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Korean Development:

Institutional and Ideological Origins of the Divergent Economic Outcomes in
the DPRK and ROK

Abstract

North and South Korea are both distinctive in their heterodox approaches to economic development, governed by institutions unique to Korean history and influenced by broader international, ideological forces. The Democratic People's Republic of Korea adopted a variation of the Soviet model of controlled and centralized industrial development while espousing but failing to achieve self sufficiency through the national Juche ideology. A command approach, focused on heavy manufacturing, was retained over the more pragmatic market reforms seen in China, leading the DPRK to follow a similar arc to the USSR, seeing explosive early growth followed by stagnation and decline. The development approach of the Republic of Korea included further development of Korean liberalism and the adoption of 19th century European industrial policies, embracing an adapted approach that mirrored the processes of Japanese development. The tiered promotion of agricultural independence followed by a focus on export surplus enabled rapid development and was a foundational pillar of achieving long term growth. From these particular cases we can determine that development of agricultural self-sufficiency followed by the implementation of export oriented industrialization policy is the most effective means to achieve long term growth rather than the horizontal development of heavy manufacturing at the expense of consumer goods. Liberal democracy emerged in the South as an outcome of the economic prosperity that the country was experiencing, but the North failed to liberalize, even at its most prosperous, with the authoritarian regime only becoming more entrenched as the economy declined. In spite of this history, it is not a foregone conclusion that market reforms might be successfully implemented in the future, should the Kim regime relinquish some legal and economic control in favor of liberalization.

I. Introduction

The dialectical relationship of domestic and international interests on the Korean Peninsula have had a significant effect on the development of institutions, resulting in distinct economic and political features. The divergent institutional structures have been a major factor in the divide in long term material conditions and the political organization of the two states. A simple analysis of capitalist versus communist alignment ultimately falls short of adequately explaining the varied development of Korea. Thousands of years of continuous cultural and political history contending with institutions constructed during Imperial Japanese occupation and their dismantling or sublimation by the Cold War powers is a dynamic that can be used to better understand the disparate outcomes seen across Korea and provide insight on many of the broader trends in institutional development through the 20th and into the 21st century. Observing the present conditions across the Republic of Korea and The Democratic People's Republic of Korea, there is a stark contrast in the levels of development and organization of political systems with these differences existing as an outcome of clear institutional shifts that have occurred largely within the last 50 years. A continuous shared history and comparable conditions of factor endowments in the wake of occupation give an original point from which the processes of state construction can be observed and comparisons can be made between the disparate outcomes generated across different economic and political variables.

The Democratic People's Republic of Korea to the North is often characterized as a nearly failed state propped up by a powerful and ideologically aligned neighbor, once the USSR and now China. The persistent destitution and instability of the present was not always the case, there was a time when the DPRK was seen as an incredible success story of economic development under a communist government. A Soviet style command economy and ideological

influences from both Stalin and Mao would act as foundation for the North Korean system which would evolve into a uniquely Korean form of socialist governance that boomed in the post war period to become one of the most developed countries in Asia at the time. What was looked at as the model for socialism in the developing world would however face mismanagement and stagnation before suffering a massive blow with the dissolution of the Soviet Union and collapse of the Socialist Bloc, failure to liberalize and promote foreign investment would further drive the economic decline seen in the DPRK, taking it from nascent middle income economy to one that is virtually nonexistent on the global stage. This decline and the implementation of international sanctions and trade barriers would emerge from DPRK's further isolationist and combative foreign policies, reinforcing the declining systems of government and economy. These internal developments in response to external forces would ultimately be responsible for transforming the DPRK into the state that it is today.

Conversely, in the South we recognize the Republic of Korea as an advanced modern economy, a liberal democracy, and a model for rapid industrial and economic development, breaking through the middle income trap and competing with much larger and more established economic powers. However, at the same time that we would see the zenith of prosperity achieved by the DPRK, the ROK was one of the poorest countries in the world. Plagued by political instability and economic stagnation, in spite of massive investment and support by the United States, attempts to promote representative democratic rule and economic development would fall short. The failings of the import substitution industrialization model under Syngman Rhee would result in high rates of poverty even with relatively high educational attainment and significant infrastructure both supported through US aid. It wasn't until the early 1960's, under the military dictatorship of General Park Chung-Hee, that South Korea would undergo a series of economic

reforms promoting self sufficiency and export oriented growth through state supported industry and the promotion of the integration of massive conglomerates would build on the foundations of previous development and push South Korea towards the future as a modern industrial power.

To understand these inverse transformations we must examine the process of state construction and the formation and changes in institutions that enabled the political and economic outcomes that we see today. In this report I will be breaking down the political and economic institutions in North and South Korea since their inception and following their developmental paths, with the focal point of my analysis being the Park Chung Hee reforms in South Korea and the collapse of the Socialist Bloc in the North. These changes represent turning points and massive structural transformations for both the ROK and DPRK that are largely responsible for the rapid development and decline that differentiates the two states today. With each of the internal developments I will be presenting both the external conditions and domestic history that enabled the separate courses of action taken by each state and shaped their institutional development. Intervention by regional and global powers throughout the significant developments highlights the historic continuity and fluctuation of the conditions of both states and defines the differing institutions and interests that persist today. This will consist of recounting a timeline of events that identifies significant institutional and policy developments and illustrates their results in terms of growth and human welfare.

I will further compare Korean development with the developments of other similar countries, drawing a series of normative principles from these cases regarding state building and institutions that may be more broadly applicable to other developing economies. I intend to contrast the outcomes seen on the Korean peninsula with other high growth economies and states under the same or similar economic institutions in order to elaborate on the effects of these

systems. In particular, I will be scrutinizing whether mirroring the reforms and modernization seen in China could have resulted in a comparable outcome in the DPRK and examining what social and economic preconditions are necessary to enable this kind of high growth economy. There is no uniform set of policies that when instituted can unconditionally generate the explosive growth seen throughout the region but there are similarities in the economic organization of the rapidly growing economies that may be effectively utilized to promote development across the world. Despite the ultimate goal of development to improve social welfare, the human cost of growth must also be accounted for and throughout this project there will be an emphasis on the tradeoffs between these two desired objectives.

Comparing North and South Korea can be challenging given the limited data and lack of transparency in state affairs in the DPRK. Estimates made by a variety of sources can be used to extrapolate the general economic trends which can be then compared with the ROK, where there is a wealth of information on the development process. Reported trade statistics, information from Chinese and South Korean firms that conduct business with North Korea as well as surveys of expatriates and refugees may give us a clearer depiction of life for the average North Korean and aggregate output and trade. Kim (2007) provides reliable estimates of DPRK and ROK GDP with sectoral breakdown, offering insight into the developmental processes of the two states. This provides a good estimate of the composition of North Korean production and gives a fairly accurate set of data to draw on and compare with other available measures from the DPRK. This data is also further expanded upon in *Unveiling the North Korean Economy* where Kim extends the data to 2013 using the same methods of calculation. While by no means precise, these metrics are the best in terms of measuring the economic conditions of the DPRK and presenting a dynamic account of North Korean economic welfare relative to the development of the South.

II. Background

The Hermit Kingdom

The Joseon dynasty can be seen as the origin of modern Korea, a starting point of the continuous cultural and political unit that we would recognize as distinctively Korean. Spanning 500 years from 1392 through 1905, this is the period that would establish the geographical boundaries and set the stage for the transformation of Korea into a unified continuous state. Through this period there is a running thread of isolationism that can be identified throughout the history of Korea, ranging from mistrust and skepticism to outright hostility towards outsiders. Known as “The Hermit Kingdom” Korea's historic position at the intersection of several significant regional powers left it often in a diplomatic position that is withdrawn from international politics. Korea is by no means a small country, but bordered by China to the West, Russia to the North and Japan to the East, Korea has been subject to the interests of its larger and more powerful neighbors for centuries. This has been a significant factor in the posture that Korea has taken towards the outside world, and defines much of Korean political history (Cummings 2005). A hesitance towards foreigners is clearly demonstrated through early emphasis on self-reliance and the rejection of any attempts for outsiders to engage, remaining isolated in its political affairs.

Even with Korea's position as “The Hermit Kingdom” there was still a thread of ideological influence from abroad, though to a far lesser degree than the full occupation it would undergo in the future. Political influences from Korea's neighbors would lay a foundation that would end shaping the basic structures of the country, specifically in the organization of government and bureaucracy. Many of the social and legal institutions from the Joseon dynasty

were grounded in neoconfucian philosophy, resembling those of China. Despite Korea's reclusive position China would have a great deal of cultural influence over development, having several conflicts with Korea throughout the early Joseon period before recognizing Joseon in 1401 as a part of the Chinese tributary system. Korea's position as a tributary state of China, albeit a detached one allowed for a level of sovereignty and autonomy but would still be influenced by cultural and political pressure from its much larger neighbor, the influences of which can be seen in the introduction of Confucianism in politics and economics through the construction of confucian academies.

