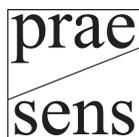


# Driving Forces of Socialist Transformation

North Korea and the Experience  
of Europe and East Asia

Edited by  
Rüdiger Frank und Sabine Burghart



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## Inhalt

Preface	7
<i>Rüdiger Frank</i> Researching Socialist Transformation in North Korea: Obstacles, Opportunities and Concepts	9
<i>David Lane</i> European and Central Asian Trajectories of Change from State Socialism	61
<i>Dieter Segert</i> Why no “Dilemma of Simultaneousness”? The ‘Great Transformation’ in Eastern Central Europe Considered from the Point of View of Post-Socialist Research	89
<i>András Bozóki</i> The Deficit of Legitimacy: Theorising East Central European Communism	113
<i>Dieter Bingen</i> The Failure of Socialist Transformation: The Polish Experience of the 1980s	141
<i>Dušan Tříška</i> Methods of Privatisation in Western, Central and Eastern Europe	159
<i>Günter Heiduk, Ryszard Rapacki</i> The Road from Plan to Market: Comparing Poland and China	187
<i>János Mátyás Kóvacs</i> Crazy Convergence?: A Comment	223
<i>Fanjun Kong, Zuotao Xiang</i> The Soviet Model in China’s Transformation: Changed and Unchanged Aspects	229
<i>Ari Kokko</i> Vietnam: 20 Years of Doi Moi	247
<i>Phillip H. Park</i> The Transition to a Market-oriented Economy: Applying an Institutional Perspective to the DPR Korea	279



*Hyung-Gon Jeong*

20 Years of Reform in the Transition Economies:  
Implications for the North Korean Economy

309

*Young-Ja Park*

Characteristics and Perspectives of Marketisation from Below  
in North Korea: A Comment

325

List of Contributors

331

## Preface

Karel Schwarzenberg, former chancellor to President Václav Havel and Minister of Foreign Affairs of the Czech Republic, has compared the transformation of a socialist system and its centrally planned economy into a market-oriented democracy to the attempt to turn a *bouillabaisse* into an aquarium. This metaphor points at the 'stickiness' of inherited institutions that evolved during decades of socialist rule. Although the formal institutional framework was relatively quickly replaced by new laws and regulations, informal rules persist even twenty years after the fall of the Iron Curtain. Socialism has left a 'footprint' on institutions and societies in Central and Eastern Europe, as it did in a more subtle form on the capitalist West.

Transformation of state socialism in Europe started two decades ago and resulted in a regional domino effect. But socialist countries in East Asia, in particular China, Vietnam and North Korea have resisted this trend. Most strikingly, the two former have so far been able to proceed along a path of gradual and controlled change, something deemed to be 'mission impossible' for a long time. North Korea stands out as one of the remaining socialist states that, so it seems, has maintained its old system and yet still refuses to collapse.

The debate about the socialist nature of North Korea aside, we know that this society has in fact been anything but static. Domestic and external factors have put high pressure for reform on the leadership, which resulted in a period of monetisation and marketisation that corresponded well with a supportive government in Seoul but collided with the George W. Bush administration in Washington. The results of these experiments, coupled with the perception of external threats and the unresolved issue of power succession, have led to a temporary reversal of reforms and a trend of socialist neo-conservatism.

The consequences of this process pose crucial challenges to the world: a humanitarian situation that is regarded by many as unacceptable, with a whole people on the brink of famine and under severe political repression; and a nuclear weapons programme that threatens to destabilise the whole East Asian region. The latter has earned North Korea a doubtful prominence in international media and makes it ever more pressing to understand what exactly is going on inside this country and its socialist system.

This is where this book situates itself. It is based on the rationale that despite the many differences between countries and regions, socialist states did share important core characteristics, and that they had and have to solve similar problems. Accordingly, looking at North Korea through the lens of research on socialism is a promising approach, especially as few academics or policy-makers are satisfied

with the available factual information on this country. However, while comparative approaches have a high potential, they are also risky; they require a breadth of deep knowledge that single researchers rarely have a chance to acquire. This makes co-operation and division of labour inevitable.

Against this background, twenty scholars and practitioners from ten different countries met in Vienna in February 2009 to discuss theoretical concepts of socialism(s) and their applicability to selected countries as well as key aspects of (post-)socialist transformation. The conference pursued both an interdisciplinary and a comparative approach and matched these with country-specific knowledge. This book breaks new ground in mainly two respects. The organizing rationale is not country-specific, but of a methodological nature; and we approach North Korea as a part of the East Asian region, not as an isolated case.

