A dynastic polity in economic stagnation and decline

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In 1965, having visited East Asia, Joan Robinson, a Cambridge professor and world-renowned economist, relayed her recent experiences in an article under the telling title “Korean miracle.” Reflecting on what she had just seen, Joan Robinson stated: “All the economic miracles of the post-war world are put in the shade by these achievements” (Robinson, 1965: 542).

It does not sound particularly surprising nowadays, since it has long since become a cliché to describe the recent economic history of South Korea as a ‘miracle.’ However, in 1965, Joan Robinson was talking a different Korea—the Leninist state of the north. Her eulogy might reflect her own ideological tastes, which were very peculiar indeed, but it did not look completely unfounded to many contemporaries. It has been almost forgotten, but from the mid-1950s until the mid-1960s, people who spoke of the ‘Korean miracle’ usually meant not ‘the miracle on the Han River’ of later fame, but rather the ‘miracle on the Taedong River.’ Indeed, North Korea’s start was impressive, but this cannot be said about the subsequent economic performance of the country.

It is difficult to study and describe North Korean economic history. It is widely assumed nowadays that any meaningful discourse on economics has to be based on the large quantities of the statistical data, but such data is sadly absent when we discuss North Korea of the 1953–1990 period. In the beginning of this period, the published data was incomplete and poorly collected, but then things moved from bad to worse: the North Korean government essentially ceased to publish any meaningful economic data in the early 1960s and soon became an exceptionally elusive and secretive place, even if measured by the standards of the communist bloc. The situation is made more complicated by the very nature of a centrally planned economy, which in many regards makes the application of standard economic indicators difficult or misleading. So, one should not be surprised that there are significant differences between available estimates of North Korea’s economic performance in 1960–1990. Nonetheless, these figures still present a similar picture: a short period of quick recovery, followed by stagnation and, perhaps, decline towards the late 1980s. Table 1 presents the reader with some estimates, even though it is important to keep in mind that these estimates are not particularly reliable and are useful only for reference purposes.

In spite of some differences, most scholars agree that until a certain point, either in the late 1960s or perhaps even in the very early 1970s, North Korea was ahead of the South in terms
of per capita GDP, even though by the mid-1970s, the South was pulling away fast (Eberstadt, 2010).

A caveat is necessary: higher per capita GDP and other economic indicators did not necessarily mean that the average North Koreans had a more comfortable existence than their South Korean contemporaries did. At least some diplomats from North Korea’s allies, including the Soviet Union, presumed that North Korean living standards were lagging behind those of the South—obviously, this is what they believed strongly since they were ready to present such politically dangerous conclusions to their respective governments in highly confidential communications.

To a large extent, North Korea’s initial economic superiority was the result of a massive colonial endowment it inherited at the time of division. The 1930s industrialization progressed largely in areas that eventually would come under the control of the government in Pyongyang. It has been estimated that in the early 1940s, the northern part of Korea, in spite of being home to merely one-third of the total population, had produced 86 percent of the entire heavy industry output (McCune, 1950: 57). Apart from the state-of-art steel mills and railways, North Korea inherited a significant amount of social capital and skills, being home to a vast majority of Korea’s skilled and semi-skilled industrial workers. While the massive US bombardment of North Korea during the Korean War destroyed a significant part of North Korea’s industries, much of North Korea’s human capital did survive. When this was all combined with generous developmental aid from the Soviet Union, China and other Eastern bloc countries, a speedy economic recovery ensued. Soviet aid was largely aimed at promoting the industrial revival of North Korea—in line with the then orthodox Leninist view that machine tools and steel should come first, and food and consumer goods as a distant second.

The actual scale of Soviet, Chinese and Eastern European aid to North Korea cannot be estimated with much precision due to manifold problem. To start with, the aid was provided in roubles and other non-convertible currencies that cannot to be translated into the US dollars with any precision (due to the artificial nature of the official exchange rate and great difference in price structure). Things were made further complicated by the existence of indirect aid. It was the governments in communist countries that decided which goods should be exported, and in the case of intra-bloc trade, prices were often set at artificially lower levels, thus North Korea often received goods at prices far below the then current international market level, while being allowed to overcharge for its products. Nonetheless, a rough estimate of the combined Soviet and Chinese aid in 1945–1970 put the figure at the vicinity of $1.7 billion current dollars—a very significant amount for such a small and relatively underdeveloped country (Bazhanova, 1993: 460).

