

# DEFENSE DOSSIER



*MAY 2012*

*ISSUE 3*

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**American Foreign  
Policy Council**

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## NORTH KOREA'S NUKES R US

*By Peter Brookes*

North Korea is a wild card—and a dangerous one at that. The recent long-range ballistic missile launch is just the latest in a string of provocations from Pyongyang. Over the last two years, it has sunk a South Korean warship; shelled a South Korean island; and, conspired to assassinate the South Korean defense minister. The accession late last year of a new, young, and inexperienced North Korean leader, Kim Jong Un, to replace his father Kim Jong Il could portend more hostilities, including another nuclear weapons test.

### **The logic of testing**

Speculation abounds among experts about why North Korea might conduct another nuclear test, perhaps even in the next couple of months, making it the third test since 2006 when it became the 9<sup>th</sup> member of the once-exclusive nuclear weapons club. Interestingly, it turns out that each of the last two North Korean long-range missile launches (in 2006 and 2009) have been followed by nuclear weapons tests. The pattern is likely to continue, based on a long-list of potential motivating factors.

First, the new Kim regime is likely to want to propagate a signal of strength to both domestic and international audiences. Nothing says “power” to the international community like a nuclear weapons test. Of course, Pyongyang wants to ensure that “enemies” such as South Korea, the United States and Japan know that a change in regime leadership does not mean it is weak or vulnerable to any predations that those countries might consider.

Not to mention that both the United States and South Korea will go to the polls later this year to elect candidates for the presidency and the U.S. Congress. A nuclear test would certainly allow North Korea to insert itself into U.S. and South Korean domestic politics. Indeed, Pyongyang might calculate that the incumbent parties in both Washington and Seoul might be more amenable to offering concessions to prevent a crisis on the eve of elections. Another nuclear test will also tell its closest ally, China, that North Korea remains defiant of its big neighbor, despite still being dependent on Beijing's largesse for food and fuel. (China represents North Korea's largest aid donor.)

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As counterintuitive as it seems, even in highly-repressive states like North Korea, elite and public opinion counts. Having only been groomed as successor for a short period, Kim Jong Un does not have the gravitas of his father, who led the country since 1994. He will have to work to win to support of the Korean People's Army, Korean Workers' Party and the security services. As such, Kim will want to look "large and in charge" of his country's national security. Since Kim has now assumed most of his father's leadership titles, what better way to symbolically mark the end of the Kim family's dynastic power transition than with a big bang?

Plus, North Korea may want to light off another nuke to assess its progress on a warhead for mating to a long-range ballistic missile such as the one used in this spring's test.

(North Korea continues to work towards having a long-range missile that can threaten the United States.) While a successful nuclear test is proof of concept for a weapon, it is currently unknown if North Korea has yet mastered "weaponization." Weaponization includes miniaturizing the nuclear test device (that is currently based on plutonium in North Korea) into a gravity bomb, nuclear artillery or a warhead of varying sizes for use on ballistic missiles of different ranges.

For example, making a nuclear warhead for an intercontinental ballistic missile

requires developing a delivery package that can withstand the significant forces and temperatures it would be subject to en route to its target, where it must then explode. A third North Korean nuclear test could indicate the regime has made significant progress and perhaps has achieved viable nuclear weapons.

Another North Korean nuclear test could also utilize highly-enriched uranium rather than plutonium. Pyongyang has had a long-secret parallel nuclear program, based on uranium. (The highly-enriched uranium program is believed to be less mature than the plutonium-based program.) Some experts predict the next test could use

*Nothing says "power" to the international community like a nuclear weapons test.*

highly-enriched uranium rather than plutonium since the regime showed a visiting U.S. scientist 2,000 uranium centrifuges during a 2010 visit. The scientist was reportedly stunned at

the scope and sophistication of the uranium program. If experts are able to determine that the next test used highly-enriched uranium, it would show that North Korea has developed two pathways for producing nuclear weapons. (Pyongyang is currently estimated to have enough plutonium for 4 to 7 weapons in its arsenal.<sup>1</sup>)

Another reason? North Korea is well-known for its nuclear proliferation record—and perfecting a nuclear weapon would provide Pyongyang with another "item" to sell, in addition to its active ballistic missile trade, which provides hard

currency to a regime hard up for cash. Although it is unlikely North Korea would sell a complete weapon, it could be willing to sell technology or components.

Pyongyang infamously was building a nuclear facility for Damascus in northern Syria before Israel destroyed it in 2007. It is widely believed North Korea and Iran are cooperating at some level on both ballistic missile and nuclear issues.

Developing the ability to build both a highly-enriched uranium and a plutonium weapon, matched with the willingness to share or sell that nuclear know-how would potentially put Pyongyang in the same category as Pakistan's prodigious proliferator, A.Q. Khan.

Lastly, it is possible that North Korea might go radioactive over the Obama administration's decision to suspend 240,000 tons of food aid the United States promised in exchange for a long-range missile and nuclear test moratorium agreed to as part of a bilateral deal this February. The administration broke off the deal when North Korea announced shortly after the bilateral talks concluded that it was moving ahead with a satellite launch, a violation of standing UN resolutions and an activity which the United States believed it had captured as well in the deal.

