

An Institutional Approach to Economic Reform and Development: Towards a Developmental Understanding of North Korea

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North Korea is not an average low-income state with a moribund national economy. The outcome of the state's *Suryŏngist-Sŏn'gun* ideological and economic structure is a well-run, sector-specific economy within a neglected national economy, all ordered around the maintenance of the ruling system, which is led and tightly controlled by the Kim family. However, the pockets of efficiency that exist in this sector-specific 'Royal Court Economy' could, in principle, be used to catalyze the steady development of the people's economy in line with the basic tenets of New Structural Economics, all without the Government being forced to yield its monopoly on power. This is not happening, however, because the *Suryŏngist-Sŏn'gun* system of governance acts as a roadblock to the realisation of the idea. In North Korea, the economic sectors chosen to receive the guiding hand of state protection are not selected according to principles of comparative advantage as they should be, nor do they power the wider national economy. This means that while the Democratic People's Republic of Korea is drastically underfunded, the Government (the leadership and the Korean Workers' Party) is not, because it monopolises the funds generated by a parallel economic structure. This structure is more efficient and more profitable than the remainder, but the surplus value it creates is not allocated in an efficient manner.

Key words: Institutional Approach to Economic Reform, Development Economics, North Korea, Kim Jong Un, Pockets of Efficiency.

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Introduction

With its focus on the internal structure of governments, the developmental state model has been used to explain the rapid economic growth which took place in post-World War II Japan, South Korea, and Taiwan. In this paper, the model is used to highlight the institutional constraints to economic growth in North Korea from the mid-1970s to the present. It argues that there is no *a priori* impediment to economic growth in North Korea, which, just like its Northeast Asian neighbours, has ‘embedded’ bureaucratic structures capable of providing administrative guidance for economic development. However, these bureaucratic structures are not autonomous from predatory interests and are thus misused by the North Korean Government, limiting their scope and transformative power. Even so, the presence of ‘pockets of efficiency’ within North Korea’s bureaucratic structure leave modest cause for optimism.

The paper begins with a general overview of the literature on development economics and a brief summary of the developmental states of Japan, South Korea, and Taiwan; here the concepts of ‘embedded autonomy’ and ‘pockets of efficiency’ are introduced and explained. This is followed by a short historical summary of North Korea’s ‘Royal Court Economy’ and then a review of the ideological and political underpinnings of the North’s economy. The concluding section summarizes the developmental state model as it applies to North Korea.

The Ball in P’yŏngyang’s Court: A World Beyond the Washington Consensus

As little as a decade ago, it would have been anathema for a Washington-based financial institution to publish an article in support of a model of overt state intervention for the purpose of fostering economic growth. Yet this is precisely what the World Bank is now doing. Therefore, viewed within the historical canon of development economics as an academic discipline, this paper comes at an optimal time, since the neo-liberal understanding, best understood as the ‘Washington Consensus’, is no longer the orthodox view.¹ Three major events have had a major influence upon this process of change: first, the late 1990s Asian financial crisis, which put the credibility of pure market-based approaches to the sternest of tests; second, the ongoing rise of the Chinese economy as part of a broader regional economic success story; and third, the global financial crisis, which began in 2008 and has yet to be overcome.

The ‘New Structural Economics’ that has emerged from this series of challenges presents a direct challenge to neo-classical economic prescriptions. It centres on the notion that a state wishing to follow a development track must ultimately opt to pursue its comparative advantages, and one that does so will ‘successfully upgrade its endowment structure, tap into the potential of latecomer advantages, sustain industrial upgrading, increase its national income, create jobs and reduce poverty’.² Where the theory diverges from the neo-classical

school is in its insistence that this process necessitates state intervention in the economy. In the end, it explains that governments need the freedom to offer ‘transitory protections to [pre-existing] nonviable firms’ and to actively facilitate the entry of private companies and foreign direct investment into sectors in which the nation enjoys comparative advantage, thus improving resource allocation and bringing about dynamic economic growth. In essence, it is a process of ‘opening markets while also providing government support to facilitate the growth of new industries’.³

This shift in emphasis within the World Bank is indicative of a broader paradigm shift in development economics. During the era of neo-classical revivalism (1980s-1990s), ‘structural adjustments’ were seen as the panacea to stagnant or moribund economies. To foster economic growth (and as a condition for receiving loans), international lenders like the World Bank pushed least developed countries (LDCs) to privatise and deregulate; in other words: to reduce the degree of intervention by the state.⁴ Now, chief economists at the World Bank publish reports advising governments to ‘play an active role in facilitating the movement of the economy from a lower stage of development to a high one’, in addition to implementing ‘an appropriate sequencing of liberalization policies ... in domestic finance and foreign trade [rather than ‘shock therapy’] so as to achieve stability and dynamic growth simultaneously during [economic] transition’.⁵ That the World Bank’s chief economist from 2008 to 2012, Justin Yifu Lin, found common ground with formerly outlying development economist Chang Ha-joon marks a paradigm shift in development economics.⁶

How They Got Started: Characteristics of the Developmental State

The term ‘developmental state’, however, emerged from the analysis of three much earlier examples of state intervention for the purpose of facilitating economic growth: first Japan, and then South Korea and Taiwan. Research into these success stories shows clearly that the three were not just random states in a broadly similar geopolitical space with diligent workforces that happened to preside over a period of impressive economic growth. Rather, it was as a result of effective bureaucratic design.