It is possible that by the early 1960s, the spectacular post-war recovery of the economy made North Korea’s leaders remarkably confident (read: complacent) about the country’s economic prospects. It is important, however, to emphasize that their expectations and promises were quite moderate by our present standards. In an oft-cited 1962 speech, Kim Il Sung outlined the coming prosperity of North Koreans. He promised that North Koreans would soon be

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Table 16.1 Alternative estimates of the North Korean per capita GNP

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eating meat and rice, not corn gruel, and living in tile-roofed houses, not in the thatched huts that still ‘blighted’ the North Korean landscape at that time.

This was a rather modest view of affluence—Kim Il Sung promised his subjects a lifestyle that had been the embodiment of affordable luxury by the average Korean peasant for centuries, no more, no less. However, much later, in 2010, the major North Korean newspaper, Rodong sinmun, admitted that the aforementioned moderate promise of then long-dead Generalissimo Kim Il Sung had yet to be realized (9 January 2010).

Indeed, from the 1960s onward, things went wrong with the North Korean economy. Within a couple of decades, it went from being a miracle to being a basket case. To the great chagrin of the North Korean elite, this happened at the very same time as the economy in its southern arch-rival began to surge toward prosperity with truly unprecedented speed.

To a large extent, the sorry fate of the North Korean economy resulted from its very nature. It was a highly centralized command economy, and the history of the twentieth century has demonstrated well that such economic systems are incapable of competing with market capitalist economies. The general reasons for their failures have been studied by some of the leading lights of twentieth century economics, such great names as Janos Kornai and Fredrick von Hayek—and their earlier insights were eventually proven right by the disintegration and collapse of the centrally planned economies. However, in the case of North Korea, this failure was more spectacular than the decline of centrally planned economies in Eastern Europe or the Soviet Union. To a large extent, this was a result of peculiarities of North Korea’s particular situation, as well as by some of the decisions of the North Korean leadership. The Soviet-style command economy includes a combination of state-run industry and collectivized (read: state-run) agriculture. In the case of North Korea, nationalization of industry began in 1946. While the 1946 law technically envisioned that only the property of Japanese collaborators would be confiscated, in real life nearly all Korean entrepreneurs of earlier era could be plausibly described as collaborators with the colonial authorities. Thus, for all practical purposes, almost all North Korean industry became state property by the end of 1946. Small workshops, retail markets, and individual handicraftsmen were allowed to continue their trade until 1957, whereupon, their property was also nationalized as well.1

At the same time, from 1955, the North Korean government stepped up its agriculture collectivization campaign, which ended in late 1957. Farmers were herded into agricultural collectives. Technically, these collectives were considered to be the joint property of their employees, but this was merely a legal fiction: for all practical purposes, these huge farms were state-owned and state-managed from the outset. While the official media reported inflated harvest figures, the collectivization’s immediate impact was a decrease in productivity and output.2

While forced collectivization of agriculture was an almost universal feature of socialist state building, done by nearly all Leninist regimes, North Korea was rather unique in its intensely negative attitude toward small, individual kitchen plots, which played such a significant role in the agricultural output of the Soviet Union and Eastern Europe. Since the mid-1970s, the maximum size of plots was limited to 30 p’yǒng, or roughly 100 square meters—and even such size was by no means guaranteed. This was well below the private plot size which was allowed in nearly all other Leninist economies (Yim, 2000).

In order to attain self-sufficiency in grain production, the North Korean government was prepared to make significant investments in agriculture. As a result, they created a system that indeed provided enough grain to meet the basic physiological needs of every North Korean, even though this system heavily relied on direct and indirect subsidies from the Soviet Union and other communist countries (this fact was not widely understood at the time). In order to produce the amount of grain required, the North Korean agricultural system had to be unusually
capital intensive for such a poor country. It heavily relied on chemical fertilizer and also on irrigation systems, which were themselves dependent on electricity-driven pumps—hence the system required a substantial amount of electricity. Since spare parts for the power plants and raw materials for fertilizer production came from overseas at subsidized ‘friendship prices,’ this system was vulnerable to external shocks.

