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<sup>639</sup> Wu-gon Jeong, “Nambukhan Gwangye ui Byeonhwa wa Juche Sasang [Changes in North-South Relations and the Juche Ideology],” in *Jeongsang Hoedam Ihu ui Bukhan: Nambuk Gwangye ui Byeonhwa wa Jeonmang* [North Korea after the Summit: Changes and Prospects in North-South Relations], Dae-sook Suh et al. (Kyungnam University IFES, 2002), 204-219.

<sup>640</sup> The situation gradually improved as seen in the “Perry report (the Review of United States Policy Toward North Korea: Findings and Recommendations)” in 1999 to pursue dialogues with North Korea to reduce the mutual threats. Dong-won Lim, *Piseu Meikeo*, 390-440.

<sup>641</sup> “6.15 Nambuk Gongdong Seoneon Juyo Naeyong [June 15<sup>th</sup> North-South Joint Declaration Main Points],” from a webpage on North-South agreements of the Office of North-South Dialogues, <http://dialogue.unikorea.go.kr/agreement/main/6>.

organized in various levels, including the ministerial talks, Red Cross, defense ministers and military, economic working level, etc. There were many obstacles that hampered these talks, but the talks on economic issues continued on a regular basis which was impressive especially in light of the past experiences.

Through the practical-level meetings for the economic cooperation, North and South Korea concluded several practical agreements to expand the cooperation and institutionalize the procedure: the protection of investment, the prevention of double taxation, the settlement and clearing procedure, and the procedure of commercial dispute settlement. The meetings also made progress on the issues of electricity cooperation, transportation connections (railroads and express roads), the flood prevention project of Imjingang, and the construction of the Gaeseong Industrial Complex.<sup>642</sup> But these agreements did not mean rapid progress in actual projects. There were strong oppositions in Seoul on the issue of economic cooperation and the ROK-U.S. military exercises were still held while the military budget also increased.<sup>643</sup> Kim Jong Il's leadership also had no intention to reduce the military buildup or the war preparation despite the improvement of economic relations. The revolutionary spirit and military preparedness were continuously emphasized to block the cultural invasion of imperialism.<sup>644</sup>

As the relations with the United States deteriorated from 2001, the economic cooperation projects encountered many political obstacles. the KWP leadership tried to separate the economic cooperation with South Korea from the tensions with the United States. They repeatedly argued to continue the spirit of the June 15<sup>th</sup> Declaration and the practical meetings on various levels. But it was not easy to

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<sup>642</sup> "Buknam Sanggeup Hoedam [North-South High-Level Talks]," and "Buknam Gyeongje Silmu Jeopchok [North-South Practical-Level Contacts for Economic Cooperation]," in *Joseon Jungang Nyeongam Juche 90 (2001)*, 266-269 and 271.

<sup>643</sup> "Buknam Gongdong Seoneon ui Rihaeng e Jedong eul Geollyeoneun Namjoseon Ilbu Seryeokdeul ui Chaekdong [The Scheme of Some Groups in South Korea to Put Brakes on the Implementation of the North-South Joint Declaration]," in *Ibid.*, 288-292.

<sup>644</sup> Kim Jong Il, "Olhaeneun Sae Segi ui Jingyeokro reul Yeoreonaganeun Deseo Jeonhwan ui Haero Doege Haja [Let Us Make This Year to be the Year of Upswing to Open Up an Advance Route of the New Century]," A talk to officials of the Central Committee of the KWP, January 3, Juche 90 (2001), in *Kim Jong Il Seonjip 15*, 84-86.

expand the cooperation along with the security problems.<sup>645</sup> The meetings and talks were affected by the growing tension from the nuclear issue. There were still some progresses in various projects at the fifth North-South high-level talk in September 2001, such as the transportation, the Gaeseong Industrial Complex, the electricity supply, Geumgangsan tourism, and other social exchanges. But the sixth high-level talk in November 2001 turned out to fail at making progress on the projects. North Korea criticized the uncooperative attitude of the South conducting the ROK-U.S. military exercises and the emergency alert against North Korea.<sup>646</sup> The government-level meetings on the Geumgangsan tourism project were temporarily suspended after the 9.11 terrorist attacks.<sup>647</sup> At the end of the year 2001, the cooperative tendency was significantly reduced despite North Korea's desperate need for economic relations to revive the economy.

Although the level of cooperation had relatively deteriorated compared to the year 2000, North and South Korea managed to continue the economic cooperation throughout 2002. The Kim Dae-jung government continued the engagement policy and sent a special envoy in April 2002 to break the temporary stalemate after the 9.11 incident.<sup>648</sup> The high-level talks resumed and the atmosphere was relatively friendly until the eighth talk in October to agree on the actual start of Gaeseong construction.<sup>649</sup> The practical meetings were on their way throughout 2002 on the railways, Gaeseong, Geumgangsan, etc. But the second nuclear crisis brought suspension of the meeting on the economic institutionalization in December 2002. Other projects still continued into 2003 despite the nuclear crisis,<sup>650</sup> but the width and

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<sup>645</sup> "Joguk Tongik gwa Buknam Gwangye Gaegwan [National Unification and North-South Relations: Overview]," in *Joseon Jungang Nyeongam Juche 91 (2002)*, 249-250.

<sup>646</sup> "Buknam Sanggeup Hoedam [North-South High-Level Talks]," in *Ibid.*, 258-260.

<sup>647</sup> "Geumgangsan Gwangwang Hwalseonghwa reul Wihan Buknam Dangjuk Hoedam [North-South Governmental Talks for Vitalization of the Geumgangsan Tourism]," in *Ibid.*, 262.

<sup>648</sup> "Namcheuk Teuksa [South Korean Special Envoy]," in *Joseon Jungang Nyeongam Juche 92 (2003)*, 309-310.

<sup>649</sup> "Buknam Sanggeup Hoedam [North-South High-Level Talks]," in *Ibid.*, 291.

<sup>650</sup> "Buknam Gyeongje Hyeomnyeok Chujin Wiwonhoe Hoeui [North-South Economic Cooperation Promotion Committee Meeting]," and "Buknam Gyeongje Hyeomnyeok Chujin Wiwonhoe Bungwa Hoeui [North-South Economic Cooperation Promotion Committee Sectional Meetings]," in *Ibid.*, 293-

depth of the economic cooperation could not be expanded. The Kim Dae-jung government insisted on maintaining the economic contacts with North Korea but faced strong oppositions from South Korea, United States, and Japan. The victory of Roh Moo-hyun in the 2002 presidential election meant the continuation of engagement policy, but it was hard to expect remarkable developments of the economic cooperation between the two Koreas.

North Korea saw the increased military cooperation between South Korea and the United States in 2003. South Korea strengthened the military alliance and cooperation with the United States and Japan, and even dispatched military personnel to Iraq in response to the U.S. requests. North Korea was still the main enemy of the South Korean military, and the ROK-U.S. military exercises continued and renewed with more modernized equipment.<sup>651</sup> North Korea partially succeeded in separating the North-South economic cooperation from security confrontations, but the cooperation was fragile and easily affected from the deteriorating security environments. When the North and South Korean officials met at the thirteenth high-level talk in February 2004, North Korea complained that there had been no actual progress in the economic cooperation during the year 2003 after the start of the second nuclear crisis. North Korea insisted the concept “national independence” to develop the economic cooperation only between North and South Korea, which did not match with South Korean suggestions to internationalize the economic projects.<sup>652</sup> They continued the high-level and practical-level talks in 2004 to make some progresses in the economic projects but they remained rather slow and procedural.

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<sup>651</sup> “Namjoseon Gunsu Jeongse [South Korean Military Situations],” in *Joseon Jungang Nyeongam Juche 93 (2004)*, 304-307.

<sup>652</sup> The North Korean side requested rapid progresses in the construction of the Gaeseong Industrial Complex and other agreed issues such as the Imjingang flood control and the shipping agreement. The social-level exchanges like the separated family meetings were also discussed to make the atmosphere friendly with South Korea. North Korea repeatedly urged the South to make progresses in economic cooperation as fast as possible. ‘Buknam Sanggeup Hoedam [North-South High-Level Talks]’ and ‘Buknam Gyeongje Hyeomnyeok Chujin Wiwonhoe Hoeui [North-South Economic Cooperation Promotion Committee Meeting]’ of ‘Buknam Sai ui Jeopchok gwa Daehwa [Contacts and Dialogues between North and South],” in *Ibid.*, 264-265 and 265-268.

While economic cooperation was decreasing its pace, the military tension increased rapidly with more military-level meetings between South Korea and the United States and the joint military exercises.<sup>653</sup> For North Korea, the unchanged ROK-U.S. military alliance remained as serious security threat as the nuclear crisis with the United States continued, despite all the agreements and economic cooperation with South Korea.

*Limited revival of relations with China and Russia*

Kim Jong Il declared the political slogan of “Powerful and Prosperous Nation” from 1998 as a long-term goal of the regime. But the short-term need of economic aid made North Korea dependent on China. China was busy for its own economic development, but provided the economic aids for the stability in the Korean Peninsula which was critical for the economic development of the northeastern provinces. The volume of trade between North Korea and China had been decreased sharply from 1993, but China became the most important provider of the foreign aids until the end of the 1990s.<sup>654</sup> Many countries had provided aids since 1996, including China and South Korea, either directly or through the international organizations. China had provided foodstuff, fertilizers, and crude oil as the grant aid, and the World Food Program (WFP) had supported the food and food processing facilities.<sup>655</sup> China became almost the only economic partner in the mid and late 1990s. In 1999, the SPA Chairman Kim Yeong-nam led a delegation for North Korea-China friendship, met

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<sup>653</sup> North Korea listed the military-related meeting between South Korea and the United States such as the ROK-US Security Consultative Meeting and defense ministerial talks as the war preparation against the North. The annual military exercises such as “reception, staging, onward movement, and integration (RSOI)” in March and “Ulchi Focus Lens (UFL)-04” in August were also regarded as consistent threat to North Korea. “Namjoseon ui Gunsa Jeongse [South Korean Military Situations],” in *Joseon Jungang Nyeongam Juche 94 (2005)*, 291-294.

<sup>654</sup> The North Korea-China trade volume decreased from about 900 million dollars in 1993 to 370 million dollars in 1999. China in the 1990s maintained the pragmatic stance in economic relations. After 2000, however, China sought ways to get through the containment policies of other major actors and shifted economy-oriented policies to more security-oriented ones. Myung-chul Cho et al., *Bukhan Gyeongje ui Dae Junguk Uijondo Simhwa wa Hanguk ui Dae-eung Bangan*, 47-48

<sup>655</sup> “Gukjejeokin Hyeopjo Saeop [International Cooperation Projects],” in *Joseon Jungang Nyeongam Juche 88 (1999)*, 241.

Jiang Zemin to learn about Chinese economic achievements and request more support. The KWP also held many pro-China gatherings to celebrate the fiftieth anniversary of North Korea-China diplomatic relations during 1999.<sup>656</sup>

Along with the remarkable changes in North Korea's relations with South Korea and the United States in 2000, the relations with China and Russia also made visible progress with mutual visits and increased economic supports. Kim Jong Il visited China in May 2000 for the first time after 1983, and visited again in January 2001 for friendship and cooperation. With Russia, North Korea concluded a treaty on friendship and cooperation in February 2000, and Putin visited Pyongyang in July 2000.<sup>657</sup> When he visited China, Kim Jong Il asked Chinese leaders to increase economic and technological supports, and visited many factories and enterprises. For example, he met Zhu Rongji in Shanghai during his 2001 visit and saw the achievements of the reform and opening. He visited Shanghai Urban Planning Exhibition Center, Shanghai General Motors Corporation, Shanghai Electric Group Company, and many factories, farms, exhibitions, transportation facilities, financial centers, and institutes to see China's rapid modernization.<sup>658</sup>

The friendship with China was important for North Korea not only for economy, but also in terms of security to deal with the tensions with the United States. Facing the deterioration of the relations with the United States, the KWP leaders needed better relations with China and Russia to resist against the threat from the United States. Jiang Zemin visited Pyongyang in September 2001,<sup>659</sup> supported the North-

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<sup>656</sup> "Joseon Minjujuui Inmin Gonghwaguk Daepyodan Junghwa Inmin Gonghwaguk Gongsik Chinseon Bangmun [The DPRK Delegation Official Goodwill Visit to the People's Republic of China]" and "Jojung Du Nara Sai ui Oegyo Gwangye Seoljeong 50 Dol [Fiftieth Anniversary of the Diplomatic Relations between North Korea and China]," in *Joseon Jungang Nyeongam Juche 89 (2000)*, 231, 243.

<sup>657</sup> "Daeoe Gwangye: Gaegwan Juche 89 (2000)-nyeon [Foreign Relations: Overview, Juche 89 (2000)]," in *Joseon Jungang Nyeongam Juche 90 (2001)*, 231.

<sup>658</sup> "Widaehan Ryeongdoja Kim Jong Il Dongji kkeseo Junghwa Inmin Gonghwaguk eul Bigongsik Bangmun [The Great Leader Comrade Kim Jong Il Had an Unofficial Visit to the PRC]," in *Joseon Jungang Nyeongam Juche 90 (2001)*, 233; "Widaehan Ryeongdoja Kim Jong Il Dongji kkeseo Junghwa Inmin Gonghwaguk eul Bigongsik Bangmun," in *Joseon Jungang Nyeongam Juche 91 (2002)*, 217-219.

<sup>659</sup> Among the foreign visitors to North Korea in Juche 90 (2001), "Jungguk Gongsandang Chongseogi, Junghwa Inmin Gonghwaguk Juseok Gang Taek-Min [The General Secretary of the CCP, the Premier

South economic cooperation, and promised to help North Korea to improve relations with other countries. North Korea-Russia relations went through a similar pattern. Putin visited Pyongyang in 2000 and promised support for economy and security. The North Korea-Russia Joint Declaration was signed and Russia supported the North Korean position in the peaceful purpose of missile test, criticizing the U.S. arguments of North Korean threats and missile defense system.<sup>660</sup> Kim Jong Il expressed his satisfaction on North Korea-Russia relations after 2000 and the Joint Declaration to increase cooperation and resist against the U.S. missile defense system issue.<sup>661</sup> He visited Russia in summer 2001, met Putin for more cooperation including the railroads from the Korean Peninsula to Europe. They agreed on another joint declaration in Moscow to expand cooperation on economic and security issues.<sup>662</sup> Kim Jong Il again visited the far east region of Russia in August 2002 and met Putin in Vladivostok to discuss the railroads construction issue, and visited factories, enterprises, and commercial centers.<sup>663</sup>

When the second nuclear crisis actually started after Kelly's visit to Pyongyang in October 2002, it became important to keep the support of China and Russia. China took the role of mediator in the tripartite and the six-party talks from 2003. North Korea consulted with China and tried to utilize the six-party talks to resolve the security and economic concerns simultaneously.<sup>664</sup> The six-party talks, however,

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of the PRC Jiang Zemin],” in *Joseon Jungang Nyeongam Juche 91 (2002)*, 232.

<sup>660</sup> “Rossiya Yeonbang Daetongryeong Ullajimireu Ulajimirobichi Ppujjin [President of Russia Federation V. V. Putin],” and “Joro Gongdong Seoneon [North Korea-Russia Joint Declaration],” in *Joseon Jungang Nyeongam Juche 90 (2001)*, 239 and 532.

<sup>661</sup> Russia agreed with the North Korean position that the United States increased tension and threat on North Korea through the missile issue. Kim Jong Il, “Rossiya Ittareu-Ttasseu Tongsinsaga Jegihan Jilmune Daehan Daedap [Answer to Questions Raised by Russian Itar-Tass News Agency],” July 24, *Juche 90 (2001)*, in *Kim Jong Il Seonjip 15*, 174-178.

<sup>662</sup> “Widaehan Ryeongdoja Kim Jong Il Dongji kkeseo Rossiya reul Bangmun [The Great Leader Comrade Kim Jong Il Visited Russia],” and “Joseon Minjujuui Inmin Gonghwaguk gwa Rossiya Yeonbang ui Moseukeuba Seoneon [The Moscow Declaration of the DPRK and the Russian Federation],” in *Joseon Jungang Nyeongam Juche 91 (2002)*, 220-221 and 223-224.

<sup>663</sup> “Widaehan Ryeongdoja Kim Jong Il Dongji kkeseo Rossiya Yeonbang Wondong Jiyeok eul Bangmun [The Great Leader Comrade Kim Jong Il Visited the Far East Region of Russian Federation],” in *Joseon Jungang Nyeongam Juche 92 (2003)*, 253-255.

<sup>664</sup> It was important for North Korea to insist the mutual reduction of threats and economic supports in a

turned out hard to achieve a meaningful result in a short time. China and Russia supported North Korea but this never meant that they gave unconditional support for regime security or economic revival. These former socialist brothers wanted to balance the increasing military influence of the United States and keep the status quo in the Korean Peninsula. Kim Jong Il again visited China in April 2004 to consult about the peaceful resolution of the nuclear crisis and the six-party talks.<sup>665</sup> But the North Korea-China relations could not be as strong as the ROK-U.S. relations, particularly in the military aspect. The support of China or Russia had clear limitations following their own interests which never provided North Korea enough reassurances of regime security after actual “peaceful resolution” of the nuclear issue.

## 2. “Uri-sik” Combined with “Military First”

During the mid-1990s, Kim Jong Il’s leadership diligently passed on the blame for the economic difficulties to the external threats. Kim Jong Il reused the term “Arduous March” from the heroic history of anti-Japan struggles to overcome these threats from the U.S. economic sanctions and the ROK-U.S. military exercises.<sup>666</sup> After the Arduous March, Kim Jong Il officially established his political leadership in 1998 with strong military-oriented policy lines to construct a “powerful and prosperous socialist nation.” He promoted the “Military First” ideology which emphasized the military buildup as the first and most important task of the country to survive through the increased threats.<sup>667</sup> Had no trustworthy international partnership,

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package deal. Among the foreign visitors to North Korea in Juche 92 (2003), “Jungguk Gukga Daepyodan [Chinese State Delegation],” in *Joseon Jungang Nyeongam Juche 93 (2004)*, 239-240.

<sup>665</sup> China expressed political support to North Korea for the peaceful resolution of the nuclear issue and promised the economic aids North Korea asked. “Widaehan Ryeongdoja Kim Jong Il Dongji kkeseo Junghwa Inmin Gonghwaguk eul Bigongsik Bangmun [The Great Leader Comrade Kim Jong Il Had an Unofficial Visit to the PRC],” in *Joseon Jungang Nyeongam Juche 94 (2005)*, 236-237.

<sup>666</sup> Kim Jong Il, “Munhak Yesul Bumun eseo Myeongjak eul Deo Mani Changjakaja [Let Us Create More Masterworks in the Literary Arts Sector],” A talk to officials of the Propaganda and Agitation Department of the Central Committee of the KWP and those in charge of literary arts sector, April 26, 1996, in *Kim Jong Il Seonjip 14*, 174-175.

<sup>667</sup> Kim Jong Il, “Sahoejuui Gangseongdaeguk Geonseol eseo Gyeoljeongjeok Jeonjin eul Irukal De Daehayeo [On Accomplishing a Decisive Advance in the Socialist Powerful and Prosperous Nation

these concepts “Military First” and the “Powerful and Prosperous Nation” continued throughout the 2000s. Kim Jong Il increasingly emphasized the importance of modernization and technology and cited the need of “new thinking” to promote practical policy changes as they increased economic exchanges and cooperation with South Korea but strictly in the boundary of “Uri-sik” way of development not to allow the dangers of political impacts on the regime security.