That a country has a booming economy does not mean it is a developmental state; and likewise, a developmental state could, theoretically, grow in an un-explosive, unimpressive way. While East Asian developmental states did not adhere to the tenets of neo-classical economics or to the policy prescriptions recommended by Washington-based economic and financial institutions, neither were they centrally planned economies where state planning supplanted the function of the market. Rather, researchers have established that developmental states intervene, but in a ‘market conforming’ way that mobilizes market forces in a different and potentially more efficient manner than in an unfettered free market.⁷

But what researchers concluded truly differentiates a developmental state from the other typologies of a state is not the presence of mere market conforming government intervention; rather, it is the internal structure of the state apparatus that does the intervening. Peter Evans, a comparative political economist, provides one of the best explanations of what this means in practice. Building on previous work in the comparative political economy literature, Evans uses the idea of ‘embedded autonomy’ to explain the unique institutional traits of the East Asian developmental states.⁸ According to Evans, ‘embedded autonomy’ captures the way ‘pilot agencies’ in developmental economies represent an amalgamation of Weberian

‘corporate coherence’, institutional insulation, and the necessary state capacity to intervene in a way that replaces entrepreneurship and ‘induces decision-making’. In addition to enjoying a relatively high degree of isolation from political influence, the key bureaucratic institutions in such states are also tightly connected to the social structure, which enables smoother bureaucracy-society relations.

Though protection from the influence of politics and politicians and businessmen is conceptually simple enough, ‘embedded autonomy’ is more complex. It is rooted in Mark Granovetter’s critique of economic and sociological theories of economic behaviour. Granovetter asserted that much of economic theory under-socialises behaviour, while much of sociological theory over-socialises it. He thus proposed a more accurate view of economic behaviour as being ‘embedded’ within social relations.⁹ Evans makes use of Granovetter’s conceptual framework to explain how bureaucracies in true developmental states take advantage of their close ties to business and industry for the purpose of developmental coordination and as a way to enhance the receptiveness and effectiveness of administrative guidance. Embeddedness, as Evans understands it, ‘implies a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation’.¹⁰ There is no better illustration of embedded autonomy at work than the state-society relationship of the Pak Chŏnghŭi period in South Korea.¹¹ So embedded were government-*chaebŏl*¹² relations at the time that ‘Korea Inc.’, a label used to describe an intricate Government-business relationship, entered the discourse by economists studying Korea.¹³ In Korea, Government-business relations were, like Government-*anything* relations at the time, a highly top-down relationship, partly as a consequence of the deeply penetrating colonial state apparatus bequeathed to both Koreas by the Japanese colonial government.¹⁴ To the chagrin of progressive historians, the Government institution most responsible for the impressive economic growth in South Korea, and the other ‘miracle economies’ of East Asia, was the bureaucracy, arguably an outgrowth of the modernisation that took place prior to the Korean War. A brief summary of the instrumental role played by bureaucracies in Japan, South Korea, and Taiwan during the post-war reconstruction era will provide a short but sufficient overview.

Who Did It and How: Bureaucracies and Economic Growth

The ability to implement a long-term industrial policy through the actual planning, intervening, and guiding of the economy, held apart from rent-seeking politicians and the short-term visions of businessmen, was a role filled in Japan by bureaucrats from the Ministry of International Trade and Investment (MITI), in South Korea by the Economic Planning Board (EPB), and in Taiwan by the Council for Economic Planning and Development (CEPD).

In Japan, MITI achieved its greatest independence and a sufficient degree of autonomy in the post-war period when its chief rival—the military—was disbanded as required by the US-enforced Peace Constitution. MITI sought long-term economic growth through various measures, most-notably its control over foreign technology licensing and access to foreign exchange (the famed ‘approval mechanism’), which it used to foster and control competition amongst businesses. Through its ‘colony agency’—the Economic Planning Agency (EPA)—it revealed which industries it had an interest in selecting (industries to which technology and money were directed). This selection served the function of guiding competition to strategic

industrial sectors, or to reprise a colloquialism, ‘picking the winners and losers’.¹⁵

Like MITI, South Korea’s EPB exercised discretion over which companies received foreign loans and technology. This gave the bureaucracy a similar mandate to pick winners and losers through the capital import bureau setup within the EPB, in addition to serving the role of the ministry responsible for economic planning and budgeting. The economic growth plans drawn up every five years were the responsibility of the EPB.¹⁶ Though the EPB, unlike MITI, was initially under much tighter executive oversight, by proving its economic planning competence and commitment to furthering the national interest it was eventually granted autonomy similar to that enjoyed by MITI. Even when Korea’s political leadership attempted to reign in the EPB’s autonomy and decision-making ability, it quickly learned that the ability of the EPB to act autonomously was an essential condition for foreign investment. No one likes a dictator - especially investors.¹⁷

In Taiwan, the CEPD’s efforts to wrangle itself loose of political control were, as Johnson states, ‘similar to South Korea’s’. The announcement of an end to aid from the United States led to the creation of the CIECD, which took over the role that US aid had served and ‘took on developmental planning and coordination functions’.¹⁸ However, compared to its Northeast Asian counterparts, Taiwan’s case is slightly ‘messier’. Taiwan had no equivalent *zaibatsu/chaeböl* industrial structure, meaning that while it also used tariffs, quantitative restrictions and imports controls *à la* administrative guidance to foster the development of strategic industries (picking winners and losers), it differed from Japan and Korea in that both the political leadership and the bureaucracy were less averse to foreign influence.¹⁹

As can be seen, despite the differences between the bureaucracies of these three East Asian states, particularly regarding the type of relationship their respective economic bureaucracies had with the political leadership, embedded autonomy ties them together and highlights the essential role bureaucratic agencies played as the institutions which were the primary catalysis for economic growth. This was achieved via: 1) relative autonomy from political influence and the necessary control over technology and capital (re: approval mechanisms), and 2) the effective use of administrative guidance, the smooth functioning of which was achieved through social embeddedness.