### **Gaming the DPRK's resolve**

While there is little question about the existence of a litany of reasons for North

Korea to conduct its third nuclear weapons test in nearly six years, the big question is what might be done about it? Unfortunately, it appears not much, especially considering the long-list of reason to conduct a test.

A direct diplomatic request is unlikely to be persuasive to Pyongyang, even from Beijing, and the threat of United Nations' condemnation has done little to deter Pyongyang from ballistic missile or nuclear activity in the past. Moreover, punitive economic sanctions have had little impact as well, as North Korea has lived for years with isolation and privation. It has also been successful in evading sanctions and can rely on China to prevent regime collapse as it has for so long.

Arguably, going after North Korea's international finances, as the Bush administration did against North Korean accounts in Banco Delta Asia, could have significant effect. Alternatively, diplomats can offer "carrots" such as food aid instead of "sticks" in trying to shape North Korean behavior. Indeed, some observers claim that the nuclear program was the real American focus of the February 29<sup>th</sup> U.S.-DPRK deal.<sup>2</sup>

While a comprehensive, integrated strategy using all the instruments of national power offers the best potential for denuclearizing North Korea, there are certainly no guarantees with Pyongyang. Getting the regime to stick to any agreement is a challenge and likely to end up in

disappointment—or worse. As such, the United States and its allies Japan and South Korea must ensure that they maintain sufficient conventional and strategic military forces to ensure their deterrence and defense capabilities remain strong.

North Korea must believe that a conventional attack against South Korea or Japan is futile, and would lead to defeat as well as regime change in Pyongyang. Japan and South Korea should develop multi-layered missile defenses directed at North Korea. Strategically, the United States must maintain a credible extended nuclear deterrent as well as develop the necessary missile defenses for addressing the North Korean theater and ICBM threat.

These military efforts certainly do not rule out the possibility of further probing of the new regime's diplomatic intentions. There

is always the possibility that North Korea's new leader might pursue a different path from the past. Unfortunately, that possibility is remote. Based on past unpleasant dealings with North Korea, Pyongyang looks to ensure that hope—once again—doesn't triumph over experience, likely evidenced this time by a third nuclear weapons test.

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<sup>1</sup> Mary Beth Nikitin, *North Korea's Nuclear Weapons: Technical Issues* (Washington, DC: Congressional Research Service, February 29, 2012), 5.

<sup>2</sup> Olli Heinonen, "The North Korean Nuclear Program in Transition," *38 North*, n.d., <http://38north.org/2012/04/oheinonen042612>.

## THE KEYS TO NORTH KOREAN SURVIVAL

By *Andrei Lankov*

Agreements that involve North Korea tend to have a very short life expectancy. Even by those standards, the so-called “Leap Day Agreement” concluded with the DPRK on February 29<sup>th</sup>, 2012, was somewhat remarkable: it lasted just two weeks.

The Leap Day Agreement envisioned that North Korea would freeze its missile and nuclear programs in exchange for U.S. food aid (specifically, twelve monthly installments of 20,000 tons apiece, totaling 240,000 tons). By mid-March, however, North Korea had declared that it would launch a satellite in April, thus violating the agreement. The promised launch did indeed take place on April 12<sup>th</sup>, but ended in failure. At the time of writing, it appears that a third North Korean nuclear test is also likely in the near future.

These actions produced much international condemnation, and revived discussion of an age-old question: what can be done about North Korea? Unfortunately, the only honest answer is “almost nothing.”

Of course, one should expect a great deal of

tough talk from Washington, Seoul and other world capitals. After all, governments in democratic countries across the world must show their voters that something is being done. Such rhetoric, however, has yet to produce meaningful results in the case of North Korea, and there is good reason to be pessimistic about the prospects of it doing so in the future.

### **Why carrots are not sweet enough**

It has often been suggested that North Korea can essentially be bribed into denuclearization. Generous aid packages, the theory holds, might eventually persuade North Korea’s leadership that it would be in their own interests to sacrifice their nuclear program in exchange for economic growth.

This logic, however, is faulty. For one thing, North Korea is not China, and a repeat of the “Chinese model” of gradual transition to market reforms isn’t in the offing. Rather, the North is part of a divided country, and therefore the spread of information about the outside world and social relaxation—

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both of which are unavoidable results of market reforms—would seriously endanger the legitimacy of the Kim regime. This is not an issue in China, which is not a divided country; no separate “South China” exists. In other words, the Chinese population does not face another country populated by people of similar language and culture but enjoying much better living standards. By contrast, dirt-poor North Korea faces a prosperous and free South. Should the North Korean people learn of the true extent to which their South Korean brethren are prosperous, their regime is likely to face an existential crisis. In other words, in a divided country attempted reforms are likely to produce not a Chinese-style economic boom, but rather East German-style regime crisis and collapse.

