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## Introduction

*We attacked every type of target from culverts and railroad bridges to cars and trucks and tanks, and right on up through war supporting industries, both direct and indirect. We did some major damage out there . . . we smashed completely the high frequency steel installation at Songjin . . . we smashed entirely the entire chemical complex at Konan, which is far and away the largest in the Far East . . . . We completely destroyed the large fertilizer plant at Konan . . . . I would say the entire, almost the entire Korean Peninsula is just a terrible mess. Everything is destroyed. There is nothing standing worthy of the name.*

—General Eugene O'Donnell, Jr., commander of the USAF's Far Eastern Bomber Command, testifying before the Committee on Armed Forces and the Committee on Foreign Relations, 1951.<sup>1</sup>

The Korean peninsula is a densely populated area with few natural resources save some mineral deposits in the North. Ethnically, the population is highly homogenous. In the first century BC three kingdoms were established with borders roughly corresponding to those of contemporary North and South Korea. One of these kingdoms eventually established its dominance, and the peninsula was unified politically in the 7th century AD. Nevertheless, the Korean state struggled to remain independent of foreign powers, including China to its north and west and Japan to its south and east. After repelling a 17th century Manchurian invasion, the

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1. Committee on Armed Services and Committee on Foreign Relations, United States Senate. 1951. Military Situation in the Far East, Part 4, Washington: Government Printing Office, 3064, 3075.

Chosun (Yi) dynasty shut itself off from the rest of the world, earning the sobriquet of “the Hermit Kingdom.”

Paralleling Japan, a reform movement emerged in Korea during the 19th century and with it a great interest in foreign intellectual and technological innovations. However, during the second half of the 19th century, this engagement took an ominous turn, with foreign powers including the United States, and most decisively Japan, attempting to forcibly open Korea to commercial exchange.

The Koreans repulsed initial forays by the French and the Americans, but the newly reemergent Japan, regarding Korea as “a dagger pointed at its heart,” proved more resolute. In 1876 the Japanese succeeded in opening two Korean ports and began to intervene in Korean internal politics. Korea sought formal ties with the United States, hoping that this would deter the depredations of its neighbors, but this proved illusory. By the end of the 19th century, the situation had degenerated into a scramble in which Japan successively defeated first China (1894-95) and then Russia (1904-05). The United States was among the Western powers that acquiesced to Japan’s seizure of Korea in 1905 and its formal annexation in 1910.

During the period of Japanese occupation, the Korean economy exhibited regional differences in its pattern of development. Mining and industry were mainly concentrated in the North, while the South remained the agrarian breadbasket. It has been estimated that, at the time of the Second World War, per capita output of mining and manufactures was three times as high in the North as in the South, only 35 percent of the colony’s heavy industry was located in the South, and 80 percent of the South’s electricity was supplied by hydroelectric dams in the North.<sup>2</sup>

At the conclusion of the Second World War in 1945, Korea was partitioned into zones of US and Soviet occupation. In the immediate aftermath of Japan’s withdrawal, Koreans were able to maintain some production in all sectors of the economy, demonstrating that they had acquired or maintained a substantial base of relevant skills during the colonial period.<sup>3</sup> Unable to agree on a formula for unification, in 1948 the Republic of Korea (ROK) was proclaimed in the zone of US occupation in the South, while the Democratic People’s Republic of Korea (DPRK) was established under Soviet tutelage in the North.<sup>4</sup>

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2. See Kim and Roemer (1979), Eckert (1991), and Woo (1991) for informative analyses of Korean economic development during the colonial period. The North would later cut off electrical supplies to the South in May 1948, following the partition (Armstrong 2000).

3. See Kim and Roemer (1979), Jones and SaKong (1980), and Westphal et al. (1981).

4. Throughout this book, for simplicity’s sake the Republic of Korea will be referred to as South Korea and the Democratic People’s Republic of Korea as North Korea.