These three success stories represent the full implementation of a dictum often evoked in the political economy literature to indicate a hand-in-glove relationship between state and bureaucracy. If permitted to so-do, ‘politicians reign and bureaucrats rule’. Despite their manifold differences, these bureaucracies, and the political systems within which they could develop, represent the underlying reason for sustained economic growth in three diverse parts of modern East Asia, and it is this that warrants their being grouped together and labeled the ‘Developmental State Model’ of economic growth.

Broadening the Discourse: the Developmental-Predatory Continuum

The success stories of Japan, South Korea, and Taiwan make them worthy of close analysis, but also draws fire away from the middle ground. In Evans’s view, it is vital to think about all developing states as being on a predatory-developmental continuum, which then allows for better comparative appraisal of internal state structures and, therefore, prospects for reform and development. The key lies in understanding what triggers a move on the

continuum from less predatory to more developmental, and vice-versa. ‘Pockets of efficiency’ are one way to catalyse shifts along this continuum.

‘Pockets of efficiency’ is a relatively common idea, as work on Mozambique has shown.²⁰ However, they have been best documented with reference to the Brazilian state of the late twentieth century.²¹ Known as *bide de emprego* [source of jobs], merit-based recruitment for developmental institutions was not a priority in Brazil at the time. Thus, a forward-looking Weberian bureaucracy committed to the collective goal of development was unable to develop. However, from time to time, and seemingly counter-intuitively, pockets of efficiency still arose. These were bureaucratic enclaves genuinely committed to development, and acting in a similar way to the bureaucratic structures in true developmental states, such as existed in South Korea at the same time.²²

Overall, the literature on the developmental state shows that it is the presence of a forward-looking, embedded Weberian bureaucracy staffed by the country’s best and brightest united under a mandate to grow the national economy that is the key to a successful developmental state. And it is this that differentiated Japan, South Korea and Taiwan from the Philippines and other ‘predatory states’ during the latter half of the twentieth century. At the same time, while states such as Brazil were less successful, they still saw pockets of efficiency rise and fall within far more ineffective governing bureaucracies. Very few countries are completely lacking in areas of bureaucratic efficiency.²³ Controversially, we argue that North Korea has also seen, and continues to harbour, similar pocket(s) of efficiency within the so-called ‘Royal Court Economy’, but that they are not recognised as such.

Introducing the Royal Court Economy

A key question remains, what does this talk of a ‘developmental state model’ really have to do with North Korea? The country is a basket case. Though it rebounded from the destruction of the Korean War more rapidly than its southern competitor, and even enjoyed nominally better standards of living for a spell, since the dawn of the new century it has existed in what can be classified at best as non-fatal stability. This does not appear to make it an attractive bet for future development.

However, while it is true that the economy of North Korea, when viewed as a single, cohesive structure, is in a very poor condition, viewing it in that way is misleading. Some sectors of the North Korean economy are well developed and very efficient, and herein is the point: North Korean pockets of efficiency have existed for more than thirty years.

In 1997, shortly after his defection, one-time Korean Workers’ Party International Secretary Hwang Changyŏp described the existence of an economic structure parallel to, partially dependent upon, but administratively independent of North Korea’s version of the standard socialist ‘People’s Economy’. In his subsequent memoirs, Hwang said that in 1974:

‘Kim Jong-il made a system with Party organizations from every level at its core, giving the work of earning foreign currency to loyalty fund-earning agencies to be created in provinces, municipalities and counties, with the money earned to be given to the Party.’²⁴

According to Hwang, Kim had concluded that it was no longer possible for the North Korean

Government to prosper off the activities of the people's economy, which he knew was already in decline. Therefore, he decreed that key areas of economic activity be ring-fenced and developed in order to provide a constant stream of foreign currency to the party, or more precisely the supreme leader, or *Suryōng*.²⁵ These so-called 'loyalty funds' would be under his direct control, and he would use them to pursue the regime's goals. This primarily meant the maintenance of a costly patrimonial system whereby material benefits and opportunities for self-aggrandisement were exchanged for personal loyalty, known as *sōnmul chōngch'i*, or 'gift politics', and military strengthening to ensure that threats to the regime, both from within and without, were deterred.

Then, in 2003, another high-level refugee, Kim Kwangjin, fled his post in Singapore to offer a greater level of clarity on the system that had grown out of Kim Jong Il's 1974 decision. Kim Kwangjin called it the 'Royal Court Economy', explaining that Kim Il Sung [Kim IIsōng] had been the one who originally ordered the hiving off and merging of the military-industrial complex outside the confines of the people's economy, that he 'excised the munitions industry from the Cabinet in the early 1970s',²⁶ but adding that something much more fundamental had occurred at the same time:

'[Kim Il Song's heir] Kim Jong-il created a new central party department called 'Office No. 39' - named after the arbitrary office number where it began operations. Under 39's umbrella, 'Daesong General Bureau' (a massive manufacturing and trading conglomerate) emerged, thus forming a new economic sector completely independent from the central planning and Cabinet control. The ensuing advent of new foreign exchange banks would also contribute to the process of destabilizing the existing economic system and the state's unilateral control of the foreign currency. From this new, independent sector run by the Central Committee of the Korean Workers' Party (KWP)—and ultimately controlled exclusively by Kim Jong-il—the Royal Court Economy would attain its current status.'²⁷

The Royal Court Economy is comprised of all party economic institutions, the party economic structure (meaning all economic entities controlled by party departments), and the munitions industry. Directly controlled by the top leadership of the Korean Workers' Party and overseen by those in charge of 'Office No. 39', it has grown to control more than 100 entities involved in a range of activities, including banks, a tile factory, a smelter, and many more.²⁸ Other entities in the people's economy also pay so-called 'loyalty funds' to the Government. It should be noted that these funds are part of the given entity's overall budget and are not the sole reason for the existence of the entity itself.