Therefore, North Korean leaders do not really want economic growth, which they will be unable to control. What they need is not foreign investment but foreign capital transfers. Foreign money should come to them so that the funds can be distributed according to political need, not the logic of the market. In actuality, this means that foreign aid will be used to reward the faithful and strengthen the stability of the regime. But such unconditional aid has to be squeezed from the outside world, and the regime’s nuclear program is one of the major tools that make this possible. As such, North Korean leaders might be willing to freeze or even partially

*Should the North Korean people learn of the true extent to which their Southern Korean brethren are prosperous, their regime is likely to face an existential crisis.*

reverse their nuclear program in exchange for large-scale capital transfers, but they cannot and will not denuclearize, for nuclear weapons are the very means by which they can perpetuate their aid maximizing foreign policy.

Concurrently, nuclear weapons also serve as a deterrent. Back in 2005-6, many foreign diplomats suggested that the North Koreans should learn from Libya, which had by then surrendered its nuclear program. The North Korean state did indeed learn from the sorry fate of Colonel Gadhafi. They see his recent demise as proof of the necessity of maintaining a nuclear deterrent to safeguard their country against foreign attack, and also to deter foreign intervention in the case of an internal insurrection (however unlikely such an thing may be in a country as tightly controlled as North Korea).

### **Why sticks can never be sharp enough**

These days, supporters of engagement with, and aid to, the DPRK clearly constitute a small and dwindling minority. Most observers now pin their hopes on even tougher sanctions against Pyongyang. They are guided by the assumption that North Korea can be forced to denuclearize, if only the international community were to have the economic means to compel it to do so.

Over the past couple of years, one could hear from time to time that the sanctions regime was allegedly “beginning to bite.” As it turns out, this was wishful thinking, in no small measure because the period in which North Korea has been subjected to international sanctions has also been a period of modest but palpable economic growth and lifestyle improvements in the country. During these six years, the number of passenger cars in Pyongyang may have as much as doubled, large construction projects continue in major cities and a minor restaurant boom has begun to engulf the North Korean capital.

There is little doubt that the failure of the sanctions regime was largely brought about by China’s unwillingness to participate. Since 2006, China’s trade with the North has nearly tripled, rising from \$1.7 billion to \$5.4 billion. China has, at the same time, assumed near full responsibility for preventing another outbreak of famine in North Korea (in practice, this means annual shipments of half-a-million to one million tons of free grain to Pyongyang annually). But Chinese sabotage is only one of the reasons for the failure of sanctions.

Generally speaking, North Korean society is designed in a way which makes sanctions unlikely to succeed. When a country is subjected to sanctions, it usually leads to a decline in the living standards of its population, which in turn leads to popular discontent and pressure on the government to reverse the policies that had led to the sanctions regime being imposed. At that

point, there is a good chance that the government in question will have no choice but to bow pressure, or face being removed from power either through revolution or by the ballot box.

This is unlikely to happen in North Korea, however. If sanctions really start to bite, the economic situation in the country might deteriorate. Eventually, it might indeed lead to an outbreak of popular discontent, even a revolution—but the country will have to be hit very hard to produce such results. After all, the experience of the great famine in the 1990s when an estimated 2-3 percent of the population starved to death demonstrates that North Koreans are remarkably reluctant to challenge their government. Only a major economic disaster might provoke a revolution in a country where the population remains terrified, docile and not well aware of the available alternatives to their lifestyle.

Sanctions, therefore, might work, but only if they deliver a serious blow. But such a scenario is exceedingly unlikely, since China has no interest in joining such a comprehensive sanctions regime.

### **Why China will not be helpful**

Recently, following repeated failures in engagement and sanctions, the idea of pressuring China to do something about North Korea’s antics has begun to gain currency on the international scene. This argument however, is flawed for two reasons. First, China does not really have

leverage over North Korea. Second, China has its own set of interests on the Korean Peninsula, and these interests have led Beijing to be very reluctant to join sanctions.

At first glance, China—which is North Korea’s major trading partner and practically the sole major supplier of aid to Pyongyang—indeed appears optimally positioned to exercise influence over the North. But this is not actually the case: Chinese influence over the Pyongyang should not be overestimated. It is useful to remember that in the 1960s, the Soviet Union had a similar level of control over North Korea’s economy in both aid and trade terms. This did not translate into influence for the Kremlin over Pyongyang’s foreign or domestic policy, however. To the contrary, North Korea’s leadership did what it wanted, including its brazen January 1968 seizure of the U.S. Navy ship *USS Pueblo* (which was carried out without the prior consultation with the Kremlin and over the negative reaction of Moscow).

Theoretically, of course, China might eventually decide to join a comprehensive sanctions regime against Pyongyang, and such a regime will likely lead to regime collapse in the North. But there are valid reasons for why China sees no benefit in doing so at the moment.

First, what China needs most on the Korean Peninsula is stability. Beijing does not want to have to deal with a violent crisis in a neighboring nuclear-armed state. China’s second goal is to keep the Korean Peninsula divided, while denuclearization comes in a distant third. If China were to deny aid to North Korea and thereby provoke instability, it would lead to a major international crisis and probably Korean unification under a South Korean-dominated government that would be both nationalistic and pro-American.