Amid this charge to collectivize the countryside, North Korea’s industrial policy continued to follow Stalinist prototypes: emphasizing heavy industry at the expense of everything else. In the Soviet Union of the time, this model came under sustained attack and was partially revised soon after Stalin’s death in 1953.

Around the same time, certain factions in the North Korean leadership also attempted to change their country’s course and make its economy more consumer-oriented. Pak Ch’ang-ok, a head of the State Planning Committee (a former Soviet Korean) advocated in 1954 and 1955 that the government should take a new course and focus on consumer goods and agriculture. However, though Pak was supported by some elements in the leadership, Kim Il Sung and his ex-guerrilla comrades managed to win the ensuing factional struggle.³ Thus, Kim and his comrades came to dominate economic policy making until the last of them—Kim himself—died in 1994.

Being indoctrinated in the Soviet-style Leninism, the ex-guerrillas obviously believed that heavy industry was the foundation of all economic success. They also saw significant industrial inheritance from the colonial era as the major asset the country had and they wanted to make the most of it. Their intense nationalism, as well as their deep (if hidden) mistrust of the Soviet Union and China, may have played a role as well. They hoped that speedy development of heavy industry would make them more independent from Moscow and Beijing when it came to making political decisions—including the possible decision to intervene by force into a future South Korean internal crisis and thus finally unify the country. This is why their policy implied that heavy industry should be as independent from the outside influences as possible. This approach was expressed by Kim Il Sung himself, who in 1965 said: “Our Party’s line in regard to the building of heavy industry was to create our own base of heavy industry which would be equipped with new technology and would develop relying mainly on domestic natural resources and sources of raw material” (Kim Il Sung, 1976: 219).

Indeed, the possibility of another war was a major concern of the North Korean elite at this time. It is arguable as to whether their military preparations were primarily defensive or offensive in nature. However, it is clear that Kim Il Sung and his advisers were prepared to dedicate an unusually large share of their economic resources to military. As Noland and Haggard noticed, “By standard statistical measures, […] North Korea is the world’s most militarized society” (Haggard and Noland, 2007: 5).

The militarization became especially apparent after 1966, when the Second Party Conference officially declared a line of “simultaneous development” of the military power and civilian economy. This policy change, which actually became obvious few years earlier in 1962 and 1963, probably reflected Kim Il Sung’s revitalized hopes for a communist revolution erupting in South Korea—an opportunity not to be missed. The growing influence and popularity of the communist movement in Asia, as well as the success of Vietnamese guerrillas influenced Pyongyang strategic thinking as well.⁴ Their hopes proved to be unrealistic, and excessive militarization became a great and ever-increasing burden for the country’s economy.⁵ According to official North Korean budget reports, the share of military spending in the state budget increased from 7.5 percent in 1964 to an astonishing 32.4 percent in 1968 (Eberstadt, 2007: 139). These figures, like all North Korean official statistics, have to be taken with a generous measure of
scepticism, but the visibly dramatic build-up of military forces clearly confirms the same trend. By the mid-1980s, some 6 percent of all North Koreans were in the military—a share roughly equal to that of the USA in 1943.6

Apart from the intense military spending, the government also pursued a number of expensive prestige projects that created additional pressure on the economy. One should mention large-scale (and hugely expensive) construction projects in Pyongyang that were undertaken almost exclusively for propaganda purposes—the aim was to make the capital into a showcase of “Juche socialism.”

These construction projects culminated around 1980 and produced the Pyongyang we know today: a city of broad streets, which are almost devoid of car traffic, a city of high-rise buildings where the inhabitants of higher floors can get water a few hours a day at most, a city of mammoth, sometimes impressive, but usually kitschy political monuments.

Of course, the prestige projects were not limited to Pyongyang alone. In the early 1980s, simultaneously with the large facelift of Pyongyang, the North Korean government undertook a massive project on the Yellow Sea, where a massive barrage was built to reclaim land and control the floods of the Taedong River. As officially claimed by the North Korean media, the barrage costs approximated $400 million. As usual, the figure should be taken with some caution: it seems to be based on the grossly unrealistic official exchange rate. However, the size of the mobilized workforce leaves little doubt about the scale of this grandiose project: some 30,000 people were sent to Nampo to complete the barrage.7

Another example of expensive prestige-boosting activities was the support given to the overseas Juche study movement in the 1970s, when for a brief while North Korean diplomats and ideologues hoped to make this peculiar North Korean mix of nationalism and Leninism into one of the Third World’s leading ideologies. The large sums that were spent on such activities clearly did the North Korean economy no good, while also producing little in the way of actual diplomatic results.

