

## North Korea in 2008: Twilight of the God?

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### **Abstract**

*Following a decade-long experiment with engagement, South Korean President Lee Myung-bak, inaugurated in February 2008, brought a more skeptical posture toward the North. The spring saw a recurrence of widespread food shortages in North Korea. Pyongyang initially moved to implement the roadmap for denuclearization, but wrangling over the timing of the country's removal from the list of state sponsors of terrorism and verification stalled negotiations until a partial breakthrough in October.*

*These events were overshadowed in September by the first reports that Kim Jong-il had suffered a stroke. These reports cast uncertainty over all aspects of politics and policy and once again raised questions about leadership transition and the future of the Six Party Talks.*

**Keywords:** North Korea, nuclear weapons, famine, reform, Kim Jong-il

### **North-South Relations**

Although the United States was preoccupied throughout 2008 with the Six Party Talks, the year began with fundamental changes in North-South relations. The 2007 elections in South Korea constituted a virtual referendum on the strategy of engagement that had been pursued under the Kim Dae-jung and Roh Moo-hyun administrations, and brought a new, more conditional approach to bear.

Lee Myung-bak's policy toward the North is often misunderstood; in some ways, it is more ambitious than those of his progressive predecessors. His "Vision 3000" policy promised to raise per capita income for the North to \$3,000, a feat that would require growth rates of 10 percent sustained over at least a decade. The new administration outlined a comprehensive package in five major sectors—industry, education, finance, infrastructure, and welfare—to be financed by an international development fund of some \$40 billion.

Yet the keys to this effort were the resolution of the nuclear crisis and a North Korean commitment to reform. Rather than aid being extended in advance, the new administration's aid offer was a conditional one. The North responded to Vision 3000 with an unusual level of vitriol and the elaborate machinery of North-South relations developed during the previous two administrations ground to a halt.

In a speech to the new National Assembly on July 11, given only hours after the shooting of a South Korean tourist at the North's Mt. Kumgang resort, President Lee confirmed his overall strategy. He argued that the two summit declarations—and the extensive goodies promised in the October 2007 statement in particular—were subject to Pyongyang's compliance with all existing North-South agreements. These include the Basic Agreement of 1991 and the North-South agreement on denuclearization, which, as its name implies, calls for a complete, verifiable commitment to relinquish all nuclear ambitions.

Pyongyang responded by turning its back on Seoul and stepping up its diplomatic efforts with Washington. However, the controversies that marked the first year of the Lee administration should not be exaggerated; engagement is likely to resume. The South has strong interests to hedge against the risks of instability and collapse in the North, and the North, whatever its short-run tactical maneuvering, will require South Korean support for the foreseeable future.

### **Famine Redux?**

Beginning in spring 2008, North Korea experienced a recurrence of severe food shortages. In March, the United Nations estimated that the country was experiencing a 1.6 million metric ton grain shortfall. Although other estimates—including ours—come to less alarming conclusions, there can be little doubt that the balance between the demand and supply of grain in 2008 was at its most precarious point since the 1990s famine.<sup>1</sup>

The current cycle of distress can be traced to 2005. On the back of improving harvests and generous outside aid, the government attempted to ban the private trade in grain and revive the state-run Public Distribution System (PDS). The regime engaged in confiscatory seizures of grain in rural areas, and in parallel threatened to expel the World Food Program (WFP), resulting

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<sup>1</sup> Stephan Haggard and Marcus Noland, 2008, *Famine in North Korea Redux?* Peterson Institute for International Economics Working Paper 08-9.

in a sharp reduction in multilateral food aid and the withdrawal of monitors outside the privileged capital.

More than two-thirds of the grain consumed in North Korea is produced locally, with aid accounting for most of the rest; commercial imports have been modest. Local production is highly dependent on fertilizer, much of which has been donated by South Korea in recent years. In response to missile and nuclear tests conducted in 2006, South Korea suspended fertilizer shipments; local grain production predictably fell, abetted by flooding in 2006 and 2007.

After Lee's inauguration, there was uncertainty about whether conditionality extended to humanitarian, as well as developmental, assistance. By the time Seoul clarified its willingness to provide humanitarian aid without conditions, Pyongyang had launched a highly confrontational policy toward the South. Adding to the stress, world grain prices nearly tripled in the first half of 2008, setting a rising floor under North Korean prices.