In other words, China now faces three options: a nuclear armed and occasionally reckless North Korea; a collapsed state in the North; and/or a Korean Peninsula unified under Seoul’s control. None of these options are particularly attractive to Beijing, but the former—that of a nuclear armed, on occasion erratic but internally stable North Korea—is preferable to the others. Therefore, it should not come as a surprise that China prefers the status quo and is even willing to pay for the maintenance of it through the provision of aid and preferential treatment to the North.

### **Some grounds for cautious optimism**

Thus, the picture looks pretty grim. As long as the Kim regime stays in power in Pyongyang, neither a hard nor a soft line is

*They [North Korea’s regime] cannot and will not denuclearize, for nuclear weapons are the very means by which they can perpetuate their aid maximizing foreign policy.*

going to produce a non-nuclear North Korea, and there is little reason to count on Chinese support in the service of that goal.

Nonetheless, the North Korean problem is probably not going to last forever. The North Korean state and its society are slowly changing, and the government is gradually losing its capacity for absolute control. North Koreans are now better

informed about the outside world, less afraid of their own government, and more capable of organizing themselves. This does not bode well for the Kim family: in the long run, the regime is doomed. That said, however, this long run may be very long indeed, and in the meantime the outside world will not be able to do much to influence the behavior of North Korean rulers. ■

## THE ECONOMICS OF STATE FAILURE IN NORTH KOREA

*By Nicholas Eberstadt*

Ever since its founding in 1948, the Democratic People's Republic of Korea (DPRK, aka North Korea) has maintained an aggressive and bellicose international security posture. Today, fully two decades after the end of the Cold War, North Korea's external defense and security policies look arguably more extreme and anomalous than ever—in the sense of being more distant from evolving international security norms than ever before.

The particulars of DPRK “extreme” security policies and practices are well known. They include:

*A hyper-militarization of society, economy, and policy.* This reality is reflected in the regime's current top political slogan, “military-first politics” [*songun chongchi*]. But the astonishingly high priority that the defense sector now enjoys is nothing new. Although reliable statistics on the modern DPRK are indeed scant, there are strong indication that the DPRK has been running its society and economy on something like a full war footing since the early 1970s—or perhaps even earlier.<sup>1</sup> Pyongyang's own data seem to suggest the government was fielding a military force of over 1.2 million

in the late 1980s—proportionately, a mobilization level parallel to that of the United States in 1943.<sup>2</sup>

*Maintenance and augmentation of chemical and biological weaponry capabilities.* At a time when almost all of the world's government have renounced biological and chemical warfare—and when most of the governments with bio-chem warfighting capabilities have dramatically reduced or entirely eliminated those arsenals—Pyongyang appears to be adding to its stockpiles, and perfecting its bio-chem delivery systems.

*Ballistic missile development.* Despite its dire economic straits since the end of the Cold War, North Korea has been deeply committed to developing and improving its ballistic missile program. Its launch of the *Taepo Dong* in August 1998 signified that North Korea was one of only six states with demonstrated multi-stage ballistic missile capabilities. Research and development on the long-range missile program continues robustly: indeed, just last month Pyongyang test-fired its latest long-range *Unha-3* [known abroad as *TaepoDong 3*], ornamented with a “weather satellite” of

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roughly the same size and weight as a nuclear warhead, to commemorate Kim Il Sung’s 100<sup>th</sup> birthday.

*Relentless overt and covert nuclear weapon development programs.* Pyongyang’s persistent drive to acquire the means of producing nuclear weaponry, irrespective of treaty obligations or other promises is, of course, the matter at the heart of the ongoing North Korean nuclear drama. Having withdrawn from the Nuclear Nonproliferation Treaty (the only state ever to do so), the DPRK is apparently pressing forward with plutonium reprocessing for what it terms a “war deterrent.” It is also evidently pushing forward with its now-notorious “second-track” highly-enriched uranium (HEU) program for producing weapons-grade nuclear materials. It has already tested atomic weapons twice and by all indications is on track to continue to do so until it solves the problem of successful nuclear weapons design, irrespective of the reaction of the international community.

*Confrontational international diplomacy.* Pyongyang adopts an almost singularly vicious language of threats in its dealings with its neighbors and their allies. Pyongyang’s diplomats first warned of turning Seoul into “a sea of fire” in 1994—but the warning has subsequently been repeated on numerous occasions, most recently last month, when the North Korean

military threatened to “reduce all the rat-like groups” in the Seoul government “to ashes in three or four minutes... by unprecedented peculiar means and methods of our own style.”<sup>3</sup> Japan has likewise been officially served notice of North Koreans’ “determination to settle accounts with Japan, their sworn enemy, at the cost of their [i.e. Japan’s] blood.”<sup>4</sup> And, since 1998, Washington has repeatedly heard variations on the following theme:

“[S]urgical operation”-style attack and “preemptive strike” are by no

*North Korea is allocating an enormous share of its resources to the defense sector likely draining potentially productive resources into activities that produce little or no economic “value added.”*

means an exclusive option of the United States, the mode of strike is not a monopoly of the U.S., either. It must be clearly known that there is no limit to the strike of our People’s Army and that on this planet there is no room for escaping the strike.<sup>5</sup>