In June 1950, North Korea invaded South Korea. The initial success of the invading forces was reversed with the support of a US-dominated United Nations (UN) contingent, driving China to enter the war in October under pressure from Stalin in order to prevent a North Korean defeat. By March 1951, a stalemate emerged, and truce talks, which dragged on for two years, began in June. The conflict ended in 1953 with the original demarcation between North and South more or less reestablished, but ceding the Kaesong high ground to the North and thus arguably putting the South at a disadvantage by enabling the North to hold Seoul hostage militarily. The see-saw character of the war, involving armies from both sides traversing the peninsula, left both countries economically devastated and reliant on their respective patrons. While the pre-partition disposition of assets clearly favored the North, by the end of the war much of what had been inherited had been destroyed, and mass population movements (primarily from the North to the South) meant that relative endowments of human capital had been reshuffled as well. It is difficult to ascertain with any degree of accuracy relative capacities at the time of partition.<sup>5</sup>

In a period of less than two generations, Korea had been conquered, colonized, partitioned by foreign powers, and devastated by civil war. Understandably many Koreans blamed Japan, the United States, and the Soviet Union for their plight. Even in the South, such feelings festered despite the loss of more than 33,000 US casualties in the defense of South Korea (Drennan 1994).

## Divergent Paths

After the war, the paths of the two Koreas diverged markedly. A capitalist economic system was established in the South, albeit one characterized by considerable state intervention in economic life. As described in chapter 2, after languishing for a decade, a series of fundamental economic reforms were initiated in 1963. The result was an explosion of economic growth during which South Korea experienced on average a 7 percent real per capita income growth for the next 25 years, resulting in a quintupling of real per capita income. Political modernization and democratization followed, and, by the 1990s, South Korea was surely one of the most democratic societies in Asia.

In the North, a thoroughly orthodox Soviet-type central planning model was adopted by the world's only example of dynastic Stalinism. As with many centralized planning systems, it achieved some early success in

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5. See Kim and Roemer (1979) on the distribution of assets at the end of the war. In the two decades following the war, North Korea experienced considerable human capital inflow as the *Chochongryun*, an organization of pro-Pyongyang ethnic Koreans in Japan, organized the voluntary repatriation of more than 100,000 Koreans.

mobilizing resources. As described in chapter 3, the conventional wisdom is that per capita income in the North exceeded that in the South until the 1970s. However, by this time, opportunities to grow through “extensive” means of marshaling greater resources began to dwindle, and the North proved largely incapable of growing through the “intensive” means of raising the productivity of existing assets. Having borrowed extensively on international markets in the aftermath of the first oil shock, it defaulted on its loans and was effectively cut off from international capital markets, narrowing the regime’s economic options and leaving it dependent on the Eastern Bloc for support.

The situation worsened in the mid-1980s as relations deteriorated with its principal benefactor, the Soviet Union, and aid from fraternal socialist allies began to dry up. The collapse of the Soviet Union and the subsequent breakup of the Eastern Bloc was a major macroeconomic shock that ushered in a period of as yet unabated decline. By the mid-1990s, the North’s dream of unifying the peninsula began rapidly to fade, a casualty its own failing economy and the vibrancy of the South and its support from the world’s sole superpower, the United States.

### Three Crises

North Korea began a small nuclear program in the 1950s, receiving help from the Soviet Union and later from China. The motivations for this program are unclear: it could have been purely for research purposes or as a stepping stone to an energy program, or it could have been purely for prestige. Many developing countries in the 1950s and 1960s operated small research reactors, so in this regard North Korea was not unique. Of course, the fact that atomic bombings of Hiroshima and Nagasaki brought Japan to its knees undoubtedly made an impression on Kim Il-sung,<sup>6</sup> the former anti-Japanese guerilla and founding leader of North Korea—as did his own subsequent fight with the Americans. The North Korean nuclear program could have been intended as a weapons program from the start. Or, a program that was originally begun with one purpose could have been transformed into something else in the intervening years. We may never know.

Parallel to its nuclear program, North Korea began developing, producing, and exporting increasingly long-range ballistic missiles. Again, there are multiple interpretations. North Korea could have seen the development of missiles as enhancing deterrence on the peninsula, despite the

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6. When the full names of Koreans are cited, they are given in the normal Korean sequence, with surname first. The surname is then followed by the generational and given names with a hyphen between them for ease in distinguishing the components. When citing a name only with surname and initials, it will be given in the Western pattern, as J.C. Kim, for example.

fact that its 10,000 forward-deployed artillery tubes already held Seoul hostage. Moreover, in its deteriorating economic circumstances missile exports were one of its few sources of hard currency earnings. But, as one former high-ranking US official put it, “the missiles only make sense if you have something to put on top of them.”