The government system in place was a centralized monarchy with several levels of bureaucratic administration and a constitutional document outlining the responsibilities and levels of the government. Again, much of the political structure was based around the traditional Chinese model and this was reflected in the institutions though Korea still retained a level of autonomy and isolation. As Korea reached the turn of the 20th century and witnessed the subjugation of China's Qing dynasty by western powers, officials recognized that an effort must be made towards modernizing the country, but this would be out of necessity rather than choice.

Korea at this time reinforced its isolationist and nationalist policies. There were bans on the entrance of foreign vessels and travelers within Korea, limiting and eliminating trade with other countries. The most notable event tied to these firm isolationist policy is the engagement with the US ship the General Sherman. The ship was a commercial vessel that intended to engage in trade in spite of the ban on foreign commerce, refusing to leave. In response to this refusal the ship was burned and all crew onboard killed. The US would respond in kind, in 1871 a naval force was sent to open the peninsula to western trade but these forces were met with fierce resistance by the Koreans. After suffering heavy casualties the US was forced to retreat,

encouraging the Korean nationalist and isolationist position. This would be one of the last times that Korea would be able to resist the encroachment of imperialist powers.

The isolationism that defines the Democratic People's Republic of Korea can be seen as a continuation of this historic precedent and is in many ways a modern expression of the Korean tradition of remaining withdrawn from global and regional politics. Korea's history as the Hermit Kingdom sets the stage for policies of isolation and mistrust of external interests that are retained by the Juche ideology of self-reliance. The foundation of the DPRK out of anti-imperial rebels and guerilla fighters with a staunch opposition to intervention by foreign actors set at its inception an ideology opposed that stands against the international capitalist system. Vehement nationalism informed by a history of occupation by powerful neighbors would define the DPRK's national ethos. Similarly the tradition of hereditary confucian rule would be internalized by the ruling class of the DPRK and influence the development of institutions and the Kim regime.

We again see these sentiments emerge in General Park's emphasis on self reliance in industry and agriculture as part of the decoupling from US aid. The consistent threat of invasion and pressure from outside and now North Korean has generated a security interest in self sufficiency. Both states' construction of institutions and policy decisions cannot be separated from this history, which has had a strong bearing on the paths of development and has been foundational in the ways in which each country interacts with its neighbors and allies. The two interweaving threads of self-reliance and hierarchical professional bureaucracy will be persistent trends in Korean development.

Early Modernization

Efforts to modernize under the late Joseon Dynasty were the first steps towards liberalization and transition into the short lived Korean Empire and would lay much of the groundwork for the developments we would see in the postcolonial era. Witnessing the beginnings of China's century of humiliation would drive many officials to declare a need to liberalize and develop under the Western model to avoid subjugation and exploitation by the European powers.(Choi, 2016) This would in practice look like the opening up of commerce and trade in Korea and attempting to build a modern government and economy to match those of Europe. This would of course be constructed on the foundations of the existing neo-confucian model that had existed up to this time. Seeing the influences of European powers throughout the region would motivate the Korean elites to transition to a kind of liberalism from the more traditional Confucian political philosophy in order to compete with the influences of the West.

Choi (2016) explores the historic traditions of liberalism in Korea from pre-colonial through the Korean war into the modern era. The article provides the historic background as well as the ideas present through each segment of history, interpreting the political and economic developments that have occurred, through this lens of a developing liberalism. We see the genealogy of liberalism as it was fostered and imported to Korea through the late 19th and early 20th century. This sets up an early dynamic where we can see the foreign liberal ideals in opposition to many of the more traditional illiberal ideas, both of which become central to the institutional development of the South and the North.

Reacting to developments in Japan as continued American gunboat diplomacy forced the opening of markets in 1875, there was a recognition that large-scale reform would be necessary in order to engage the outside world on a more level playing field. This decision to introduce

reforms aimed at westernizing Korean society was representative of a historic shift as it became evident that the only path forward was to transform into a modern state.

Korea would begin to draw inspiration from the Meiji restoration in its neighboring Japan. Through its rapid successes in modernization, Japan would be the standard of development in order to contend with foreign influences. The goal of modernization was a largely nationalist endeavor predicated on the maintenance of Japanese sovereignty rather than the classical liberalism more familiar to Europe. This emphasis on nationalism would be utilized by the Korean administration as the purpose for modernization, with industrialization being explicitly a project to maintain national sovereignty. This would require overriding the traditional confucian hierarchies of the state and reforming into

These aspirations were ultimately cut short by the Japanese success in the Sino-Japanese War and the Russo-Japanese War, demonstrating the rise of Japan from a regional to global power that would encroach on Korean sovereignty for the next several decades. These conflicts saw Korea and Manchuria trade hands from Chinese and Russian influence to become a protectorate of Japan in 1905 and eventually a colony. The state that had been seen as the model for pushing back against imperialism was now itself an imperial power, taking direct control over the peninsula. What was initially seen as a future of colonial liberation was undercut by the imperial ambitions of Japan, replicating the conditions experienced under European colonization.

This early period of modernization is in many ways a predecessor to the institutional construction of the Republic of Korea and its development towards a more modern form of state organization. Intense nationalism to promote economic and political modernization would be a defining characteristic of South Korea during the post-colonial era. The elements pushing towards a Japanese-style mode of governance and industrialization would come to see their

vision represented in the south several decades later under the Park regime, and the implementation of a national system of political economy and institutions constructed as a means to promote the national interest.

Colonial Economy and Institutions

The colonization of Korea by the Japanese Empire marks the point in history where globalization would ultimately become inevitable, and was the era where we would see political division amongst Koreans indicating the separate futures of the state. Pushback against the outside world would at this point be futile as Korea was now in the crosshairs of the surrounding Imperial powers of Russia, and Japan. While territorial conflict had been common to this point, the active pursuit of colonial expansion would bring Korea under direct control of the Japanese Empire. In 1910 Korea was formally annexed by the Japanese Empire and made a colony of the expanding empire.

Schematic Map of the Ussuriysk, Manchurian, and Korean Railroads commissioned by Russia during the Russo-Japanese war displays the railroad network on the Korean peninsula that would allow the expansion of both Russian and Japanese territorial ambitions. The map indicates the increased presence of Japanese soldiers on the peninsula after the Sino-Japanese war as well as the Japanese usage of the rail network for imperial purposes. This offers a look at the occupation by Japan from the Russian perspective and can help us to pinpoint the cities and infrastructure of interest at the time. The network is set up in such a way so as to extract the resources of Korea, connecting mines in the north and farms in the south to port cities where these mineral and agricultural resources can be shipped to Japan. This marks the early

introduction of extractive institutions and infrastructure in Korea, ultimately shaping the foundations of future development.

The Japanese occupation would have a significant bearing on the political and economic trajectory of the peninsula with Japanese colonial institutions differing in many ways from the European colonial projects. The Japanese administration focused heavily on bureaucracy and included sending hundreds of thousands of administrative officials from Japan to Korea to oversee the implementation of colonial development policy. The construction of the development state would lead to the overdevelopment of industry but social underdevelopment and the direct goal of eliminating Korean Language and culture. In addition to these developments in Korea, Japan would bring Korean workers to Japan, employing Korean laborers in manufacturing to fuel the Japanese war effort.

A photograph labeled, “12 October, 1945 Korean displaced people return to their homeland from Japan. Here they are shown disembarking at Fusan, Korea” displays the return of displaced Koreans after the end of the Second World War. As stated in the title it depicts a group of Korean expatriates returning in the wake of WWII to post-colonial Korea. The individuals depicted are returning from Japan to Busan, many Koreans were taken to Japan as laborers to work in manufacturing necessary to support the Japanese war. Some served in the Japanese imperial army and it was an opportunity to rise in social status. This is important because it shows the administrative and military origin of many Korean institutions during the period of reconstruction and the influence that came from the former colonizers.

We see the fomentation of two responses during this period which would later be transformed into the centers of political power in the North and South. The Yangban class, the elites of Korea, made up of landlords and educated officials would have the option to work with

the Japanese administration under the colonial occupation. This would create a lasting association among the people with the Yangban and complicity with the Japanese regime. Military service and the conscription of Korean soldiers offered some level of class mobility, concentrating and training Korean administrative expertise within the Japanese military system. This would ultimately result in the postcolonial Korean bureaucratic professional class having gained their experience from the Japanese model and implementing many of the same regimes and political institutions as their former colonial power rather than those that had previously existed in Korea. This would result in a direct tie between much of the South Korean administrative class and Japanese administrative apparatus.

Guerrilla fighters in the North represented the other side of the coin during the occupation. Found mostly in the Northern regions bordering China, these Guerrilla fighters were aligned with and supported by Soviet and Chinese communists, forging ties with the communist world order. From this struggle would emerge several national heroes including Kim Il Sung who was known for his

Effects of Japanese colonial administration are essential in understanding the divergent developmental structures and is where we first begin to see the divide within Korean society. Not only in the infrastructure and economic development that resulted but also the social division and stratification that would be a precursor to the dual state system. The responses to colonial occupation would largely define the different developmental paths of Korea.