The Sino-Soviet split was another factor that aggravated North Korea’s economic decline. The split surfaced around 1960, and soon afterwards, North Korea made a fateful decision to distance itself from the Soviet Union, which for some 15 years had been its major sponsor. On the one hand, the dramatic deterioration in Sino-Soviet relations provided Kim Il Sung and his government with a great opportunity: he was able to assert his country’s autonomy vis-à-vis the two great communist powers—the overbearing control of which Kim Il Sung and his deeply nationalist entourage had only ever accepted reluctantly. For a few years in the early 1960s, North Korea chose to side with China and was suspicious about the USSR. In 1963 a lengthy editorial in the Rodong sinmun openly criticized the “socialist division of labour,” Khrushchev’s favourite idea, as a grave threat to the economic independence of the ‘fraternal countries.’ Predictably, North Korea did not participate in the assorted joint economic projects, which had become common in the communist bloc since the mid-1960s, and never joined COMECON, an intra-government body which was created to coordinate such projects (Armstrong 2013: 128).

However, the period of pro-Chinese orientation was short. Pyongyang was soon disappointed with pitiful amount of economic aid the Chinese were prepared to provide—it was well below of what the Soviet had provided hitherto. As a result, from 1965–1966, North Korea began its switch to a policy of equidistance between Moscow and Beijing, which continued with only minor variation until the collapse of the Soviet Union.8

From a purely state-centred and nationalist point of view, the North Korea made the most of the ‘complex’ international situation (a standard euphemism the North Korean media used
to hint at the quarrel between Moscow and Beijing). North Korea was to become one of the most autonomous countries within the socialist bloc. Compared to the other autonomous communist regimes of the era—Yugoslavia and Albania, and then Romania—it was able to squeeze developmental assistance from the great power patrons at a smaller political cost. However, compared to the avalanche of aid that North Korea received in the 1950s, the post-1960 aid remained modest.

Thus, the North Korea’s economy began to slow down in the 1960s. Curiously, the first reaction of the North Korean government was to cease publishing potentially damaging statistics.

The North Korean government attempted to replace material incentives with appeals to the ideological better nature of its subjects. To an extent, this might have stemmed from changes simultaneously occurring in China—Kim II Sung was fluent in Chinese and by all accounts was an lifelong avid reader of the Chinese press, so he might have been influenced by the Maoists’ firebrand rhetoric as well as by Chairman Mao’s unwavering belief in the power of persuasion and ideology. However, we should discount the importance of the worldview of those in charge in Pyongyang. The guerrilla past of the top North Korean decision-makers was one of hardships, danger and extreme sacrifice in cause of national liberation, and this made them firm believers in the power of mobilization and ideological purity premised upon ceaseless indoctrination.

The first massive ideology-driven labour mobilization campaign was the Ch’ŏllima movement launched in 1958. This was to be followed by an endless number of similar campaigns including the notorious ‘speed battles’ (’70-day battle,’ ’100-day battle for’ and so on). The first of these shock-labour campaigns, which have few if any analogues elsewhere, was launched in 1974, that is, at the time when slowdown of North Korean economy began to be felt. During the said ‘battles,’ workers were treated like soldiers on the frontline and were expected to stay at their workplaces as long as possible, frequently even sleeping on the premise, with days off being cancelled. The intense propaganda campaigns, with content often being delivered straight to the workers through specially designed vans with loudspeakers, were designed to push workers to ever higher feats of productive labour.

Even in normal times, though, the amount of ideological indoctrination was all but unprecedented even by the remarkably high standards of the socialist bloc. Kim Il Sung once said that the North Korean worker should spend eight hours working, eight hours studying and eight hours resting (Kim Il Sung, 1988: 452). This might sound rather edifying, but we should not forget that Marshal Kim in this case was not talking about the study of classical philosophy, art or even foreign languages. Rather the word ‘study’ in this context was supposed to mean that the average North Korean worker should spend eight hours of her/his day attending ideological indoctrination sessions or reading official propaganda.