This was not idle speculation. By the early 1990s, US intelligence analysts became increasingly convinced that the North Koreans were attempting to develop nuclear weapons. As recounted in chapter 4, an international confrontation ensued, involving the US, North Korea, and the United Nations. The upshot was that the United States and North Korea signed an “Agreed Framework” (reproduced in Appendix A) specifying a set of reciprocal obligations that involve the termination of the North Korean weapons program, the provision by an international consortium of new light-water nuclear power reactors by the target date of 2003, and the normalization of economic and political relations. This agreement, in essence, sought (through the provision of economic and political inducements) to halt North Korea’s further development of nuclear weapons. This agreement is the centerpiece of North Korea’s political and economic interaction with the rest of the world, and today official transfers exceed private transactions.<sup>7</sup> North Korea’s economic and strategic relations are inextricably linked. For better or worse, it appears highly unlikely that the US-led consortium will complete construction of the reactors on the projected schedule in 2003. The failure to meet this target could mark a turning point in North Korea’s relations with the West—either toward renewed confrontation or toward a new and ultimately more constructive engagement.

At the same time that North Korea was drifting into a nuclear confrontation with the United States, it was sliding into a famine that may have claimed roughly 10 percent of the precrisis population. As demonstrated in chapter 5, the famine was a product of decades of economic mismanagement, and actually preceded the highly publicized natural disasters of 1995 and subsequent years. The North Koreans adopted a number of coping mechanisms in response to this calamity, but the principal one was to demand aid from the international community. North Korea demanded money or food aid as a prerequisite to its participation in a variety of diplomatic forums, and given its growing capacity for wreaking havoc, assistance was forthcoming. In the case of the United States, negotiations relating to the North Korean missile program, its nuclear program, and the “Four-Party Talks” aimed at achieving a more durable basis for peace on the peninsula have all occasioned US assistance.<sup>8</sup> In effect, the North

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7. Some have argued that the Agreed Framework is not an “agreement” in a legal sense in that it does not provide for any enforcement mechanism and can be regarded as non-binding.

8. The Four-Party Talks first convened in December 1997 and include China, the United States, and North and South Korea.

Koreans have used the external threat posed by the missile and nuclear programs to extort money from the rest of the world. By the late 1990s, North Korea was receiving aid from nearly fifty countries and had become the single largest recipient of US aid in Asia. Again, in the case of North Korea, it is impossible to separate strategic considerations from economics.

During the 1990s, South Korean policy toward the North swung from the relatively hard-line policy of former President Kim Young-sam and his predecessors to the engagement policy of current President Kim Dae-jung, illustrating the diverse attitudes toward the North within South Korea. The apparent costliness of German unification had already cooled the ardor of some South Koreans by the time the country was rocked by a financial crisis in late 1997. The crisis had its roots in a development model characterized by considerable government intervention in the economy. While this approach may have been reasonable for a late developer playing technological catch-up, the system became increasingly questionable as South Korea approached the world technological frontier. The state had encouraged the development of a state-dominated, bank-centered financial system that facilitated the channeling of capital to the state's preferred borrowers and projects. This policy of channeling government-directed capital effectively socialized risk. The system of capital channeling, combined with the lack of an effective mechanism for disciplining failure, created moral hazard on an enormous scale and gave rise to giant, highly indebted, conglomerates or *chaebol*, whose economically unjustified agglomerations of unrelated economic activities were justified only by the owner-managers' relationship with the state. The result was the development of a symbiotic relationship between the state on the one hand and the giant *chaebol* on the other.<sup>9</sup>

This system has been subject to periodic crises: one during the early 1970s, another during the early 1980s, and, of course, the recent crisis that has plagued the country from 1997 through 1999. The latest crisis, if not its timing, was foreseeable. Indeed, the crisis would have eventually occurred regardless of events in Southeast Asia, although contagion exacerbated the situation.