In Kim Jong Il’s political discourses, the nationalism (equally used with patriotism) was completely compatible with the socialist system since both were defined as the expression of affection toward the nation and people. Being “revolutionary” was equated with being “nationalistic” and struggling against the trend of “globalization” or “interdependence.”<sup>668</sup> Political themes in the SPA or other organs followed this nationalistic discourse to separate North Korea from the outside, focusing on the Juche and empowering the military slogans. The production units had to put priority on supporting military buildup.<sup>669</sup> This “Uri-sik” and “Military First” discourses were to keep the regime safe with concrete domestic loyalty and prevention of foreign political influences while the leadership pursued more exchanges and cooperation for economic revival. When there started the second nuclear crisis with the United States, these military-oriented discourses made it difficult for North Korea to reduce the tension or improve economic cooperation.

### **(1) Using “Military First” for Economic Revival**

During the famine of the mid-1990s, the top-down control over society had been significantly weakened compared to the preceding years. The centralized production and distribution system collapsed, and the food and fuel shortages

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Construction],” A talk to officials of the Central Committee of the KWP, January 1, Juche 89 (2000), in *Kim Jong Il Seonjip* 15, 7-12.

<sup>668</sup> The “Juche nationalism” was argued as the only possible way for North Korea toward the socialist construction and national unification. Kim Jong Il, “Minjokjuui e Daehan Olbareun Rihae reul Gajil De Daehayeo [On Having a Proper Understanding of Nationalism],” A talk to officials of the Central Committee of the KWP, February 26 and 28, Juche 91 (2002), in *Ibid.*, 258-260.

<sup>669</sup> “Choego Inmin Hoeui Je 10-gi Je 5-cha Hoeui [The Fifth Session of the Tenth SPA],” in *Joseon Jungang Nyeongam Juche* 92 (2003), 131-132.

remained severe. People started to move around for food and consumer goods, and they even moved in and out of the country.<sup>670</sup> The North Korean leaders had to receive foreign aids to resolve these extreme economic difficulties. The series of natural disasters also aggravated the situation. When Kim Jong Il decided to hold the official inauguration of his political leadership from 1998, North Korea was still suffering extreme economic difficulties and coming very slowly out of the famine. To preserve the political stability of the new reign of Kim Jong Il, which was backed by his father's legacy, the safest way of ruling was still the "traditional" way of ideological campaigns. Since the economic gap between North Korea and other neighboring countries became too big for North Korea to catch up in the near future, it was better to completely shut off individual or social-level contacts while pursuing economic revival.

*Utilizing military slogans to overcome the Arduous March*

In the middle of the famine in 1995, Kim Jong Il published articles which put forth ideology as the first priority in every sector including economic construction. The basic economic management system had to be the socialist plan, and the plan had to promote the socialist ideology and political loyalty. Private ownership was defined not to be compatible with North Korean socialist economy.<sup>671</sup> Along with the strong emphasis on the Juche, the legacy of Kim Il Sung and unconditional loyalty to the Kim family remained as the most valuable "tradition." The leadership tried to maintain unity from the Suryong at the top to the lowest unit level at the bottom

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<sup>670</sup> On the economic crisis, famine and the changes of North Korean society, Kongdan Oh and Ralph C. Hassig, *North Korea Through the Looking Glass*; Nicholas Eberstadt, *The End of North Korea* (Washington, D.C.: American Enterprise Institute, 1999); and Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid, and Reform* (New York: Columbia University Press, 2007).

<sup>671</sup> Under Kim Jong Il's rule, any different ideology from the outside could not be allowed into North Korea. The "cooperation" and "exchanges" with the imperialists was defined as a brutal conspiracy to contaminate the pure ideological system of North Korea, and the revisionist tendencies were defined as the opportunist tendency denying the socialist revolutionary principles. Kim Jong Il, "Sasangsaep eul Apse-uneun Geoseun Sahoejuui Wieop Suhaeng ui Pilsujeok Yogu-ida [It is an Indispensable Demand to Uphold Ideological Campaigns to Fulfill the Socialist Tasks]," June 19, 1995, in *Kim Jong Il Seonjip 14*, 55-57.

without any dissent on the Party rule and policies.<sup>672</sup>

Since the political vigilance could not prevent extreme economic hardship and famine, Kim Jong Il chose to distance himself from bearing the responsibility for economic management. He criticized the Administration Council and the economic officials for not doing their job properly although they had no clear policy alternatives to resolve the economic difficulties. The blame for the decrease in agricultural production was also passed to the related officials who did not fully apply “the Juche Agricultural Methods.” He ordered for the improvement of the international trade by producing export products using the “self-reliant economic basis.”<sup>673</sup> The “trade first policy” was one of the official slogans but the basic policy remained in internal mobilization of reserved resources to render the economy self-reliant. Even when the famine was aggravated due to a series of drought and floods in 1995 and 1996, Kim Jong Il never acknowledged his fault of having implemented speed battles or agricultural methods that contributed to the famine. The Party ordered the local units to carry out another mass campaign for the conservation of mountains and rivers, but it was too late to prevent the natural disaster.<sup>674</sup> The campaigns urged the people to constantly prove their patriotic enthusiasm by showing loyalty to the leadership.

The term “Arduous March” appeared in Kim Jong Il’s speeches from 1996, cited from Kim Il Sung’s glorified history of anti-Japanese revolutionary struggles. He instructed the officials and the mass to have the spirit of the Arduous March which was redefined to be a combination of “the spirits of guarding the Suryong,

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<sup>672</sup> Kim Jong Il, “Joseon Rodongdang eun Widaehan Suryeong Kim Il Sung Dongji ui Dangida [The KWP is the Party of the Great Suryong Comrade Kim Il Sung],” October 2, 1995, in *Kim Jong Il Seonjip 14*, 86-96.

<sup>673</sup> The economic officials were ordered to take care of the national economy while Kim Jong Il concentrated on the Party and military works which he categorized as his main job. Kim Jong Il, “Gyeongjesaeop eul Gaeseonhaneun Deseo Naseoneun Myeotgaji Munje e Daehayeo [On Some Problems in Improving the Economic Works],” A talk to officials of the Central Committee of the KWP, April 22, 1996, in *Kim Jong Il Seonjip 14*, 160-172.

<sup>674</sup> The natural disasters in North Korea were the results of the excessive logging and cultivation of mountains for the production and energy, which had been accelerated by Kim Jong Il’s production campaigns from the 1980s. Kim Jong Il, “Gukto Gwalli Saeop eseo Saeroun Jeonhwan eul Ireukil De Daehayeo [On Bringing a New Upswing in National Territory Management Project],” A talk to officials of the Central Committee of the KWP, August 11, 1996, in *Kim Jong Il Seonjip 14*, 203-208.

accomplishing the self-reliance, subjugating the difficulties, and the revolutionary optimism” to deal with any extreme hardships.<sup>675</sup> Political campaign was the only available method of coping with the difficulties in an isolated situation. Special policy priority was placed on the military capacity of the KPA. Kim Jong Il emphasized the importance of the strong military forces despite the shortages of food and consumer goods at the time.<sup>676</sup> With no security assurances, the KPA forces had to be kept loyal to Kim Jong Il. The leadership also utilized the military forces for many economic construction projects, and strengthened the control over the society, constantly emphasizing the need for war preparations.

In 1997, the most urgent task was still the food provisions. The consumer goods also had a long way to go to improve the quality of life. The factories in local districts were repeatedly instructed to increase production using their own natural resources and reserve capacities. Such instructions showed the unchanging principles on the light industry even though they had years of extreme shortages of resources and materials. The leadership of Kim Jong Il continued to stick to political unity under the Party rule to not to lose the control over the society. While the Administration Council and lower branches worked for practical improvement of economic performance, the Party organs intervened to enhance the unity and top-down control over the country.<sup>677</sup> Kim Jong Il still criticized the administrative elites for not working enough for the economic revival. The leadership should have known that the production units no longer had reserved resources or capacities to increase the production by themselves. But for political stability, they did not attempt any

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<sup>675</sup> Kim Jong Il, “Ilgundeul eun ‘Gonan ui Haenggun’ Jeongsin euro Salmyeo Iraeya Handa [Officials Should Live and Work in the Spirit of ‘Arduous March’],” A talk to officials of the Central Committee of the KWP, October 14, 1996, in *Kim Jong Il Seonjip 14*, 249-252.

<sup>676</sup> Kim Jong Il, “Olhae e Dangsaeop eseo Hyeokmyeongjeok Jeonhwan eul Ireukil De Daehayeo [On Promoting a Revolutionary Upswing in This Year’s Party Works],” A talk to officials of the Central Committee of the KWP, January 1, 1997, in *Kim Jong Il Seonjip 14*, 266-269.

<sup>677</sup> Kim Jong Il had argued that it was his mission to keep the political discipline in the Party under the Juche ideology, while the Administration Council and economy-related bureaucracy were instructed to take the responsibility of the economic revival. Kim Jong Il, “Olhae reul Sahoejuui Gyeongjeonseol eseo Hyeokmyeongjeok Jeonhwan ui Hae ro Doege Haja [Let Us Make This Year a Revolutionary Upswing in Socialist Economic Construction],” A letter to participants of the Party officials’ mass meeting, January 24, 1997, in *Kim Jong Il Seonjip 14*, 283-287.

dramatic change in economic policies but stayed within the confines of the methods of political mobilization and control over the society.

The year 1997 was the peak of the North Korean famine and extreme poverty. The confidence crisis on regime security also reached to a peak as shown in the defection of Hwang Jang-yeop in February 1997. Why the KWP regime did not collapse during the mid-1990s is another puzzle. Kim Jong Il insisted that it was the role of revolutionary spirit which was enhanced by education and campaigns to remain loyal to the Party leadership. The “revolutionary military spirit” became the highest value for the Party and the mass. The leaders knew about the outside expectations on the collapse of North Korean regime and wanted to prepare for a situation that was even worse.<sup>678</sup> The habituated loyalty to the Suryong and the military spirit for the anti-foreign struggle had become the ideological basis for the Kim Jong Il’s leadership after the Arduous March.

*“Military First” for the “Powerful and Prosperous Nation”*

After the official inauguration of Kim Jong Il’s reign in 1998, military buildup appeared to be the top policy priority in the political discourse for the socialist victory and regime security. The basic principle of self-reliance never changed because it was needed to justify extracting domestic resources and making the factories to operate on their own. The slogan “Powerful and Prosperous Nation” came from the constant concept of historical struggle against the foreign influences.<sup>679</sup> The Juche idea had been combined with the nationalistic concepts emphasizing the uniqueness of North

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<sup>678</sup> Kim Jong Il, “Hyeokmyeongjeok Gunin Jeongsin eul Ttara Baeul De Daehayeo [On Learning the Revolutionary Military Spirit],” A talk to officials of the Central Committee of the KWP, March 17, 1997, in *Kim Jong Il Seonjip* 14, 292-296.

<sup>679</sup> The expansion of foreign direct investment was still considered as a foolish idea seeking foreign helps. The material incentives were more and more stressed for rapid recovery, but the self-reliance within the domestic economy remained as the number one principle in economic policies until the end of the 1990s. Kim Jong Il, “Jagangdo ui Mobeom eul Ttara Gyeongjesaeop gwa Inminsaenghwal eseo Saeroun Jeonhwan eul Ireukija [Let Us Promote a New Upswing in Economic Works and People’s Life Following the Model of Jagang Province],” A talk to officials during the on-the-spot guidance of various sectors in Jagang Province, January 16 to 21, June 1, October 20 and 22, Juche 87 (1998), in *Kim Jong Il Seonjip* 14, 393-401.

Korea expressed in the “Korean people first” slogans. The KWP kept praising the Suryong and the new leadership for the “Uri-sik (Our Style)” of socialism, which was needed to stand against the “imperialist threats” without incurring changes in their aggressive nature. The tendency of globalization was also considered as another conspiracy to dominate the world under the imperialistic rule of the West. The “Segyehwa (globalization)” slogan of South Korea at the time of Kim Young-sam government had been criticized as a national betrayal to hand over the spirit of the Korean people to the foreign powers.<sup>680</sup> For Kim Jong Il, the Kim Young-sam administration was nothing different from the military dictatorships regarding the anti-North Korea tendency.

Following Kim Il Sung’s legacy, Kim Jong Il used the long-term national goal of unification to promote political loyalty. Since the unification was a “long-term” goal that passed from generation to generation, the emphasis on the unification issue itself did not mean the rapid improvement of North-South relations. In reality, the North-South relations had not been in a good shape after Kim Il Sung’s death, and became even worse in 1997 right after the defect of Hwang Jang-yeop. Instead of improvements in political relations, the leadership had to concentrate on the economic revival. To promote the agricultural production, they allowed some material incentives to facilitate the productions. Many individuals had already started to cultivate the extra pieces of land for their own profits and the center officially exempted these productions from the state purchase to promote extra productions.<sup>681</sup> For the planned productions in agricultural sector, the leadership mobilized the KPA forces to assist the cultivations.

Kim Jong Il’s political leadership with the “Uri-sik” system was based on the gradually improving economic situation from the famine. The role of the military

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<sup>680</sup> Kim Jong Il, “Hyeokmyeong gwa Geonseol eseo Jucheseong gwa Minjokseong eul Gosuhul De Daehayeo [On Keeping the Juche and Nationalism in Revolution and Construction],” June 19, 1997, in *Kim Jong Il Seonjip 14*, 326-333.

<sup>681</sup> Kim Jong Il, “Dangmyeonhan Gyeongjesaeop ui Myeotgaji Munje [Some Problems in Present Economic Works],” A talk to officials of the Central Committee of the KWP, September 10, Juche 86 (1997), in *Kim Jong Il Seonjip 14*, 360-363.

expanded into the agriculture and other economic sectors with Kim Jong Il's emphasis on the militarization of the country. Kim Jong Il used many military terms like "the march toward the final victory" or the "new revolutionary high tide" for economic productions, mainly the electricity, metal, and machines for a rapid economic recovery.<sup>682</sup> The New Year's Joint Editorial of 1998 praised the "victory" over the economic difficulties thanks to Kim Jong Il and the Juche ideology. The "new revolutionary high tide" accelerated the economic construction and to keep the Uri-sik socialist system. Every economic sector was urged to make progresses, while the importance of military preparedness remained unharmed. The revolutionary military spirit was the best concept to consolidate the Juche and nationalism throughout the country.<sup>683</sup> The ideological campaigns were focused on boosting the anti-imperialist tendencies of the mass and the struggle against the foreign powers, which meant more support for the military preparations.

The Tenth SPA in 1998 amended the DPRK Socialist Constitution, which had a newly added preface emphasizing the legacy of Kim Il Sung. Chapter 2 on economy continuously stressed a self-reliant national economy under the socialist planning system, but announced a small allowance of the individual ownership for extra profits including the right of inheritance (article 24). The basic principle of a socialist planned economy never changed. The center kept the full control to distribute the budget and resources for political purposes, particularly for the military buildup. International trade was firmly under the state control, including joint ventures and other economic cooperation even in the FETZ. In Chapter 6 which deals with state organization, the National Defense Commission became one of the most powerful organs under Kim Jong Il's leadership, reflecting the "Military First" policy.<sup>684</sup>

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<sup>682</sup> "Jeongchi: Juche 87 (1998)-nyeon Gaegwan [Politics: Juche 87 (1998) Overview]," in *Joseon Jungang Nyeongam Juche 88 (1999)*, 41-42.

<sup>683</sup> "Widaehan Dang ui Ryeongdottara Saehae ui Chong Jingun eul Dageuchija [Let Us Promote the New Year's Overall Advance Following the Great Party Leadership]," Joint editorial in *Rodong Simmun* and *Joseon Inmingun*, January 1, 1998, in *Ibid.*, 487-492.

<sup>684</sup> "Joseon Minjujuui Inmin Gonghwaguk Sahoejuui Heonbeop [The DPRK Socialist Constitution]," in *Ibid.*, 30-40.

With the “Military First” slogan, Kim Jong Il ordered the “Second Great March of Chollima” to finish the Arduous March and achieve the production targets. The role of the army increased in economic constructions to accomplish the “Powerful and Prosperous Nation” in both military and economic sense.<sup>685</sup> The Juche ideology became the Kim Jong Il ideology, and the KPA constituted the most important part of his Powerful and Prosperous Nation. The importance of the defense industry was also emphasized with this military tendency.<sup>686</sup> The productions still had a long way to go. The electricity and food production were the most important tasks to overcome the imperialists’ economic embargo and natural disasters. But these economic problems were subordinated to the military buildup and defense industry which had been defined as the “first affair among the national affairs” and “the life line of the powerful and prosperous nation construction.”<sup>687</sup> Along with this tendency, the construction project for the city of Pyongyang was emphasized to demonstrate the strength of North Korea and the KWP.

The official laws and institutions were still emphasizing the traditional socialist way of economic plans and control. The “DPRK People’s Economic Planning Act” in April 1999 stressed the top-down economic planning and the strict implementations at lower levels. Focusing more on the centralized order and control, all the economic units had to make detailed reports about their works on the plan by day, month, and quarter.<sup>688</sup> These centralizing efforts persisted in the 2000s to continue the Second

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<sup>685</sup> “Juche 88 (1999)-nyeon Jeongchi Gaegwan [Political Overview of the Year Juche 88 (1999)],” in *Joseon Jungang Nyeongam Juche 89 (2000)*, 19.

<sup>686</sup> “Olhae reul Gangseong Daeguk ui Widaehan Jeonhwan ui Hae ro Bitnaeija [Let Us Glorify This Year as the Year of Upswing of the Powerful and Prosperous Nation Construction],” Joint editorial in *Rodong Sinmun*, *Joseon Inmingun*, and *Cheongnyeon Jeonwi*, January 1, Juche 88 (1999), in *Ibid.*, 495-502.

<sup>687</sup> Kim Jong Il repeatedly ordered rapid developments in the agricultural industry including the livestock and sericulture to resolve the food shortage. The chronic issue of the electricity shortage also had to be resolved to revive other industries and transportations. Still, the method was the mobilization campaigns as before denying the need of reform and opening preached by the imperialists. *Ibid.*

<sup>688</sup> The enactment of this kind of law reflected the decentralized and liberalized situation of economy after the famine. It was not easy for the central authority to rebuild the economic system with strict top-down structure. From Article 1, 27, and 42 of the “Joseon Minjujuui Inmin Gonghwaguk Inmin Gyeongje Gyehoekbeop [The DPRK People’s Economic Planning Act],” announced on April 9, Juche 88 (1999), in *Joseon Jungang Nyeongam Juche 89 (2000)*, 500.