Allied Occupation and Division

In the wake of the Second World War and the expulsion of Japan from the Korean peninsula the country was divided along the 38th parallel with the Soviet Union occupying the

North and the United States occupying the South. The division into two allied zones of occupation would lead to the creation of two sets of constitutions, and governing structures, both claiming legitimacy over the entire peninsula. The Northern government was composed of communist guerrillas and was explicitly anti-imperial with Japanese collaborators stripped of their legal rights under the constitution, framed in opposition to the South which was more lenient towards those who participated in colonial occupation integrating a great deal of the administrative apparatus. This division would cement the already existing divide between the communist guerilla forces and various local committees and the staunch nationalists and anticommunists that occupied the upper classes. In order to avoid association with the unpopular elites who were accused of collaborating with the Japanese during the war, the US brought in several expatriates like Syngman Rhee whose reputations had not been tainted by association with the colonial administration.

The communists in the North saw a great deal of popular support due to their continuous opposition to the Japanese. Particularly in rural areas, the communist policies of land reform and concentrated opposition to the yangban landlords carried significant favor with the Korean population. Expecting an uprising of the people of the south, the North would invade with support from the Soviet Union and a begrudging China, attempting to bring the entire peninsula under the communist government. This would of course spark the Korean war, leading to intervention by the US and UN on the behalf of the South.

The Korean War

Irreconcilable visions for the future of the peninsula would come to a head in the Korean war, with the conflict exacerbated by the intervention of US, China and UN. Despite both sides

coming close to complete occupation of the peninsula, the war would end where it began with massive destruction of the remaining infrastructure and industry as well as tremendous loss of life. The Korean war had a catastrophic toll leaving millions dead and essentially leveling most of the cities in Korea.

The war resulted in a deeply entrenched alignment and dependence on the Communist and Capitalist world orders and complete economic decoupling. Drafting of national constitutions on either side of this boundary was heavily influenced by the occupying powers. We can see a direct lineage of ideology from the Soviet Union and the United States in the content of each national constitution. This would leave the peninsula with two independent states, both with little remaining infrastructure or productive capacity due to the destructive nature of the Korean War. This created a relatively similar starting point for the two states' construction of government and economic institutions around their respective ideological alignments. These conditions are where we can see the beginning of the diverging development of the North and South as entirely separate political and economic entities.

Growth and Development

This account of Korean development begins at the informal end of the Korean war with the armistice of July 27th 1953. The establishment of the barrier that exists today and the formalization of the separate governments marks the beginning of contemporary Korean history and sets the stage for the developments that would come to define the two states. The context of the development of heavy industry by Japan and the support provided in the early days by the Soviet Union and United States coalescing around the existing oppositional forces within the country would come to define Korean institutions.

Theories of institutional development and its effects on economic outcomes posit that there is a direct relationship between the implementation of inclusive institutions promoting long term growth but Korea seems to fly in the face of this theory. Both states are demonstrations of counterexamples to the thesis of Acemoglu and Robinson (2012a). The DPRK and ROK are both examples of extractive institutions under authoritarian regimes with direct state intervention and yet it was under these conditions that both states saw a significant level of growth. While one might argue that these institutions were what doomed the DPRK to decline and their end was what allowed the ROK to rise, they ultimately were foundational to the periods of most significant development in both states. This makes Korea an interesting case to observe in its developmental process, comparing the two states as a kind of case study in institutional construction and the outcomes they generate.

III. North Korean Development

Post-War DPRK

Pyongyang in 1953 and 1964 were entirely different cities. US bombing destroyed roughly three quarters of the city which was consequently rebuilt as the defacto capital of the DPRK in less than a decade. Through extensive foreign aid from the USSR, the DPRK experienced massive growth in the wake of the war, rapidly industrializing and expanding into heavy manufacturing. At the time of division, the DPRK contained around one third of the total population but only one fifth of agricultural output with most productivity focused in heavy industry. This meant that there was an advantage in manufacturing for the North which is part of

the reason why it was able to so quickly expand its productive capacity. However, due to the mountainous terrain agriculture was difficult and required intense energy input and chemical fertilizers to feed the population of the North. The economic strength resulting from industry but insufficient production from agriculture put the DPRK in an unusual position where it was experiencing strong growth but was ultimately reliant on imported food.

Lankov (2015) presents the logic behind the seemingly irrational North Korean regime, explaining the historical influences behind the motivations for its behavior. In approaching this subject it's important that we see the DPRK as a rational actor whose diplomatic and military decisions are made not out of irrationality or incomplete information but are instead used as a deliberate means to maintain the state as it exists. The book characterizes North Korea as a fully competent state whose objectives differ from the expectations of liberal countries and allies like China to instead leverage its erratic policy choices and alliances to maintain its stability. Similarly, limited market reforms and the acknowledgement of informal markets are used to supplement the shortcomings of the state but are intentionally held short of undermining the command economy. This understanding is essential to an analysis of the development of the DPRK and how instability fundamentally contributes to its failure to conform with international norms.

North Korean Institutions

The DPRK used a command economy, based on the Soviet model of economic administration. This would be incredibly helpful in the economic reconstruction after the war, allowing for the implementation of infrastructure and industrial plans to build back North Korean manufacturing. Reconstruction was enabled by politically aligned countries with the bulk of the

economy supported by foreign aid and subsidies in the early years after the war. The governmental system was very much a return to the traditional system of Confucian monarchy. Though not legally a hereditary monarchy we would see that the positions of leadership were passed successively through the Kim family.

This is reflected in the Constitution of the DPRK with amendments through 1956. The constitution in its first several articles lay out the system of state control over the economy and the principles of collective ownership. Articles 5 and 6 explicitly reference Japanese infrastructure and property to be expropriated by the state and throughout there are edicts that bar Japanese officials from holding office or receiving the same legal rights as others. Similarly we see the elevation of the Korean language and culture in various statutes as an attempt to return to the pre-colonial tradition. These constitutional principles can be compared directly with those of the USSR as a product of the Soviet occupation in the period after WWII. It is important to note that Seoul is also named as the capital of Korea and that this constitution is meant to encompass the entire peninsula.

The transformation of the DPRK's institutions from its inception are on display in its constitution from 1972. Most notably, in this new constitution the capital has been changed from Seoul to Pyongyang. Traditions of popular sovereignty and anti-imperialism are carried through into this iteration of the constitution from the original. This can be used to ground our understanding of the contemporary DPRK more so than the previous constitution as this document is still in use today.

Kim (2017) brings together the far reaching sources of information on the economy of the DPRK and gives an empirical analysis and estimation of the economic conditions of North Korea based on trade official and expatriate interviews. The book outlines and discusses the structure

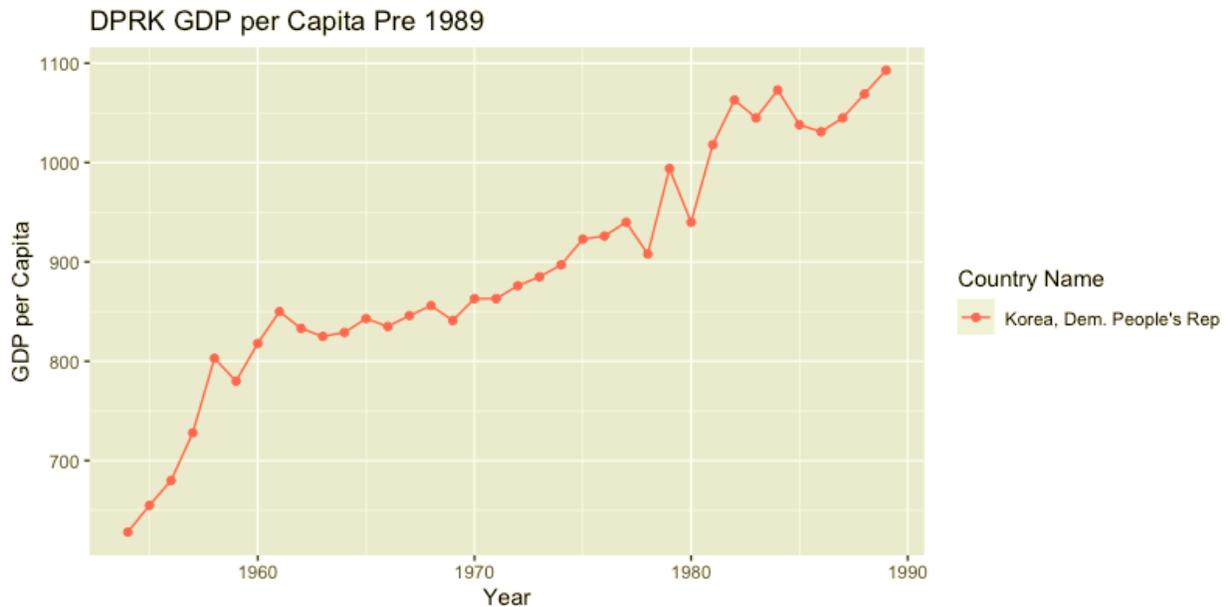
and evolution of various institutions organizing the North Korean economy with an emphasis on the dichotomy between formal and informal institutions and the role they play in the overall material conditions. There is a strong comparison between the DPRK and the Soviet Union with many similarities in economic and political organization as well as the opaqueness of reliable information and data. Kim ultimately provides a good foundation for a comparison in trends with the much more transparent data and information regarding the South Korean economy.