In early April Pyongyang defiantly announced that it would not seek aid from South Korea at all, turning to China for assistance. However, China, facing rising prices at home, restricted exports of grain and agricultural inputs as well. It would not be until May that North Korea was able to secure a commitment of up to 500,000 metric tons of grain aid from the United States. Negotiations over the aid package yielded some marginal improvements in monitoring, including more nongovernmental organization (NGO) and WFP staff on the ground outside Pyongyang, and increased freedom to make random visits to distribution centers. Aid began arriving at the end of June, but by October less than one-quarter of the total aid package had been delivered. In December, a dispute broke out publicly between the North Korean and US governments over North Korean adherence to the May monitoring protocol, and deliveries reportedly slowed to a trickle.

Due to weak harvests and insufficient commercial imports and aid, the PDS broke down, as documented by direct observation in June assessments done by the WFP and a consortium of American NGOs as part of the agreement with the United States. Households became more and more dependent on food purchased on the market, where prices were skyrocketing. Those without sufficient resources were forced to cut back or go without; reports of shortages even extended to military units.

The extent of distress in North Korea became highly politicized, particularly in South Korea. Those fearing a recurrence of famine underlined the importance of rapid humanitarian

relief. Those more skeptical of North Korean claims—or seeking to squeeze concessions from Pyongyang—noted the circumstances that differentiated the current crisis from the previous one: a more rapid international response, the escape-valve of market activities, and at least some evidence of government concern.

Nonetheless, hunger-related deaths—possibly reaching the low tens of thousands—occurred in 2008. The big unknown was the size of the fall harvest, which is subject to dispute. A Food and Agricultural Organization/World Food Program crop assessment released in December concluded that the mobilization of urban labor forces for activities such as weeding and replanting and excellent weather had partly compensated for the impact on yields of shortages of fertilizers and other inputs and longer-run environmental deterioration; yields were estimated at roughly 75 percent of their 2004 levels. The emergency will carry forward into 2009.

### **Whither Reform?**

Lackluster economic performance over the past decade turned into outright economic decline in 2006 and 2007. Conditional on the size of the 2008 harvest, economic growth for 2008—estimates will not be released until 2009—may have been negative as well. These results have added urgency to the perennial debate about government intentions with respect to economic reform.

Early in the year, there was fodder for the optimists in official statements: The joint New Year's editorial—an overarching policy statement that constitutes an important set of tea leaves—emphasized economic themes and admitted that “there is no more urgent and important task than solving the problem of food.”<sup>2</sup> Kim Jong-il's inspection visits—another indicator used to gauge the government's priorities—also emphasized economic sites to a much greater extent than in 2007.

Despite the freeze in political relations with the South, activities at the North's Kaesong Industrial Complex grew by over 30 percent in the first half of 2008 compared to the comparable period in 2007, and roughly 30,000 North Koreans are now employed there. However, in December North Korea began reducing the volume of cross-border traffic and threatening the

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<sup>2</sup> *Korean Central News Agency*, “Joint New Year Editorial of Leading Newspapers in DPRK,” January 1, 2008, available at [www.kcna.co.jp/index-e.htm](http://www.kcna.co.jp/index-e.htm) (accessed on January 5, 2009).

expulsion of South Korean firms, and the future scale and viability of activities at Kaesong have been cast into doubt.

Two major investments by arms of Orascom, an Egyptian conglomerate, were particularly interesting. In July 2007, Orascom Construction announced what is likely to be the largest non-Chinese or South Korean investment in North Korea, a \$117 million investment in Sangwon Cement. In January 2008, Orascom Construction sold its global cement business to the French producer Lafarge, which acquired Orascom's stake in the North Korean business. That same month, Orascom Telecommunication announced that it would invest up to \$400 million in a joint-venture subsidiary with the state-owned (North) Korea Post and Telecommunications Corporation that had been granted an exclusive license by the North Korean government to operate a nationwide cell phone network in the venture. If actualized, this sum would approach the cumulative private investment in the Kaesong complex to date.