Great March of Chollima. The history of imperialist conspiracies was repeatedly reminded to stress the importance of military-oriented policies prior to the economic revival. Among economic sectors, the policy priority again shifted to the heavy industries to resolve the electricity, energy, and transportation, which were then followed by light industry and agriculture.<sup>689</sup>

It was after 2000 that Kim Jong Il became confident about domestic control in both the ideological and military aspects, and started to promote pro-reform and pro-opening economic measures. Until then, the policies for economic construction stayed in the boundary of the self-reliance and political control.<sup>690</sup> The Party officials were still ordered to focus on the political campaigns to enhance nationalistic enthusiasm, to accomplish economic construction by Uri-sik method using only domestic resources. The slogan “Let us work and study like the anti-Japanese partisans!” was still frequently used to remind the revolutionary past to the new generations.<sup>691</sup> Due to these military-oriented political discourses, the slowly reviving economic capacity was directed to the heavy industry, particularly the defense industry, rather than the light industry and agriculture. The light industry revolution and agricultural revolution was always mentioned as a necessary factor in reviving the people’s life quality but the actual priority was on the power plant constructions, coal mining, steel and machine productions, and the transportation infrastructure (railways and highways).<sup>692</sup>

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<sup>689</sup> “Dang Changgeon 55 Dol eul Matneun Olhae neun Cheollima Daegojo ui Bulgil Soge Jarangchan Seungni ui Hae ro Bitnaeija [Let Us Glorify This Year the Fifty Fifth Anniversary of the Party to be a Victorious Year Full of Pride in the Flame of Great Upsurge of Chollima],” Joint editorial in *Rodong Sinmun*, *Joseon Inmingun*, and *Cheongnyeon Jeonwi*, January 1, Juche 89 (2000), in *Joseon Jungang Nyeongam Juche 90 (2001)*, 517.

<sup>690</sup> Kim Jong Il legitimized his “Military First” as an idea given by Kim Il Sung from the old days. Kim Jong Il, “Sahoejuui Gangseongdaeguk Geonseol eseo Gyeoljeongjeok Jeonjin eul Irukal De Daehayeo [On Accomplishing a Decisive Advance in the Socialist Powerful and Prosperous Nation Construction],” January 1, Juche 89 (2000), in *Kim Jong Il Seonjip 15*, 1-7.

<sup>691</sup> Kim Jong Il, “Hyeokmyeong Jeonjeokji, Hyeokmyeong Sajeokji reul Tonghan Hyeokmyeong Jeontong Gyoyang eul Ganghwahal De Daehayeo [On Enhancing the Revolutionary Tradition Education Through Previous Battlefields and Historical Sites of Revolution],” A talk with officials during the on-the-spot guidance of previous battlefields in Baekdusan region, March 22, 24, and 27, Juche 89 (2000), in *Ibid.*, 35.

<sup>692</sup> The official portion of defense budget was slightly less than 15%, which meant the obvious military

## (2) Different Discourses on Security and Economy

During the two-year period from 2000 to 2002, North Korea prepared and implemented a series of economic measures to revive the lagged economy as fast as possible, while keeping the military slogans to maintain the domestic control and continue the defense against the foreign influences. Although he remained sensitive about the always lurking dangers to the political stability, Kim Jong Il and economic experts launched some economic measures for the rationalization and normalization of domestic economy, which had been dormant since the late 1980s. The July 1<sup>st</sup> Measures in 2002 was not an abrupt change of economic policies but the accumulation of gradually prepared policies after the official inauguration of Kim Jong Il regime in 1998.<sup>693</sup> However, the deteriorating relations with the United States and the second nuclear crisis again obscured these ambitious economic measures. Facing the acute military tension and threats, the main political discourse again returned to the extreme form of nationalistic slogans with stronger military tendency under the “Military First.”

### *“Uri-sik” new thinking for economic revival*

The tension on the Korean Peninsula was significantly reduced in the process of North-South talks and summit. In addition to the June 15<sup>th</sup> summit and the joint declaration, the relations with China and the Soviet Union were also revived and improved in 2000 through summits and agreements. Even the North Korea-U.S. relations appeared to improve after the exchange of high-level visits. North Korea already had changed its position on the issue of the U.S. forces’ withdrawal from South Korea, which had been the most essential condition for the negotiation toward

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spending. This did not include the industrial investments for military purposes. “Gyeongje Gaegwan [Economy: Overview],” in *Joseon Jungang Nyeongam Juche 89 (2000)*, 189; “Choego Inmin Hoeui Je 10-gi Je 3-cha Hoeui [The 3<sup>rd</sup> Session of the Tenth SPA]” and “Gyeongje Gaegwan, Juche 89 (2000)-nyeon [Economy: Overview, Juche 89 (2000)],” in *Joseon Jungang Nyeongam Juche 90 (2001)*, 116 and 173.

<sup>693</sup> The efforts of security improvements and economic cooperation in this period were to accelerate the economic revival with these new measures. Dong-won Lim, *Piseu Meikeo*, 640-641.

the peace treaty. When Kim Dae-jung met Kim Jong Il in Pyongyang, Kim Jong Il made it clear that North Korea no longer required the United States to withdraw from South Korea but wanted the U.S. forces to remain in Korean Peninsula to keep peace, saying that he already had conveyed this opinion to the United States in 1992.<sup>694</sup> They no longer talked about the condition of the withdrawal in the talks with the U.S. officials, and only emphasized ending mutual hostility. North Korea expected that the North-South improvement would influence on the United States to come out to the negotiation table toward the peace treaty or the non-aggression treaty.

The basic discourse of anti-imperialist struggle and war preparations, however, still continued. Right before the North-South summit in June 2000, North Korean government announced a memorandum accusing the history of United States' invasion and war-mongering. Although the leadership had recognized the existence of the U.S. military forces and expressed their changed unofficial position on the issue, the traditional and official logic was repeated to accuse the unlawful intervention on the internal affairs.<sup>695</sup> Regarding the prospect for the peace treaty, Kim Jong Il did not expect the United States to change its attitude quickly and he could not reduce the military buildup facing the growing military capability of South Korea.<sup>696</sup> In the fall 2000, North Korea celebrated the 55<sup>th</sup> anniversary of the KWP and the end of the Arduous March. The June 15<sup>th</sup> Declaration and the repatriation of long-term political prisoners from South Korea provided useful material to promote the revolutionary spirit and political loyalty toward the regime.<sup>697</sup>

Along with the gradually reviving economy and the improvements in foreign relations, the leadership ordered a new phase of struggle for higher international

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<sup>694</sup> Dong-won Lim, *Piseu Meikeo*, 115-116.

<sup>695</sup> The memorandum criticized the United States' threat on North Korea, who had ignored the North Korean efforts for a peace treaty. "Joseon Minjujuui Inmin Gonghwaguk Jeongbu Bimangrok [The DPRK Government Memorandum]," in *Joseon Jungang Nyeongam Juche 90 (2001)*, 522-530.

<sup>696</sup> Kim Jong Il, "Joguktongil eun Uri Minjokkiri Him eul Hapcheo Jajujeok euro Siryeonhayeyoya Handa [National Unification Must Be Achieved by Our People Working Together Independently]," A talk with a U.S. Resident Female Reporter Myeong-ja Mun, June 30, Juche 89 (2000), in *Kim Jong Il Seonjip 15*, 63-69.

<sup>697</sup> "Jeongchi: Juche 89 (2000)-nyeon Gaegwan [Politics: Juche 89 (2000) Overview]," in *Joseon Jungang Nyeongam Juche 90 (2001)*, 27.

status and economic revival. In political and military sector, the basic principles such as the absolute loyalty to the Suryong and the nationalism for the Powerful and Prosperous Nation were strongly emphasized as always. Until early 2001, the emphasis on the military buildup also continued with the economic focus on the heavy industry and constructions.<sup>698</sup> The leadership recognized the need of attention to the productions in agriculture and light industries, but the basic way of increasing productions remained the same: the Juche Agricultural Method and livestock campaigns for agriculture and the mobilization of reserved resources for the light industry. With the same political discourse to “live in our own style (Uri-sik),” the socialist control and the military first policies continued consistently with increasing policy priorities for the KPA.<sup>699</sup>

These unchanging official discourses were to guarantee domestic stability while seeking for various ways of economic revival. But strictly in the economic sector, some changing attitudes appeared to speed up modernization and technological development. Separated from the military-oriented rhetoric for regime security, a series of economic measures were prepared in the process of seeking opportunities from the relatively improved foreign relations. The leadership became somewhat positive and confident on the prospect of economic revival by 2001, based on the increased economic and technological cooperation with South Korea, China and Russia.<sup>700</sup> Kim Jong Il emphasized the importance of technological development and rapid modernization in his speeches and articles to facilitate the economic development and encourage the pragmatic approaches on economic issues.<sup>701</sup> He

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<sup>698</sup> “‘Gonan ui Haenggun’ eseo Seungnihan Gise ro Sae Segi ui Jingyeokro reul Yeoreo Nagaja [Let Us Open Up an Advance Route of the New Century with the Vigor Beaten the ‘Arduous March’],” Joint editorial in *Rodong Sinmun*, *Joseon Inmingun*, and *Cheongnyeong Jeonwi*, January 1, Juche 90 (2001), in *Joseon Jungang Nyeongam Juche 91* (2002), 549-552.

<sup>699</sup> Kim Jong Il, “Olhaeneun Sae Segi ui Jingyeokro reul Yeoreonaganeun Deseo Jeonhwan ui Haero Doege Haja [Let Us Make This Year to be the Year of Upswing to Open Up an Advance Route of the New Century],” January 3, Juche 90 (2001), in *Kim Jong Il Seonjip* 15, 79-85.

<sup>700</sup> Kim Jong Il visited China and the Russia to improve the political and economic relations further. “Jeongchi: Gaegwan [Politics: Overview],” in *Joseon Jungang Nyeongam Juche 91* (2002), 24.

<sup>701</sup> Kim Jong Il, “Komputeo Sujae Yangseong eul Ganghwahal De Daehayeo [On Enhancing the Computer Expert Raising Project],” A talk to officials of the Central Committee of the KWP, January

ordered those technical and economic developments within the boundary of “Uri-sik” socialism, which implied some potential for pro-reform discourses compared to the military-oriented concepts used in political sector. This potential of change received quite a bit of attention from outside observers as Kim Jong Il’s “new thinking” on the economic reform.

While the leadership wanted to fully utilize the improved relations for economic development, they also tried hard to block out the potential of political influences or security instability. Kim Jong Il’s instructions on the media and publication were following the “traditional” way of the 1970s to promote the spirit of revolution through the editorials.<sup>702</sup> The Party’s political discourse remained focused on emphasizing the “Suryong First” and “revolutionary march” concept, and intensified the nationalistic slogans such as “Our Ideology First,” “Our Army First,” and “Our System First.” The official purpose of economic construction was still to prove the superiority of the socialist system.<sup>703</sup> The security tension was always there with growing suspicions on the nuclear facilities. The Bush administration designated North Korea as one of the “axis of evil” countries and the confrontation with the United States was combined with the old anti-imperialist discourses to justify the enhancement of military capacities.

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28, Juche 90 (2001), 96-100; “Choesin Gwahak Gisul e Gichohayeo Gageumeop eul Daedaejeok euro Baljeonsikil De Daehayeo [On Rapidly Developing the Poultry Industry Based on the Recent Science and Technology],” A talk to officials during the on-the-spot guidance of the September 27 chicken factory and No. 112 chicken factory, September 5 and November 10, Juche 90 (2001), 177-193; and “Kim Chaek Gongeop Jonghap Daehak eun Nara ui Wiryeokhan Gwahak Gisul Injae Yanseong Giji ida [Kim Chaek University of Technology is the Nation’s Powerful Base Raising the Experts in Science and Technology],” A talk to academic staffs during the on-the-spot guidance of Kim Chaek University of Technology, September 19, Juche 90 (2001), 194-202, in *Kim Jong Il Seonjip* 15.

<sup>702</sup> Political propaganda stressed the unity between the leadership and the mass and the worshipping of the Suryong. Kim Jong Il, “Gija, Eollonindeul eun Uri ui Sasang, Uri ui Jedo, Uri ui Wieop eul Gyeongyeori Onghogosuhaneun Sasangjeok Gisu ida [Reporters and Journalists are Ideological Flag Bearers Protecting and Maintaining Our Ideology, Our Institution, and Our Works],” A letter to participants of the Eight Mass Meeting of North Korea Reporters’ Association, November 18, Juche 90 (2001), in *Ibid.*, 211-217.

<sup>703</sup> “Widaehan Suryeong nim Tansaeng 90 Dol eul Matneun Olhae reul Gangseong Daeguk Geonseol ui Saeroun Biyak ui Hae ro Bitnaeija [Let Us Glorify This Year the Ninetieth Year of Birth of the Great Suryong as the Year of a New Uplift in the Powerful and Prosperous Nation Construction],” Joint editorial in *Rodong Sinmun*, *Joseon Inmingun*, and *Cheongnyeon Jeonwi*, January 1, Juche 91 (2002), in *Joseon Jungang Nyeongam Juche 92* (2003), 593-598.

But until the first half of 2002, the security relations remained relatively stable that North Korea expressed increasing confidence on the prospect of Powerful and Prosperous Nation with the revived productions and constructions.<sup>704</sup> North-South economic cooperation seemed to be making rapid progress, and Kim Jong Il visited China and Russia to promote further improvements in economic cooperation and learn economic policies, to prepare for an acceleration of the economic revival of North Korea. The official explanations on the July 1<sup>st</sup> Measures stressed the need of “new thinking” in production management to decentralize the decisions of production plans and prices to the locals and enterprises, except the defense industry and some core state projects.

*“Better the military you know than the economy you don’t know”*

The July 1<sup>st</sup> Measures of North Korea came out in July 2002, until then the security and economic environments were relatively stable with the United States, and actually improving with South Korea. After Kelly’s visit to Pyongyang in October, however, relation with the United States deteriorated rapidly with the second nuclear crisis. The economic cooperation with South Korea was affected from this trend although the major economic projects such as the Gaeseong Industrial Complex continued with more high-level talks and practical meetings to implement the already agreed procedures. North Korea wanted more progress and agreements in Gaeseong and other cooperation projects, but they could not ignore the nuclear crisis and growing tension around the Korean Peninsula.<sup>705</sup> The North Korean leadership interpreted the start of the Iraq War in March 2003 as a clear proof that the United States would invade the targeted country anyway even if they allowed the

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<sup>704</sup> “Jeongchi: Juche 91 (2002)-nyeon Gaegwan [Politics: Overview of the Year Juche 91 (2002)],” in *Ibid.*, 20-21.

<sup>705</sup> The economic cooperation still continued but the political and social exchanges did not make much progress. “Joguk Tongik gwa Buknam Gwangye Gaegwan [National Unification and North-South Relations: Overview],” “Buknam Sanggeup Hoedam [North-South High-Level Talks],” and “Buknam Gyeongje Hyeomnyeok Chujin Wiwonhoe Hoeui [North-South Economic Cooperation Promotion Committee Meeting],” in *Joseon Jungang Nyeongam Juche 93 (2004)*, 264-269.

international inspections to see for themselves that there were no nuclear weapons. A country needed to build its own military capability to deter the U.S. attack and keep the political regime.<sup>706</sup> For North Korea, anti-terrorism was regarded as the justification of military attacks to other countries to achieve its imperialistic purpose and economic interests.

The KWP led by Kim Jong Il restarted to emphasize the revolutionary spirit to fight against the U.S. imperialist, Japanese militarists, and the South Korean counter-revolutionaries. They mobilized the whole country to prepare for any hardship which might be worse than the Arduous March, and amped up the ideological propaganda about the revolutionary history of Kim Il Sung.<sup>707</sup> As the second nuclear crisis heightened the tension from the late 2002, the nationalism and the Military First ideology were further intensified to mobilize the people and resources for the struggle. The defense industry came first in line as the most fundamental interest of the country. The economic activities had to be “nationalistic” to support the military buildup, and the mass mobilization movements like the Three-Revolution Red Flag Winning Movement were renewed and promoted.<sup>708</sup> The economic priority placed on the heavy industry was an obvious act of supporting the defense industry. For the light industry, development stayed minimal only with some maintenance of facilities. For the agriculture, the long-time recommendation of the Juche Methods was emphasized as before. The mass campaigns were frequently enforced to construct and reconstruct

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<sup>706</sup> “Irakeu e Daehan Miguk ui Chimryak Jeonjaeng gwa Hussein Jeonggwon ui Bunggoe [The U.S. War of Aggression against Iraq and the Collapse of the Hussein Regime],” in *Joseon Jungang Nyeongam Juche 92* (2003), 395-396.

<sup>707</sup> Kim Jong Il, “Widaehan Suryeongnim ui Hyeokmyeongjeok Sinnyeom gwa Uiji, Baejjang euro Saeroun Seungni ui Gil eul Yeoreonagaja [Let Us Go Forward to a New Victorious Road with the Revolutionary Belief, Will, and Boldness of the Great Suryong],” A talk to officials of the Central Committee of the KWP, November 25, Juche 91 (2002), in *Kim Jong Il Seonjip 15*, 329-330.

<sup>708</sup> The political propaganda promoted the national pride as being the only remaining “socialist” country to continue the struggle against the hegemon, the United States. The measures for economic management and technological development had to be accelerated for the military buildup, the heavy industry, and then the light industry and agriculture. “Widaehan Seongun Gichi Ttara Gonghwaguk ui Joneom gwa Wiryek eul Nopi Tteolchija [Let Us Hold High the Dignity and Power of the Republic Following the Great Banner of Military First],” Joint editorial in *Rodong Sinmun, Joseon Inmingun, and Cheongnyeon Jeonwi*, January 1, Juche 92 (2003), in *Joseon Jungang Nyeongam Juche 93* (2004), 575-580.

the forest, the highways, the rivers, and the city of Pyongyang.<sup>709</sup>

Kim Jong Il's speeches in 2003 emphasized the Military First than ever, to mobilize the national capacity to deal with the United States in the second nuclear crisis. He officially designated the KPA, no more the proletariat class, to lead the socialist revolution in North Korea dealing with the changed environments. The Military First policy was praised as the only way to keep political independence and achieve the economic development in Uri-sik.<sup>710</sup> It was the political belief of the North Korean leadership to have strong military power to obtain more opportunities and to prevent invasions in foreign relations. According to this logic, the military buildup had been critical even under conditions of extreme poverty.<sup>711</sup> The pro-reform economic measures were promoted only inside the country and not towards the outside world as the Chinese opening policies had in the 1980s.

Kim Jong Il repeatedly instructed the Cabinet and administrative organs to devote for the life quality of the population, while the Party focused on the military buildup. The agricultural revolution and light industry revolution were the tasks of the lower level officials to be resolved with political vigilance.<sup>712</sup> The construction projects had to be accomplished with the same logic. They built great monuments

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<sup>709</sup> "Gyeongje: Juche 92 (2003)-nyeong Gyeongje Seonggwa [Economy: Economic Achievements of the Year Juche 92 (2003)]," in *Ibid.*, 186-187.

<sup>710</sup> The proletariat class was the main force of revolution in Marxism, but Kim Jong Il's leadership argued that the proletariat class had become too intelligence-oriented under the capitalists' influences to continue the revolution as before. North Korea's own style of socialism came from Kim Il Sung who led the workers as a whole, including the proletariats, to be the socialist workers through collectivism, humanity reform projects, and the ideological campaigns in Juche. Now Kim Jong Il took a step further to take the military as the leading force of revolution. Kim Jong Il, "Seongun Hyeokmyeong Roseon uen Uri Sidae ui Widaehan Hyeokmyeong Roseonimyeo Uri Hyeokmyeong ui Baekjeon Baekseung ui Gichi ida [The Military First Revolutionary Line is the Great Revolution Line of Our Era and the Ever-Victorious Banner of Out Revolution]," A talk to officials of the Central Committee of the KWP, January 29, Juche 92 (2003), in *Kim Jong Il Seonjip* 15, 353-369.