*Continuing unconditional stance on unification with South Korea.* Unlike the example of China’s unification policy—where a “one country/two systems” formula is still represented in the stark differences between political and economic rules in Hong Kong and on the Mainland—the North Korean government shows no indication that it would ever accept anything less than a complete absorption of South Korea under Kim family rule and DPRK-style socialism. The North Korean official press and “unofficial” media continue to imply, or sometimes to

insist, that the ROK government— notwithstanding the popular election of a two “Sunshine Policy” Presidents, Kim Dae Jung and Roh Mu Hyun—is an illegitimate colonial police state that must be thoroughly extirpated so that the suppressed population of the South can join under the government in the North that it adores. North Korea’s positions are reflected in the statements of the imaginary “resistance fighters” from South Korea whose words are episodically broadcast from Pyongyang (such as this one during the Presidency of progressive Roh Mu Hyun in the year 2005):

...the six decades of the U.S. forces' occupation of south Korea have been crime-woven years in which they have encroached upon the sovereignty and dignity of Korea and barred the development and reunification of the Korean nation... The U.S. is tightening its military occupation and rule over south Korea... The Koreans set this year as the year of the withdrawal of the U.S. forces... from South Korea in accordance with the idea of “By our nation itself.”<sup>6</sup>

The DPRK’s provocative and extraordinarily militarized external policies have alarmed all its neighbors. Yet, while “exporting” strategic insecurity, these have also apparently “imported” economic failure. The DPRK economy, alone among the economies of East Asia, has suffered prolonged and severe economic failure since the end of the Cold War.

### The DPRK’s descent

The most vivid sign of that failure, of course, was the North Korean famine of the 1990s—the only-ever famine to be visited upon a literate urbanized population in peacetime.<sup>7</sup> The true death toll from that man-made disaster is of course still unknown; Pyongyang has refused to divulge the death count, even though it has continued to accept hundreds of millions of dollars in outside “humanitarian assistance” to mitigate the reportedly continuing danger of mass hunger. By these indications, North Korea would be the only industrialized economy in human history to have lost the ability to feed itself.

North Korea’s miserable economic performance can be described a little more specifically by the metric of commercial exports (one of the few economic indicators for the DPRK that can be discussed with even relative confidence, owing to “mirror statistics” on the DPRK’s international sales and purchases reported by the country’s trading partners<sup>8</sup>). Between 1990 and 2010, reported world exports of merchandise nearly tripled in real terms—but by World Bank estimates, real DPRK commercial merchandise exports in 2010 would have been just slightly higher than 20 years earlier.<sup>9</sup> Things would look even worse if we tried to estimate per capita export trends for this period: whereas the average for the rest of the world was a real per capita export jump of about 125% (despite the ongoing global economic crisis), real per capita DPRK exports would actually look to be *lower*—perhaps 10-12

percent lower in 2010 than 20 years earlier. This despite a decade and more of politically determined and governmentally subsidized trade support, first from South Korea, and now from China as well.

Suffice it to say, then, that North Korea's confrontational external posture has been coincident with a regimen of decreasing economic self-sufficiency—a declining ability to finance state operations and state survival as “normal nations” do.

### Whither the North Korean economy?

North Korea's conspicuous economic failure must be explained not in the failings of the Korean population, or even in terms of the generic economic shortcomings of command socialism, but instead in terms of the particularities of “socialism with Korean characteristics” as it evolved in the DPRK over the past generation—what North Korean officialdom terms “our own style of socialism” [*urisik sahoejuui*].

What are the particular factors that have contributed to modern North Korea's disastrous economic record? There are several.

- 1) A breakdown of the DPRK statistical system. Since the early 1970s, there have been continuing signs that the DPRK statistical apparatus was becoming increasingly incapable of transmitting accurate and comprehensive information to the country's decision-makers—a critical danger for any centrally-planned system.<sup>10</sup>

- 2) A breakdown of the DPRK central planning apparatus. The North Korean economic planning system remains opaque to outsiders, but there are indications that the process has become increasingly compartmentalized, irregular and *ad hoc* since the early 1970s—and that it may have ceased to function in a systematic, long-range manner altogether after the end of the last announced plan (1993).

- 3) A hyper-militarization of the national economy. If North Korea is operating on something like a total-war footing, it is allocating an enormous share of its resources to the defense sector and the allied defense industries. Under such circumstances, there is likely to be an extraordinary and continuing drain of potentially productive resources into activities that produce little or no economic “value added.” A total-war footing may have limited long-term economic consequences if the mobilization is for relatively short period periods of time<sup>11</sup>, but North Korea's hyper-militarization has been in progress for over three decades.

- 4) A relentless war against the consumer sector. All Soviet-type economies have unnaturally small consumer sectors, but North Korea's tiny consumer sector is strangely compressed even by the standards of Stalinist planning. (Even before the hyper-militarization of the 1970s, the estimated share of the consumer sector within the DPRK economy was much lower than for counterpart economies within the

Soviet bloc.<sup>12</sup>) Extreme suppression of the consumer sector inhibits productivity and growth by reducing the consumption of goods and services that may contribute to “human capital” and by eliminating the sort of “inducement goods” whose attractiveness would otherwise be motivating workers to earn and save money.