Thus, the Royal Court Economy resembles the Brazilian case outlined earlier in this paper. In other words, it is a large pocket of efficiency within a far less efficient whole. In an interview with the authors of this paper during November 2012, Kim Kwangjin expounded on the nature of this pocket of efficiency, saying that the Royal Court Economy 'introduces better technologies, and has better production lines. The people managing these industries are much better qualified than others to run businesses, in terms of finance and how to handle financial problems; their labour sector produces better products, they travel more than others and introduce more information'.²⁹

Office No.39 is only partially embedded in that it operates for the benefit of the 2.5 million people (slightly more than 10 per cent of the population) the Royal Court Economy serves, meaning members of the *élite* and those in the semi-*élite* that continue to receive guaranteed rations by dint of their work.³⁰ People operating outside it, be they market traders or persons assigned to entities within the people's economy, never see any direct benefit from the Royal Court Economy.³¹ Nevertheless, it plays the role of the provider of administrative guidance to those entities within its purview. It oversees their actions; it coordinates investment in them; it controls their balance sheets. Were it to be given the order by a developmental dictator, there would be no economically valid reason why it could not be used to power the growth of the national economy.³² This is what Pak Chŏnghŭi did in South Korea and, as noted earlier, the prevailing economic orthodoxy of today would have no theoretical quarrel with such a model, encouraging states to intervene in national economies to direct funding and talent in the direction of areas of comparative advantage.

Talking Ideas: North Korea's State Ideology

However, if North Korea were to follow such a path, it would have to escape its ideological straitjacket, because while institutions themselves are important, the ideas that underpin them are just as crucial. This is why, of all the available approaches to understanding what spurs institutional change, the 'culture-based structured interest' view best explains the complex interactions between actors, ideas, and institutions.³³ Permitting culture a place in political economy broadens the theoretical lens, thus creating space for the consideration of human agency, worldviews, and, importantly in the case of North Korea, the ruling ideology.

North Korea is a state that emphasises the importance of correct thinking. Though not fundamentally different from the emphasis Stalin placed on ideas over circumstance, Charles Arsmstrong finds that, 'as so often is the case in North Korean communism, ideas came first. 'Correct' thinking made successful economic production possible, not the other way around'.³⁴ The two concepts most frequently used to explain the North's ruling ideology *in toto* are *Chuch'e* [commonly, Juche], whereby 'the masses of the people are the master of the revolution and construction and they have the strength to push them',³⁵ and, since the famine of the late 1990s, *Sŏn'gun*, or 'carrying on the revolution and construction with the army as the main force on the principle of giving priority to the military affairs'.³⁶

The official line posits *Sŏn'gun* as an outgrowth of *Chuch'e*. One official publication reads:

'The *Chuch'e* idea is the root of the *Sŏn'gun* idea. The *Chuch'e* idea clarifies the principle of defending and realizing the independence of the popular masses and the nation, the principle of strengthening the driving force of the revolution and enhancing its role and the principle of grasping the people's thoughts as the main factor in the revolution and construction. The *Sŏn'gun* idea is based precisely on these principles.'³⁷

And later:

'In compliance with the guiding principle of the *Chuch'e* idea on applying the theory of putting the main stress on thoughts, the *Sŏn'gun* idea puts up the revolutionary soldier spirit as the main factor in defending the destiny of the nation and propelling overall socialist construction.'³⁸

Although North Korean propaganda officials pretend *Chuch'e* has explanatory value, the briefest study of the ostensibly foundational idea reveals its ambiguous application and understanding. In his work on the etymology of the word, Brian Myers concludes that *Chuch'e* is a hollow concept; its status as North Korea's *de facto* ideology is largely the result of misreadings and confusion among journalists, Korean studies scholars, and even the North Koreans themselves.³⁹

But whereas *Chuch'e* reveals little about the structure of North Korea's economic and political systems, *Sŏn'gun* clearly underscores the nature of ideational barriers to institutional reform, thus providing an explanation for North Korea's failure to improve its economic performance.

Sŏn'gun was forged during the difficult years of the mid-1990s, a period which saw the dissolution of the communist bloc, the withdrawal of economic support from Soviet Russia, the death of state-founder Kim Il Sung, and the onset of a famine that killed hundreds of thousands. Though not a novel idea as the North Korean propagandists claim,⁴⁰ *Sŏn'gun* nevertheless explains how and why the contemporary North Korean state operates in the way it does and, crucially, why its economy remains moribund (instead of dynamic) and its political system corrupt (rather than developmental).

Heonik Kwon and Byung-ho Chung, in *North Korea: Beyond Charismatic Politics*, demonstrate how *Sŏn'gun* operates as the idea which guides policy-making decisions and ordinary life in the country. Their explication of *Sŏn'gun* strengthens the claim that regime legitimacy, and thus its continuity, is so tightly wrapped around the *Sŏn'gun* narrative that any serious deviation from it would threaten the existence of the embattled regime. The most important action of a citizen is to harbour the right idea. The authors explain that in order to justify the constant belt-tightening demanded of average North Koreans, the consequence of a prioritised military economy, and as a way to validate the overt militarisation of politics and society, 'North Korea [declared itself] the sole vanguard of the Third World revolution and a leader among developing nations in their collective struggle against coerced incorporation into the 'new world order' orchestrated by American imperial power, and thus [as] 'the only source of light that can ignite the fire of self-determination among peoples in the Third World'.⁴¹

Kwon and Chung make it clear that demilitarisation, or a 'nonmilitary solution to the crisis in international socialism', is an unacceptable deviation from the 'correct thinking' as outlined in the ideology of *Sŏn'gun*. When *Sŏn'gun* is combined with its metaphysical counterpart, *Ch'ongdae* [barrel of a gun],⁴² it provides both a *raison d'être* for North Korea *vis-à-vis* its wealthy southern neighbour and a clear path towards what, according to both state ideology and national narrative, is the ultimate goal for the state and its citizenry - a militarised struggle for the revolution and a continuation of partisan heritage. Reform would unravel this completely, bringing North Korea back from the precipice but leaving it without a narrative by which to justify its existence *vis-à-vis* South Korea.