<sup>711</sup> Kim Jong Il, "Gija, Jalgadeuleun Hyeokmyeongui Pilbongeuro Dangeul Badeuneun Seon-Gun Hyeokmyeong Tusaga Doeyeoya Handa [Reporters and Journalists Should be the Military First Revolution Fighters Supporting the Party with Revolutionary Writing Brush]," A talk with reporters and Journalists, February 3, Juche 92 (2003), in *Ibid.*, 376-378.

<sup>712</sup> Kim Jong Il, "Ilgundeul eun Inmin eul Wihayeo Heonsinhaneun Inmin ui Chamdoen Bongmuja ga Doeyeoya Handa [Officials Should be the People's Sincere Servant Dedicating Themselves for the People]," A talk to officials of the Central Committee of the KWP, October 28, Juche 92 (2003), in *Kim Jong Il Seonjip* 15, 427-428.

such as “Geumsusan (Kumsusan) Memorial Palace” in Pyongyang and many other revolutionary or historical spots. There were still urgent needs in constructions of infrastructure such as highways or factories, but the leaders strictly applied the principle of military priority in constructions to concentrate the materials and labor force.<sup>713</sup> Official discourse became all the more military-oriented, and the possibility of economic reform and opening disappeared from official mechanism or institutions.

### 3. Division of Dynamics in the Military and the Economy

The cycle of “temporary pro-reform dynamics and long retreat due to the security concerns” once again was repeated in the early 2000s. After the peak of the Arduous March, Kim Jong Il officially declared his leadership and amended the Constitution once again to restructure the ruling system. The 1998 Constitution, the so-called Kim Il Sung Constitution, officially divided the political power into three: the chairman of the National Defense Commission (NDC) would guide the military force and defense-related projects, the chairman of the SPA would represent the country in international society, and the prime minister of the Cabinet (former Administration Council) would represent the government. But the actual political leadership was concentrated on Kim Jong Il. The official enhancement of the status of the Cabinet was to pass the responsibility of economic difficulties to the government, to spare Kim Jong Il from direct criticisms.<sup>714</sup> Since the domestic economic system

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<sup>713</sup> The most urgent issue was the electricity which required the constructions of power plants, and next were the heavy industry facilities such as metallurgical factories, then the light industry which concentrated more on maintenance than new construction. Kim Jong Il, “Gibongeseol eseo Saeroun Jeonhwan eul Ireukil De Daehayeo [On Promoting a New Upswing in Basic Constructions],” A talk to officials of the Party and State Economic Organizations, August 11, Juche 93 (2004), in *Ibid.*, 454-468.

<sup>714</sup> North Korea had officially separated the function of “guiding the construction of the people’s military force” from the Administration Council in the 1992 Constitution. In 1998, the NDC was defined to be the “highest military leading organ of the state sovereignty and the general defense management organization” which implied the clear separation of the political/economic administration and the military management. The Administration Council became the Cabinet to strengthen its authority over the economy, which was never to weaken the guidance of the Party but to push forward some new measures to revive the economy. Jong-seok Lee, *Sin Bukhan Jeongchiron: Jeongchi Gwollyeok ui Iron, Teukjing, Silje [New Theory of North Korean Politics: Theory, Characteristics, and Reality of Political Power]* (Seoul: Dongnimsa, 2005), 128-131.

had almost collapsed in the mid-1990s with the expansion of the second economy (e.g. decentralized farmers' markets), the leadership tried to systemize and control the situation through some new economic measures.

Along the official inauguration of Kim Jong Il's leadership, the economic elites once again attempted to implement some domestic reform measures and limited opening which came out to as the July 1<sup>st</sup> Measures. The improved relations with South Korea and the United States in 2000 assisted the preparation of these economic measures with increasing pro-reform dynamics in the leadership. The situation deteriorated from 2001, however, due to the growing suspicions on the nuclear facilities. The second nuclear crisis from fall 2002 reversed the political dynamics to put priority on the military preparations and regime security. With the unresolved tension of nuclear crisis and other security issues, the pro-reform voices in the leadership, mainly in the Cabinet, once again retreated before making substantial developments in economy.

### **(1) Return of the Economic Experts for Reform**

During the Arduous March until 1997, Kim Jong Il stayed behind Kim Il Sung's legacy and only used the title of the supreme military commander and the chairman of NDC. They stressed the importance of light industry and agriculture and talked about reorientation, but it was impossible to put aside the heavy industry and military buildup. The local economy was given more attention than before, but with more control and guidance from the central authority rather than liberalization. In 1998, the Administration Council was extended and empowered into the Cabinet by the new Constitution, a formally independent body to manage the domestic affairs particularly the economic policies.<sup>715</sup> In the political debates on the economic reform, the economic experts in the Cabinet took a practical approach on which led their

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<sup>715</sup> McEachern (2010) focused on the different policy preferences between political bodies, the Party, the KPA, and the bureaucracy (the Cabinet). The Cabinet took the role of making pro-reform policies, which frequently met oppositions from other two bodies. Patrick McEachern, *Inside the Red Box: North Korea's Post-Totalitarian Politics* (New York: Columbia University Press, 2010), 83-93.

policy directions toward more rapid reorientation and marketization. Despite some disturbing issues in the security environments with the Bush administration of the United States, Kim Jong Il visited China and the Soviet Union in 2001, especially Shanghai to see how it had developed rapidly during the 1990s, in seeking ways of economic revival and putting more emphasis on the expertized and administrative role of the Cabinet.<sup>716</sup> The official political stance of the Party and the military had not been positive on the economic changes, but the experts in the Cabinet could make their voices heard relatively clearly and pushed forward their economic measures as seen in the July 1<sup>st</sup> Measures in 2002.

*Restructuring the Party and state apparatus for the new era*

Since the military capacity had become the only available and utilizable tool for regime security during the economic devastation in the 1990s, young generation of military leaders were promoted and replaced to adapt to the modern warfare, mainly those who proved to be loyal to the Suryong and the Party. Along with the promotions in KPA, other security organizations were also empowered to take more responsibility of the ideological training and control to keep the regime safe.<sup>717</sup> In this military-oriented atmosphere, the economic opening could not receive enough support. The government announced some “revolutionary economic strategies” to increase productions in agriculture, light industry, electricity, and other infrastructure. The budgets of some construction projects were shifted to the agriculture and light industry. But the more important thing was to keep a tight rein on the system. While the Administration Council led the economic plans and projects, and the Party supervised the works so that they were managed under a unified guidance. The mass campaigns were increased to promote the revolutionary spirit. The military buildup

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<sup>716</sup> McEachern, *Inside the Red Box*, 143-147.

<sup>717</sup> Kim Jong Il, “Inmin Gundae reul Ganghwahamyero Gunsu reul Jungsihaneun Sahoejeok Gipung eul Se-ul De Daehayeo [On Strengthening the People’s Army and Building the Social Spirit Putting Emphasis on Military],” A talk to officials of the Central Committee of the KWP, February 4, 1992, in *Kim Jong Il Seonjip* 13, 5-8.

could not be ignored even under extreme economic difficulties, still facing the U.S. forces in South Korea without much improvement in relations.<sup>718</sup> The loyalty of the military to the Party and the leadership became more important in extreme economic conditions, as the last and most effective fortress to protect the regime.

The formal inauguration of Kim Jong Il's rule took place when he was appointed to the post of the general secretary in 1997, and the new regime was legally born at the First Session of the Tenth SPA in September 1998. There had been no clear announcement of the regular meetings of the Central Committee or the Politburo. This led many analysts to believe that the KWP organizations had become incapable of functioning and that the power of the military had grown to replace them. North Korea did not hold Party Congress since the Sixth Congress in 1980 and showed no sign of a full-size plenum of the Central Committee or the Politburo in the mid-1990s.<sup>719</sup> The number of regular members was decreasing due to the death of the old revolutionaries or individual purges without new appointments to replace them.

However, the invisibility of the Party activities did not mean that the political rule of the KWP over the military or the government had been weakened. Although Kim Jong Il used the name of the Chairman of the NDC frequently, the NDC was only a part of the Party system to guide and lead the military-related issues. The increased status of the NDC never meant that the military power was above the Party. The important point was that Kim Jong Il actually became the KWP General Secretary in October 1997 and then was appointed once again as the Chairman of the NDC with the amendment of the Constitution in September 1998. With this official inauguration of his rule, Kim Jong Il started to concentrate on the Party discipline and the economic revival under the slogan of the "Socialist Powerful and Prosperous

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<sup>718</sup> Kim Jong Il, "Widaehan Suryeong nimeul Yeongwoni Nopi Mosigo Suryeong nimui Wieop eul Kkeukkaji Wanseonghaja [Let Us Highly Enshrine the Great Suryong Forever and Accomplish Suryong's Works to the End]," A talk to officials of the Central Committee of the KWP, October 16, 1994, in *Kim Jong Il Seonjip* 13, 435-439.

<sup>719</sup> Hyeong-Jung Park and Kyo-Duk Lee, *Continuities and Changes in the Power Structure and the Role of Party Organizations under the Kim Jong-il's Reign* (Seoul: Korea Institute for National Unification, 2005), 25-26.

Nation.” Though the number of top-tier members was significantly reduced, the Central Committee still had the fundamental control over the state and the military.

After 1998, the Central Committee Politburo members remained seven in number: Kim Jong Il, Pak Seong-Cheol (Pak Song Chol, 1913, foreign affairs), Kim Yeong-ju (Kim Yong Ju, 1920, Kim Il Sung’s younger brother), Kim Yeong-nam, Gye Eung-tae, Jeon Byeong-ho, and Han Seong-ryong. Long-time members such as O Jin-u died during the mid-1990s, and some officials including Gang Seong-san was dismissed. Since the old revolutionaries Pak Seong-cheol and Kim Yeong-ju no longer had political influences, it was Kim Jong Il and young generation experts who led the Party throughout the 2000s. Gye Eung-tae, Jeon Byeong-ho and Han Seong-ryong were also appointed as the Party secretaries under the General Secretary Kim Jong Il. The economic experts Yeon Hyeong-muk and Hong Seong-nam were listed in the alternative members of the Politburo.<sup>720</sup> There was not much change in the Party leaders throughout the 2000s and this reflected the consistent political purposes of stability and control.

Kim Jong Il opted to maintain stability in the top-tier leadership, but he also promoted many young generation of elites in the mid and lower level positions and in the mass organizations. After the election of the Tenth SPA in September 1998, many officials in the Cabinet, mass organizations, and local units were replaced which showed that there was a rapid generation change going on. The leading positions were occupied by the second generation leaders who were the graduates of Mangyeongdae Revolutionary School or Kim Il Sung University who experienced the TRT Movement led by Kim Jong Il from the 1970s. The top leaders had not been changed

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<sup>720</sup> The alternative members of the Politburo in 1999 were Kim Cheol-man (Kim Chol Man, 1918, KPA), Yang Hyeong-seop (Yang Hyong Sop, 1925, ideology), Yeon Hyeong-muk, Choe Yeong-rim, Choe Tae-bok, Hong Seong-nam, Hong Seok-hyeong (Hong Sok Hyong, 1929, heavy industry), and Ri Seon-sil. But Ri Seon-sil died in 2001. The Party secretaries in 1999 were Gye Eung-tae (public security), Kim Guk-tae (cadre management), Han Seong-ryong (economy), Kim Jung-rin (labor associations), Kim Gi-nam (propaganda), Kim Yong-sun (South Korea), Jeon Byeong-ho (munitions), and Choe Tae-bok (education). Kap-sik Kim, “Kim Jong Il Sidae Gwollyeok Elliteu Byeonhwa,” 114; Ministry of Unification, Bureau of Information Analysis, *Bukhan Gigwan, Danchebyeol Inmyeongjip 1999 [A Directory of North Korean Organizations and Associations, 1999]*, 1999, Seoul, 10; Ministry of Unification, *Bukhan Juyo Inmul Jaryojip 2000*.

much except for the deaths or retirements of old cadres, but the mid-level cadres, especially the Cabinet, reflected the generational shift with an increasing number of experts with professional knowledge and skills.<sup>721</sup> The military leaders also increased in the Tenth SPA with a large number of second generation military elites promoted who were closer to Kim Jong Il.

Among the government organs, the changed status of the NDC was another important point of the 1998 Constitution and the political dynamics. The Table 3 shows the members of the NDC from the early 1990s to the 2000s.

**Table 3 Members of the National Defense Commission (1990-2009)<sup>722</sup>**

	Chair	1 <sup>st</sup> Vice-Chair	Vice-Chair	Members
1990	Kim Il Sung	Kim Jong Il	O Jin-u Choe Gwang	Jeon Byeong-ho, Kim Cheol-man, Ri Ha-il, Ri Eul-seol, Ju Do-il, Kim Gwang-jin, Kim Bong-ryul
1993	Kim Jong Il	O Jin-u	Choe Gwang	Jeon Byeong-ho, Kim Cheol-man, Ri Ha-il, Ri Eul-seol, Ju Do-il, Kim Gwang-jin, Kim Bong-ryul
1995	Kim Jong Il		Choe Gwang	Jeon Byeong-ho, Kim Cheol-man, Ri Ha-il, Ri Eul-seol, Kim Gwang-jin
1997	Kim Jong Il			Jeon Byeong-ho, Kim Cheol-man, Ri Ha-il, Ri Eul-seol
1998	Kim Jong Il	Jo Myeong-rok	Kim Il-cheol Ri Yong-mu	Kim Yeong-chun, Yeon Hyeong-muk, Ri Eul-seol, Baek Hak-rim, Jeon Byeong-ho, Kim Cheol-man
2003	Kim Jong Il	Jo Myeong-rok	Yeon Hyeong-muk Ri Yong-mu	Kim Yeong-chun, Kim Il-cheol, Jeon Byeong-ho, Choe Ryong-su, Baek Se-bong
2005	Kim Jong Il	Jo Myeong-rok	Ri Yong-mu	Kim Yeong-chun, Kim Il-cheol, Jeon Byeong-ho, Baek Se-bong
2007	Kim Jong Il	Jo Myeong-rok	Kim Yeong-chun Ri Yong-mu	Kim Il-cheol, Jeon Byeong-ho, Baek Se-bong
2009	Kim Jong Il	Jo Myeong-rok	Kim Yeong-chun Ri Yong-mu O Geuk-ryeol	Jeon Byeong-ho, Kim Il-cheol, Baek Se-bong, Jang Seong-taek, Ju Sang-seong, Wu Dong-cheuk, Ju Gyu-chang, Kim Jeong-gak

<sup>721</sup> The number of replaced representatives at the Tenth SPA was 449 out of 687, over 64%. This large number of changes reflected the generation change during the Arduous March, the promotion of young generation leaders in factories, enterprises, farms and other organizations who worked hard to overcome the economic difficulties in practical level. Park, Lee, Jung, and Lee, *Kim Jong Il Sidae Bukhan ui Jeongchi Cheje*, 60-63

<sup>722</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 277; Seong-chang Cheong, *Hyeondae Bukhan ui Jeongchi*, 384; Ministry of Unification, Bureau of Information Analysis, *Bukhan Gigwan, Danchebyeol Inmyeongjip 2001 [A Directory of North Korean Organizations and Associations, 2001]*, 2001, Seoul, 51.

The NDC was a military-related commission to gather the top military leaders and the officials of military-related sectors for discussions on practical matters. After the death of Kim Il Sung until 1997, however, the members were decreasing as the prominent military leaders passed away (Ju do-il, Choi Gwang and Kim Gwang-jin). The commission was in a dormant status without having any replacements for these positions until Kim Jong Il was again appointed as the chair in 1998 and brought new members including the Director General of Political Affairs Jo Myeong-rok, the Joint Chiefs of Staff Kim Yeong-chun (Kim Yong Chun, 1936), Minister of the People's Armed Forces Kim Il-cheol (Kim Il Chol, 1930) and other military-related experts.<sup>723</sup> Yeon Hyeong-muk was included to the NDC from 1998 as an expert on the defense industry with Jeon Byeong-ho who had long been worked as an expert on munitions. The 1998 constitution put the NDC right under the SPA, in parallel with the Cabinet. Defined as "the supreme military guidance authority under the national sovereign power and the overall national defense management bureau," the NDC possessed the authority over every military-related issues and projects.<sup>724</sup>

The NDC members had direct connections with Kim Jong Il and much substantial policy influence, but they were still under the control of the Party through the Central Military Committee.<sup>725</sup> The NDC meetings did not make policy decisions but transferred Kim Jong Il's decisions to the leaders of the military organs or the related institutions through the vice-chairs.<sup>726</sup> The member changes were done in consideration of the military issues and security environment. After 1998, the NDC members included the old partisan generation Ri Eul-seol (Ri Ul Sol, 1921), Baek Hak-rim (Paek Hak Rim, 1918), and Kim Cheol-man (Kim Chol Man, 1918) until

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<sup>723</sup> Park and Lee, *Continuities and Changes in the Power Structure*, 33-34; Ministry of Unification, Bureau of Information Analysis, *Bukhan ui Juyo Inmul 2003 [Important Figures of North Korea 2003]*, 2003, Seoul.

<sup>724</sup> Park and Lee, *Continuities and Changes in the Power Structure*, 9.

<sup>725</sup> The head of the military organizations also had their positions in the Party Central Military Committee, which was also chaired by Kim Jong Il.

<sup>726</sup> Hyeon (2007) analyzed the NDC as a practical meeting for policy implementation, not a decision-making body. It seemed that the NDC had regular meetings once a month, and the participants changed by the issues. Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 408.

2002. But when the nuclear crisis restarted from 2003, the old partisans were replaced by the new generation elites, Choe Ryong-su (1936) and Baek Se-bong (1938).<sup>727</sup> The role of the NDC was increasingly strengthened as the “Military First” slogans became stronger along the deteriorating security environment in the 2000. The new generation of military leaders appeared to be more visible in many meetings and ceremonies in North Korea, which also reflected the political tendency among the Party and military leaders to become increasingly conservative with more political slogans of loyalty and struggles.

*Empowerment of pro-reform dynamic within the Cabinet*

The 1998 Constitution reorganized the Administration Council into the Cabinet with 33 ministries and committees, and put more authority on economic plan and projects. The Administration Council had been the “administrative executive organ of the supreme sovereign power,” but the Cabinet was defined as the “administrative executive organ of the supreme sovereign power and the general national management authority.”<sup>728</sup> While the political dynamics in the Party and the NDC showed relatively conservative tendencies, the pro-reform dynamics was reactivated in the Cabinet. Until 2002, before the actual start of the second nuclear crisis, the Cabinet was urged to take the practical approaches to revive the economy. The Party, the military and the NDC stayed relatively calm without much change in personnel appointments, but the Cabinet went through many changes in its structure and leading positions.

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<sup>727</sup> In 2009 after the Twelfth SPA, the NDC members increased in number and included more political and economic sectors as participants. There were nine people in 2003 but this was increased to be thirteen in 2009. More new generations from the military, the Party and the Cabinet were included, such as O Geuk-ryol (O Kuk Ryol, 1931) and Jang Seong-taek (Jang Song Taek, 1946, Party affairs). Kap-sik Kim, “Kim Jong Il Sidae Gwollyeok Elliteu Byeonhwa,” 126; Ministry of Unification, *Bukhan ui Juyo Inmul 2003*.