- 5) Demonetization of the national economy. Complex modern economies cannot function efficiently on a barter basis. Nevertheless, money has played an amazingly limited role in the DPRK’s economic activities over the past generation. In the late 1980s, the DPRK’s wage bill apparently amounted to only a third of its “net material product”—and therefore, to far less than a third of its GNP.<sup>13</sup> Even for a Communist economy, this was a remarkably low ratio, and that ratio presumably declined still further over the 1990s. With the passage of new economic measures in July 2002, Pyongyang has effectively re-introduced money into its consumer sector—a welcome event—but that sector accounted for only a small share of the overall national economy. And, in its confiscatory November 2009 “financial reforms,” however, Pyongyang’s attempts to demonetize of the consumer economy resumed once again.

*The North Korean famine of the 1990s is the only ever famine to be visited upon a literate urbanized population in peacetime.*

- 6) Lack of financial intermediation. As has by now been well-established in the economics literature, financial intermediation (banking, credit markets, etc.) plays a direct and positive role in the growth and development of national economies. North Korea has virtually no officially-approved mechanisms for such intermediation in its domestic economy.

- 7) Defiant nonpayment of international debts. The DPRK has been in virtual default on its Western loans since the mid-1970s. Although many other debtor governments from low-income areas have experienced performance problems on their loans over the past generation, Pyongyang has adopted an almost uniquely pugnacious and hostile posture of non-repayment toward its creditors. Consequently, the DPRK’s international credit rating is approximately zero.

- 8) Allergy to trade with “imperialist” countries. Despite the huge and steadily expanding opportunities to earn export revenues from the import markets of the world’s most advanced economies, North Korea has made conspicuously little headway—or effort—to penetrate these lucrative markets. One may argue that sanctions and other political obstacles discourage North Korean exports to the USA and her treaty allies in Northeast Asia, Japan

and South Korea. But exports to the other advanced Western OECD economies were almost 50 percent *lower* in 2007 than they had been in back in 1980 in current terms. Adjusting for inflation, the DPRK's real exports to this grouping would have collapsed by over 70 percent over this period.<sup>14</sup> (Note further that 2007 was *before* the latest round of purportedly comprehensive UN economic sanctions against DPRK, encapsulated in UN Security Council Resolution 1874, was voted into existence in 2009.) This strikingly poor record of performance reflects the content of North Korea's trade policies—an approach largely informed by Pyongyang's continuing apprehension about what it terms “ideological and cultural infiltration.”

- 9) Exceptionally inhospitable “institutional” landscape. Although Soviet-type economies are always characterized by a problematic “business climate,” the North Korean setting is perhaps uniquely unfavorable for spontaneous economic activity or independent enterprise. Some of the factors worth mentioning here are: 1) pervasive restrictions against and penalties on private initiative for both individuals and enterprise (recent “reforms” notwithstanding); 2) highly opaque and unpredictable application of existing economic measures, regulations and laws toward DPRK citizens; 3) often severe extra-legal intervention in business activities of the domestic population; 4) unattractive economic legislation governing

foreign enterprises; 5) lack of consistency between existing legislation and actual government decisions concerning foreign business activities; and 6) pervasive government opposition to the generation and/or repatriation of profits by foreign businesses.

When one considers this imposing array of economically wasteful (or positively destructive) policies and practices, the explanation for North Korea's prolonged and severe economic decline becomes clear enough. North Korea's political economy is the proximate explanation for the country's current, precarious economic straits—no additional external or internal factors need be adduced to explain this dismal record.<sup>15</sup>

It is noteworthy that North Korea's trajectory of economic failure tracks very closely with the ascent of the late “Dear Leader,” Kim Jong Il. In the early 1970s, before Kim Jong Il emerged on the DPRK political stage, North Korea's economy was widely thought to have been slightly ahead of South Korea's; by the time of Kim Jong Il's death, North Korea was subsisting on emergency humanitarian aid from abroad, while South Korea has ascended into the realm of the OECD, the affluent aid-giving Western democracies. Kim Jong Il will be remembered as the architect of North Korea's monumental economic failure, its catastrophic leap backward. What will the country's new leadership be remembered for? The answer is still unclear. ■

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<sup>1</sup> For an analysis of these data, see Nicholas Eberstadt, *Policy and Economic Performance*

during the Cold War Era: 1945-1991 (Washington: AEI Press, 2010).

<sup>2</sup> Nicholas Eberstadt and Judith Banister, "Military Buildup in the DPRK: Some New Indications from North Korean Data", *Asian Survey* 31, no. 11 (November 1991), 1095-1115.

<sup>3</sup> "KPA Supreme Commands Warns Lee Myung Bak Group of Quick Action," Korea Central News Agency (KCNA), April 23, 2012, <http://www.kcna.co.jp/item/2012/201204/news23/20120423-26ee.html>.