The implementation of any meaningful economic reforms in North Korea would thus precipitate the dissolution of the correct thinking model itself, and with it both allegiance to the state and loyalty to the regime, especially the *Suryŏng*—currently Kim Jong Un [Kim Chŏngŭn]. Political leadership is legitimized through *Sŏn'gun* politics, and cannot exist

without it. In the words of Brian Myers, '[North Korea] cannot shift focus from military affairs to economic affairs without becoming a fourth-rate South Korea', a condition which would precipitate its collapse.⁴³

Myers' conclusion is not universally held, however. There is another side to the debate, and it has long been promoted by former US State Department official and US-DPRK negotiator Robert Carlin. Carlin hypothesises that the supremacy of *Sŏn'gun* politics is not absolute, and that it comes under constant pressure from officials who are willing not merely to countenance, but even to encourage, an economics-first, i.e. developmental, approach. Carlin's position is best represented in an article entitled 'The Debate in Bloom', which he co-authored with Joel Wit in 2006. In it, a close reading of North Korean publications, especially the economics journal *Kyŏngje yŏn'gu* [Economic Research], led the pair to conclude that from 2002-2005 there was a 'debate in bloom' occurring between *Sŏn'gun*-supporting conservatives and economic 'reformers', with momentum behind those in favour of change.⁴⁴

According to Carlin and Wit's reading, reformists and conservatives clashed over whether the nation's power was being enhanced by concentrating on strengthening military power. To the naysayers, diverting a higher proportion of the national budget to the People's Economy, at the expense of the defense industry, would better serve the nation, and help perpetuate the existing system. If true, this thinking represented a reversal of the conservative *Sŏn'gun* line, a de facto rejection of the state's ruling ideology and a refusal to harbour 'correct thinking'.⁴⁵ Carlin and Wit justify the presupposition that economic reform would not result in North Korea 'becoming a fourth-rate South Korea' in this way:

'[M]any observers ... are distracted by the constant repetition of the term 'military first' in the North Korean media. There is a tendency to take this literally and to assume that every reference to the term constitutes a reaffirmation of it. But the military first concept is no more a sound guideline to real North Korean policy than was that of *Chuch'e* (self-reliance) in earlier years. These are not policies but slogans.'⁴⁶

In other words, based in part on Carlin's experience of talking to members of the North Korean Government, the two conclude that *Sŏn'gun* is boilerplate propaganda, and disregard it. To them, espoused ideology is thus not a decisive factor in North Korean economic development. However, *Sŏn'gun* works to undermine Carlin and Wit's thesis in another way, by questioning the notion of post-totalitarian institutional pluralism. This theory, which posits competing bureaucracies within the North Korean state, is a natural and essential precursor to any 'debate in bloom'.⁴⁷

Power is the Only Thing: Arguing against Institutional Pluralism

Sŏn'gun is predominantly about power. Or, as the International Crisis Group's Daniel Pinkston would have it, 'Power is not only critical to *Sŏn'gun* politics, power is the only thing in *Sŏn'gun* politics'.⁴⁸ Thus, in the rigidly top-down *Sŏn'gun* system, which prioritises military expenditure and where power is highly concentrated on a moral basis around the supreme leader and his closest confidants, the idea of a plurality of opinions from competing power centres on issues of key national interest such as whether or not to pursue economic reform, lacks coherence.

Scholars generally agree the North Korea ruled by Kim Il Sung between 1945 and 1994 showed, starting in the 1960s, all the major traits of a totalitarian state and that these traits have persisted into the post-Kim Il Song era. This meant that the unification of the three major hierarchies (those of power, money/property, and knowledge/science)⁴⁹ dramatically limited the personal sphere of the nation's subjects and reduced to the vanishing point the ability of a civil society to exist, much less to come to terms with and thus restrict state power. This, in the words of an entry in the *Great Soviet Encyclopedia*, led to a state with 'absolute control over all aspects of life... complete regulation by the state of all legal organizations, discretionary power in the hands of the rulers, prohibition of all democratic organizations, and liquidation of constitutional rights and freedoms'.⁵⁰

Conversely, 'post-totalitarian institutionalism' points toward something completely different, and more malleable: a debate, played out in part on the pages of the state media, wherein different actors competed for Kim Jong Il's ear in an attempt to win him over to one or other policy position.⁵¹

However, this thesis is fraught with danger, and questioned by those with first-hand experience. According to Jang Jin-sung, a high-ranking defector from the North, there was never any room in Kim Jong Il's North Korean media for opinions on major policy questions other than those of Kim himself. Speaking with the authors in November 2012, Jang noted, 'Kim Jong Il would make known his opinion on important matters, and then it would be down to the writers to present his position'.⁵² In short, Jang sees post-totalitarian institutional pluralism as a substantive overstating of North Korea's progress out of the totalitarianism Kim Il Sung built.

To demonstrate by way of example, there is little evidence to suggest that North Korean nuclear and missile policy - which certainly counts among North Korea's core national interests, in late 2012 and early 2013 was influenced in any way whatsoever by an institutional debate, as the post-totalitarian institutional pluralist thesis implies should have been the case. Rather, if we look at the events of December 2012 and January 2013 which led up to North Korea's third nuclear test on 12 February, 2013, it is clear that there is an orchestrating body controlling which institutions (Korean Workers' Party, state administration, the Cabinet, and the military and National Defense Commission) speak publicly at which times throughout, what they say, what they do, and which constituencies they engage with. The picture is in keeping with that put forward by Jang. By incorporating information received from civilian sources inside North Korea, the highly centralised decision-making structure becomes uniquely visible if we examine the following chronology:⁵³

- 10 December, 2012: The Korean Committee of Space Technology whose specific institutional make-up is not known, releases a statement announcing that the window for a long-range rocket launch previously scheduled for some time between the December 10 and 18 is to be pushed back to a period ending on December 28.
- 12 December, 2012: The rocket launch goes ahead, within the original launch window.
- 7 January, 2013: Eric Schmidt, the executive chairman of Google, arrives in P'yŏngyang. The trip follows a visit by North Korean officials to the headquarters of Google on 1 April, 2011.
- 10 January, 2013: Eric Schmidt departs P'yŏngyang.