Early Successes in Development

The DPRK experienced a rapid recovery from the Korean war, becoming one of the most industrialized states in Asia from the 1960's until the 1980's. Even through its inefficiencies, command economies and particularly the Soviet model has a remarkable ability for rapid industrialization and recovery from war. Through continued foreign aid the DPRK was able to rebuild from the destructive Korean war and establish itself as a relatively strong economy, emphasizing heavy manufacturing and capital intensive production.(Mah 2018) This contributed to the DPRK reaching a relatively high standard of living by the end of the 1960's, an accomplishment that would be described by some as "the Korean miracle," a moniker that would one day be used to describe the South instead.

The Chinese relationship was less significant than the Soviet but still represented an important influence on the DPRK's developmental path.(Mah, 2021) Though the Soviet Union and the European Socialist Bloc were far more involved economically, China had a greater ideological influence, with both states having emerged from communist guerrilla campaigns and sharing a history in Confucian bureaucratic governance, and high rates of professionalization in government. This led the development of the DPRK into something that was in between

European and Chinese socialism with an economy based between the Soviet model of industrial development and the Chinese rural reforms.



This graph depicts the initial growth trends experienced immediately after the war with rapid initial growth followed by intermediate periods of stagnation in rates of production due to mismanagement by the Kim regime.

Most of North Korean growth was the result of rebuilding after the war. The reconstruction resulted in massive increases in domestic growth but after this had been achieved, the economy of the DPRK had little room to expand. A failure to expand outward after this period of growth would ultimately result in stagnation in the early 1970's, revealing the long term instability at the core of the command system. The DPRK did not prioritize the manufacturing of goods demanded by other economies and failed to develop trade relationships outside of the socialist bloc, exporting mostly mineral resources like coal and iron, and importing arms, fuel, and food with little to no consumer or luxury goods.

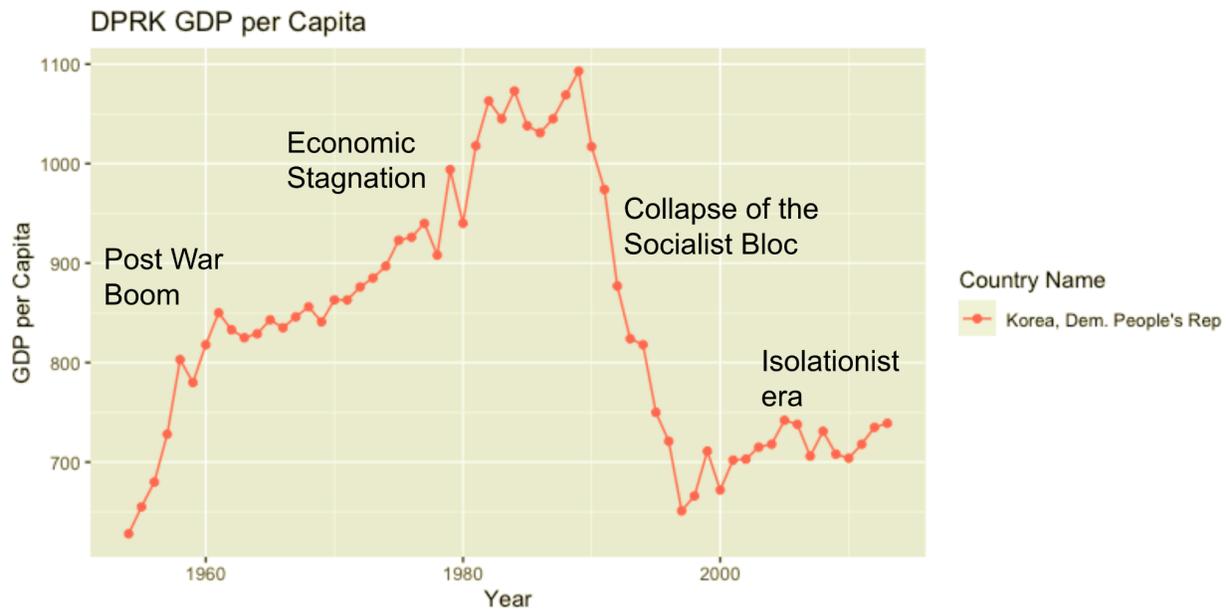
Decline of the DPRK

Economic stagnation had been occurring for several decades but it was the collapse of the Socialist bloc that would decimate the North Korean economy and transform it into the impoverished country we would recognize today. Support by other socialist economies allowed the DPRK to maintain a relatively high productive capacity but with the withdrawal of China and fragmentation of the USSR it was revealed that the foundational pillars of the North Korean economy were underdeveloped and inadequate to support the heavy industry that the had DPRK prided itself on. In contradiction with the Juche tenets of self-reliance, the DPRK had a severe balance of payments deficit and was incredibly reliant on foreign imports to sustain its economy.

Domestic production was high but North Korean manufactured goods had little appeal abroad, even within the socialist bloc, resulting in an underdeveloped export sector which would undermine marketization and attempts to find investment in North Korean industry. The only goods that found demand from abroad were primary goods and mineral resources.

Agriculture has played a major role in the successes of economic growth and will be addressed in its effects on South Korea but failure to sustain domestic agriculture would ultimately be one of the most significant factors in the decline of the DPRK. The division of Korea had resulted in an uneven split of agricultural production, resulting in the North's use of energy intensive processes to feed its at the time growing population. This led to a dependence on subsidized Soviet oil and chemical fertilizers, in order to meet the food demands of the North Korean population. With the collapse of the USSR previously held barter agreements were dissolved as Russia now demanded cash payment for its resources, payments that the DPRK would be unable to make.

Soil erosion and flooding would further lead to famine, and the collapse of North Korean agriculture. This period in particular is what defines the western depictions of life and society in the DPRK with large-scale starvation and malnutrition resulting from the combination of economic and natural shocks.



This graph demonstrates the trend in GDP of the DPRK through to the present. After the collapse of the socialist Bloc, the DPRK saw a massive reduction in productive capacity from which the country never recovered.

Rise and Expansion of Informal Institutions

Informal market activity in the DPRK has existed throughout its history but has increased over the last several decades, with steep increases when the state has failed to meet the material needs of its citizens. While marketization is often hailed as a liberalizing force, in the DPRK it is a bottom up movement that originates from a necessity to supplement income to acquire food and consumer goods. This marketplace occurs outside of state recognized institutions and is enabled through corruption and bribing of public officials. Attempts to quantify the rates of

participation in the informal markets have been difficult but interviews of North Korean refugees have given insight to the high rates of participation in these illegal markets.(Kim 2017)

The role of corruption and bribery as seen by the West is largely a negative one. In most economies these methods are seen as a way to undermine the market and garner governmental favor but in the DPRK corruption and bribery can be seen as a necessary function of the market. Rather than a market failure, the use of resources to enable the expansion of markets and various projects can be seen as sort of greasing the wheels of the market rather than undermining it. These forms of subversive economic activity are ultimately economic decisions made by interested actors and can in some cases be useful in promoting development.

Mah (2018) provides a retrospective look at the industrial led trade policies of North Korea and what this has meant for international trade with neighbors like China as well as the effects of international sanctions on the development of the North Korean economy. The article identifies the 1970's as a turning point in the development of North and South Korea with the rate of growth diverging after this period and the 1990's cementing North Korea's decline with the collapse of the USSR and several years of famine. Underlying the present institutions we see the threat of limited marketization through the adoption of informal markets, supplementing necessary goods to the citizens of the country and some movement by the government to accommodate limited measures in order to promote economic growth and boost imports. Ultimately these developments have been largely informal and have not been embraced in any meaningful way, stifling hope for development of markets from the margins like in China.

Reaffirming Isolation

Since the start of the 2000's, the DPRK's nuclear diplomacy has put them in a more isolated position than ever. UN Sanctions would further alienate North Korea economically, UN Sanction Measures on DPRK that the Security Council Committee established pursuant to resolution 1718 (2006) demonstrate clearly the repercussions of the DPRK's erratic nuclear diplomacy. Sanctions help us identify key years for North Korean diplomacy and their position in the international order, often as a direct response to actions taken by the Kim regime. The relationship with the United Nations and the global community at large has had a tremendous bearing on the development of institutions and prevailing national sentiments in the DPRK. Over the last two decades in particular we see the increase of tension as North Korea becomes more reliant on utilizing its relationship with China as a means to preserve its regime.