Starting in early 1996, South Korea suffered severe terms of trade shocks. As export prices fell, expectations of future corporate earnings were revised downward, and the prices of stock market shares and land fell.

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9. As Leipziger and Petri (1993) presciently wrote, "Korea's policy goals are increasingly those of an advanced industrial economy—to become more competitive in advanced industries and to maintain market shares in key world markets. Yet the most visible instruments of Korean industrial policy, including especially credit policy, have been inherited from a simpler economy. These tools are not well adapted to addressing the country's new economic objectives and are rapidly becoming politicized . . . [T]he conflict between goals and means is undermining the credibility of industrial policy and is delaying the development of institutions that will have to be important in the economy's next phase of growths" (p.1).

With the combined falls in export and asset prices, the financial condition of the highly leveraged *chaebol* began to deteriorate as did bank balance sheets. During the spring of 1997, a series of economic and political crises hit the country—two former presidents, Chun Doo-hwan and Roh Tae-woo, were jailed on corruption charges, the sitting president's son was arrested on corruption charges, and Hanbo, ranked by sales as the seventeenth largest *chaebol*, collapsed under a mountain of bad debt.

In July 1997, the Bank of Thailand severed the Thai baht's link to the US dollar, setting off the Asian financial crisis. As the summer progressed, conditions in South Korea worsened both internally and externally. The South Korean won, which was informally fixed against the US dollar, came under downward pressure. In a vain attempt to vouchsafe the foreign debts of private institutions and to defend the value of the currency, the Bank of Korea spent tens of billions of dollars in foreign exchange reserves. By the third week of December, however, foreign exchange reserves were nearly exhausted, and the country stood on the precipice of an international default that was avoided only through emergency intervention by the International Monetary Fund (IMF).

The severe recession that followed and the liberalization measures that were adopted as the *quid pro quo* for the IMF standby package have had significant relevance both for the future prospects of the South Korean economy and for South Korean attitudes toward developments in the North. On the one hand, the crisis has strengthened feelings in South Korea that it is unprepared for the financial exigencies of early unification and has further cooled enthusiasm for integration with the North. At the same time, the resulting liberalization of the economy in response to the crisis will strengthen its ability to handle unification economically if a collapse in the North were to occur.

## Prospects for the Future

On the Korean peninsula, the world confronts a face-off between what is surely one of the greatest success stories of the post-war era and what has been described as an "alienated" state—one fundamentally opposed to, and with no real stake in, the existing international order.<sup>10</sup> This situation creates fundamental policy dilemmas of enormous practical and ethical import for the rest of the world. Judged in terms of the share of population under arms or the share of military expenditures in national income, North Korea continues to maintain the most militarized society on earth. Its armed forces are the fifth largest in the world, exceeded only by those of China, the United States, Russia, and India. It produces and

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10. Roy (1998) uses the term "alienated state." See Reese (1998) for a detailed and accessible overview of North Korean internal politics.

exports ballistic missiles and is thought to possess large stores of chemical and biological weapons as well as perhaps a few nuclear weapons. Unlike 170 other nations, it has refused to sign the Chemical Weapons Convention. In 1993 it became the first and only country to declare its intention to withdraw from the Nuclear Non-Proliferation Treaty (NPT), a move it later “suspended.” It invaded the South once and in subsequent years engaged in state sponsored terrorism. Internally, it maintains a personality cult of religious proportions around the late Kim Il-sung and his son Kim Jong-il and has one of the worst human rights records of any state existent today.

If the North Korean regime is irredeemable, should not the rest of the world act to hasten its demise? If so, what policies should be considered and what risks contemplated? If not, how should the desire to provide humanitarian assistance to the innocent be weighed against the support to war-making capability that may be inherent in even the best designed humanitarian program? What, if any, conditions should be attached to aid? How should the world’s response be coordinated? What should be the response if the situation in North Korea becomes unstable—if it experiences a coup, an implosion, or a civil war as an outcome of the current crisis?