<sup>728</sup> The management system also changed at local level. Before 1998, the “Local People’s Committee” and the “Local Administrative and Economic Committee” had been working in parallel. The 1998 Constitution abolished the Local Administrative and Economic Committee to and left the Local People’s Committee to take the economic policies. However, the head of the People’s Committees became the economic bureaucrats who led the Administrative and Economic Committees, not the local Party secretaries. Kim and Cha, *Bukhan ui Gwolleok Gujo wa Gwollyeok Elliteu*, 57.

The number of deputy prime ministers was reduced from 9 to 2, and 32 economy-related agencies were reduced to 23 for efficiency. Until 2002, the prime minister was Hong Seong-nam, and the deputy prime ministers were Gwak Beom-gi (Kwak Pom Gi, 1939, heavy industry) and Jo Chang-deok (Jo Chang Dok, 1938, extractive industry). Sin Il-nam was added as another deputy prime minister for construction projects in Pyongyang from 2002. About 70% of ministers were the newly appointed young generation of economic experts. Among the ministers, only two, Hong Seong-nam and Baek Hak-rim was also appointed in the leading groups of the Party.<sup>729</sup> In a way, this separation from the Party enabled the Cabinet to concentrate only on the economy in the practical sense. On the other hand, however, this separation limited their political power to implement the policies throughout the country on a longer-term horizon.

The majority of the ministers in the Cabinet were economic experts who were responsible for the task of economic revival. They started to come up with various economic measures since 1998. Clearly pro-reform and pro-opening tendency became visible from 2001, after Kim Jong Il's visit to China in January. As mentioned in the previous section, Kim Jong Il officially announced several ongoing economic measures in October 2001 and the most conspicuous decisions were declared in July 2002. There were rearrangements of the official prices of products to reflect the actual prices in market-like networks, especially the price of rice. Right before the announcement of the July 1<sup>st</sup> Measures, many education materials were distributed to the Party, the state, and the military to apply the new prices and the changed rules in efficiency.<sup>730</sup> The prices were significantly raised, about 25 times on average, to meet

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<sup>729</sup> Before 1998, at least six ministers of the Administration Council had been appointed in the Party Central Committee Politburo or the Central Military Committee. But in 1998, only Hong Seong-nam was also appointed as a member of the Politburo, and Baek Hak-rim remained in the Military Committee. Jong-seok Lee, *Sin Bukhan Jeongchiron*, 172-174; Ministry of Unification, *Bukhan ui Juyo Inmul* 2003.

<sup>730</sup> The outline of this education material was reported in *Chosun Daily* in October 16, 2002, and the whole material appeared in *Wolgan Joseon (Monthly Chosun)* in December 2002. The document was generally called "the 7.1 Measures internal document," seemed written in educational purpose for officials in the Party, state, and military.

the actual prices established in the farmers' markets (unofficial economy). It was to reactivate the official economy and take the unofficial commercial network into the state control. They also rationalized the wages to meet the abrupt inflation of prices, in which the workers and farmers would be paid according to their actual achievements. The self-supporting accounting system was once again stressed to increase the material incentive of factories and enterprises.<sup>731</sup> These measures were to manage the economy in the top-down planning system while allowing limited market-elements in production and commerce.

Some argue that the simultaneous appearance of different policy direction for security and economy has reflected the growing pluralistic trend in North Korea politics showing varied opinions and interests of each institution, the Party, the military, and the state bureaucracy (the Cabinet).<sup>732</sup> There might have been internal policy discussions among the groups or institutions in North Korea. However, the official division of institutions in North Korea was not the division of actual political power. Kim Jong Il has passed the responsibility of economic management and diplomatic affairs to the SPA and the Cabinet, while the actual decision-making power remained firmly with the Party and the top leader as always. It was the accumulation of experiences already from the 1980s which resulted in the separation of policy direction of the Cabinet from the Party and military. While the economic experts were promoted in the Cabinet so they could attempt various economic measures, the political dynamics at the Party and the military were inclined to the military-oriented conservatives, enhancing the "Military First" with increasing security tensions.

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<sup>731</sup> "Gyeongje: Juche 91 (2002)-nyeon Gyeongje Seonggwa [Economy: Economic Achievements of the Year Juche 91 (2002)]," in *Joseon Jungang Nyeongam Juche 92 (2003)*, 182; Kim Yong-sul (North Korean Deputy Minister of Trade), "Bukhan Gyeongje Jeonchaek Seolmyeong [Explanations of North Korean Economic Policies]," A speech at a closed session on September 2, 2002 in Japan, *KDI Bukhan Gyeongje Review*, October 2002: 44-50.

<sup>732</sup> McEachern (2010) used the term "post-totalitarian institutionalism" for this growing pluralistic tendency in the North Korean politics. McEachern, *Inside the Red Box*, 30-42.

## **(2) Stagnation of Reform Drives after 2002**

It was July 2002 when North Korea officially announced the July 1<sup>st</sup> Measures to push forward the pro-reform and opening policies led by the Cabinet. In October, however, the second nuclear crisis began to unfold. This change in the security environment was reflected at the election of the Eleventh SPA in 2003 which was usually regarded as the starting point of the second phase of Kim Jong Il's official leadership. The First Session of the Eleventh SPA adopted the official approval of "the foreign measures taken by the DPRK Ministry of Foreign Affairs regarding the nuclear issue between North Korea and the United States."<sup>733</sup> The "measures" here meant that North Korea would withdraw from the NPT and strongly resist against the U.S. pressures, but continue the economic cooperation with South Korea in Geumgangsán tourism business and Gaeseong Industrial Complex. Unfortunately, it was unrealistic to deal with the nuclear crisis and economic cooperation separately, especially when the economic cooperation was ongoing mainly with South Korea who had much more close relationship with the United States. Due to the slow progress in economic developments and rapidly increasing security threats, the military-oriented leaders gained more power over the Party and bureaucracy, whereas the economic elites were detached from actual political power under the clear separation between economy and security policies. The experts in the Cabinet attempted to continue the pro-reform economic policies for several more years but could not overcome the security-oriented policy priority of the leadership in the midst of the nuclear crisis.

### *Economic demands subordinated to security concerns*

Despite the impressive economic changes ongoing with the July 1<sup>st</sup> Measures, it was hard to see the political influence of these new economic measures to the political and military sector. Although the political and military cooperation was

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<sup>733</sup> "Choego Inmin Hoeui Je 11-gi Je 1-cha Hoeui [The First Session of the Eleventh SPA]," in *Joseon Jungang Nyeongam Juche 93* (2004), 99-100.

needed to develop the new economic measures to be long-term reform policies, the priorities of the Party and military did not change from the security concerns. The improvement of security environment from the year 2000 was not yet convincing enough for the top leadership of the Party and military to change the long-time policy priority of regime survival.

This separation of policy tendencies was reflected in the personnel changes of each organ. The members of the Central Committee Politburo did not show much change throughout the mid and late 2000s except for the death of the several old revolutionaries. The number of Politburo members gradually decreased due to those deaths. Their positions were not being filled, and most of the members were octogenarians dating back to the old revolutionary generation. The political leadership of the KWP was undisputed but the Politburo did not conduct direct guidance on policy decisions.<sup>734</sup> The Secretariat managed the Party affairs, the NDC controlled the military-related issues, and the Cabinet worked on the economic management within Kim Jong Il's approval.

While the leading figures of the Party Central Committee did not show much change, the 2003 election showed some generational changes in the NDC to deal with the security concerns. As was shown in Table 3, the old revolutionary partisans Ri Eul-seol, Baek Hak-rim, and Kim Cheol-man were disappeared in 2003 and the young generation of leaders Choe Ryong-su (1936, replaced Baek Hak-rim as the Minister of People's Security) and Baek Se-bong (1938, replaced Kim Cheol-man to manage the chair the Second Economic Commission) became new NDC members.

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<sup>734</sup> The regular members of the Politburo in 2003 were Kim Jong Il, Kim Yeong-ju, Kim Yeong-nam, Gye Eung-tae, Pak Seong-cheol, Jeon Byeong-ho, and Han Seong-ryong. This list had not changed since 1998. The alternative members were Kim Cheol-man, Yang Hyeong-seop, Yeon Hyeong-muk, Choe Yeong-rim, Choe Tae-bok, Hong Seong-nam, and Hong Seok-hyeong. Compared to 1998, this list was exactly the same except for Ri Seon-sil who died in 2001. There was no change but the death of these members until 2010, when the number of the members decreased to 4 regular members and 5 alternative members. Yeon Hyeong-muk died in 2005, Gye Eung-tae in 2006, Pak Seong-cheol in 2008, and Hong Seong-nam in 2009. (Han Seong-ryong also died after 2004) Kap-sik Kim, "Kim Jong Il Sidae Gwollyeok Elliteu Byeonhwa," 114; Ministry of Unification, Bureau of Political Situation Analysis, *Bukhan Gigwan, Danchebyeol Inmyeongjip 2010* [A Directory of North Korean Organizations and Associations, 2010], 2010, and *Bukhan Juyo Inmul 2011* [Important Figures of North Korea 2011], 2011, Seoul.

But the old partisans still remained in the Central Military Committee in the Party, which meant that they would not disappear from the top leadership unless they died of natural causes.<sup>735</sup> The leading positions in the Party, the Politburo, the Secretariat, and the CMC did not change much with the old leaders at the top positions. As the relations with the United States rapidly deteriorated from 2001, these old revolutionaries reflected the conservative tendency among the Party and the military for the regime security.<sup>736</sup>

When the old leaders passed away, many leading positions in the Party remained vacant. In the Party Secretariat, the secretaries on agriculture, foreign affairs, and South Korea were not replaced after the disappearance of Seo Gwan-hui (1926, agriculture, executed in 1998), Hwang Jang-yeop (1923, foreign affairs, defected in 1997), and Kim Yong-sun (1934, South Korea, died in 2003) during the 1990s. In 2003, most of the nine Party secretaries, including Kim Jong Il, were focused on the military preparation and political unity: Kim Jong Il, Jeon Byeong-ho (munitions), Han Seong-ryong (economy), Gye Eung-tae (public security), Kim Guk-tae (cadre), Kim Jung-rin (labor association), Choe Tae-bok (education), Kim Gi-nam [Kim Ki Nam] (1929, propaganda), and Jeong Ha-cheol [Jong Ha Chol] (1933, propaganda). The only economy-related secretary Han Seong-ryong was also specialized in the heavy industry, particularly in machine industries.<sup>737</sup> Except for the newly appointed Jeong Ha-cheol, they were all graduates of the Mangyeongdae Revolutionary School

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<sup>735</sup> Ri Eul-seol and Baek Hak-rim (died in 2006) were still members of the CMC throughout the 2000s with other old and new military leaders. Kim Cheol-man was also in the CMC until 2010. Ministry of Unification, Bureau of Information Analysis, *Bukhan Gigwan, Danchebyeol Inmyeongjip 2004-Sang* [A Directory of North Korean Organizations and Associations, 2004-1], 2004, Seoul; Ministry of Unification, Bureau of Political Situation Analysis, *Bukhan Juyo Insa Inmul Jeongbo 2013* [Information on Important Figures of North Korea 2013] 2013, Seoul.

<sup>736</sup> Hyeon (2007) analyzed that some old revolutionary cadres in their seventies who had retired came back to take their old position to exert political influence. Kim Jong Il instructed in 2003 that “the retired old cadres should return to some important posts to continue their work as long as they can, since the younger ones could easily become attracted by foreign tendencies.” Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 379-380.

<sup>737</sup> Ministry of Unification, *Bukhan Gigwan, Danchebyeol Inmyeongjip 2003* [A Directory of North Korean Organizations and Associations, 2003] 2003, Seoul, and *Bukhan Gigwan, Danchebyeol Inmyeongjip 2004-Sang*.

who had been close staff members of Kim Jong Il from 1960s. Gye Eung-tae died in 2006 and Han Seong-ryong and Jeong Ha-cheol disappeared since 2005. Other five secretaries, who had already been Party secretaries from the 1990s and all in their eighties, kept their positions until the end of the 2000s.<sup>738</sup> Without official Party congress or conferences since 1980, the top Party leaders were kept in their position for the purpose of maintaining political stability and regime security.

In comparison with the Party or the military, the officials in the Cabinet went through frequent and significant changes. The ministers of economic sectors, especially the departments regarding the energy and agricultural production were frequently replaced due to the continuing difficulties in those fields. After the election of the Eleventh SPA in September 2003, the Prime Minister Hong Seong-nam was dismissed and Pak Bong-ju [Pak Pong Ju] (1940, former Minister of Chemical Industry) became the prime minister. The deputy prime ministers were also changed: Jo Chang-deok [Jo Chang Dok] (1938, Extractive Industry) was dismissed, Jeon Seung-hun [Jon Sung Hun] (1951, machine industry) and Ro Du-cheol [Ro Tu Chol] (1944, economic planning) became the deputy prime ministers. The ministers of many departments were also changed, such as the economic planning, chemical industry, extractive industry, machine industry, and agriculture. The personnel changes of the Cabinet between 2002 and 2003 are listed in Table 4.

The frequent changes of the economic elites in the Cabinet showed the rapid generational change with more pragmatic approaches in the economic sector which now focused more on the professional knowledge and administrative capabilities. The Minister of Light Industries Ri Ju-o (1955, appointed in 2001), the Minister of Foreign Trade Ri Gwang-geun [Ri Kwang Gun] (1953, appointed in 2000), the Minister of Commerce Ri Yong-seon [Ri Yong Son] (1953, appointed in 1998), and many other younger generation elites replaced the high-level officials in the Cabinet. Factories and enterprises after 2002 went through personnel adjustment as well.<sup>739</sup>

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<sup>738</sup> Kap-sik Kim, "Kim Jong Il Sidae Gwollyeok Elliteu Byeonhwa," 116.

<sup>739</sup> Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 381-382.

**Table 4 Changes of the Cabinet Leaders between 2002 and 2003<sup>740</sup>**

	2002	2003
Prime Minister	Hong Seong-nam	Pak Bong-ju
Deputy Prime Ministers	Gwak Beom-gi, Sin Il-nam, Jo Chang-deok	Gwak Beom-gi, Ro Du-cheol, Jeon Seung-hun
Ministry of Foreign Affairs	Baek Nam-sun	Baek Nam-sun
Ministry of People's Security	Baek Hak-rim	Choe Ryong-su
National Planning Commission	Pak Nam-gi	Kim Gwang-rin
Ministry of Power and Coal Industries	Han Bong-chun	Ju Dong-il
Ministry of Extractive Industries	Son Jong-ho	Ri Gwang-nam
Ministry of Electronic Industries	O Su-ryong	O Su-ryong
Ministry of Metal and Machine Industries	Jeon Seung-hun	Kim Seung-hyeon
Ministry of Construction and Building-Materials Industries	Jo Yun-hui	Jo Yun-hui
Ministry of Railways	Kim Yong-sam	Kim Yong-sam
Ministry of Land and Marine Transport	Kim Yeong-il	Kim Yeong-il
Ministry of Agriculture	Kim Chang-sik	Ri Gyeong-sik
Ministry of Chemical Industry	Pak Bong-ju	Ri Mu-yeong
Ministry of Light Industry	Ri Ju-o	Ri Ju-o
Ministry of Foreign Trade	Ri Gwang-geun	Ri Gwang-geun
Ministry of Forestry	Ri Sang-mu	Ri Sang-mu
Ministry of Fisheries	Ri Seong-ung	Ri Seong-ung
Capital Construction Commission	Sin Il-nam	Sin Il-nam
Ministry of City Management	Choe Jong-geon	Choe Jong-geon
Ministry of Land Environment Protection	Jang Il-seon	Jang Il-seon
Ministry of State Construction Control	Bae Dal-jun	Bae Dal-jun
Ministry of Commerce	Ri Yong-seon	Ri Yong-seon
Ministry of Procurement and Food Administration	Choe Nam-gyun	Choe Nam-gyun
Ministry of Education	Byeon Yeong-rip	Kim Yong-jin
Ministry of Posts and Telecommunications	Ri Geum-beom	Ri Geum-beom
Ministry of Culture	Gang Neung-su	Choe Ik-gyu
Ministry of Finance	Mun Il-bong	Mun Il-bong
Ministry of Labor	Ri Won-il	Ri Won-il
Ministry of Public Health	Kim Su-hak	Kim Su-hak
Physical Culture and Sports Guidance Committee	Pak Myeong-cheol	Pak Myeong-cheol
Ministry of State Inspection	Kim Eui-sun	Kim Eui-sun
Academy of Sciences	Ri Gwang-ho	Byeon Yeong-rip
Korean Central Bank	Kim Wan-su	Kim Wan-su
Central Statistics Bureau	Kim Chang-su	Kim Chang-su
Secretariat of the cabinet	Jeong Mun-san	Jeong Mun-san

However, these young professionals in the Cabinet were unable to have political influences on the core decisions of the Party or the military, where the old

<sup>740</sup> Ministry of Unification, Bureau of Information Analysis, *Bukhan Gigwan, Danchebyeol Inmyeongjip 2002* [A Directory of North Korean Organizations and Associations, 2002], 2002, and *Bukhan Gigwan, Danchebyeol Inmyeongjip 2003*, 2003.

revolutionaries and military-oriented conservatives had established their political power based on closer relationship with Kim Jong Il. The new generation of elites was basically loyal to the regime with political vigilance which was one of the most important elements to be appointed to the leading position in the Cabinet. They could not strongly push their pragmatic opinions or economic measures forward when the Party or military leaders countered them with the logic of regime security.

While the leading positions of the economy or the administrative works in the Cabinet were frequently changed to take responsibility of the problems, Kim Jong Il did not change the old revolutionary leaders at the top posts of Party and military. Instead, he appointed his close officials as the second-level directors or deputy directors to carry out practical works with more efficiency. The Party or military organs were under the direct control of Kim Jong Il through these channels of second or deputy directors. This made it possible for the old revolutionaries to remain at the top without exercising actual political power. Sometimes, the positions just remained vacant when the old leader passed away. The Department of Organization under the Secretariat had enormous power over the Party and state through an increased number of deputy directors.<sup>741</sup> This personal intimacy and conservativeness of the Party and the military accelerated from 2002 until the end of the 2000s with the procession of the second nuclear crisis. The Cabinet made gradual progress with economic measures and cooperation with South Korea, but its detachment from the actual political power fundamentally limited the economic changes as the security concerns came first.

#### *Retreat of the economic experts and their voices*

In his report to the Second Session of the Eleventh SPA in 2004, the newly

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<sup>741</sup> The Department of Organization under the Party in 2003 and 2004 had several first deputy directors such as Ri Yong-cheol (Ri Yong Chol, 1928, appointed in 1994), Jang Seong-taek (1946, appointed in 1995), and Ri Je-gang (1930, appointed in 2001), and around ten deputy directors. Park, Lee, Jung, and Lee, *Kim Jong Il Sidae Bukhan ui Jeongchi Cheje*, 76-77; Ministry of Unification, Bureau of Information Analysis, *Bukhan ui Juyo Inmul 2004 [Important Figures of North Korea 2004]*, 2004, Seoul.

appointed Prime Minister Pak Bong-ju made it clear that the Cabinet had followed the Party line of “Military First” throughout 2003 and put priority on the heavy industries important for the defense industry. The light industry and agriculture was still acknowledged to be important but priority was clearly on military preparation. Due to the line of “Military First”, the Cabinet had to secure and put away the materials and resources for the military uses first, and then consider other projects from there. They thus planned and distributed the available resources for other economic sectors only after securing the portion for the military.<sup>742</sup> The report still listed the urgent problems of electricity, energy sources, and transportation, and emphasized the need for an increased role of the Cabinet, which reversely showed the weakness of the Cabinet’s actual political power.