Horowitz (2004) tries to deconstruct the logic of China in its relations with the North Korean regime throughout the nuclear crises and illustrate the Chinese priorities of maintaining the regime. China is forced into a difficult political and economic position where it must balance its interests in both denuclearization and maintaining the stability of the current regime. There are several areas where these interests conflict, particularly when it comes to dealing with countries like the United States and South Korea economically. Chinese foreign policy towards the DPRK can be seen as a direct result of domestic interests and the influence of domestic actors. The Chinese development model was a transition from communist internationalism instead towards an inward oriented approach of economic development, allowing them to recede from international commitments aside from the one on their northern border.

Mah (2021) gives an account of the international trade flows and the relationship between North Korea and China. The collapse of the Soviet Union directly resulted in the economic

decline faced by North Korea as there was no longer the supply of industrial goods and resources necessary for the upkeep of the present levels of production, resulting in a variety of negative economic effects. North Korea attempted to construct an export oriented model of development in the post cold war period, reverting to mineral exports like coal and iron to fund state activities. Since the early 2000's has had a limited but steady increase in exports, almost exclusively to China, with some expansion into light consumer goods in a kind of adapted imitation of the South Korean development model. However, North Korea has still failed to integrate into the world economy in any meaningful way; the relationship with China is one of the only ones that remains today.

The US relationship has been significant in its continuous support for the South and attempts to militarily and economically disempower the Kim regime. The Missile program has been a catalyst for accelerating the economic isolation of the DPRK by the US and can be seen as a major factor in the continuing decline and turn inwards. These sanctions can be shown on a timeline of economic performance in the DPRK to demonstrate the effects on the nation's people and production. Similarly, institutional measures are built around the oppositional force of the United States which become cemented in the political and economic organization of the country.

IV. South Korean Development

Post-War ROK

In the postwar period the majority of the population was concentrated in the South as well as most of the agricultural production with limited capacity for heavy industry. This would

be a disadvantage in rapidly growing the economy however it would provide the factor endowments necessary for long term growth.

Beginning after the war the Rhee regime implemented a strict authoritarian rule in order to keep the communists at bay. Essentially a police state the regime was wary of activists and labor organizers and anyone that might display sympathies towards the North. This resulted in a repressive environment that is not dissimilar from the authoritarianism seen in the North. Backed by the US and UN there would be a market economy with many of the necessities of the South Korean people supplied through aid programs. The US additionally supported travel and transportation infrastructure construction and brought many South Korean students to study at American Universities. This did little however to improve the country's economic conditions.

The Constitution of the ROK with amendments through 1987 outline the evolution of governing institutions which are reflected in the economic development of the country as well. Initial provisions outline the establishment of a democratic republic that encompasses the entire peninsula. The liberties and rights of the individual citizens outlined in the constitution very much resemble those of liberal democracies like the United States, whether or not that was the case in practice. This liberal foundation would be largely ignored and rewritten until the establishment of democracy much later in 1987.

Early Failures in Development

In spite of international aid and support by the US far greater than the North received from the USSR and China, the ROK languished under harsh economic conditions. Mismanagement by Syngman Rhee through the early history of the ROK resulted in stunted development and failure to modernize as the North was doing at the time. Agriculture was the

primary product and export of South Korea in the immediate aftermath of the war with the remaining colonial infrastructure as well as US assistance promoting a policy of import substitution. This resulted in a large trade deficit and poor economic performance for several decades despite massive infrastructure investment and high rates of educational attainment.

South Korea had the advantage of high rates of education through its partnership with the United States. These gains in human capital however did not translate into development on their own but would instead offer an opportunity for growth under the right policies. Additionally, infrastructure essential to the process of exporting of agricultural products was constructed via US aid but failed to spur any meaningful development. Agriculture notably suffers from immense diminishing returns to capital investment, and is limited largely by land input. While it provided a significant source of revenue, agriculture was not a sector that would grow in the long term and was something that the government of the ROK would have to address if they wanted to grow their economy in the long term.

Pinkston (2021) offers an account of development that rejects the common perception that South Korean development was primarily led through the urban industrial sector and instead posits that rural and agricultural reform were a significant part of export led development. Agricultural production was a significant source of foreign currency early on and provided security from international externalities by reducing import dependence. Export promotion would turn into protectionism rather than liberalization in many of the industrial sectors which played an important role in the sustained levels of growth that South Korea experienced, but agricultural productivity was an important precursor to these developments and remained largely open. Many of these agriculture promoting export policies emerged out of the colonial period as Japan would use Korea as a source of resources, with the bulk of farming done in the south.

Many of these extractive systems and institutions were revived and restored following the Korean war, with the US funding the reconstruction of transportation infrastructure to enable these exports.

Park Chung Hee Reforms

In May of 1961 General Park Chung Hee would overthrow the nascent democracy of the recently established Second Republic. Under Park's Tenure, Korea would be controlled by a reformist military dictatorship aimed at the growth of the Korean economy, producing a developmental state that bore a resemblance to the colonial occupation and borrowed many of the administrative structures and expertise from this period of Korean history. Park like. Any other administrative officials in his cabinet were educated at the Japanese military academy which would influence many of his policy choices.

Foreign relations were a major part of the Park regime's plans for development. Korea hoped to achieve a trade surplus and use that surplus to reinvest and expand its industry. In order to achieve this, the biggest diplomatic step was in the reestablishment of relations with Japan. Kohli (1994) addresses this as another example of the ties between the South Korean and Japanese developmental states, and extractive origins of South Korea's eventual prosperity. Though it was unpopular with the people of Korea, building a working trade relationship with the other most developed regional economy would be essential to the continuing development of Korea.

Industrial and agricultural reform were the two main focuses of Park's five year plans for development. These plans would take on a tiered structure, beginning with the utilization of trade infrastructure and state subsidies to boost agricultural production, followed by the promotion of

light industry and eventually heavy industry. Over the course of the five year plans, the Park government was able to successfully modernize the Korean economy and develop a much greater productive capacity. These products would then be sent abroad to bring in foreign currency that could be reinvested in domestic industry and continued expansion of manufacturing in Korea

Kim and Vogel (2013) present a collection of different perspectives on this contentious period, outlining the political and institutional changes made under Park Chung Hee's military dictatorship and demonstrate how these reforms resulted in the development of Korean society and economy in such a short period of time. We see the plethora of reforms undertaken to push Korea towards becoming a global economic power, through government support for massive international firms, currency devaluation and shock therapy, each pushing towards the goal of rapid economic expansion. The book additionally examines the social and political costs of this rapid transformation and demonstrates how the emerging South Korea would be able to translate this economic liberalization into eventual democratization.

National System of Political Economy

We see in the Park reforms a strong emphasis on the role of government in fostering domestic production through subsidies and tariffs. This concept dates back to the founding of America with Alexander Hamilton's Report on the Subject of Manufactures serving as one of the significant historical texts that would influence the development of American industry which would also serve as a rough model for South Korean development centuries. We can trace the origins of the ideas present in the Park reforms all the way back to Hamilton's report and demonstrate the ways in which Korea was able to successfully generate industrialization on a

massive scale. Enterprise, innovation and invention were Hamilton's main goals, goals we see reflected in the administration of South Korea with the fostering of infant industry and domestic competition leading into the eventual liberalization and success in the globalized world economy.

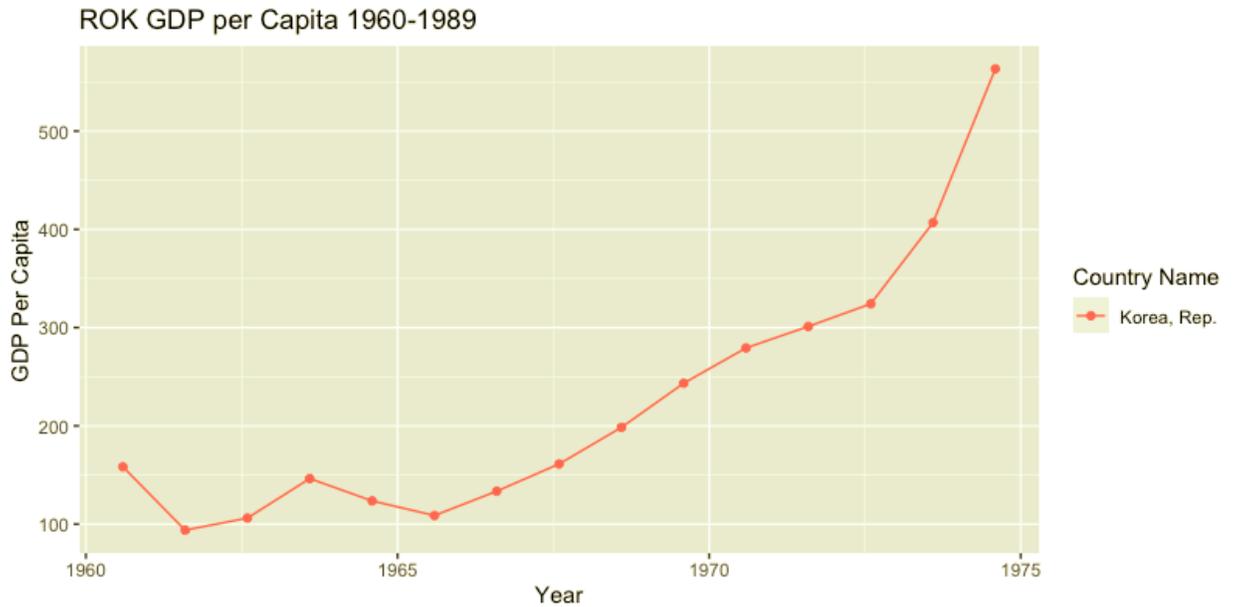
Looking at the 19th century accounts of European development we see thinkers like Friedrich List highlighting the tradition of government support of industrial development through policies aimed at supporting infant industries and promoting domestic production. List's theory is focused around the economic welfare of the nation as a unit rather than global or individual economic interest. Emphasizing the interests of the nation and obligation of a state to promote its interests over others around it was a significant principle in Korean development and List has been cited as an influence in the Korean development model.