The United States has enormous stakes on the Korean peninsula. Having already fought one war there, the United States continues to maintain 37,000 troops in South Korea. It is the one place on earth where the United States could become nearly instantly involved in a major ground war. Beyond this immediate security issue, North Korea looms large in US concerns about proliferation of weapons of mass destruction. Economic issues are a grave concern as well—South Korea is an important ally and trade partner, and, as will be subsequently demonstrated, the costs of unification in case of North Korean collapse could amount to hundreds of billions of dollars. Moreover, the Korean peninsula is a fulcrum on which relations between the United States and China, the United States and Japan, and China and Japan all turn.

The range of possible outcomes on the Korean peninsula is enormous. The North Korean leadership faces essentially three broad economic options: they can adopt fundamental economic reforms in an attempt to reverse the economic decline, recognizing that reform may unleash forces that threaten the essential character of the political regime; they can stand pat and try to ride out the current crisis, risking collapse; or they can seek to “muddle through,” making ad hoc adjustments as the circumstances dictate.

The current regime (or some successor) could undertake the economic and diplomatic moves necessary to stabilize the economic situation and end the famine. Reform of the North Korean economy would have two profound effects: first, there would be a significant increase in exposure

to international trade and investment (much of this with South Korea and Japan, two countries with which North Korea maintains problematic relations), and second, changes in the composition of output would be tremendous, involving literally millions of workers changing employment. Both of these developments could be expected to have enormous political implications and could present significant, perhaps insurmountable, obstacles to reform under the current regime.

As an alternative, the regime could stand pat and hope to ride out its difficulties. Although this holds the promise of short-run political stability, if current trends continue it eventually will put a significant share of the population at peril. Moreover, North Korea differs in some significant ways from other socialist regimes that were able to survive self-inflicted famines earlier in this century. First, unlike the others, the Kim Jong-il government is not a revolutionary regime, but the dynastic continuation of one that has now held power for more than 50 years. Surely, neither this government (nor the governed) have the same capacity for enduring hardship that would exist in a period of revolutionary fervor. Second, North Korea is a relatively industrialized, urbanized society, and this reduces both its government's ability to squeeze resources out of the agricultural sector and the populace's coping mechanisms. Third, previous socialist country famines have largely been precipitated by the introduction of counterproductive policies, and could be solved relatively straightforwardly by the removal of those policies. Less a function of bad weather or the sudden introduction of misguided policies, North Korea's current agricultural problems appear to be the culmination of policies undertaken for two generations.

How this plays out depends, at least in part, on the intentions of the North Korean elite. If this elite has given up hope of reunifying the peninsula on its own terms, it may be amenable to a reform process that could amount to "unification through golden parachutes," in which the elite uses its control of the state to channel rents for their own "soft landing" through a kind of "apparatchik capitalism." This endgame would be consistent with the retention of some weapons of mass destruction capacity to maintain double-sided deterrence—and a withering of conventional military capability that would no longer be necessary.

Alternatively, the North Korean elite could retain hopes of forcibly reunifying the peninsula and simply regard recent diplomatic openings as an opportunity to "play for time" and channel economic gains into a broad program of military modernization. A diplomatic settlement, which could result in the removal of US troops from the peninsula, could get them a long way down this road. A third possibility is that the North Koreans have no aggressive intent, but are so paranoid and fixated on military security that they are quite literally willing to spend themselves into the grave in pursuit of external security. In the words of Pyongyang-

affiliated journalist Kim Myong-chol, “the Americans remain the most serious security threat to the DPRK. This perception vindicates Kim Jong-il’s decision to spend every single earned dollar on building up an awesome self defense against the Americans and Japanese” (M.C. Kim, 1999).

In this view, the avoidance of a military confrontation with the United States in 1994 has given North Korea an opportunity to develop more effective means of extorting resources out of the rest of the world and of pushing for unification on their own terms (or redoubling a defensively-oriented arms build-up). North Korea’s August 1998 public announcement of its missile exports, its test of a multi-stage rocket, and its suspected continuation of nuclear weapons-related activities perhaps give some indication of the country’s future course. North Korea could continue a strategy of attempting to extort resources out of the rest of the world, offering to abandon weapons development and export while continuing to make clandestine sales. In the simplest terms, the North Korean economy no longer works. It does not generate enough output to sustain its population biologically, nor, absent fundamental economic reforms, will it do so in the future. Under current conditions, North Korea will require external support for the foreseeable future. Yet the world community is unlikely to continue this support unless North Korea continues to pose a security threat to its neighbors. Economic collapse (presumably precipitating a significant alteration in or disappearance of the current political regime) would be disastrous in human terms and pose great risks to international political stability, especially if it were accompanied by civil war and military intervention by external powers. Surrounding countries—South Korea, China, and Japan—and the United States have demonstrated a willingness to provide this support and more for fear of North Korea’s collapse, or, worse, an internal conflict or lashing out that could put millions of people in Northeast Asia in harm’s way, including tens of thousands of US troops stationed in South Korea and Japan.