Probably, the stated ideal was never met, but the average North Korean still had to spend an astonishing amount of time attending various indoctrination and political studies sessions. In the 1980s, after the government had decided to reduce the time allocated to the political studies, every North Korean employee was still expected to attend three such sessions a week, each session lasting some two hours (of course, it was done after the end of the official work day). On top of that, every morning he or she was exposed to short indoctrination sessions where the attendees were required to listen to the articles from the official media being read aloud for some 15 minutes. While these efforts were largely aimed at ensuring the docility of the populace, the authorities also believed that heavy indoctrination would produce economic benefits, since it should make the masses work harder and better, while demanding little material rewards for themselves (Lankov et al., 2012).
Since the late 1950s, endless labour mobilizations have been a recurrent feature of North Korean economic management. For example, in autumn during harvesting and in spring during rice planting, the state mobilized and sent to the fields pretty much all urban workers who were engaged in what the state deemed to be 'non-essential' industrial activities (like the production of consumer goods) as well as middle and high school students. Even housewives were not excepted from such duties: every ward was told how many women it was to dispatch to the countryside for unpaid agricultural work. It was difficult or even impossible to avoid such mobilizations, and they remained an important part of North Korean daily life until recently. Mobilized workforce received their regular salaries and rations issued by their permanent employees, but got no additional payments for physically demanding and sometimes dangerous work.

In some cases, large-scale construction projects were also done with large-scale mobilization of ‘non-essential’ workers. In the late 1950s, and again in the late 1970s, extensive construction campaigns in Pyongyang led the authorities to close the city’s universities so that students could be mobilized in the renovation of the city—as a former students of Kim Il Sung University recalled while talking to me, “in 1958 we studied, perhaps, for merely two months, and spent the rest at the constructions site.”

While this system was adept at increasing ideological cohesion, economy wise it did not work so well. Indeed, these efforts largely failed to revive North Korea’s slowly worsening economic fortunes.

Partially driven by their own ideological inclinations and partially reacting to the economic slowdown, from the late 1950s the North Korean government came to increasingly rely on rationing and distribution when it came to meeting the demands of the country’s population. All command economies gravitated towards rationing to some extent, but in North Korea, this trend was taken to the extremes, and by the early 1970s, North Korea arguably had the most comprehensive and elaborate rationing system in the entire Soviet bloc (with the probable exception of Albania).

Rationing was first introduced by the North Korean authorities in 1946. Initially it was only the employees of the country’s state-owned enterprises who were eligible for subsidized food rations. At this early stage, access to such rations was actually a privilege, allowing the lucky minority the right to cheaper food and other consumer goods. However, in 1957, grain and cereal products were subject to universal and mandatory rationing. Thus, the private sale of grain was criminalized: cereals could not be sold and bought. All cereal output of state-run farms was first harvested by workers of the state-run ‘collective farms,’ who were then allotted their own rations. The remainder was dispatched to state-run granaries for the eventual distribution in towns and cities, as well as among the military.

Grain-rationing norms were universal nationwide: 800- or 900-gram rations were issued to the workers who were doing hard manual labour, 700 grams was a standard ration for other employees, while high school students received 500 grams, and so on. The lowest allowance, merely 100 grams, was reserved for the infants. The rice rations were paid every fifteenth day. On a designated day, a family representative, usually a housewife, went to the assigned grain-distribution centre. She produced the ID and the coupons for her entire family, then paid the token price and took home the cereals for the next two weeks. The farmers, being employed in the state-managed cooperative farms, were also subjected to rationing, the only difference being that their rations were issued only once a year, soon after harvesting was complete (obviously, on assumption that they should take responsibility for storing the grain).

Rations consisted of a mix of different grains. In the 1970s, in Pyongyang, rice represented as much as 60 percent of the allowance; but even in those relatively prosperous times, in more
remote areas, rations consisted entirely of corn and barley, which have fewer calories than rice and was generally seen as an inferior subsistence food. The proportions between rice and other less valuable kinds of grains depended largely on one’s place of residence, with Pyongyang and other major cities being most privileged.