When Pak Bong-ju was appointed to the Prime Minister in 2003, he tried to keep the Cabinet independent in economic managements and make progress in economic projects. The Cabinet officials tried to secure the state-owned factories and enterprises from the influences of Party economy or the military economy and have them focused on the economic projects led by the Cabinet. It was to not lose the momentum for the economic revival even in the middle of security tensions and to not repeat the economic stalemate in political isolation. But the size of the separated Party economy continued to grow through the Offices #39 and #38 under the Party Secretariat. Their economic activities were to maintain the political and economic control over the cadres.<sup>743</sup> The size of military-related economy also increased rapidly with the “Military First” slogan and increased security threats.

Many political and military considerations affected the process of economic

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<sup>742</sup> “Choego Inmin Hoeui Je 11-gi Je 2-cha Hoeui [The Second Session of the Eleventh SPA],” in *Joseon Jungang Nyeongam Juche 94 (2005)*, 130 -131.

<sup>743</sup> Hyeon (2007) presented an episode that about Pak Bong-ju in 2003. The Deputy Prime Minister and the chair of the Capital Construction Commission Sin Il-nam had rejected certain economic tasks by pointing out other tasks imposed by the KWP Department of Organization. Pak Bong-ju took this case seriously and reported to Kim Jong Il about the encroachment of the Party economy into the state economy which was harming the economic development in the name of foreign currency earnings. Kim Jong Il instructed the Party to return the state-owned enterprises which had been incorporated to the Party economy and encouraged the Prime Minister to revive the state economy. Seong-il Hyeon, *Bukhan ui Gukga Jeollyak gwa Pawo Ellitue*, 315-316.

cooperation during these years, including the nuclear test, missile issues, economic sanctions, and the domestic political changes in South Korea, etc. Despite these confrontations in security arena, the Cabinet still tried to separate the issue of economic cooperation with South Korea and continue to make progresses. It was not the way the Party or the military leaders preferred. Pak Bong-ju lost his actual leadership of the Cabinet from 2006 and was dismissed from his position at the Fifth Session of the Eleventh SPA in 2007.<sup>744</sup> Pro-reform economic measures came to halt in the mid-2000s when the nuclear crisis was prolonged with the ineffective six-party talks. The domestic political dynamics could not be shifted again to the economic experts or the Cabinet as long as the Party and military elites held the actual political power in their grips with the undisputed logic of regime security through the military and nuclear deterrence against the foreign powers.

Due to the security threats in parallel with the slow economic recovery, the policy direction turned not towards more opening or liberalization but to the opposite. Facing the increased and prolonged security threat by the nuclear issue, the Party and military officials around Kim Jong Il easily gained more opportunity to push their conservative ideas forward. This resulted in North Korea's decision in 2005 to control the markets and unauthorized commercial networks.<sup>745</sup> After the dismissal of Pak Bong-ju from his position of the Prime Minister of the Cabinet, his successor Kim Yeong-il shared the pragmatic approach but in quite an administrative manner with even less political clout. The industrial focus again shifted more toward heavy industry, including the defense industry on top of the list. The light industry and agriculture were still mentioned in official speeches, but the economic elites no longer insisted the market-conforming economic measures. Instead, the socialist economic construction slogans returned with more emphasis on the ideological vigilance, which

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<sup>744</sup> In 2007, Kim Yeong-il (Kim Yong Il, 1944, former Minister of Land and Marine Transport) became the prime minister until 2010, who was known to be relatively conservative than Pak Bong-ju. Pak Bong-ju was relegated to a local enterprise manager until 2010 and returned as an alternative member of the Politburo. Seong-chang Cheong, *Hyeondae Bukhan ui Jeongchi*, 134-135.

<sup>745</sup> McEachern, *Inside the Red Box*, 192-193.

was the constant voice of the conservative Party and military leaders.<sup>746</sup>

In retrospect, the July 1<sup>st</sup> Measures and the series of pro-reform economic policies conducted by the Cabinet did not result in the start of economic reform and opening but the return of the centralized control which had been broken during the Arduous March period.<sup>747</sup> Despite impressive elements toward reform the economic measures had, the accumulated memories of past failures and the dangers of survival remained strong in the minds of conservative officials in the Party and military including Kim Jong Il himself. The improvement of security environment and economic benefits had been too short and limited to redirect the overall policy preference towards reform and opening, and the pro-reform dynamic easily retreated facing the re-risen security threats with longer and stronger impact.

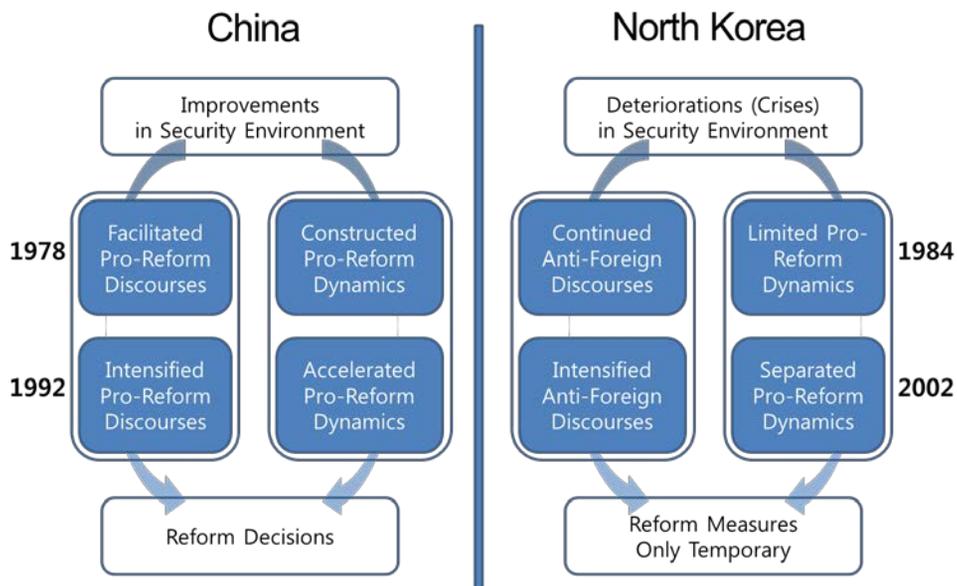
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<sup>746</sup> Ibid., 198-199.

<sup>747</sup> For an economic assessment of the July 2002 measures, see Nicholas Eberstadt, *The North Korean Economy: Between Crisis and Catastrophe* (New Brunswick: Transaction Publishers, 2007), 301-303.

## IX. CHINA & NORTH KOREA: BETWEEN REFORM AND SECURITY

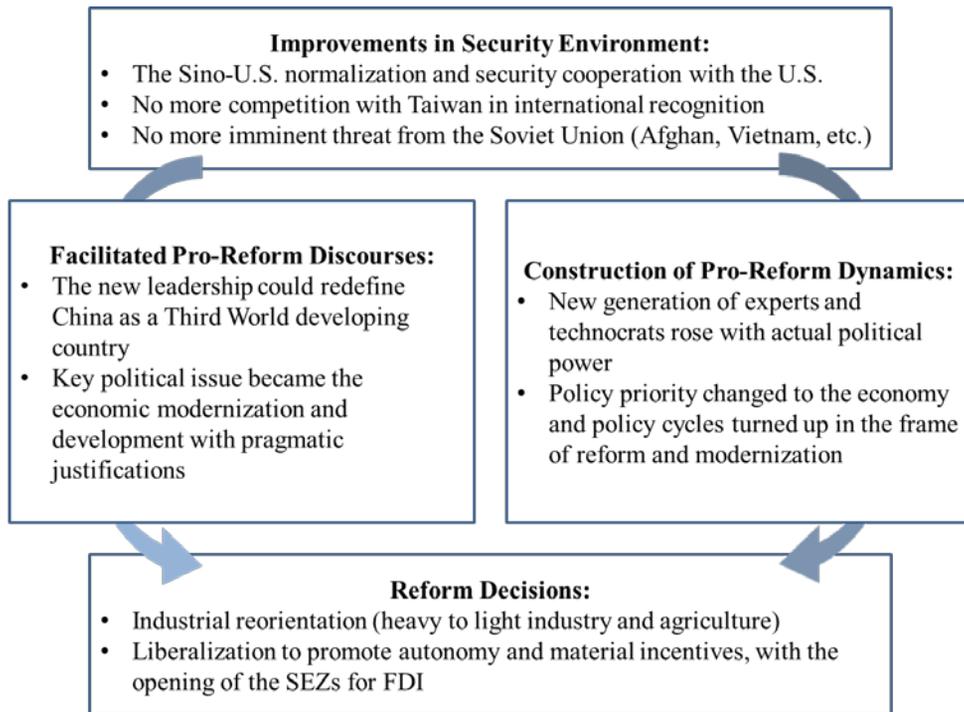
In comparing China and North Korea, the influences from security environment are shown to have provided different effects on the leaders' interpretations which resulted in different policy decisions regarding economic reform and opening. The improvement or deterioration of security environments interacted with the newly emerged socialist leadership through their political discourses and political dynamics, to decide whether the economic reform and opening would be compatible with their fundamental purpose of regime security. A comparison of the four cases on China and North Korea can be briefly described as Figure 9.



**Figure 9 A Description of the Four Cases on China and North Korea**

Each of the four cases will be once again briefly summarized below, focusing on the changing interpretations on the security environment, before moving onto the overall

conclusion of this study. In the first two cases on China, the security environment turned out to be increasingly supportive in the Chinese leaders' interpretations that they could easily push forward reform decisions. The first case of China around the year 1978 can be summarized as Figure 10.

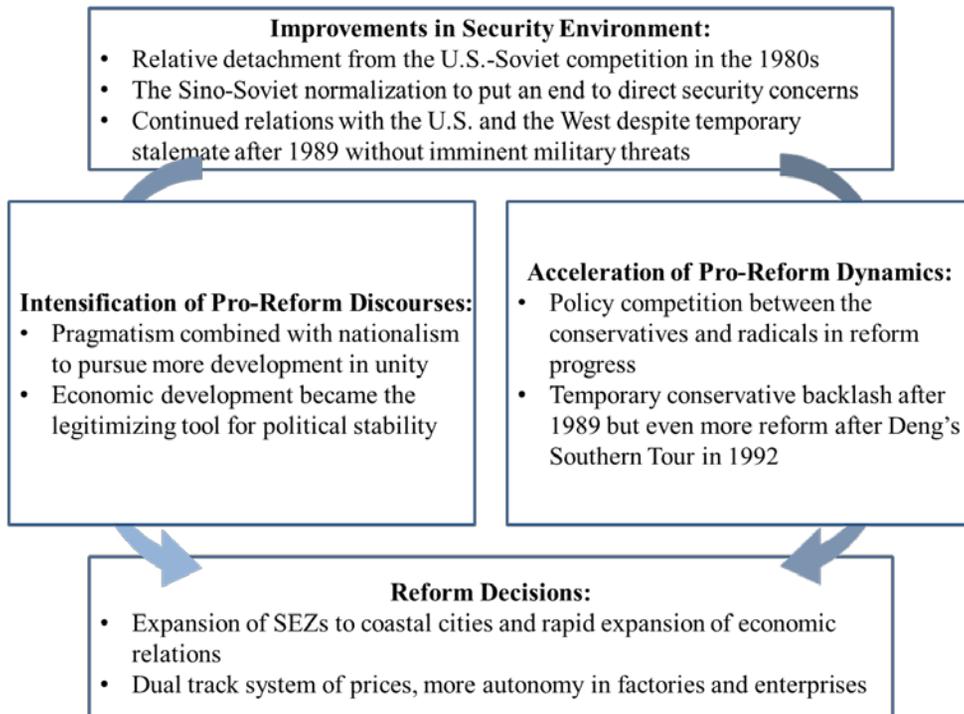


**Figure 10 China in 1978**

The Chinese leaders had personal and historical memory of the socialist revolution and independence struggle against the foreign invasions and interventions. But there was also the growing pragmatist tendency to deal with economic problems in changing international environment. They tried to utilize the new opportunities from the West. With various learning experiences from in and out of the country, the pragmatists insisted on the pursuit of modernization and sought to foster an environment to discuss policy changes throughout the 1970s. China caught the

opportunity to improve the relations with the United States (the Sino-U.S. rapprochement) for an alignment against the Soviet expansion in the region. Despite the Soviet threats on the border and in Vietnam, the relations with the United States, Japan, and others provided relatively favorable environment for China. Taiwan no longer posed a military threat. The Soviet invasion in Afghanistan at the end of the 1970s and the New Cold War in the 1980s reduced the direct threat emanating from the Soviet Union and elevated the Sino-U.S. relationship into the formal diplomatic relations. With less and less imminent security threat, Chinese leaders were able to implement the institutional changes toward economic liberalization, allowing more autonomy and market-oriented activities outside the plan.

Deng Xiaoping consolidated his power since the Third Plenum of Eleventh Central Committee in 1978, and the new leadership decided to reorient the industrial focus from the heavy industry to the light industry and agriculture. As China had repositioned itself as a Third World (in their Three World theory from the 1970s) developing country, the key issue had become economic development, fully utilizing the relative stability in international relations. The pragmatist experiences helped the reorientation of industrial focus from heavy to light industry and from military buildup to consumer goods. To facilitate the economic modernization and development, the radical reformers accelerated the opening policies, expanded diplomatic and economic relations with the “developed” western countries and the “developing” Third World countries. The expanded diplomatic relations with the non-socialist countries helped China replace Taiwan in the international society, which provided more confidence on the opening to the outside world. They could use the improved relations with the United States and the capitalist West to participate in the world economy, for example, the international financial institutions like the World Bank to gain economic support. The international recognition and involvement brought confidence to the leaders that there were more benefits to opening its economy than dangers for the regime.



**Figure 11 China in 1992**

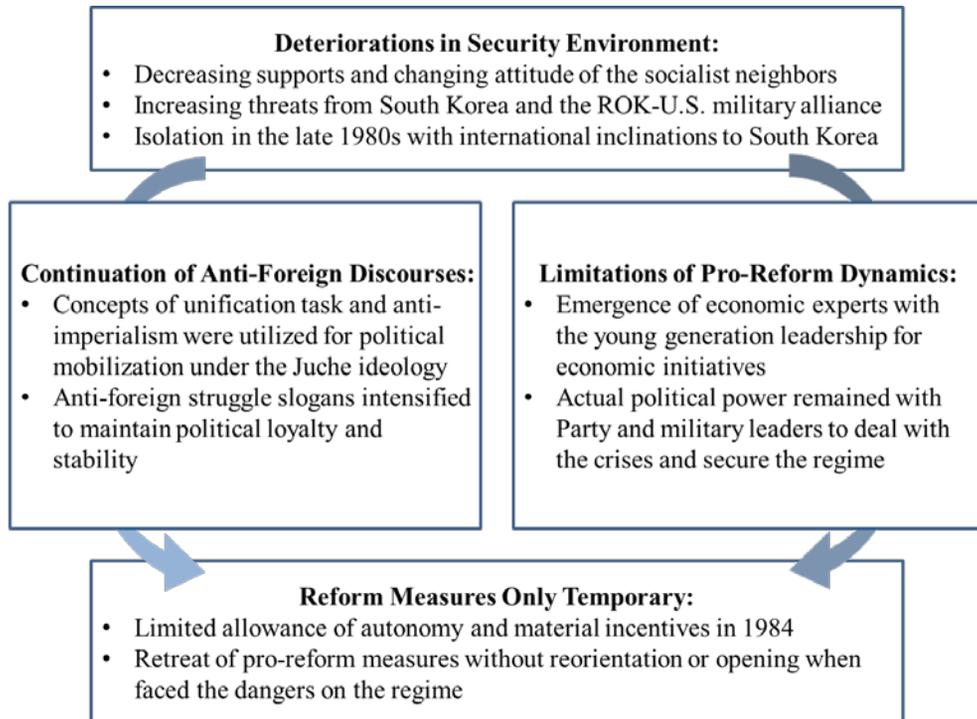
The second case on China in 1992 is summarized in Figure 11. During the 1980s China conducted its independent policy, enjoying a certain distance from the direct conflict between the two superpowers and instead concentrated more on its own economic reform and development. The improved relations with the United States and the decreased threat from the Soviet Union provided opportunity with safer environment for the continuous reform and opening. With a much more stable international environment absent of looming security threats, there were less need for centralized mobilization capacity, and more space for autonomy and market elements to pursue economic development. The gradual liberalization of the economic system was possible to allow the enterprise autonomy and more market-elements for economic efficiency. The confidence on the regime security increased throughout the 1980s with the successful negotiations on the restitution of Hong Kong in 1997, and

Macao in 1999 with the concept of “one country, two systems.”

To keep the CCP regime safe while transition of other socialist countries were taking place in the late 1980s, the leaders strived to keep the domestic political stability to prevent any dangers to the regime. These concerns led China through the policy cycles in the 1980s until the Tiananmen Incident, but the increased political confidence of the reform-oriented leaders soon returned and pushed forward the continuous implementation of reform policies also in the 1990s. China had normalized the relationship with the Soviet Union to put an end to the long-time confrontation in the region. The economic sanctions of the United States, Japan, and other countries after the Tiananmen did not last long and were soon recovered to pursue more cooperation. The dissolution of the Soviet Union in the early 1990s did not pose much threat to China due to these deepened economic linkages and political relations with the rest of the world. By the end of the Cold War, China had been prepared with gradual economic liberalization to adapt to the world economy more swiftly than other socialist countries.

In comparison with these cases on China, the third and fourth cases on North Korea presented that the security factors turned out to be threatening in North Korean leaders' interpretations to undermine reform decisions considering regime security. Geopolitical location of North Korea was right in between the two blocs of the Cold War era. North Korea had fought a war with South Korea and the United States in the early 1950s, which remained as both a security threat and a fundamental task to the regime. The unification was the basic purpose in every campaign, and there was fierce competition with South Korea regarding unification policy and international recognitions. South Korea enhanced its military and economic ties with the United States and Japan, with rapid economic development and military modernizations. North Korea needed security guarantee and military supports from China and the Soviet Union to stand against the alliances of South Korea, the United States and Japan. However, the leadership could neither trust nor depend on the Soviet Union or China after the Sino-Soviet split and the détente. These vastly deteriorating security

environment and its impacts on reform decisions in the mid and late 1980s are summarized in Figure 12.



**Figure 12 North Korea in 1984**

Due to the growing threat from the South and the decreasing support from the two big socialist neighbors, North Korea pursued political and economic independence from any foreign powers in the name of Juche. The liberalization of domestic economic activities was impossible to keep the population alert and prepared against any possible threat. The anti-imperialism was regular theme of political propaganda to emphasize the importance of unity and loyalty to the regime, to cover up the increasing economic difficulties. Combined with the post-colonial concepts from the Japanese colonial era, the U.S. “occupation” of the South provided the leaders with strong anti-foreign slogans for political independence and economic self-reliance. For

the war preparations, it was difficult to reorient the industrial focus from the heavy industries and military buildup to the light industry or agriculture. The leaders chose to keep mobilization capacity with strict control over their economy and society rather than allowing autonomy or material incentives by institutional liberalizations.