- 15 January, 2013: Seoul-based *Daily NK* reports that the Korean Workers' Party Propaganda and Agitation Department (a party entity) describes the visit as the head of a 'famous Internet company' coming to congratulate North Korea on its successful rocket launch.⁵⁴
- 22 January, 2013: The UN Security Council adopts Resolution 2087 in response to the December 12 missile test, which was performed in violation of existing UN resolutions.
- 22 January, 2013 (two hours later): North Korea's Ministry of Foreign Affairs (a state administrative entity) releases a statement criticising the UN decision.
- 23 January, 2013: North Korea's National Defense Commission (a military entity) releases a statement condemning the UN decision in harsher words and stating North Korea's determination to conduct further missile launches and nuclear tests 'targeting the United States'.
- 25 January, 2013: Kim Jong Un leads a meeting of security and foreign affairs officials in P'yŏngyang (spanning the party, state administration and military), during which he announces that the North will take 'great national steps' in response to the UN resolution. It is widely reported on state television.
- 29 January, 2013: The National Defense Commission (military), which Kim chairs, declares a new level of military readiness, requiring added security measures on the ground, the calling up of reservists and the halting of all leave for enlisted men.
- 30 January, 2013: Local level civilian lectures overseen by the Korean Workers' Party cell structure (party) inform assembled citizens, 'The alliance of imperialists including the UN are sanctioning us to try and crush socialism in the only such country left in the world', and that 'The new Pak Kŭnhye administration wants to start a war with us, so people from every organ, enterprise and Worker and Peasant Red Guard unit must prepare to meet the threat'.⁵⁵

Given the timeframe involved, it is highly unlikely that the above events were outcomes of debate or inter-agency wrangling. Rather, they show the hallmarks of inter-agency pre-planning, top down decision-making and a focus on the unequivocal pursuit of the national interest. As a *Sŏn'gun* state with a genetically pre-ordained charismatic leader applying the logic of a partisan army to state functions of national importance, this is not surprising. There is little room for debate, only obedience to orders from above.

Of course, the *Sŏn'gun* ideological roadblock could be overcome if it were possible to simply change track and pursue a new ideological approach, to change the nature of the correct thinking. However, North Korea's hereditary ruling system precludes this escape route. As noted by Kwon and Chung, there is nowhere on earth where more effort or per capita resources have been poured into attempting to maintain and continuously refresh a form of charismatic leadership than in North Korea.

The regime has transformed the charismatic and, thanks to his Manchurian guerilla pedigree, uniquely legitimate leadership of Kim Il Sung into a genetic *fait accompli* for the so-called 'Mount Paektu bloodline'. They have stretched every sinew of the idea of a charismatic leader, and in that way extended the Kim family's ruling legitimacy back as far as Kim's parents, and forward to his son, Kim Jong Il, and onward to the grandson, Kim Jong Un. This

is not merely physical, it also encompasses the hereditary transfer of ideas. History has become the only state-sanctioned guide to future policy.

Conclusion

North Korea is not an average low-income state with a moribund national economy; the outcome of the state's *Suryŏngist-Sŏn'gun* ideological and economic structure is a well-run, sector-specific economy within a neglected national economy, all ordered around the maintenance of the ruling system, which is led and tightly controlled by the Kim family, a third-generation hereditary ruling élite.

As this paper demonstrates, the pockets of efficiency that exist in the sector-specific Royal Court Economy in principle could be used to catalyse the steady development of the people's economy in line with the basic tenets of New Structural Economics, all without the Government being forced to yield its monopoly on political power. Institutions such as Office No.39 - which are already partially embedded into the social structure, could be used as a starting point for further integration. Moreover, given the relative ease with which developmental dictatorships are able to provide political isolation and protection for specific institutions, the notion that Kim Jong Un might wish to confer such a status on a developmental institution is not unduly farfetched in and of itself.

However, the *Suryŏngist-Sŏn'gun* system of governance acts as an ideological roadblock to the realisation of this idea. In North Korea, the economic sectors chosen to receive the guiding hand of state protection are not selected according to principles of comparative advantage, nor are they positioned to power the wider national economy.⁵⁶ Rather, they are selected according to an alternate hierarchy of need, with two things predominating: public and state security concerns, as required by *Sŏn'gun*, and gift politics, as required by *Suryŏngism*.

What the focus on *Sŏn'gun* security means in practice is that only a limited percentage of the population is permitted to make contact with outsiders, and even then to a very limited extent, while information entering the country is also strictly controlled and rationed. Andrei Lankov is not the only one who believes that the influx of information that reform would precipitate would equal regime collapse⁵⁷—Kim Jong Un and those in the inner circle of leadership show signs of agreement with this point of view.