<sup>4</sup> "Japan's Policy for 'Sanctions' against DPRK Slammed," KCNA, July 4, 2009, <http://www.kcna.co.jp/item/2009/200907/news04/20090704-06ee.html>.

<sup>5</sup> For example, see "KPA will Answer U.S. Aggression Forces' Challenge with Annihilating Blow," KCNA, December 2, 1998, <http://www.kcna.co.jp>.

<sup>6</sup> "AINDF Pyongyang Mission Chief Interviewed," KCNA, September 9, 2005, <http://www.kcna.co.jp/item/2005/200509/news09/09.htm#8>.

<sup>7</sup> See Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid and Reform*, (New York: Columbia University Press, 2007).

<sup>8</sup> "Mirror statistics" on trade, it should be noted, are by no means a perfect reflection of such commerce—even countries as similar and open as Canada and the USA come up with different totals for their merchandise and service trade. For DPRK, so heavily engaged in illicit commerce that partners have no wish to highlight, the problem is naturally magnified. And the problem of tracing trends over time for North Korea is further complicated by question

of how to value trade with Communist countries in market economies' currency (current U.S. dollars being the conventional medium these days). Estimating constant rather than current dollar trends in North Korean international trade is a venture therefore especially subject to potential error. Although this paper does rush in to this area, where other economists might fear to tread, we note those numbers must be handled by the reader with the caution they deserve.

<sup>9</sup> Data drawn from the World Bank's World Development Indicators Online, available electronically at <http://data.worldbank.org/data-catalog/world-development-indicators>.

<sup>10</sup> Pyongyang's 1999 "Law on Socialist Economic Planning" can be seen as an implicit acknowledgement that the statistical apparatus necessary for centrally planning had effectively broken down. For details of earlier signs of trouble in the DPRK statistical system, see Eberstadt, *Policy and Economic Performance in Divided Korea*.

<sup>11</sup> See, for example, Alan S. Milward, *War, Economy, Society: 1939-1945*, (Berkeley, CA: University of California Press, 1977).

<sup>12</sup> Eberstadt, *Policy and Economic Performance in Divided Korea*.

<sup>13</sup> Ibid.

<sup>14</sup> See, for example, Nicholas Eberstadt, "Western Aid: The Missing Link for North Korean Economic Revival," American Enterprise Institute *AEI Working Papers Series in Development Policy* no. 6 (April 2011), <http://www.aei.org/files/2011/04/26/files/2011/04/26/Updated-Eberstadt-DPWorkingPaper-April2011.pdf>

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<sup>15</sup> For additional analysis and quantitative assessments regarding the failure of the North Korean economy, see the important work by Marcus Noland of the Institute for International

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Economics, especially *Avoiding The Apocalypse: The Future of the Two Koreas* (Washington, DC: IIE, 2000).

## WHEN HUMANITARIAN AID MEETS AN INHUMAN REGIME

*By James S. Robbins*

On February 29<sup>th</sup>, 2012, the United States and the Democratic People's Republic of Korea (DPRK) reached an important accord. Under the terms of the "Leap Day" agreement, the United States agreed to provide 240,000 tons of food aid and humanitarian assistance to North Korea. Pyongyang independently agreed to halt work at its uranium enrichment plant at Yongbyon, suspend nuclear and missile tests, and to give renewed access to International Atomic Energy Agency inspectors. The Obama administration stressed that this was a limited agreement, and that some of the important details had yet to be worked out. But optimists in the foreign policy community saw the agreement as a first indication that North Korea's new leader, Kim Jong Un, might be willing to chart a new and more cooperative course in relations with the United States. It was seen as a first step to resuming the suspended Six Party talks.

However, just a few weeks later, in mid-March, North Korea announced that it was planning a satellite launch to take place in April. This was widely viewed as a cover for a long range missile test, and Washington cautioned that this provocative act would

abrogate the deal. The State Department had warned from the outset that the progress symbolized by the Leap Day agreement was reversible, and contingent on North Korea showing good faith. In April, when the missile test launched—and failed—Pyongyang officially denounced the Leap Day agreement, accused the U.S. of "hatching all kinds of dastardly tricks" against the North, and said that the Americans would "will be held wholly accountable for all the ensuing consequences."

The U.S. had maintained that there was no formal linkage between providing humanitarian assistance and the North Korean weapons programs, given that the mutual promises were not conditional on each other. But this was merely semantics, as the Obama administration proved by suspending the food aid. In fact, no working linkage between the humanitarian and security spheres is feasible in dealings with North Korea, because Pyongyang will never consider the suffering of its people a compelling reason to limit the pursuit of its strategic interests. Any deal that ignores that basic reality is doomed to fail.