There were some limited achievements in the United Nations and the Non-Aligned Movement, but the international society inclined toward South Korea in the 1980s, symbolized in the 1988 Olympic Games. With these tendencies, the leaders became extremely protective of keeping their political control and it became more unlikely that they would allow autonomous entry or activities of private or foreign economic actors. The pro-reform economic measures in the mid-1980s remained as limited and partial not “opened” enough to attract foreign investments or cooperation. The security environments rapidly deteriorated in the late 1980s after the Soviet Union started Gorbachev-led radical reforms. Many socialist countries inclined toward South Korea and established economic and diplomatic relations with Seoul in the 1990s. Politically isolated with economic difficulties, North Korea faced the end of the Cold War in the 1990s without much preparation to adapt to such abrupt changes in international politics and economy.

In the mid-1980s, Kim Jong Il and his new generation leaders enacted several partial reform measures. But these pro-reform initiatives were easily obscured by the “traditional” way of inward mobilization campaigns which were safe and easier based on the Juche ideology. There was a series of economic measures like the Equity Joint Venture Law in 1984, but soon it became invisible as the policy priority shifted to regime security in the late 1980s. The difference from China’s experience was whether the policies were implemented genuinely with continuous allowance of more entries and activities. Chinese reform had shifted the industrial focus decisively from heavy to light industry, and allowed the household farming in rural area and new firms to enter in urban industry. The new economic actors increased rapidly in China as they were no longer under the strict control of the plan. Economic competition was encouraged which in turn made the rural and urban producer organizations, including

the SOEs, to be restructured for competition.<sup>748</sup> The reform led to progress by the continued reorientation of the strategy, incentive systems for competition, and entry of new actors. The legal institutions such as the contract law and financial system followed thereafter to provide continuous support for the new actors. The reforms in industry, household farming, TVEs and other sectors all became possible by this genuine and continuous reform, which not only allowed some new things but also actually built and induced institutions to adapt.<sup>749</sup>

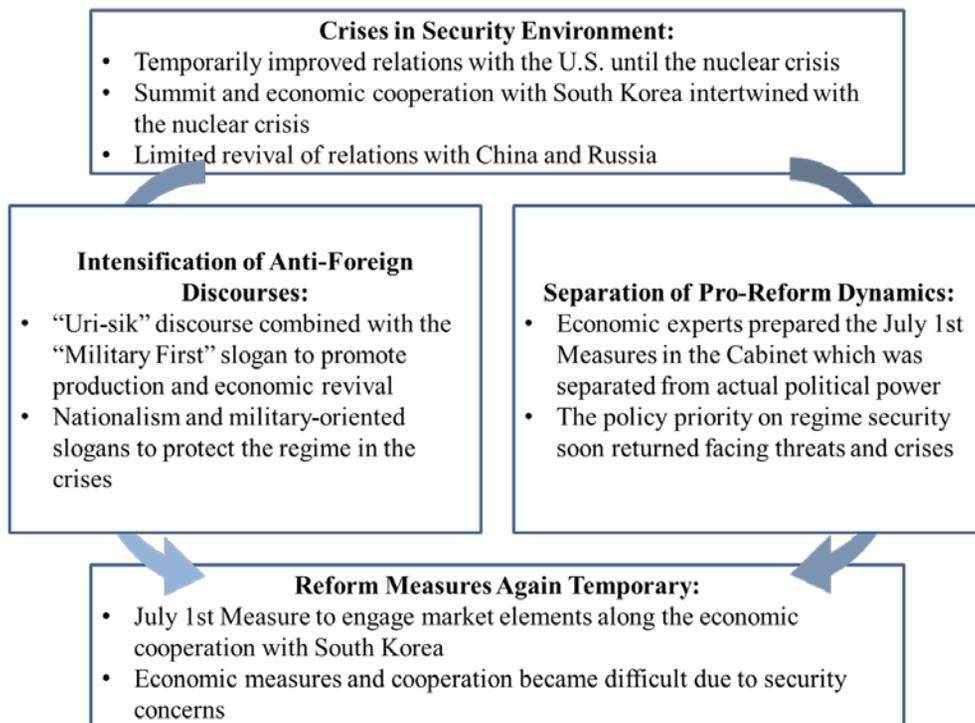
North Korea's pro-reform economic measures remained partial and limited, and they never developed into continuous reform policies due to the lack of proper institutional support or interactions. Despite the urgent need of change to develop its economy, North Korean leaders made decisions based on their interpretations constrained by the security factors throughout the period. North Korean economy toward extreme difficulties in the late 1980s, but the leaders could no longer make any radical decision to enhance the economic development due to the international instabilities arising from the system transitions in the socialist bloc. North Korean policies remained focused more on the classical socialist pattern of mobilization campaigns not the bold economic reforms like China and other countries. The end of the Cold War and the collapse of the Soviet Union affected North Korea to be more closed and isolated country with devastated economy, spiraled into food shortage and famine.<sup>750</sup>

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<sup>748</sup> Gerard Roland, "The Political Economy of Transition," 29-50.

<sup>749</sup> John McMillan and Barry Naughton, "Elements of Economic Transition," in *Reforming Asian Socialism*, eds. McMillan and Naughton, 3-15. A dual-track system of prices is another example of complementary reforms, which first preserved the rents under the planning system, while creating new rents in the market. The changes proceeded from decisions of less control over the price system to the actual rise of market economy, then the adaptation of institutions. Institutional innovations were first initiated in practical level in industrial firms then reflected in the official policies through their relation with governmental bodies. The transitional experiments of TVEs, an improvised organizational form, had prospered in the 1980s until the early 1990s but about 30% went bankrupt between 1995 and 1996 reflecting massive push towards the privatization.

<sup>750</sup> Eberstadt, *The North Korean Economy: Between Crisis and Catastrophe*; Haggard and Noland, *Famine in North Korea: Markets, Aid, and Reform*.



**Figure 13 North Korea in 2002**

North Korea again launched economic reform measures in the early 2000s which were much more impressive regarding their pro-reform potentials. At the time the security environment has been temporarily improved for North Korea’s economic revival as described in Figure 13, although they once again rapidly deteriorated along the second nuclear crisis. After the Arduous March in the mid and late 1990s, Kim Jong Il officially inaugurated his reign from 1998 and sought for economic revival with political stability. The security environments seemed improving around the year 2000 although there were suspicions regarding North Korean missile capacity and nuclear facilities. North and South Korea had a summit in June 2000 and started to negotiate for various economic cooperation projects. Along with the improvement of North-South relations, North Korea caught opportunity to improve the relations with

the United States also in 2000 which led to exchanging special envoys. Along these improvements in security environment, North Korea announced a set of new pro-reform economic measures, including the July 1<sup>st</sup> Measures in 2002, prepared by the economic experts in the Cabinet. However, the security environment deteriorated rapidly with the second nuclear crisis from the fall 2002 which heightened the conflict with the United States and negatively affected North-South economic cooperation. North Korea managed better relations with China and Russia, but their support was limited to only pursuing stability in the region balancing the U.S. military advance.

Despite the efforts of the economic elites to make progress in economic projects and cooperation, the deteriorated security environment quickly shifted the policy priority from economic reform back to military buildup and national defense. The conservatives in the Party and the military intensified the “Military First” slogans combined with nationalistic concept of “Uri-sik” which had been used by Kim Jong Il regime to promote economic revival and political loyalty. Since the economic experts in the Cabinet had been separated from the actual political power of the KWP leadership, it was difficult for them to continue the pro-reform economic measures. As a result, the pro-reform political dynamic again retreated in the mid and late 2000s being subordinated to the security concerns to secure the regime.

The comparison of these case studies on China and North Korea showed the varied results of interaction between the security environment and the leadership towards reform decisions, through political discourses and dynamics as suggested in the two propositions. Regarding the **Proposition 1 on political discourse**, the leaders needed to catch the improved security factors to facilitate the pro-reform discourse to promote reform measures. The North Korean leaders, however, interpreted the security environment as gravely dangerous and chose to continue the struggle-oriented anti-foreign discourse to promote both military preparedness and economic production. This resulted in temporary and partial reform which easily reversed into traditional socialist mobilizations. On the **Proposition 2 on political dynamics**, the

leaders had to utilize the improved security factors to construct the pro-reform dynamic with actual power to the economic experts and technocrats. North Korean leaders, however, considered the environment all the more suspicious and threatening and chose to separate the economic experts in the administration sector from the actual political power held by the Party and military leaders. The conservatives continued to occupy closer positions to Kim Jong Il with unchanged policy priority on regime security, which made the economic reform initiatives limited and fragile.

## X. CONCLUSION

The Chinese and North Korean leaders set their own paths of economic and political development based on the repeated and accumulated interpretations and decisions from the 1970s and 1980s. These paths resulted in remarkably different performances in the post-Cold War era until today. The leaders of each country aimed to maintain their political regime stable and preferred to keep the politics and economy under control without foreign influences. But the economic development and modernization needed the technology and management skills from outside. Currently China seems to be the only East Asian socialist country that successfully achieved economic modernization and development without experiencing political transformation. In the 1970s, China was not the only socialist country in East Asia who felt the strong need of economic policy changes. Vietnam had strong signs of reform already from the late 1970s and also launched a remarkable reform program in the mid-1980s. North Korea, however, did not launch such comprehensive reform and opening except for some short-lived partial measures until today. The North Korean leaders could not be unaware of the changes in China, but their decision was a different one, one which chose their own “independent” way of Juche.

The fundamental purpose of a socialist leadership has been political sustainability with economic prosperity which was same in China and North Korea. The economic reform and opening policies were expected to bring long-term and nation-wide impact not only on economic structure but also on the political stability. Before deciding on such major policy changes, in a socialist system, the leaders have to consider various factors to keep the political stability and regime security. There are basically three necessary conditions for the reform decision in a socialist system. The rise of the reform-oriented leadership is indeed a critical condition for the reform decision to take place, but still only one of the necessary conditions. The other condition was the urgent domestic needs. There should be serious feeling of crisis that is shared among the members belonging to the leadership group that they must quickly meet the urgent domestic needs to sustain the regime. It was obvious that

there were urgent domestic needs in China after the Cultural Revolution that followed a long streak of poverty. North Korea also had domestic needs of economic revival from the 1970s with repeated failures of economic plans. But North Korean economic policies took a clearly different path from that of China. The North Korean leadership continued to use ideological mobilization and control as the tool of economic and political managements. To explain this different decisions taken by the leaders of two countries, another necessary condition of the reform decision, the external factors, must be considered.

Adding the third condition of external factors does not deny the importance of leadership change or domestic needs. The leadership change had indeed been a critical condition but with close interactions with domestic and external factors. On the one hand, the domestic needs put pressure towards reform directly from below, and the leadership tried to control the domestic factors for political stability and regime security. On the other hand, the security environment influences the direction of the top leaders' domestic policy decisions through the vehicle of the top-down political system of a socialist regime. Support or threat coming from the external environment influences the leaders on whether or not to take the risk of leaving its regime temporarily vulnerable during the process of reform and opening. The decision of the economic reform and opening becomes possible only when the new, economy-oriented leaders interpreted the security environment as providing clearly more support and cooperation than threats on regime security. When the leaders interpreted the changes of security environment would be more threatening, the economic reform and opening becomes less an option.

China and North Korea presented a strong contrast in their interaction between security environment and the leadership to implement economic reform, as shown in the four case studies which were summarized in chapter nine. In China, the external factors turned out to be more supportive in the leaders' interpretations to be utilized as major tool to push the reform measures forward. The Chinese leaders caught opportunities from the improvement in security environment since the 1970s, for

example the rapprochement with the United States. The Soviet expansion was their main security concern but the improved relationship with the United States and other western powers facilitated the reformers to launch the economic reform and opening from 1978. As the reformers successfully established their political rule under Deng Xiaoping's leadership, the changing international relations provided continuous support for economic modernization and political confidence. The threats from the Soviet expansionism gradually reduced providing no more grave threat to the regime. In the 1980s, the New Cold War and the expanded political and economic relations were interlinked with the reform cycle of advances and readjustments. The Chinese leaders accelerated the reform and opening throughout the 1980s and into the 1990s, and the results exceeded their expectations. There was a temporary backlash after the Tiananmen Square in 1989, but the actual security environment did not deteriorate much. China did not lose the momentum of economic development to revive the pace of reform with even more rapidity in the 1990s.

While the security environment had been interpreted by the Chinese leaders as generally supportive for economic reform, the environment around North Korea provided negative impacts on their reform initiatives. North Korea was located at the frontline of the Cold War, face to face with South Korea and the United States. The struggle against South Korea and the U.S. imperialists was the main political rhetoric of the North Korean leaders. North Korea was in a rather isolated situation among socialist countries from the 1970s having no more intimate or trustworthy relationship with the Soviet Union or China. The system changes of socialist countries in the 1980s were even worse, and the end of the Cold War provided a shock to North Korea with extreme economic difficulties. Despite urgent economic needs, the leadership decided to retreat from the economic reform initiatives which had appeared in the mid-1980s, due to their negative interpretations on international changes. The consequences in the 1990s demonstrated the different result of the paths taken by the leadership in a sharp contrast. Chinese economy went on the track of rapid development whereas North Korean economy spiraled unto extreme poverty. After

the famine and crisis in the 1990s, North Korea again declared some changes for economic development in 2002, but again showed no impressive changes facing the rapidly deteriorated security environment along the second nuclear crisis. Now it seems that North Korea is preparing to pursue some changes once again with the new leader, Kim the Third. After Kim Jong Il's death, his son Kim Jong Un expressed his will of economic reform and development and appointed Pak Bong-ju once again as the Prime Minister in 2013. Both domestic and international factors should be considered together with balance for the prospects of North Korean reform.

*North Korea still in the Cold War context*

Supposing that the development strategies of the North Korean leaders would have been largely affected by their different interpretations and interactions with the security environment, some policy implications can be inferred that the changes in the international security circumstances would give positive or negative signs to North Korea toward reform and opening policies. Some security-related initiatives by South Korea and the United States might improve the security environment toward more trust and stability to increase regime security. But there are still historical factors which frequently appear in North Korea's political discourse still dominated by strong anti-foreign rhetoric of Juche. To shift the top policy priority from military to economy, these historical concepts and slogans have to go through reinterpretation and redefinition processes. This ideological reprocessing has to be done first, which has been postponed from the 1960s due to the continuous belief in the need of war preparation. This shift would empower the economic experts in the state bureaucracy (the Cabinet) with actual political power to implement their pragmatic economic policies in a longer-term perspective.

If North Korea never changes their political discourse of struggle and war preparations toward South Korea and the United States, and if the leadership never shifts the policy priority from military to economy, any pro-reform or forward-looking policy measures will not last long enough toward market-oriented reform and

opening. To change the domestic political discourse and political dynamics toward reform, the three conditions of reform-oriented leadership, urgent domestic needs, and secure environment, must interact with each other in balance for a considerable time. The urgent domestic need of reform and development has been obvious in North Korea for decades and current leadership clearly recognized the need from below. The other interaction between the leadership and the external environment was the theme of this study. As a result from comparative study on China and North Korea, it was seen that there was always a dilemma for North Korean leaders interpreting the security environment whether it is compatible with their regime security to drive pro-reform economic measures in a long-term, nationwide scale. Even if there was a different leader with a different last name, it would not be possible to reform or open the economy unless their interpretations on security environment turned out to be clearly supportive for their regime security.

The dilemma of the North Korean leaders between the economic reform and military preparation cannot be resolved unless they escape from the remaining Cold War context in the region. The Cold War context means they are still seeking regime security from continuous struggle against a foreign power. Wada (2002) analyzed the North Korean logic of security strategy as an attempt to keep at least one of the outside actors to be enemy to struggle against. According to this logic, the North Korean regime would not be succeed at sustaining its regime if there was no enemy left to compete or fight against. Gorbachev of the Soviet Union chose to transform all the tensions into peace to facilitate political and economic reforms but this cannot be a realistic choice of North Korea.<sup>751</sup> China chose peace with the United States and Japan to compete against the Soviet Union and Taiwan, pursuing the reform without changing political system. North Korea should have wanted to choose a similar policy like China but making peace with the United States or Japan turned out difficult with the presence of South Korea.

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<sup>751</sup> Wada, *Bukjoseon*, 192.

An example can be found in a case from the early 1970s when North Korea faced the détente and the Sino-American rapprochement. This change of international relations was an impressive opportunity for China but it was both an opportunity and a crisis to North Korea.<sup>752</sup> The détente allowed and forced North Korea to expand its diplomatic relations for political support and economic cooperation. But the trade with the West brought a huge burden of foreign debt, which made North Korea return to the socialist mobilization campaigns. The superpowers urged the two Koreas to start a dialogue in the early 1970s and the competition prompted the North to expand relations with the Third World countries. But the benefit did not last long compared to its cost for the relations.<sup>753</sup> Later in the 1980s, North Korea tried to make establish contacts with the United States but it was impossible to directly negotiate with the United States with the North-South relations immersed in a state of conflict. In relations with the South, several inter-Korean dialogues took place again in the 1980s but the imbalance of economic capacity loomed large with aggravated political isolation.<sup>754</sup> North Korea became extremely sensitive about the regime survival, which resulted in various forms of survival strategies ranging from the nuclear diplomacy to the North-South summit initiatives.

The dilemma still remains in the prolonged negotiations and conflicts considering the nuclear issue. The North Korean nuclear issue is indeed important for peace and stability in Northeast Asia and must be resolved in a peaceful way through negotiations including multilateral talks. From the perspective considering the economic reform and opening of North Korea, however, every security-related factor

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<sup>752</sup> Wada assessed the North Korean response to the Nixon visit as positive, but other sources showed the anxiety of North Korea, showing a need for several political and economic guarantees from the Chinese leaders. China provided North Korea enough explanation and assurances about their changing stance toward the U.S. Wada, *Bukjoseon*, 221.

<sup>753</sup> North Korea signed the diplomatic relationship with 90 countries by 1975, and succeeded in becoming a member of the nonaligned movement. It put a Korean article at the meetings of non-alignment movement. But these diplomatic efforts lost their effects by the end of 1970s.

<sup>754</sup> The Seoul Olympic Games in 1988 seemed to symbolize the final outcome of the North-South competitions. Many countries including socialist ones turned to South Korea for economic cooperation and diplomatic relations.

including the nuclear issue must be broadly examined and projected to promote pro-reform tendencies in North Korean political discourses and dynamics. Supposing that North Korea really wants the China-style economic reform and opening, which seems to be the only option left for them to revive the economy without being forced to face a rapid political transformation, the leaders must catch the opportunity from the changing security environment. At the same time, they also have to create those opportunities from their side to improve the relations. It is a two-way interaction in which North Korea is both a receiver and a provider of opportunities. As a receiver, the leaders can show quick and positive response to certain suggestions from the international society or counterparts to prove their will to improve the situation for economic reform and opening. In this process, they can revise the struggle-oriented slogans to allow more pragmatic discourses and promote economic experts as negotiators with actual political power for policy changes. As a provider, the leaders can initiate some agenda or activities to move the focus of negotiations from military to economy by showing changing discourses and dynamics on their side first.