On the other hand, the food crisis brought out the regime's instinct for control and ambivalence toward reforms. In the countryside, the government sought to extract more resources from the already-stretched cooperatives. This effort was visible in increased production quotas—and even outright seizures of grain—and in campaigns against cooperative “corruption.” Although corruption is no doubt a problem, such crackdowns often reflect an effort to stymie market-oriented activities or to limit coping mechanisms such as trade in grain by cooperatives or the leasing of private plots.

The government's ambivalence toward markets was also visible in its efforts to limit private commercial activities. These moves have included limitations on the use of telecommunications for business purposes and attempts to limit trading in the market, apparently to encourage workers to return to sanctioned activities at state-owned enterprises. The restrictions on trading activities sparked collective protests in the city of Chongjin in the spring and again over the summer: The markets constitute one of the few possible sites for collective action in the North Korean system. Government efforts at control are unlikely to be fully successful, but they have repeatedly disrupted the functioning of markets, including those for grain.

Finally, there is evidence of renewed efforts to control cross-border trade, international telecommunications, and the movement of people. In October North Korea demanded and received two bilateral meetings with South Korea regarding the activities of South Korea-based

groups sending propaganda leaflets to North Korea via balloons. The South Korean government eventually agreed to restrain the groups. Heightened vigilance against unauthorized exit, including the public execution of those allegedly involved in the trafficking of North Koreans into China, further demonstrates that the government is highly sensitive to cross-border flows of information and the possible ideological infection that might result.

### **The Nuclear Saga**

Under two separate agreements reached in 2007, North Korea agreed to the “disablement of all existing nuclear facilities,” provision of a complete declaration of all nuclear programs by December 31, 2007, and to allow the return of inspectors from the International Atomic Energy Agency (IAEA), albeit as observers. In return, the Democratic People’s Republic of Korea (DPRK) would obtain both economic assistance and the lifting of some sanctions. From November 2007, a rotating team of US and Russian experts oversaw the beginning of the disablement of the three core nuclear facilities at Yongbyon (the 5-MW(e) reactor, fuel fabrication, and reprocessing facilities). By the end of July 2008 the DPRK had completed 8 out of 11 agreed disablement tasks and discharged (although not disposed of) more than half of the 8,000 spent fuel rods.

Nonetheless, the process of implementing the Six Party agreements was not smooth, stumbling on a combination of North Korean recalcitrance and mounting political criticism of the process in the United States. The United States expected the declaration to include both present and past plutonium-generating undertakings, as well as the highly enriched uranium (HEU) program and proliferation activities. In August 2007 Israel bombed and completely destroyed a suspected nuclear facility in the Syrian desert. In April 2008, following a long bout of silence, Bush administration officials finally revealed smoking-gun intelligence linking the facility to the North Koreans.

A weak agreement obfuscating these difficulties was reached in early April. North Korea would be removed from the list of state sponsors of terrorism; Pyongyang, in turn, would acknowledge the US intelligence estimates regarding the enrichment equipment it had acquired from Pakistan and elsewhere, and “take note” of US concerns over the Syrian connection. However, these issues would not be part of the declaration itself, perhaps out of fear that if made public, they would scuttle negotiations. On May 8 North Korea finally provided the United

States with over 18,000 pages of documents on the DPRK plutonium program going back to the time of the first nuclear crisis. On June 26 North Korea provided the long-delayed declaration covering its nuclear facilities, the amount of plutonium produced and extracted, and how it was used. In response President George Bush lifted sanctions under the Trading with the Enemy Act and notified Congress of the intent to remove North Korea from the list of terror-sponsor states by August 11.

The response from critics was not long in coming; virtually every aspect of the deal was subject to second-guessing. What about the promised details on the HEU program and the nearly comic fact that some of the records handed over by the North Koreans had traces of HEU on them? Even though the Syrian reactor had been destroyed, were there other proliferation activities underway? And what about the weapons the North Koreans may have made from previously diverted plutonium, the declared amount of which critics thought was in any case too low?<sup>3</sup>

Partly in response to these criticisms, the Bush administration upped the ante over verification and monitoring. In the July round of the Six Party Talks, the parties agreed in principle to establish a verification and monitoring mechanism as well as a more precise timetable that guaranteed that fuel oil assistance and disablement were taking place in parallel. However, as criticism of the declaration mounted, the administration made removal of North Korea from the list of state sponsors of terrorism contingent on an initial verification protocol. As the August 11 deadline passed without either side blinking (Pyongyang on verification, Washington on delisting), the North Korean foreign minister finally announced in late August that disablement activities had ceased. By September the North Koreans were doing what they had done in early 2003: kicking out IAEA inspectors, halting disablement, and threatening to restart the Yongbyon reactor. Intelligence even suggested the possibility of a repeat of the October 2006 nuclear test.