The provision of this aid is tied to the existence of this security threat. If North Korea was simply a country with a broken economy and 22 million impoverished citizens, it is extremely unlikely that a multinational consortium would be pouring in billions of dollars of aid in the form of food and infrastructural investments. There are plenty of such countries in Central Asia and Africa, but the rest of the world does not build them light-water nuclear reactors. Indeed, one could argue that the famine does not even distinguish North Korea—contemporaneous situations in Africa are as bad, if not worse. Rather, North Korea’s ability to extract such resources from the world community is intimately related to the threat it poses, and, in this sense, the status quo more closely resembles extortion than charity. The threat that North Korea poses is its sole asset. It is unlikely to negotiate away this asset very easily.

The marriage of the rocket and nuclear programs would give the North Koreans impressive tools with which to intimidate their immediate neigh-

bors and create proliferation nightmares for the United States. The truly frightening aspect of this reasoning is that this scenario would be a continuation of the status quo. Ironically, given obstacles to successful reform, such an externally high-risk strategy might be the path of least resistance internally to a weak and risk-averse regime.

Today the North Korean elite appears to be split in this regard.<sup>11</sup> Pyongyang's hesitant steps toward economic reform, for example, have a two steps forward, one step back character. But the question remains whether its system-preserving reforms in the form of tourism projects, mining enclaves, and special economic zones will be sufficient to maintain social stability and avert collapse. At some point, developments may force the North Koreans to make a fundamental choice: either to continue down the extortionist road (which requires periodic threat reminders) or to abandon this path and undertake the hard and uncertain task of economic reform. The first approach has yielded a stream of tactical payoffs, but these appear insufficient to reverse the secular deterioration of the economy. North Korea is winning the battles but losing the war. The problem is that care is required to make a convincing case for the second path that does not end with the North Korean elite either dead or working as janitors for Hyundai, and it is unlikely that this elite will commit class suicide.

The April 2000 announcement of the first North-South summit, three days before a South Korean general election in which Kim Dae-jung's ruling coalition trailed in the polls, is consistent with all of these hypotheses. It could signal that, having consolidated political power, a newly confident Kim Jong-il is ready to begin responding constructively to the overtures from the South. Or, it could be merely a tactical move on the part of the North, timed to extract maximum concessions from a pliant Kim Dae-jung. Only time will tell.

## Tour de Horizon

The stakes are extraordinarily high for both North and South Korea and for countries such as the United States that have a direct stake in Korean affairs. The crisis is economically driven, but the economics are extremely

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11. Former Defense Secretary William Perry, who led the Clinton Administration's policy review of North Korea, has testified that he believes the North Korean leadership is split on the issue of normalizing relations with the United States. Desaix Anderson, who as Executive Director of the Korean Peninsula Energy Development Organization (KEDO) has had extensive dealings with the North Koreans, asserts that just such a division does exist, and ascribes it to a split between those (most prominently associated with the foreign ministry and the economics ministries) who favor some opening to the outside world, and "hardliners" in the military and the Korean Workers Party (KWP) (Anderson 1999). Takesada (n.d.) asserts a similar split and discusses the increasing influence of the military in North Korean policymaking.

politicized—indeed, official transfers, not private transactions, are at the center of North Korea’s external economic relations. It is impossible to separate economics and politics in this analysis.