Likewise, other regional actors dealing with North Korea, including South Korea, are also both receivers and providers of opportunities to change North Korean leaders' attitudes and policy priorities toward reform and opening. Supposing that South Korea and the United States really want to see North Korea on the track of China-style reform and opening, they can catch opportunities from changing North Korean attitudes or activities as receivers. They also can initiate negotiation agenda or provide policy suggestions to resolve the security concern of North Korea rapidly and shift the focus solely toward economic reform and development. To catch the opportunity, it is important to "verify" the existence of actual reform-oriented will in North Korean leadership. To provide significantly improved security environment, they should express their will to "trust" North Korea as a nation that is no more an enemy but a negotiable partner for mutual safety.<sup>755</sup> These interactions between

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<sup>755</sup> The meaning of concepts "trust" and "verification" here is much more clearly elaborated in the articles written by Geun Lee, which suggest the parallel frame of "trustpolitik" and "identitypolitik"

North Korea and outside actors of course include the nuclear issue, but the scope of consideration should be much more than the nuclear issue. Both sides must see the situation much more broadly, if they want to push North Korea on the track toward reform and opening in a long-term perspective without the conservative backlash emphasizing the military threats on regime security.

Numerous policy alternatives and suggestions have been presented by many scholars and policy makers to resolve the nuclear issue. The issue of economic aid or cooperation has been considered in the frame of nuclear crisis which turned out to be two clearly divided opinions. One was to link the economic cooperation directly with the nuclear issue to exchange one for the other. The other was to strictly separate the military tension and economic cooperation to continue the economic exchanges undisturbed, regardless ups and downs of nuclear tensions. Whether it involves directly linking the nuclear and economic issues or strictly separating, both are unrealistic as was seen through past experiences. The nuclear issue is just one piece of puzzle that needs to be found to form the available path toward reform and opening of North Korea. Having already spent more than a decade focusing only on the nuclear issue and not yet succeeded to discovering any exit for a nuclear-free North Korea, broadening the picture is now more than ever needed to seek the opportunities toward mutual “trust” and mutual “verification” by changing the terms and issues in various political and economic frames, to let the nuclear issue to be resolved in the process toward the reform and opening of North Korea.

Recently, the Park Geun-hye government of South Korea began emphasizing the “Korean Peninsula trust process” to promote peace-building based on the process of trust-building. As a provider of the security improvement, one of the most important options that South Korea and the United States can provide North Korea is

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for peace and stability in the Korean Peninsula and Northeast Asia. Geun Lee, “Silloe Peuroseseu Maneuron Bujokada [The Trust Process Is Not Enough],” *Kyunghyang Shinmun*, October 3, 2013, [http://news.khan.co.kr/kh\\_news/khan\\_art\\_view.html?artid=201310032137275](http://news.khan.co.kr/kh_news/khan_art_view.html?artid=201310032137275); “Hwahae Peuroseseu Jeuk Jeongcheseong Oegyo (identitypolitik) ga Piryohada [Reconciliation Process, Namely the Identitypolitik Is Now Needed],” *Pressian*, October 17, 2013, [http://www.pressian.com/article/article.asp?article\\_num=10131014162857&section=05&t1=n](http://www.pressian.com/article/article.asp?article_num=10131014162857&section=05&t1=n).

an opportunity of normalizing North Korea-U.S. relations. The North Korean leadership have tried to contact the United States directly for decades and expressed their wish to improve the relationship to calm down the military concerns. Directly putting an end to hostility is one of the most effective ways to promote peace-building and might be the most effective shot at resolving the nuclear issue, as seen in the case of China which launched the reform and opening in the process of Sino-U.S. normalization.<sup>756</sup> But it is important to remember that China also had sent numerous positive and credible signs to the United States to catch the opportunity and create more opportunity to make the process faster. These signs were basically diplomatic ones but they also did include revised political slogans and changed attitude of the negotiators in a broader perspective. These were led by pragmatic reformers who actually wielded political power in the domestic arena. North Korea has to prove their genuine wish and back them up with changing policy priorities toward reform and opening to receive and provide the opportunities. South Korea and other actors in cooperation also should both catch and provide opportunities in balanced approach of “trust” and “verification” toward North Korea in a long-term perspective.

*For further study*

There are several limitations of this study which need further analyses. There have been fundamental limitations in North Korea studies mainly caused by the scarcity of firsthand materials. It is still hard to expect many credible firsthand materials on North Korea. Still, there are many series of leaders' *Works* (speeches and articles), official yearbook, and other official publications used in this study. Various journals and newspapers for both academic or propaganda purposes have been accumulated for decades to complement the official Party and state publications. In addition, there are diplomatic documents from variety of countries, from the Soviet

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<sup>756</sup> Kim Jong Il once again expressed his desire to normalize the North Korea-U.S. relations to leave “no place for the military to stand on,” in the 2007 inter-Korean summit. Chung-in Moon, “Thoughts on a ‘Peace Regime’ to End the Korean War,” *Global Asia* 8, no. 3 (2013): 97-98.

Union and former socialist countries to the United States and South Korea, providing analysis and opinions from various perspectives. This study mainly used the *Works* published in the name of top leaders, since the main purpose was to see the leaders' interpretations and responses to external factors. Other materials such as diplomatic documents and yearbooks were also helpful to supplement the evidences. Further analysis on more materials in different forms such as journals, newspapers and diplomatic documents from other countries, would provide a more comprehensive understanding of the whole picture of each case.

Since this study has narrowly focused on the interaction between the security environment and the leaders' interpretations and reactions on them. The other condition of reform decision, the domestic needs, has not been considered together. As the interaction between external factors and leadership has been important, the interaction between domestic factors and the leaders is also important in drawing a complete process toward or against reform decisions. There are many evidences on socio-economic change of North Korea from below, such as the unofficial commercial network, trade, corruption, etc. The urgent political and economic domestic needs would also be selected and interpreted by the leadership to decide whether to push forward the reform measures or not, through political discourses and dynamics. Though they are not considered as much in this study, the influences from domestic needs and social changes can be analyzed to be linked with the influences from external environments.

Regarding the influences from external environment, this study concentrated on the selected security issues and the leaders' interpretations of them when they considered the need of domestic economic reform. The actual changes of foreign relations or international structure can be differently interpreted by the leaders for their purposes in domestic politics. When there are two or more leading figures or groups, the interpretations within them can be different. The conservatives of China interpreted the end of Cold War as a grave threat for the CCP regime and attempted to slow down the reform, while Deng Xiaoping and the radical reformers insisted that

the security environment was more stable than ever before to push forward the reform and opening. In case of North Korea, the end of the Cold War was perceived and interpreted as a shock and crisis for the regime security, but there were some improvements provided by the North-South talks and the Basic Agreement which might have been utilized as opportunities if the leaders chose to. This study focused more on the selected security factors which were selectively interpreted by the leaders regarding their decisions on reform policies. Since the international relations and structure have various aspects which make various interpretations possible, there can be different analysis on the same security issue or policy decisions from different perspectives.

This study compared two countries, China and North Korea, through four selected cases on important periods of reform attempts. Every country has its own characteristics and conditions which make it hard to compare with other countries focusing on certain aspects such as economic policy decisions. Whenever one attempts a comparative analysis on North Korea with China, the problem of obvious differences of the two countries turns up including country size, population, industrial structure, or historically accumulated memories and traditions. Due to the differences of the size, some analyses sought to look into the other countries which have relatively similar size and capacity with North Korea, for example, Vietnam. However, Vietnam also has different conditions and characteristics from North Korea regarding its own history of post-colonial conflicts, war experiences, and unification until 1970s before they launched the Doi Moi from the 1980s. It is the fundamental weakness of comparative analysis in selecting cases which have different aspects in political, economic, and cultural contexts. The comparison of China and North Korea provides many insights and implications on the issue, but it will be safer to conduct a comparison with a larger number of countries and cases so that a general pattern may be discovered. Additional comparative studies with many other countries such as Vietnam, other Asian countries, and even the former-socialist European countries would contribute in various aspects.

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## APPENDIXES

Appendix 1. U.N. National Accounts on China and North Korea from 1970s

Year	China (PRC)			North Korea (DPRK)		
	GDP (million \$)	Per capita GDP (\$)	GDP growth rate (%)	GDP (million \$)	Per capita GDP (\$)	GDP growth rate (%)
1970	91,039	114		4,927	388	
1971	98,059	119	7.00	5,440	416	10.40
1972	111,589	132	3.80	6,006	448	10.40
1973	136,071	158	7.90	6,630	482	10.40
1974	141,529	161	2.30	7,320	520	10.40
1975	160,340	178	8.70	8,081	563	10.40
1976	150,854	165	-1.60	8,412	577	4.10
1977	171,467	185	7.60	8,757	592	4.10
1978	214,160	228	11.70	9,116	609	4.10
1979	263,190	276	7.57	9,490	625	4.10
1980	306,520	318	7.84	9,879	642	4.10
1981	293,852	300	5.24	10,244	656	3.70
1982	295,370	298	9.06	12,868	810	3.70
1983	314,637	313	10.85	12,855	795	3.70
1984	317,352	311	15.18	12,251	745	3.70
1985	309,083	298	13.47	12,075	723	3.70
1986	304,348	289	8.85	13,654	805	1.40
1987	329,851	308	11.58	14,391	836	1.40
1988	413,439	379	11.28	14,193	764	1.40
1989	459,782	415	4.06	15,771	811	1.40
1990	404,494	360	3.84	14,702	735	-4.30
1991	424,117	372	9.18	13,687	663	-4.42
1992	499,859	433	14.24	12,458	593	-7.08
1993	641,069	549	13.96	10,744	503	-4.48
1994	582,653	494	13.08	8,307	384	-2.11
1995	756,960	635	10.92	4,849	222	-4.37
1996	892,014	741	10.01	10,588	479	-3.35
1997	985,046	810	9.30	10,323	462	-6.48
1998	1,045,199	852	7.83	10,273	456	-0.90
1999	1,100,776	890	7.62	10,280	452	6.08
2000	1,192,836	957	8.43	10,608	462	0.41
2001	1,317,230	1,049	8.30	11,022	476	3.76
2002	1,455,554	1,152	9.10	10,910	468	1.20
2003	1,650,770	1,299	10.00	11,051	471	1.82
2004	1,942,781	1,520	10.10	11,168	473	2.08
2005	2,283,671	1,777	11.30	13,031	548	3.76
2006	2,787,254	2,158	12.70	13,764	576	-1.03
2007	3,494,351	2,691	14.20	14,375	598	-1.19
2008	4,531,831	3,472	9.60	13,337	552	3.10
2009	5,069,470	3,865	9.20	12,035	496	-0.91
2010	5,951,462	4,515	10.30	12,139	498	-0.47

## Appendix 2.

### Share of Agricultural Population in Socialist Countries in 1987 (from Kornai, 1992)

Country	Year Power was Attained	Population, 1986 (million)	Share of People Employed in Agriculture, ca. 1985 (percent)
Soviet Union	1917	281.1	19
Mongolia	1921	2	53
Albania	1944	3	50
Yugoslavia	1945	23.3	30
Bulgaria	1947	9	23
Czechoslovakia	1948	15.5	12
Hungary	1948	10.6	20
Poland	1948	37.5	30
Romania	1948	22.9	28
North Korea	1948	20.9	48
China	1949	1,054	74
East Germany	1949	16.6	10
Vietnam	1954	63.3	70
Cuba	1959	10.2	25
Kampuchea	1975	7.7	90
Laos	1975	3.7	76

Source: Population from World Development Report (1988, 221-23)\*, Share of People in Agriculture from G. Baló and I. Lipovecz, eds. (1987)\*\*, both recited from Kornai (1992, 6-7)

1) The year of attaining power has been defined either by the year the uprising began (the Soviet Union) or the year of its victory (Yugoslavia, North Vietnam). In the case of the Eastern European systems, the year of attaining power has been defined by the year of the fusion of Communist and Social Democratic parties that could be characterized as having been peaceful.

2) The population of Kampuchea is the figure for 1987.

3) The share of people employed in Agriculture in Kampuchea is the rural population.

\* *World Development Report 1988*. 1988. New York: Oxford University Press.

\*\* Baló, Gorgy, and Ivan Lipovecz, eds. 1987. *Tenyek könyve, 1988. Magyar és nemzetközi almanach* (The book of facts, 1988. Hungarian and international almanac). Budapest: Computerworld Informatika Kft and Mora Ferenc Ifjúsági Könyvkiadó.

## ABSTRACT IN KOREAN

### 북한 경제개혁과 안보환경의 상호작용: 북한·중국 비교연구

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본 논문은 중국과 북한 지도층의 경제개혁, 개방 논의 및 결정에 대한 대외적 제약요인으로서 안보환경이 끼친 영향에 대한 비교연구이다. 1970년대 말 이래로 중국이 개혁개방을 결정하고 실행하는 동안, 북한이 그와 같은 전반적 개혁개방을 추진하지 않거나 또는 못했던 이유에 대한 질문에서 출발하였다. 기존의 많은 연구들, 특히 중국의 경험에 초점을 맞춘 동아시아 사회주의 경제개혁 연구에서 개혁의 결과와 실행에 있어 지도자의 교체 또는 긴급한 국내의 정치경제적 요구 등을 주요 조건으로 설명하고 있다. 그러나 같은 동아시아 사회주의 국가이면서도 북한의 경제개혁이 불가능했거나 실패했던 요인을 분석하는 데 있어서는 또 하나의 조건으로 대외적 요인을 추가하지 않고는 설명에 한계가 있다. 사회주의 경제 개혁에 있어서 세 가지 조건, 지도자의 교체, 시급한 국내적 요구, 그리고 대외적 요인이 있다면, 본 논문은 대외적 요인, 그 중에서도 안보환경이 국내 경제개혁의 주요 제약요인 중 하나가 되었다는 점에 주목하였다. 사회주의 정권의 기본목적이 정치체제의 안정과 지속 및 이를 위한 경제적 번영이라고 한다면, 개혁개방의 결정과 추진은 이 목적을 저해하지 않고 정권의 안전을 보장할 수 있어야 가능하였다. 대외적 요인, 즉 안보환경과 지도층이 상호작용하는 과정에서 체제 유지에 대한 위협부담이 비교적 적고 경제발전을 도모하기에 우호적이라는 판단이 설 경우에는 경제개혁 및 개방의 결정과 추진이 용이하였다. 그러나 체제의 안정에 위협이 되고 그에 비해 경제발전 효과가 크지 않다고 인식될 경우 개혁에 한계가 있었다.

비교역사적 방법론에 의거하여 중국과 북한 양국의 개혁 시도와 안보환경의 상호작용을 비교하는 사례연구를 진행하였다. 경제개혁과 관련하여 특기할 만한 조치나 시도가 있었던 해를 기준으로 중국과 북한 각각 두 시기씩 선택하였고, 각 시기별로 지도층이 안보환경을 해석하고 상호작용하면서 당시 구상하던 경제개혁 결정과 진행에 반영하는 과정을 살펴보았다. 안보환경이 지도층을 통해 국내 경제개혁에 영향을 미친 경로는 정치 담론의 변화와 정치 동학의 변화로 나누어 분석하였다. 정치 담론의 변화는 개혁 지향의 지도층이 의도적으로 개혁에 용이한 실용적 담론을 강화하는 과정으로, 안보환경이 개선되고 있다고 해석하고 주장하여 이를 기회삼아 이념적 구호나 선전을 개혁 지향적으로 변화시키기 용이하다는 점에 주목하였다. 정치 동학의 변화는 최고위 엘리트 간의 경쟁과 관련되어 있다. 안보환경이 개선되면 최고지도자가 보수 세력이나 군부의 정치적 영향력에 위축되어 있던 경제전문가나 기술관료의 약진을 장려하여 경제발전과 개혁을 전면에 내세우기 용이하다는 점에 착안하였다.

중국의 사례는 새 지도부의 등장과 함께 개혁개방을 처음 시작했던 1978년과, 천안문 사태와 탈냉전이라는 위기를 지나 오히려 경제개혁에 박차를 가하게 되었던 1992년의 두 시기를 선정하였다. 안보환경이 전반적으로 보다 우호적으로 변하고 있다는 지도부의 해석에 힘입어 개혁 성향 지도자들이 정치 담론을 실용주의적 개념으로 변화시키고 보다 급진적 개혁론자들에게 권력이 이양되는 정치 동학을 구축하였다고 보았다. 북한의 경우 두 시기는 1984년과 2002년으로, 1984년은 후계체제를 확립하고 국내 정책의 지도자로 부상한 김정일이 합영법을 비롯한 일련의 제한적 개혁 조치를 추진했던 시기이며, 2002년은 고난의 행군 이후 공식적인 김정일 정권 출범과 함께 추진하여 발표했던 7.1조치를 전후한 시기이다. 안보환경은 항상 불안했고 그것을 국내적 동원과 통제에 이용하기도 하였지만, 각 시기별 개혁 시도 직후에 냉전의 종식 또는 2차 핵위기와 같이 환경이 더욱 급속하게 악화되었던 바 있다. 이러한 환경 변화가 체제의 안전에 심각한 위협이 된다는 해석을 함에 따라 경제개혁의 진행에 제약이 가해졌다고 분석하였다. 안보환경의 악화를 강조하게 되면서 정치 담론은 극단적인 반외세

구호와 군사적 논리가 재생되고 지속되었다. 내각을 중심으로 경제전문가들이 경제개혁 조치를 진행하였으나 실질적인 정치권력은 당과 군부가 장악하는 분리 현상이 지속되었고, 안보환경의 악화에 힘을 얻은 당, 군의 보수적 엘리트들이 득세하면서 개혁 정책들이 좌절되기도 하였다.

중국과 북한은 안보환경에 대한 초점과 해석에 차이점이 있었으며, 여기에는 각 지도층이 가지고 있던 역사적 기억과 냉전 시기에 축적된 강대국 및 주변국들과의 관계가 영향을 미쳤다. 분단국으로서 대만과 한국이라는 상대방의 존재 또한 서로 다른 방향으로 작용하였다. 중국의 안보환경은 선별적으로 개선되는 과정이 부각되면서 개혁 지향의 정치 담론과 동학의 형성을 지원하는 기회로 작용하여 개혁개방의 진전을 촉진하였다. 이와 달리 북한의 안보환경은 외세에 대한 만성화된 의심과 갈등 위에 위기가 더해지면서 위협인식이 배가되어 국내적으로 반외세 담론이 지속되고, 개혁 지향의 정치 동학이 지속적인 추진력을 받지 못하여 효과가 제한적이거나 실패로 나타났다. 20여 년간 이러한 상호작용이 반복되면서 중국과 북한 경제상황은 극단적 대비를 나타내고 있다. 최근 3대 세습을 통해 새 지도자로 김정은을 옹립하면서 북한은 다시 경제개혁과 발전의 기회를 모색하고 있으나, 정권의 안정이라는 기본 과제에 묶여 과감한 변화를 추진하기 쉽지 않다는 모순도 여전히 지니고 있다. 본 연구를 통해 대외적 안보환경과 국내 개혁정책의 상호작용에 대한 시각을 새롭게 하면서 남북한 관계와 북한 경제개혁의 전망에도 시사점을 제공하고자 하였다.

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**주요어:** 대외적 요인, 안보환경, 경제개혁, 중국, 북한

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I will make rivers flow on barren heights, and springs within the valleys.

I will turn the desert into pools of water, and the parched ground into springs.

– *Isaiah* 41: 18

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