This is part of an economic theory of development referred to as export oriented development. This model relied on a nationalist system of political economy with the exclusive goal of expanding domestic production as much as possible at any cost. This would lead to tariffs put in place to protect growing Korean firms in the interest of promoting internal competition but shelter from international firms. Additionally there were intense restrictions on the import of foreign goods and currency controls best represented by an anecdote of a South Korean man having been arrested for smoking American cigarettes, in violation of the ROK's policy of development.

Another important economic development was the proliferation of the Chaebol firm organization. Many of the policies put in place by the Park regime would incentivize the vertical integration of industries into massive international conglomerates known as Chaebols. Many of these companies we would recognize today such as Samsung, Hyundai, and LG which all produce a broad range of products for the foreign and domestic market. These national

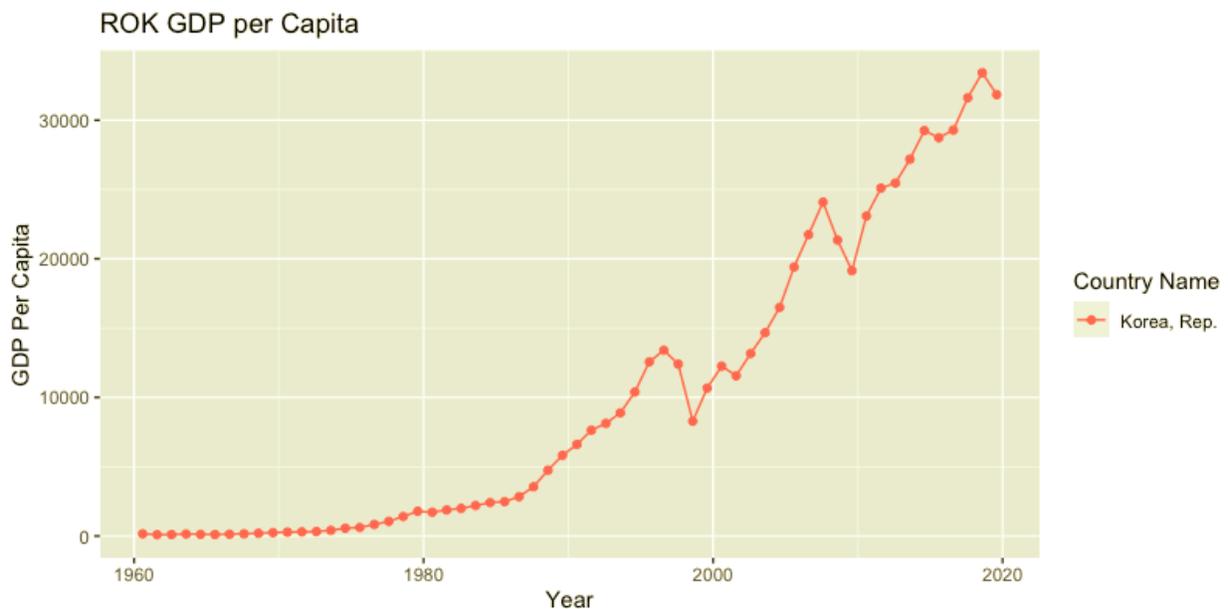
champions emerged from the same infant industry arguments espoused centuries earlier by List and Hamilton, where domestic industry is shielded and supported until it is competitive in the international market.

The chaebol system and its governance mirrors the leadership and development of most large East-Asian firms under the conditions of globalization. Within these firms there is a balancing dynamic between traditional and western cultural practices, growing the business nationally to compete internationally. Many of the countries described in Rowley (2019) lack a clear demarcation between the state authorities and firm leadership, undermining the firm structures that we would find more common in the west, namely among them is South Korea. Our common notions of corruption in leadership and state collusion in business are inadequate in describing the processes of development and firm organization which has been successful over the last 50 years in spite of the assumption that this corruption will result in economic decline or inefficient markets. This has not been the case in the ROK which has seen these firms grow to become international giants.



This graph depicts the stagnant economic conditions early on in the ROK and the successful implementation of the Park reforms in boosting economic growth through the late 1960's and beyond.

Rapid Development



As this graph shows, the ROK would continue to see massive economic growth as the export oriented model of development would be incredibly successful in implementing growth policy in the post-Park era

Kohli (1994) written in the midst of Korea's explosive development attempts to explain the Japanese origin of the Korean mode of political economy and model of economic expansion. The article draws a direct line between the ways in which the Japanese colonial empire operated in Korea and the government and economic institutions that emerged in the post-colonial period. Authoritarianism, the acquiescence of social institutions and economic agenda aligning with class interests created similar systems of rapid growth in Japan and its former colony. The model of development is very much a product of the colonial period and we historically can see the reformation and restoration of Japanese imperial institutions as a means by which to grow the economy. This is reflected in the early reliance on agricultural production and exports, one of the primary exports during the colonial occupation.

South Korea in the Age of Globalization

The ROK was a major beneficiary of globalization. As Asia experienced rapid growth, Korea saw massive returns on its export oriented economy. Exporting products around the world, the extractive institutional construction would allow for even greater growth as the ROK industrialized. This period would come to be called “the Korean miracle” a name that had just a few decades earlier been used to describe the North. Additionally, in this period of economic liberalization we see the emergence of parallel social trends. In opening up the economy, it became necessary for the government to cede some economic control to the markets. This acquiescence would ultimately contribute to the slow introduction of political liberalization, resulting in the eventual democratization of the ROK.

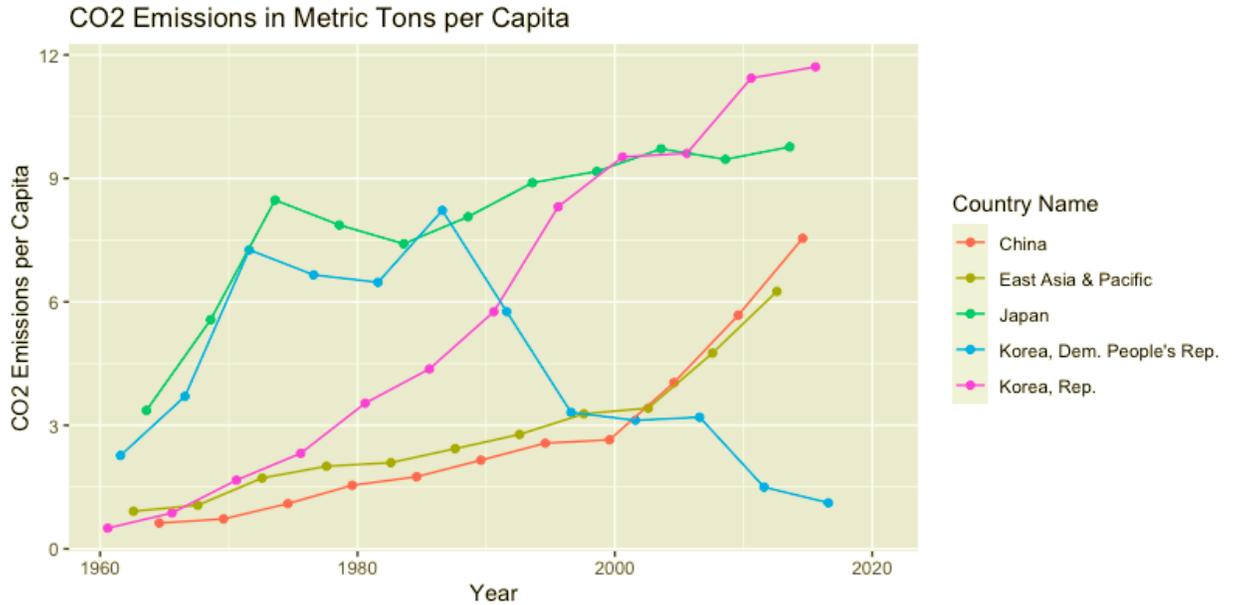
Chang (2008) offers a critique of the neoliberal assumptions of development and growth that are prevalent in the age of globalization. We see Chang deconstruct the narrative of how

South Korea was able to modernize so rapidly and demonstrate how this system breaks with how we would normally understand the developmental process. A focus on trade policies and how acquiescence to international institutions that promote unhindered free trade can harm a developing economy and stunt its economic and political development, illustrates the significance of the protectionist policies implemented to foster growth in infant industries. This is important to recognize when observing East Asian development because in many cases, the institutions and their progression can go against the commonly prescribed reforms outlined and championed by the Western powers. Chang specifically argues that Korea's practice of List's principles is a significant reason for the rapid growth and successful development.