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### Nightmare state

The need for humanitarian assistance in North Korea is unquestionable. The DPRK is a human rights nightmare. The regime is ideologically committed to the system established by Kim Il Sung in 1948, on which the legitimacy of the Kim dynasty depends. North Korea is the last of the old-style Stalinist totalitarian states, politically repressive, economically backward and technologically stagnant. It ranks among the poorest countries in the world in GDP per capita. The economy is state-controlled and centrally planned. International trade is virtually nonexistent. Small scale private markets, the *janmadang*, have proliferated despite government attempts to stamp them out. Official experiments with market practices, such as the Rajin-Sonbong Economic Special Zone and the Kaesong Industrial Region, have shown some promise, but are limited in scope and remain tightly controlled by the regime. In general, the people in North Korea lead miserable lives punctuated by periodic famines and other calamities.

The communist regime is highly sensitive to any criticism of its human rights record. Officially, North Korea is a socialist paradise, and the freest most just country in the world. To the extent its people suffer, the regime maintains that it is the fault of external enemies, principally the United

States, as well as poor weather, floods and other natural disasters. Thus the first obstacle in linking human rights concerns to the North's weapons programs is that fact that the regime does not admit that human rights problems exist; and frequently denies the nature of its weapons programs as well.

Nevertheless, North Korea has been one of the largest recipients of humanitarian assistance in the world. After the country began to experience endemic famine conditions in the 1990s, the United States

*The most important obstacle to using humanitarian assistance as a way of achieving progress on the security front is the fact that the North Korean regime is mostly content to let its people suffer.*

began to ship food aid under the auspices of the UN's World Food Programme. Within a few years, North Korea was receiving more aid than any other country in the program. But U.S. aid was cut back during the George W. Bush administration out of concerns that it was being used primarily to feed the North Korean

military and was not getting to malnourished citizens in the countryside. The problem remains acute; a January 2012 survey of four North Korean provinces by UNICEF found that 80 percent of the children were malnourished.

Providing humanitarian assistance to rogue states is always difficult, because there are no guarantees that the aid will get to the people who need it. Assistance can either be diverted to bolster the regime and its apparatus of oppression, or secretly sold. In

the negotiations that led to the “Leap Day” agreement, North Korea originally asked for basic rice and grain aid, which would be easily divertible to other uses. The United States sought to avoid some of these difficulties by only agreeing to provide “smart food” aid, such as vitamin supplements and high protein biscuits designed to improve the health of malnourished children. The assistance was intended to “feed babies, to feed mothers, to feed the elderly,” the most at-risk populations that the regime either could not or would not help. The agreement also stipulated that the aid distribution be monitored, though how this could have been implemented adequately in North Korea is questionable.

Suspending the food aid created an opening for other countries to exploit, since the United States is not the sole source for humanitarian assistance. In April 2012, Iran announced that its Red Crescent Society (IRCS) was sending 85 tons of food aid to the North Korean Red Cross to help aid famine victims in South Hwanghae Province. This is a miniscule amount of assistance compared to the almost quarter million tons of aid promised by the United States. But the timing of the announcement—coming after the U.S. had suspended aid in the wake of the failed North Korean missile test—was intended to embarrass the Washington and highlight the growing strategic relationship between Tehran and Pyongyang. It made Iran out to be the “good guys” picking up where the “bullying” United States left off.

### **The limits of linkage**

The most important obstacle to using humanitarian assistance as a way of achieving progress on the security front is the fact that the North Korean regime is mostly content to let its people suffer. The communist party is uninterested in pursuing the kind of economic and political reforms necessary to modernize the DPRK and make it a functioning, growing state. Mitigating measures such as humanitarian assistance do not build good will with the regime, or confer points of leverage. U.S. policy makers have to come to grips with the fact that the people in North Korea are supposed to suffer. Repression is part of the mechanism of power on which the regime bases its authority. And regardless of the amount of starvation in the countryside or punishing inflation in the black markets that feed the rest of the country, the system is not failing so long as the Kim dynasty remains in power.

Should the United States continue to pursue a humanitarian aid strategy in North Korea, it would be best justified on purely humanitarian grounds. A no-strings-attached approach would not build good will with Pyongyang, which sees everything as part of a package deal. But it would give Washington the moral high ground in international dealings regarding North Korea. It would demonstrate to other, more reasonable countries that the U.S. has a genuine interest in the welfare of the North Korean people. Promoting stability in the country also helps the People’s Republic of China, which is the main destination for

refugees fleeing North Korea. And Washington may decide that helping relieve suffering in the North is a per se good regardless of the fact that it will confer no strategic advantages. Though this firewall between the humanitarian and strategic realms has been the official line from the State Department, U.S. actions have not matched its rhetoric.

The basic problem remains that the North Korean leadership is not concerned with the health and welfare of its people except to the minimal degree necessary to bolster the state. Faced with a regime as brutal as the one in Pyongyang, policymakers have to accept that not only is workable linkage between humanitarian and security

spheres impossible, there is no way to align interests in the two areas that provides even a blueprint for negotiations. No action can be taken on the humanitarian front that will in any way affect Pyongyang's national security decisionmaking. The only U.S. strategy that would lead to a simultaneous resolution of the problems on both fronts would be regime change. But it is unlikely that the United States would actively pursue that strategy in the near future, and as Kim Jong Un has demonstrated, he will not be seeking to change the basic nature of the North Korean communist system any time soon. ■

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