Suryŏngist gift politics are no less problematic. According to Kim Kwangjin:

‘[The Royal Court Economy] raises funds for Kim Jong-il, and he uses the funds according to his priorities. If the Royal Economy were to produce results and these were reinvested in production, then that would be fine. That would expand industry and that would help grow... a better economy. But it is not the case. They raise the funds, making use of all their resources and privileges, and then this all goes in cash to Kim Jong-il. He takes these funds and uses them for his priorities.’⁵⁸

What this means in practice is that while the state known as the Democratic People's Republic of Korea is drastically underfunded, the Government, meaning the leadership and the Korean Workers' Party, is not because it monopolises the investment of those funds

generated by the parallel economic structure, more efficient and more profitable than the remainder. In other words, the Royal Court Economy is a pocket of efficiency no different to any other in the arena of development economics. As such, it represents North Korea's best chance of escaping from the economic trap that it finds itself in. However, for as long as the monies earned from the entities within it go on being channeled into unproductive activities,⁵⁹ North Korea will not be able to rise to the challenge of the new economic orthodoxy symbolized by New Structural Economics. This will not be due to an absence of opportunity; it will be due to the regime's decision to funnel its available resources into unproductive activities linked to the maintenance of charismatic rule.

Endnotes

¹ The Washington Consensus, a package of policy prescriptions assigned to developing countries in economic and financial crises by Washington-based developmental institutions such as the International Monetary Fund and the World Bank, was for the most part synonymous with neo-liberalism and the market-based approach to development in the 1990s. See John Williamson, 'What Washington Means by Policy Reform'.

² Justin Yifu Lin, *The Quest for Prosperity*, p. 256.

³ Ibid.

⁴ For a summary of structural adjustments and Structural Adjustment Programmes (SAPs) see Jason Oringer and Carol Welch, 'Structural Adjustment Programs'.

⁵ Justin Yifu Lin, *New Structural Economics: A Framework for Rethinking Development*, pp. 27, 33.

⁶ In a *Development Policy Review* publication, Justin Lin and Chang Ha-joon debate the merits of state intervention and comparative advantage. See Justin Yifu Lin and Chang Ha-joon, 'Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy It? A Debate Between Justin Lin and Chang Ha-joon'.

⁷ See Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford, Oxford UP, 1989); Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*; and Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*.

⁸ Peter Evans, *Embedded Autonomy: States and Industrial Transformation*.

⁹ Mark Granovetter, 'Economic Action and Social Structure: the Problem of Embeddedness'.

¹⁰ Evans, *op. cit.*, p. 59.

¹¹ Officially from 1961 to 1979, although the developmental state era began quite some time after Pak took power in a *coup d'état*.

¹² A Korean word meaning a large, multi-sector conglomerate entity that can best be described through the use of examples: Samsung, Hyundai-Kia, LG, POSCO et al.

¹³ Peter Evans, 'The State and the Politics of Adjustment', p. 157.

¹⁴ For more on the legacy of the penetrating Japanese colonial administration, see two works. For South Korea see Carter Eckert, *Offspring of Empire: The Koch'ang Kims and the Origins of Korean Capitalism, 1876-1945*. For North Korea see Charles Armstrong, *The North Korean Revolution, 1945-1949*.

¹⁵ Chalmers Johnson, 'Political Institutions and Economic Performance', pp. 152-153, and 'The Economic Bureaucracy', Chapter 2 in Chalmers Johnson, *MITI and the Japanese Miracle*, op. cit., pp. 35-82.

¹⁶ Russell Mardon, 'The State and the Effective Control of Foreign Capital: The Case of South Korea', pp. 116-119.

¹⁷ General Chŏn Tuhwan, who led South Korea from 1979-1987, attempted to curtail the independence of the EPB, but was strongly rebuked by negative foreign investor feedback. See Chalmers Johnson, 'Political Institutions and Economic Performance', pp. 154-155.

¹⁸ Johnson, 'Political Institutions and Economic Performance', op. cit., p. 155.

¹⁹ 'The Economic Bureaucracy', Chapter 2 in Robert Wade, *Governing the Market*, pp. 195-227. Wade's section on 'Consultants and Task Forces' best illustrates the level of foreign influence in Taiwan. See especially pp. 211-217.

²⁰ Lars Buur, et al, 'Mozambique Synthesis Analysis: Between Pockets of Efficiency and Elite Capture'.

²¹ See Luciano Martins, *Estado Capitalista e Burocracia no Brasil Pós64*, and Eliza J. Willis, *The State as Banker: The Expansion of the Public Sector in Brazil*.

²² One such example was Brazil's National Development Bank (BNDE) under Juscelino Kubitschek. According to Peter Evans, 'the BNDE offered a clear career path, developmental duties and an ethic of public service'. Peter Evans, 'Predatory, Developmental, and Other Apparatuses', op.cit., p. 577.

²³ Lars Buur, op.cit.

²⁴ Hwang, Changyŏp, *Nanŭn yŏksa-ŭi chilli-rŭl poatta*, [I Saw the Truth of History], p. 221.

²⁵ Kim Kwangjin, 'The Defector's Tale: Inside North Korea's Secret Economy'

The ‘*Suryōng* Economy’ is alternatively referred to as the ‘Party Economy’ or the ‘First (Leader’s) Planned Economy’. See ‘A Historical Primer to the North Korean Economy’, *New Focus International*, 8 February, 2013. This may be found at: <http://newfocusintl.com/a-historical-primer-to-the-north-korean-economy/>.

²⁶ Kim Kwangjin, *op. cit.*

²⁷ *Ibid.*

²⁸ Ju Song-ha, ‘Kim Chōngil pijagūm tamtang hadōn kū kongsik sōksang-e mosūp tūrōnae iryejok’ [Kim Chōngil’s slush fund is publicly revealed – an unprecedented story].

²⁹ Interview with the authors in November 2012.

³⁰ The figure of 2.5 million people represents an estimate of the scale of the essential goods distribution system which continues to operate for privileged groups in North Korea. This figure was provided by Professor Ra Jong-yil of Hanyang University at a private meeting in Seoul during December 2012 and can be used as a general estimate of the size of the élite in North Korea today.