As time went by, both the quantity and quality of the rations decreased. In 1972 the first nationwide cuts of the ration size were introduced, being presented as necessitated by the mounting threat of the imperialist aggression against North Korea. In the late 1980s, more cuts were introduced, and soon, in the early 1990s, the entire elaborate system collapsed.\(^{11}\)

In terms of nutrition, almost all calories in the North Korean diet came from rice and other cereals, with other foodstuff seen as secondary. Such ‘additional’ items like soy sauce, cabbage, and fish, as well as consumption goods like soap, socks were also rationed. Such items were distributed by the local authorities, with distribution quotas set locally, largely depending on how economically fortunate and politically powerful the given local authority was. The shops were superseded by a variety of direct distribution systems, each targeting different segments of the population. Officials had their distribution systems, which provided them with luxury items normally beyond the reach of the common population as well as delicacies. The size and quality of these special rations depended on the official’s position within the state and party hierarchy.\(^{12}\)

One of more curious forms this distribution would take was the so-called ‘presents from the Great Leader’ (later, with the rise of Kim Jong Il, ‘presents from the Dear Leader’ appeared too). Such presents were usually given to select individuals as a sign of their special contribution to the realization of the state’s lofty aims. In most cases, the presents were rather expensive: televisions, radio sets, wristwatches, cooking utensils and the like. In other cases, presents were distributed far more widely—for example, nearly all children were normally given fresh fruits and assorted sweets as presents from the Leaders Great and Dear on days of especial national significance.

It is noteworthy that distributed items were sold at generously subsidized prices, essentially for free. For decades, North Koreans would pay 0.08 won per kilo of rice, and less for a kilo of corn—while the average monthly salary in the 1970s was about 50–60 won.

Indeed, the relative marginality of money became another important feature of the North Korean economy as it emerged in the 1960s. Nicholas Eberstadt once noted: “[T]he medium of domestic currency was almost marginal to the operation of the DPRK economy by that point. In this respect, the DPRK is an extreme outlier from the modern economic experience. The only other economy to come close would be Cambodia’s in the late 1970s, under the dark days of the Khmer Rouge, when the Pol Pot leadership simply abolished money for a time” (Eberstadt 2002). One cannot help but agree: indeed, money would not buy much in Kim Il Sung’s era North Korea. Food and basic goods were strictly rationed, while moderate luxuries were issued as a reward for labour and loyalty by the state, free of charge—and it was almost impossible to get around the regulations and bans.

Markets never ceased to exist in North Korea, and in 1969, Kim Il Sung himself admitted that, for the time being at any rate, the existence of markets were a necessary evil. But in most cases, markets only opened three days a month. There were also long lists of items, the sale of which was prohibited in these markets—though these lists were increasingly disregarded as time went by.\(^ {13}\) Be that as it may, market prices were prohibitively expensive because farmers were only able to sell what they had grown themselves in their very small private plots. For example, in the mid-1980s, in Pyongyang’s main market, a single chicken would cost thirty-five won (this was equivalent to roughly half the average monthly salary), while one apple would cost five won (roughly equivalent to two days wages).\(^ {14}\) Theoretically, garments, footwear and other non-food items were banned from sale at the markets, but the ban came to be neglected by

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1980—the author remembers that in the mid-1980s at least half of the merchants in the major Pyongyang market were trading in the non-food items.

Another notable feature of Kim Il Sung’s economic policy, as it emerged in the 1960s, was a strong emphasis on self-reliance (otherwise known as economic autarky), both in the international economic relations and domestically. The North Korean government made the principle of *charyk kaengsaeng*—which can roughly be translated as self-reliance—into the major slogan describing its economic policy. As a matter of fact, this slogan, Sino-Korean in origin, was borrowed from Mao’s China verbatim (the Mandarin pronunciation of these four characters is *zili gengsheng*), though few North Koreans were aware of this. Indeed, Mao’s experiments of the period resonated remarkably well with what the North Korean leaders saw as an ideal model of economy.

The emphasis on autarky was not merely inspired by Chinese experiments of the era, but also reflected the deep-rooted beliefs of the North Korean political elite. Their ideal economic model implied that every industrial enterprise and administrative unit would normally produce most of what it needs without having to ask for funds and assistance from the central government. Until the late 1980s, the North Korean official media extolled the achievements of those enterprises and regions where the self-reliance had been actualized. For example, when workers in Pyongyang’s main granary needed a small railway locomotive to move grain, instead of asking the central government for this piece of transportation machinery, they allegedly produced for themselves. This is but one of a litany of examples to be found in the North Korean media of the 1960s and 1970s.