V. Comparison

East Asian Development

Other trends in regional development and particularly the growth of the economies of China, Japan, Singapore, Taiwan and Hong Kong provide a backdrop for the particular developments in Korea. Studwell (2013) outlines a broad theory of development regarding the successful stories of economic growth and prosperity in Asia, identifying the common features of these systems and their institutions. Land reform, internal competition, and export oriented development via domestic protection policies are the three most important policies, each of which is reflected in the cases of Korean development. We see many of the successful industrial economies draw from the work of Friedrich List and the national system of political economy as a source of inspiration for industrial policy.



Looking at the specific emission patterns across the other countries in the region we can see initial similarities between Japan and the DPRK as well as China and the ROK which seems unusual until the two trends break around the 1980's and 1990's.

With the question of communist development, the global example that the DPRK will always be compared to is no longer the USSR but now China. Lee (2019) looks into the comparison between the DPRK and China and deconstructs the similarities and differences in the institutional construction of the two respective states. Both nations communist systems began based on soviet institutions however their differing development models can be attributed to their integration and action towards informal markets. Historical institutionalist approach and the significance of past decision making demonstrates how institutional organization might affect political and economic outcomes via the exogenous shock of ending soviet aid, shifting the Course of China away from the Stalinist model and towards a controlled market and normalized US relations which did not occur in the DPRK. Similarly the collapse of the soviet union would also affect the trajectory of the development of the DPRK. Because of these shocks in China,

development was a top down process of establishing formal institutions while the DPRK saw a bottom up process with the recognition and integration of informal institutions.

Extractive Institutions

Authoritarianism and economic liberalization are not mutually exclusive as we have observed in the case of South Korea. An important element of this report is the analysis of institutions and the role that they play in the organization of an economy. Acemoglu and Robinson (2012a) outline a classification system of inclusive and extractive institutions that can be used as an indicator for the sustained growth of an economy with inclusivity promoting successful development. While the methods used are helpful in observing the political and economic structures within a state and how these might influence outcomes, observing the institutional development across China, South Korea and North Korea seem to contradict this fundamental theory of growth. Both China and South Korea grew rapidly and industrialized under extractive institutions and top down reform and while this is likened to the rise (and eventual collapse) of the Soviet Union there is little indication that China is facing a similar crisis of over extension and is in fact seeing its economy stabilize at a middle income level. If this is the case then what other institutional factors have resulted in North Korea's lack of development?

The Park dictatorship implemented liberal economic reforms and pushed Korea's integration into the global economy. Many of the institutions that were brought forth to promote this success were adapted from the Japanese colonial institutions which were constructed with the intention of extracting wealth from Korea. The export oriented model of development is not entirely distinct from the definition of an extractive economy, particularly when it can be so directly adapted from the colonial infrastructure and policies, however economic liberalization

can beget political liberalization. As outlined in Acemoglu and Robinson (2012b) the economic conditions of a state are likely to influence its political structures and outcomes. In this case we see that the opening of the South Korean economy correlates with expanding personal economic freedoms that would eventually feed into the movement towards full political democratization.

The DPRK also made attempts to move its economy towards an export oriented model and resolve its large BOP deficit, but failed to liberalize economically or politically. The plan ultimately would not come to fruition from an early lack of international interest and the implementation of international barriers on transactions with North Korean Firms, resulting in negligible gains from trade and meaningful relinquishing of economic control by the Kim regime. It is important to note that the UN and US sanctions are not responsible for but have cemented the isolationism and illiberalism of the DPRK, acting as a barrier for economic integration.

Economic Sectoral Growth

Land reform and agriculture as an emphasis of early Park reforms were essential in supporting the continued growth of the economy. Pinkston (2007) highlights how reform in the agricultural sector precipitated and was a necessary condition for long term economic development of the ROK. The DPRK's failure to maintain a sustainable system of agriculture would be one of the most significant factors in its decline.

Additionally, the distinction in manufacturing between heavy industry versus consumer goods would also represent a divide in the material quality of life in North and South Korea. The south invested in consumer goods manufacturing which were easy to export whereas the North like many communist countries poured its resources into heavy manufacturing. This would

require the DPRK to import many important goods for living from China and other countries, further driving the balance of payments deficit.

These differences in sectoral growth and industrialization can be characterized as the result of a horizontal vs vertical development. As previously stated, the South benefited immensely from a tiered developmental structure, beginning on an agricultural foundation before moving into light industry and eventually advanced manufacturing and technology. This progression of exports and production provided a stable foundation for development and a consistent stream of revenue. The North conversely developed heavy manufacturing first, and failed to produce products of export value or invest in comparative advantages in textiles or other industries. This resulted in a regression towards mineral exports, facing diminishing returns and constricting revenues. This is not to say that the DPRK would have benefitted from being an agricultural exporter, but rather that rapid industrialization and gains in heavy manufacturing were prioritized over the development of a consistent set of revenue generating exports, necessary for sustained investment and growth.

Political Systems and Development

Drawing from the case of the Korean peninsula we can see evidence that a centralized state effort to industrialize can be successful in promoting long term growth as seen in the South but with the failure to meet certain conditions runs the risk of economic and humanitarian disaster as seen in the North. Initial stages of development can be achieved under both a command and heavily regulated market economies. Both the DPRK and ROK experienced rapid growth and development under authoritarian regimes and heavy government intervention. Authoritarianism and the transition to liberal democracy were in South Korea an outcome of the

economic successes that the country had experienced liberalizing. At the height of its economic stability, the DPRK failed to liberalize politically or economically. The area that differentiates the development of North and South Korea is the process of liberalization, and integration into the international economy. Failure to liberalize and engage in international trade prevented the DPRK from growing and recovering.

VI. Conclusion

The “Benevolent” Dictator

In both cases, a centralized and illiberal regime was the driving force for economic development and the policies necessary to rebuild and reform. This historically runs contrary to general principles outlined in Acemoglu and Robinson (2012 b). The idea that democratization is precondition for successful development is undercut by most cases of successful Asian economic development, where oftentimes we see that successful growth and liberalization is the precondition for democratization.

The commonalities between the strong Asian economies can be contrasted with those that have failed to develop due to a lack of institutional reform to promote this kind of growth, often due to corruption, limits to markets and kleptocracy. The Marcos regime in the Philippines, Suharto in Indonesia, both fit into the archetype of authoritarian centralization, but neither were able to leverage the extractive institutional governing apparatuses into successful economic development. This is contrasted with Deng Xiaoping in China and Lee Kuan Yew in Singapore who both leveraged their authoritarian regimes to implement the market reforms necessary to foster economic growth.

The varying conditions and outcomes make it difficult to assign a causal relationship but ultimately the Korean peninsula demonstrates the two sides of the coin of development under an authoritarian regime. First, in the DPRK, a centralized authoritarian government enabled a rapid economic recovery after the Korean war and allowed the national resources to be effectively mobilized for reconstruction. However, failure to give up the economic power necessary to foster continued growth would limit the future development and jeopardize the welfare of the North Korean population. The South presents a case where centralized authoritarian rule initially failed, for similar reasons, but after the Park coup, the non-democratic nature allowed for unilateral reforms to be implemented, regardless of popularity. These reforms would be necessary steps towards development, and as South Korea underwent the process of opening up, and the government was forced to integrate into the international market and liberalize, the country was able to undergo a democratic transformation. In the long term, Liberalization requires loosening government restrictions and ceding some power to the people and markets.