Unfortunately, much of the existent work on these issues reflect a pie-in-the-sky wishful thinking that confuses hoped for “soft-landings” with policies designed to achieve desired goals or official formulas for unification with actual behavior. This book will argue that the economic future of the Korean peninsula can usefully be discussed in terms of three basic scenarios: successful economic reform of North Korea; collapse of the North Korean state and its absorption into South Korea; and an intermediate scenario of “muddling through” in which North Korea makes a series of regime-preserving reforms short of the fundamental transformation envisioned in the first scenario.<sup>12</sup> Obviously these three scenarios are neither exhaustive nor exclusive. It is possible, for example, that rather than the peaceful collapse and absorption that occurred in East Germany, North Korea could plunge into a civil war, possibly involving the intervention of external powers, or it could even lash out militarily. And of course it is possible that eventual unification of Korea on essentially South Korean terms could be preceded by a prolonged period of muddling through.<sup>13</sup> So little is known about North Korea, and the dynamics of the issues addressed in this book are so complex, that it would be foolhardy to predict any of these outcomes with a strong degree of confidence.<sup>14</sup> One could imagine a range of outcomes from significant reform and possibly successful transition into a market economy with enhanced national political status and capabilities to the economic equivalent of life-support and reversion to the status of a Chinese tributary state.

This book is organized into three parts. Part one, consisting of this introduction and the next two chapters, provides an overview of the South and North Korean economies. There has been so little interaction between the two Koreas in conventional economic terms, that the histories of each of these economies can be written with little reference to events in the

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12. The term collapse, though frequently used, is seldom defined. Huh (1996), S.C. Kim (1996), Choi (1998), and Pollack and Lee (1999) are laudable exceptions. For the purposes at hand, collapse will be defined as an economic catastrophe that leads to the disappearance and replacement of the state. As discussed in chapter 9, it is logically possible, though unlikely, that the Kim regime could collapse and a successor regime could maintain North Korea as an independent state for an extended period of time.

13. Moon (1999) systematically analyzes a large number of these alternatives.

14. In one poll of scholars, 38 percent of the respondents predicted that the current regime would not last a decade (Y.S. Lee 1995). In a more recent poll, the respondents’ mean subjective probability of collapse was 26 percent, while the mean estimate of significant reform was 40 percent (Noland 1998a, table 1). A survey of the professional literature on the topic (Oh and Hassig 1999) found that most analysts expect some kind of muddling through, around a quarter of the papers predict collapse in the near-term, and successful self-initiated reform appears to be the least expected outcome.

other half of the peninsula. The second part of the book, comprising chapters 4, 5, and 6, examines the three crises that frame the situation on the Korean peninsula today—the North Korean nuclear confrontation, the North Korean famine, and the South Korean financial crisis. Again, although South Korea's influence on the nuclear confrontation and famine are not inconsiderable, in an immediate sense, neither of the Koreas plays a central role in the crises affecting the other. Yet the two Koreas can be likened to strands of a braided rope—distinct but intertwined and ultimately part of a single thread. This is most clear in the third part of the book, which examines alternative future paths for the peninsula structured around three fundamental scenarios of successful reform (chapter 7), collapse (chapter 8), and muddling through (chapter 9) in the North. Obviously these alternative outcomes in North Korea will be partly shaped by, and have influence on, South Korea. A series of computable general equilibrium models are used to shed light on the critical issues that these alternatives pose to both North and South Korea. The book concludes with a summary of recommendations for policies both for South Korea and third parties, including the United States.

It will be argued that muddling through or some sustained period of North Korean decline before the regime's ultimate denouement are the most likely outcomes, though collapse remains a distinct possibility. Sadly, successful economic reform appears to be the least likely eventuality. Either way, the status quo is not viable in the long-run. Maintenance of North Korea as an independent state would involve varying mixes of domestic economic reform and external support and could imply varying degrees of national political autonomy depending on the degree of reliance on outside support. North Korea is already the largest recipient of US assistance in Asia. Maintaining this kind of largesse to an unreconstructed, vituperative, Stalinist dynasty is politically unsustainable in the donor countries, particularly in the United States. Indeed, the likely failure of the US-led multinational consortium to complete construction of the light-water reactors by 2003 as specified in the Agreed Framework may well trigger—for better or ill—a significant reorientation of relations between North Korea and the West. Ironically, this could encourage increased reliance on China and a gradual reversion of North Korea to a Chinese tributary state—the status quo for nearly a millennium and an inversion of the self-reliant dreams of Kim Il-sung.