Obviously, North Korea’s economic planners hoped that an emphasis on regional self-sufficiency would decrease the pressure on the central government to provide scarce industrial equipment and raw materials. It was also expected that a conglomeration of self-sufficient regions would ultimately help to reduce economic and hence political dependence on other countries (above all, the Soviet Union and China). Such emphasis on self-reliance was quite popular in the developing world of the period, and incidentally, in South Korea in the late 1960s some opposition politicians and public intellectuals promoted similar schemes as an alternative to Park Chung Hee’s export-oriented industrialization policy.

At the end of the day, though, North Korea’s approach proved to be unsuccessful, and probably led to greater inefficiency and wastage, since modern economies are necessarily premised upon division of labour and specialization. Paradoxically, in spite of the much trumpeted self-reliance, North Korea remained one of the most economically dependent countries of the socialist bloc. As events of the late 1990s painfully demonstrated, it was kept afloat largely by direct and indirect subsidies from the Soviet Union, China and other relatively affluent socialist states. As the socialist bloc disintegrated around 1990, aid to North Korea dried up and the North Korean economy imploded in a matter of years.

In the early 1970s, though, there was a short period when the North Korean government seemingly discarded the emphasis on the autarky and attempted to use the favourable international climate at the time in order to acquire foreign loans. It was assumed that these loans would be used to buy modern factories, thus reviving their country’s increasingly stagnant economy. The world’s banking institutions were prepared to loan North Korea significant sums, partially because at the time, the communist countries were believed to be trustworthy and reliable borrowers, but also because in the early 1970s, after the first oil crisis, the world’s financial system was flush with petro-dollars (Armstrong, 2013: 178).

These loans were indeed used by the North Korean government to purchase industrial equipment and sometimes even entire factories, like, say, a watch factory from Switzerland or large batches of mining and metal-working equipment from Sweden. At the same time, the
North Korean authorities showed remarkably little interest in the acquisition of technical know-how. They obviously assumed that money should not be wasted in such a way, since the requisite technology would be independently mastered by North Korea’s own engineers and technicians. It is debatable how North Koreans expected to be able to pay these loans and even whether actually planned to repay this money at all. At any rate, this investment boom proved to be short-lived. In the late 1970s, North Korea became the first state in the socialist bloc to default on its loans. By the late 1980s the accumulated debt to the Western private creditors was estimated to be at some $900 million (Noland, 2000: 95).

In the mid-1970s, obviously under the pressure of default and feeling the increasing need to acquire foreign currency, the North Korean authorities began to engage in a number of illicit money-making activities. These included the production and sale of drugs, the manufacture and use of counterfeit US dollars, as well as engagement in a number of insurance fraud schemes and the abuse of diplomatic immunity to smuggle alcohol, tobacco, and other contraband goods like ivory and wristwatches. Contrary to what is often assumed, such illicit activities seemingly never yielded significant income, but rather led to a large number of high-profile diplomatic scandals that seriously damaged the country’s image on the world stage (Noland, 2000: 95).

Apart from such illicit activities, the North Korean economic planners, increasingly hungry for dollars, yens and francs, began to utilize a number of less controversial schemes to earn income overseas. From the late 1970s, North Korea de facto abandoned the state’s hitherto monopoly on foreign trade (this was a typical feature of all planned economies of the Soviet type). Larger industrial embassies, but also party and government agencies (like the central committee) and even larger military units were allowed (and, indeed, encouraged) to establish their own, autonomous foreign-currency earning enterprises. These enterprises were given rights to export some types of resources—like coal, medical herbs, ginseng and seafood. As just stated, these organizations enjoyed what was at that time an unprecedented level of autonomy and managerial freedom. They were allowed to pay commercial wages to workers engaged in the extraction/harvesting of resources for export, they were permitted to seek out their own commercial partners overseas and sell their produce at the international going rate—as long as they made required hard-currency contribution to their agencies’ budget. As time passed, the managers of such enterprises increasingly came to behave as if they were private entrepreneurs. They began to pocket a significant amount of their foreign-currency earnings (Greitens, 2014).