Significant Policies and Reforms

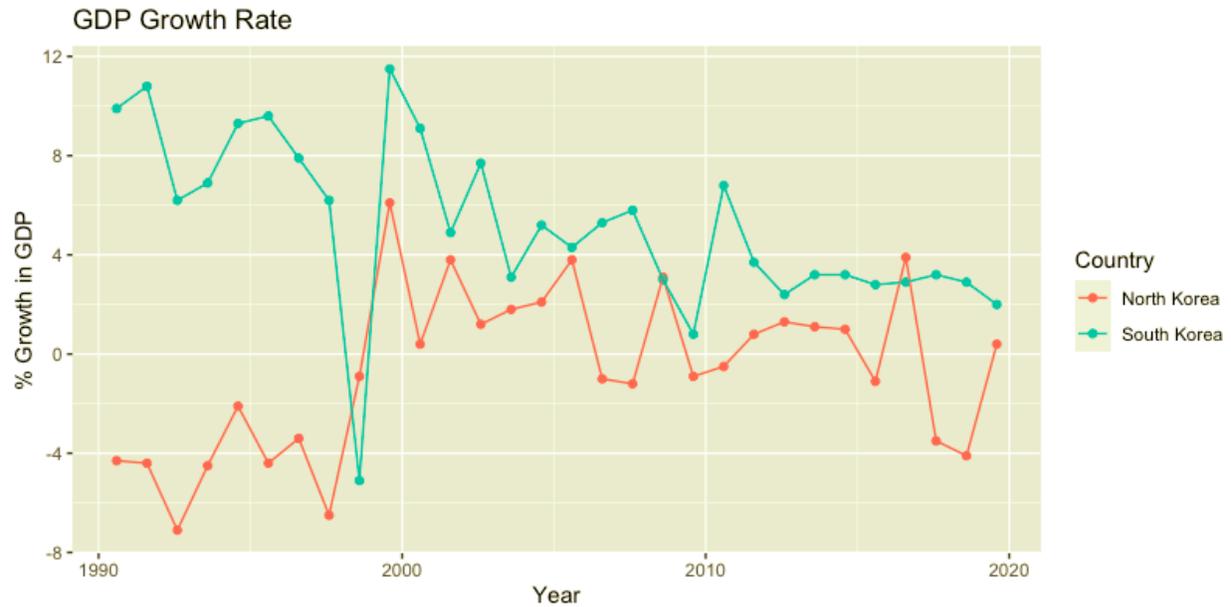
Modern Korea is tethered to this long history of institutional development and the economic outcomes are directly tied to reforms and liberalization of these institutions. Today the South has reaped the benefits of globalization and modernization. The aforementioned period of industrial development was fostered by protectionist trade policies and tight currency regulation, but as the South Korean economy grew stronger, these barriers were lifted and established chaebol firms began to compete globally. This resulted in the acceleration of economic growth, transforming South Korea into a middle and eventually high income country. Alongside

economic liberalization came political liberalization as protestors pushed for democratic reforms, and an end to the authoritarian regime.

Should North Korea remain an independent state there are a series of reforms that it ought to take into consideration in order to promote its economic development. Above all else is the need to liberalize economically and institutionalize market systems in order to overcome the failures of the command economy. Despite the inherent differences in the command economy versus a heavily regulated market of the south, marketization on the margins was a plausible path for the DPRK with the lifting of economic restrictions and integration of informal markets into the legitimate economy.

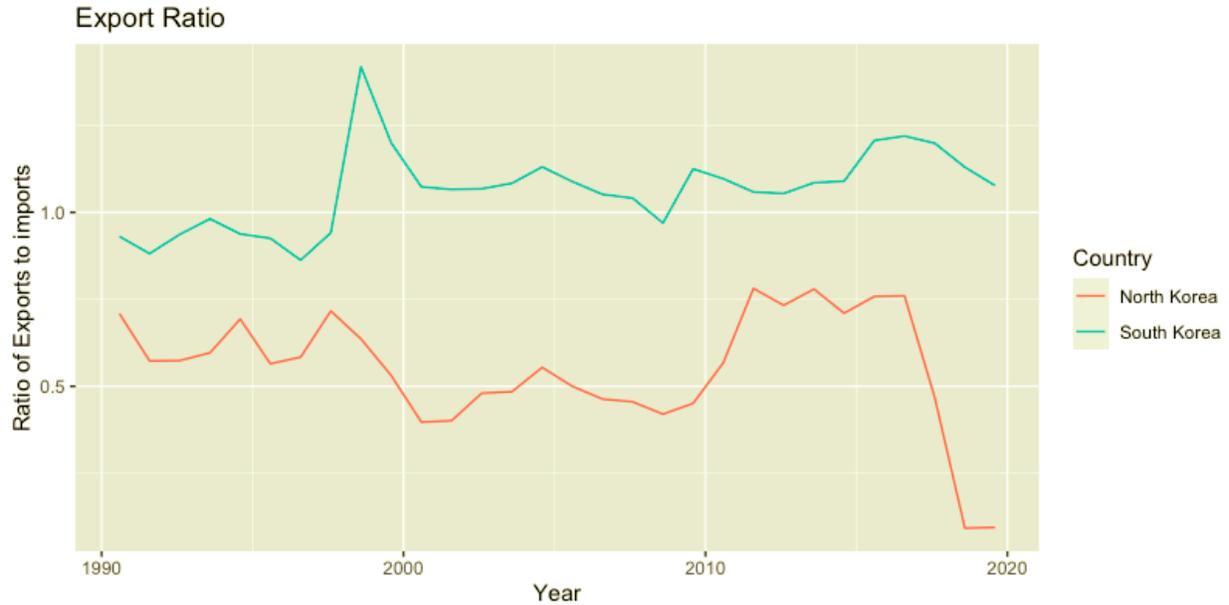
Reunification and Economic Convergence

A great deal of ink has been spilled mapping out the hypothetical economic situation of Korean unification. There is argument as to whether this is a feasible political aim in the near future but it is worth recognizing that the goal of both nations is to create a unified peninsula under their given economic and political system. The integration of the two economies that I have outlined seems far-fetched but there are policy proposals for both the gradual and immediate integration of Korean economies and political institutions.



Examining the GDP growth rates we can see the North and South begin to converge in recent years

According to Kang (2018), the most likely process would be one where the DPRK is absorbed by the ROK. This would be similar to the process of German reunification where East Germany was subsumed by the West during the collapse of the socialist bloc. Having already described the disparate institutions of the two countries and their political aims, this is easier said than done. Other more likely outcomes might be the alleviation of trade barriers or the establishment of an optimum currency area or fixed exchange rate between the two states to promote trade and some level of economic integration.



This graph demonstrates the roughly inverse relationship between the ratio of imports to exports. However we can see the effect of sanctions in 2017 on the DPRK causing exports to plummet, once again isolating the DPRK economically.

This is largely predicated on the decision of North Korea to liberalize and the willingness of the international community to engage with the DPRK. Kim Jong Un has demonstrated a greater willingness to work towards marketization than his father or grandfather and diplomatic steps have been made over the last few decades, however there is still a long way to go towards reentry to the global economy and international community.

Kang (2018) outlines the conditions needed to enact a plan for economic integration. Referencing Kim (2007) the article concludes that the developmental disparity is not the result of the overarching economic systems (central planning vs free market) but instead is an outcome generated based on the different development plans and goals. Juche isolationism is cited as a major factor limiting North Korean economic growth, with the ideological aim of self-reliance being a barrier to the development of international trade relationships necessary for long term growth. The proposed resolution is a form of economic integration that will begin to ease the

vast differences in economic capacity and promote growth between the two countries, by allowing the North to liberalize and begin engaging in economic relations with the South and other regional economies. This economic opening would be a significant step for the North and is the only real path forward in developing the North Korean economy, regardless of whether it leads to full reintegration between the North and South.

Promoting Development in Other Regions

Following such an account of success and failure to develop comes the immediate temptation to draw sweeping conclusions of the methods by which a country can develop into a modern industrial economy like the ROK and avoid the pitfalls of the DPRK. While there are lessons to be learned, there are limitations to the applicability of the policies utilized by either state. The case of Korea offers a scenario from which we can determine several broad normative principles that promote development but it remains important to recognize the specific underlying conditions that enabled these developments.

Park (2019) demonstrates the key components to the Korean development state and attempts to map these institutions on to sub-saharan Africa. While this book does take a one size fits all approach to economic development it does do well to outline the precise policy actions and economic reforms that contributed to the rise of South Korea as well as provide examples as to how these might be applicable to other developing economies. This book is particularly unique as it is from the perspective of a South Korean diplomat who has engaged with many of these countries in their policy decision making and is actively giving advice on how to mirror the successes of South Korea.

Drawing from the case of the Korean peninsula we can see evidence that a centralized state effort to promote development can be successful in promoting long term growth as seen in the South but with the failure to meet certain conditions runs the risk of economic and humanitarian disaster as seen in the North. The many similarities between the two states allow for the specific identification of reforms and institutions that would result in these disparate outcomes but it is important to recognize that these principles may not be universal but simply broad guidelines of what may promote beneficial outcomes in similar cases.

The many similarities between the two states allow for the specific identification of reforms and institutions that promote optimal economic outcomes but it is important to recognize that these principles may not be universal but simply broad guidelines of what may promote development in similar cases. While both states pursued massive industrialization and modernization, the ROK did so already having reformed the agricultural sector and established significant transportation infrastructure and high rates of education. This foundation was indispensable to the reforms that would follow.

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