Unlike other similarly titled endeavours, we did not assemble North Korea specialists only. Our primary focus was on socialism, which was in a second step to be expanded to the North Korean case, not the other way round. Hence we invited a large group of experts on state socialism and its development in other countries in Europe and East Asia, whom we confronted with the request to extract general rules and lessons from their areas of specialisation that could be applied to other cases including Korea. This triggered a dialogue that was less predetermined in its direction and outcome, but in the end very dynamic and productive with new insights, new arguments and new perspectives. The first chapter aims to provide a framework for this dialogue.

We owe great thanks to the Academy of Korean Studies (AKS) which acted as the main sponsor for the project. The conference would not have been possible without generous financial support from the Faculty of Philological and Cultural Studies of the University of Vienna, the Modern East Asia Research Centre (MEARC) of Leiden University, as well as the Confucius Institute in Vienna. Jihye Kim, Stephan Si-Hwan Park, Lukas Pokorny and Veronika Schöhl provided valuable assistance and administrative support during the conference. The Department of East Asian Studies of the University of Vienna is the home of the Chair of East Asian Economy and Society and thus provided the academic and administrative framework for this project.

Special thanks are due to Susan Pares who did splendid work with the editing and provided invaluable support to turn the conference papers into this book. Cooperation with Michael Ritter of the publishing company Praesens Verlag has been smooth and productive in every respect.

Despite ceaseless efforts, errors at times evade discovery. Those that remain are the sole responsibility of the editors.

Rüdiger Frank

## Researching Socialist Transformation in North Korea: Obstacles, Opportunities and Concepts

### 1. Academic interest in socialism

Academic and public interest in socialism have decreased dramatically since the end of the 1980s and reached almost historic lows twenty years later. This is in striking contrast to the decades of bipolar confrontation in the Cold War era from 1945, when area studies and related institutions thrived and research on the various examples of socialist societies especially in Central and Eastern Europe and in East Asia attracted enormous human and material resources in the West.

Such research on the 'enemy' was not an easy task. Data were either not available or of questionable quality and reliability. Field work was nearly impossible due to limited access to the countries of interest. Last but certainly not least, ideological confrontation made it difficult for researchers to maintain a neutral and objective position. A predominantly normative outlook informed legions of specialists who learned languages, studied cultures and systems, read the tea-leaves of official propaganda and tried to make sense of what often seemed to be a fundamentally different world.

Research on socialism was conducted on a massive scale in socialist countries, too. The major goals were to prove scientifically the correctness of the ideology and the superiority of socialism as a model for society, and to find ways to overcome the growing practical difficulties on the economic side within the limitations set by the socialist system. However, critical research was risky and hence occurred rarely and often only in the form of confidential internal reports.

Ironically, as soon as the countries of the Eastern Bloc started transforming, opened up, showed new transparency and provided unprecedented access to hitherto unavailable data, the interest in socialism as such nosedived in the West and in the East. It was replaced by a demand for research on reform, transition and transformation, i.e. the developments that would lead the formerly socialist societies on a path that would eventually transform them into something else, preferably into democracies and liberal market economies. Later, the various actual policies were analysed, the results of Big Bang approaches were compared with those of gradual transformation, and the economic, political and social effects were discussed critically.<sup>1</sup>

1 See Branyiczki, Imre, Gyula Bakacsi and Jone L. Pearce (1992): 'The Back Door: Spontaneous Privatisation in Hungary', in: *Annals of Public and Cooperative Economics*, vol. 63, no. 2, pp. 303–316;

Socialism as a primary object of research mattered little. This can to a certain degree be understood against the background of the normative bias mentioned above: once socialism was gone, there was nothing to criticise or idolise anymore. Among the exceptions are works such as Kornai's (1992, 2008),<sup>2</sup> who systematises socialism, or Olson's,<sup>3</sup> who attempts to mould the theories of socialism and capitalism into one perspective on the economic side of dictatorships.

Even the interest in transformation seemed to have been largely exhausted by the end of the 20th century. To many, socialism is a distant memory or just a tale from the past. In the academic community, there is an ongoing debate about post-socialism and whether a market economy/democracy built on the ruins of a socialist society was by its nature different from other market economies/democracies,<sup>4</sup> but this discussion is confined to a rather exclusive group. There are a few notable exceptions, such as the Woodrow Wilson Center's Cold War International History Project, where historians try to find new insights into major events of the past on the basis of newly available archives of formerly socialist countries. A brief upswing in the study of socialism as an alternative to capitalism could be observed in the wake of the 2008/2009 financial crisis.<sup>5</sup>