Another source of income was a large ethnic-Korean community in Japan. In the mid-1950s, pro-Pyongyang activists created Ch’ongryŏn (known as Chosen Soren in Japanese), a powerful Korean émigré organization to which most of the émigré community initially belonged to. Facing serious discrimination in Japanese society, ethnic Koreans were inclined to create a closely knit organization that came to look upon Pyongyang as its political benefactor and protector. Some 95,000 ethnic Koreans moved from Japan to North Korea in the 1960s. For the subsequent few decades, most of these people relied on monetary remittances from their relatives in Japan (Morris-Suzuki, 2007).

Additionally, from the 1960s, more successful ethnic Koreans in Japan were encouraged to make donations to the North Korean government’s budget. Often, the most important donors were rewarded for their generosity by the regime: for example, their relatives could be granted the right to reside in Pyongyang or study in a prestigious college. Also, from the late 1970s, the government opened a number of the hard-currency shops, where the receivers of the remittances could shop for high-quality goods that were unavailable to the vast majority of the North Koreans.

Since the money was usually sent illegally, it is impossible to estimate the scale of transfers with any precision, but there is little doubt that from the early 1960s and until the late 1980s
these remittances constituted a major source of revenue for the North Korean state. For example, in 1994 the director-general of the Japanese Agency for Public Security and Investigation stated that Ch’ongryŏn, its affiliated groups and individuals annually sent to North Korea between $650 million and $850 million a year. However, in 1996, Nicholas Eberstadt, having studied the available sources, concluded that by the mid-1990s the figure was lower, in the region of $100 million a year—even though in the 1960s and 1970s, the amount of remittances had been significantly higher (Eberstadt, 1996). Given that the total foreign trade volume of North Korea in the 1980s oscillated between one and two billion dollars, a few hundred million dollars a year made very important a contribution indeed.

In general, the history of North Korean economy in 1945–1990 can be seen as a short period of success followed by long stagnation and then accelerating decline. The success was, to a large extent, made possible by the large endowment the northern part of Korea inherited from imperial Japan: prior to 1945, it was the area which attracted a remarkable amount of investment. Nonetheless, a significant role was also played by the new government’s ability to mobilize the labour and resources while also attracting large-scale foreign aid.

However, the inner inefficiency of the Leninist centrally planned economy was exacerbated by the excessive militarization (perhaps, partially unavoidable, given the international environment and political priorities of the regime), as well as by the ideological peculiarities of the decision-makers’ worldview. Thus, the economy soon slowed down and slowly moved to stagnation. While the foreign assistance allowed North Korea to stay afloat and provide the population with a basic food supply, the country began to lag behind its major rival. The growing gap between two Korean states was to have significant impact on the strategic thinking in Pyongyang, essentially determining the fate of the North Korean state in the long run. The fateful decisions of the 1950s and 1960s made the 1990s disasters nearly unavoidable—but nobody, including the decision-makers themselves, could foresee such an outcome.

Notes

1 The relevant North Korean laws and regulations have been studied well. For a short description, see: Kim Hak-chun, Pukhan 50 nyŏn sa [Fifty Years of North Korean History] (Seoul: Tonga, 1995), pp. 108–110, 179–182.
6 Ibid., p. 146.
7 A typically uncritical reiteration of the Pyongyang official narrative can be found in: 정태웅, “남포: 인천-남포 뱃길 통해 물자 오가는 서해갑문의 항구도시” // 민족 21 86, 2008.5, pp. 52–55.
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11 For a comprehensive overview of the PDS since its inception and until its collapse in the 1990s, see: No Yong-hwan and Yŏn Ha-ch’ŏng, Pukhan-ŭi chumin saenghwah pochang chŏngch’ak p’yŏngka [Evaluation of the Welfare Policies in North Korea] (Seoul: Hankuk pokŏnsaehoeýôngkwŏn, 1997), pp. 47–62.
12 For the description of the special rationing system for officials, see: 승동익, 인민이 사는 모습 (서울: 자료원, Seoul: Saryowŏn1995), vol. 2, p. 212.
14 Author’s own notes from his stay in Pyongyang.

References

Sŏ Tong-ik. Inmini sanun mosŭp [How People Live], Volume 2, Sŏul: Charyowŏn.