³¹ The North Korean economy is becoming increasingly integrated, especially around the nexus of private commerce. As a result there are many ways in which persons outside the Royal Court Economy might benefit from it indirectly.

³² Kim Kwangjin, ‘Pukhan-ūn chigūm haibūrid-ūi ch’eje toen chung inga?’ [Is North Korea now becoming a hybrid system?]. Kim explains that one of the key problems in the North Korean case is the leader’s constant interference in economic decisions, leading to incoherent policy outcomes.

³³ Chang Ha-joon and Peter Evans, ‘The Role of Institutions in Economic Change’, p. 108.

³⁴ Armstrong, *op. cit.*, p. 165.

³⁵ *Juche Idea: Answers to a Hundred Questions*, p. 1. *Juche* represents a mix of human-centered, self-reliant development wedded to Marxist principles of the human triumph over nature.

³⁶ *Questions and Answers on the Songun Idea*, p. 1. *Sōn’gun* represents the essentialist prioritisation of the military and military-industrial complex in resource allocation, but also the absolute pre-eminence of power relations in international affairs.

³⁷ *Ibid.*, p. 4.

³⁸ *Ibid.*

³⁹ Brian Myers, 'Ideology as Smokescreen: North Korea's Juche Thought'.

⁴⁰ As Adrian Buzo explains, the militarisation of North Korea began not in 1994, but in 1962 following the Cuban missile crisis when it became evident that the Soviet Union would avoid direct confrontation with the United States and thus be unlikely to provide North Korea with a level of security necessary to justify a non-militaristic development strategy. In the same year, 'The Fifth Plenum of the Fourth KWP Central Committee (CC) adopted the policy of Equal Emphasis, signifying that the country would place emphasis on economic development and military preparedness equally', though in reality this would '[initiate] a military build-up which, in relation to the scale of the human and material resources of the country, can only be described as staggering'. Adrian Buzo, *The Guerilla Dynasty: Politics and Leadership in North Korea*, p. 62.

⁴¹ Heonik Kwon and Byung-ho Chung, *North Korea: Beyond Charismatic Politics*, p. 77.

⁴² Using the imagery associated with the passing of two guns from father (Kim Hyŏngjik) to son (Kim Ilŏng), Kwon and Chung elaborate on the philosophy of *Ch'ongdae* which is explained generally as 'the entirety of North Korea's social forces, which, in the North Korean idiom, are united in the sacred task of defending the core revolution ... with our lives'. Kwon and Chung, *op. cit.*, p. 89.

⁴³ Press briefing at the Asia Society Korea Center, 25 November, 2012, Seoul, Korea. A video of the event is available at:
<http://www.youtube.com/watch?v=JKgZE5wwc-I>.

The argument that North Korea risks becoming a 'fourth-rate South Korea' if it eases the beating of wars drums has not only been made by Kwon and Chung. Brian Myers has made this same argument time and again. For a summary of Myers' argument and contending viewpoints, see Steven Denney, 'A Debate (Again) in Bloom'.

⁴⁴ Robert L. Carlin and Joel S. Wit, 'The Debate in Bloom'. There are many other adherents of this school of thought, including Moon Chung-in and John Delury of Yonsei University, and, following the logic of an internal debate to its natural conclusion, US Federal employee Patrick McEachern. He wrote in *Inside the Red Box* that North Korea under Kim Jong Il became a post-totalitarian realm of competing policy positions. See Patrick McEachern, *Inside the Red Box: North Korea's Post-totalitarian Politics*, p. 73.

⁴⁵ With a great revisionist zeal, the North Korean Government claims that *Sŏn'gun* dates back to the day when Kim Il Sung was gifted two pistols by his father in the early 1920s. As noted by Adrian Buzo, North Korean militarisation also dates back to the very earliest years of the state's inception, meaning that it is somewhat misleading to say that *Sŏn'gun* was launched in the 1990s. See 'The Emerging Tyranny, 1958-70', Chapter 3 in Buzo, *The Guerilla Dynasty*, pp. 57-79.

⁴⁶ Carlin and Wit, *North Korean Reform*, *op. cit.*, p. 36.

⁴⁷ McEachern, *op. cit.*, p. 101.

⁴⁸ Daniel Pinkston, ‘The Unha-3 Launch and Implications of UN Security Council Resolution 2087’.

⁴⁹ Alexander Korchak, *Contemporary Totalitarianism: A Systems Approach*, p. 7.

⁵⁰ *Ibid.*

⁵¹ McEachern, *op. cit.*, p. 73.

⁵² Jang Jin-sung is a former member of the Korean Workers’ Party Central Committee and the Chosŏn Broadcasting Committee. He is now the chief editor of *New Focus*, an online media source based in Seoul.

⁵³ *Daily NK*, which provides much of the open source inside information on North Korea available internationally, keeps records of conversations with sources but does not make them public for security reasons. However, individual published articles are cited.

⁵⁴ Choi Song-min, ‘Google Delegation Becomes Propaganda Tool’.

⁵⁵ Kim Kwangjin [not the person interviewed in this paper], ‘Emergency Lectures Emphasize Threat of War’

⁵⁶ With the obvious exception of those involving primary goods such as coal, gold, or uranium.

⁵⁷ Andrei Lankov believes that enacting economic reforms would be akin to the current regime planting the seed of its own demise, emphasising the destabilising effects of a sudden and massive influx of information—a consequence of broader economic reform. He has stated bluntly that ‘reform would mean suicide’ for the North Korean regime. This is from a speech given at an *NKnet* lecture on North Korean Human Rights, 25 April, 2012. For a summary of the speech, see Matthew McGrath, ‘Lankov on Reform in North Korea’.

⁵⁸ Interview with these authors in November 2012.

⁵⁹ Typified by the construction of statues and other commemorative edifices which do not generate surplus value.

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