Recriminations were not long in coming. Was the stalemate a result of a poison-pill US verification plan that required surprise inspections—even of military installations—that the North Koreans were sure to reject? Or was the failure a result of desperate efforts by the Bush administration to rush a deal for legacy reasons? It quickly became clear that the administration's

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<sup>3</sup> Press reports of the actual amount of plutonium the North Koreans acknowledged varied from 30–40 kilograms, with two kilos used for the production of the device tested in October 2006.

interest in reaching an agreement overrode the concerns of its proliferation hawks, as well as Japanese concerns. Following a visit by Assistant Secretary of State and lead negotiator Christopher Hill to Pyongyang in early October 2008, the United States and the DPRK reached an agreement on the principles of verification that delisted the North Koreans. However, subsequent efforts to pin down details, such as the technical means that inspectors could use for monitoring the agreement, led the North Koreans to balk. The December Six Party Talks—the last of the Bush administration—broke down without a full verification protocol, pushing finalization of a nuclear accord onto the Obama administration.

### **Kim Jong-il: Toward Succession?**

Given the personalistic nature of the North Korean political system, speculation about Kim Jong-il's health is a staple of the intelligence community. Kim, 66, is known to have diabetes and heart problems. These concerns dominated the news when on September 9 Kim failed to attend the military parade for the celebration of the 60th anniversary of the country's founding. At that time he had not been seen in public for over three weeks. Despite bizarre speculations, such as the idea that Kim had been dead for some time and was being represented by doubles, intelligence from several sources converged on the theory that he had suffered a mild stroke in mid-August. Despite reports that he had been seen in public—at a soccer match, inspecting a military unit—these reports were not accompanied by video or convincing photographic evidence, further fueling speculation.

There are three centers of power in the North Korean political system: the extended Kim family, the Korean Workers Party, and the military. Each appears riven by rivalries, and there is some evidence of coalitions across the groups. Most analysts expect some form of collective leadership to emerge, probably centered on the National Defense Commission, presumably spanning these three power centers. Whether collective leadership is sustainable in the long run is doubtful, however.

Given the dynastic nature of the succession from Kim Il-sung in 1994, much speculation has revolved around the prospects of Kim Jong-il's three sons. Born of different mothers, all have liabilities of various sorts, and none has undergone the lengthy grooming through key party and military positions that Kim Jong-il had by the time of his father's death. Other notable members of the extended family include Kim Ok, effectively Kim Jong-il's fourth wife and one

of a handful of people believed to have unfettered access to him, and a brother-in-law, Jang Sung-taek. Jang fell out of favor in 2004 but was rehabilitated and has subsequently come to control powerful agencies that are likely to play a pivotal role in any transition: the Ministry of Public Security, the State Security Department, and prosecutors' offices.

None of these individuals enjoys the charisma or cult of personality that built around Kim Il-sung or Kim Jong-il. If Kim Jong-il is incapacitated or dies, a plausible scenario would include a family figurehead such as Jang Sung-taek, but with a strong show of support from a core group of high-ranking military, party, and administrative personnel.

In the short run, the combination of political uncertainty and economic hardship will push the leadership to focus on consolidating political power within the state, party, army, and society as a whole. This will imply caution with respect to major policy initiatives, and a ratcheting up of repression. However, it is possible that the North Koreans could act provocatively to test the resolve of the incoming Obama administration and to keep the issue on Washington's agenda. A major shift in political or policy priorities is only likely to occur with a generational shift in the leadership, which could be several years away. The prospect that the current leadership will muddle through means that 2009, like 2008, will be characterized by continuing economic distress and turbulent nuclear negotiations.