Clague, Christopher, and Gordon C. Rausser (eds.) (1992): *The Emergence of Market Economies in Eastern Europe*, Oxford: Blackwell; Sachs, Jeffrey (1992): 'The Economic Transformation of Eastern Europe: The Case of Poland. Economic Change and Restructuring', in: *Springer*, vol. 25, no. 1, pp. 5–19; Frydman, Roman, Andre Rapaczynski and John S. Earle (1993): *The Privatisation Process in Central Europe*, Budapest: Central European Press; Amsden, Alice H., Jacek Kochanowicz and Lance Taylor (1994): *The Market Meets its Match: Restructuring the Economies of Eastern Europe*, Cambridge MA: Harvard University Press; Chang, Ha-Joon, and Peter Nolan (eds.) (1995): *The Transformation of Communist Economies*, London: Macmillan; Dittrich, Eckhard J., Gert Schmidt and Richard Whitley (eds.) (1995): *Industrial Transformation in Europe: Process and Contexts*, London: Sage; Lavigne, Marie (1995): *The Economics of Transition: From Socialist Economy to Market Economy*, Basingstoke: Macmillan; Blanchard, Olivier (1997): *The Economics of Post-Communist Transition*, Oxford: Clarendon Press; Carlin, Wendy, and Michael Landesmann (1997): 'From Theory Into Practice? Restructuring and Dynamism in Transition Economies', in: *Oxford Review of Economic Policy*, vol. 13, no. 2, pp. 77–105; Frydman, Roman, Kenneth Murphy and Andrzej Rapaczynski (1998): *Capitalism with a Comrade's Face. Studies in Postcommunist Transition*, Budapest: Central European University Press; Pollert, Anna (1999): *Transformation at Work in the New Market Economies of Central Eastern Europe*. London: Sage; Stiglitz, Joseph (1999): 'Whither Reform? Ten years of the Transition', Keynote address presented at the World Bank's Annual Bank Conference on Development Economics, Washington, DC

- 2 Kornai, Janos (1992): *The Socialist System. The Political Economy of Communism*, Princeton: Princeton University Press; Kornai, Janos (2008): 'Market Socialism? Socialist Market Economy?', in: Janos Kornai (2008): *From Socialism to Capitalism*, Budapest: Central European University Press, pp. 47–60
- 3 Olson, Mancur (2000): *Power and Prosperity. Outgrowing Communist and Capitalist Dictatorships*, New York: Basic Books
- 4 See Hann, Chris M. (ed.) (2002): *Postsocialism: Ideals, Ideologies, and Practices in Eurasia*, London and New York: Routledge
- 5 For an example, see Becker, Joachim, and Rudy Weissenbacher (ed.) (2009): *Sozialismen. Entwicklungsmodelle von Lenin bis Nyerere* [Socialisms. Development Models from Lenin to Nyerere], Vienna: Promedia

There are a few first-hand accounts on socialism by those who had actually lived in the Eastern Bloc before its collapse, which helped them to develop a very unique perspective. Among those are studies such as Segert's (2009),<sup>6</sup> where the author argues that his insider's analysis of ruling party reforms during the turbulent months of transition is only possible now, with the hindsight of two decades and separated from the emotionally charged atmosphere of the early transformation period. In the case of China, new research is possible on the Great Leap Forward and the Cultural Revolution, although restrictions remain. However, in general it seems fair to state that socialism for most of us is a topic that has been relegated to the past, with an enormous pool of knowledge and competency on the reality of this system being more or less untapped and slowly but steadily forgotten.

## 2. North Korea and the actuality of research on socialism

Such neglect is regrettable. In addition to the academic fascination with a system that affected the lives of hundreds of millions of people for decades or the desire to understand the rising giant China, we need such knowledge more than ever for the case of the Democratic People's Republic of Korea, also known as the DPRK or North Korea. It is one of the few remaining societies that still are officially socialist, along with Cuba, China and Vietnam. But while the latter have been undergoing changes that make it increasingly difficult to take the socialist claims at face value, North Korea differs markedly.

Not only do we see a resuscitation of orthodox socialist rhetoric and policies at the end of the first decade of the 21st century.<sup>7</sup> This country has also become one of the most visible players in East Asia's international relations, creating a serious direct and indirect security threat through its nuclear programme and being the catalyst for the Six Party Talks, which could become the nucleus of a future regional security framework. In particular, the acquirement of nuclear weapons technology and the testing of two nuclear devices in 2006 and 2009 combined with an intercontinental ballistic missile programme have made it difficult to ignore this small country of about 24 million people and roughly 100,000 square kilometres. Although the reasons may differ, the North Korean economy is a major concern for fellow coun-

6 Segert, Dieter (2009): *Das 41. Jahr. Eine andere Geschichte der DDR* [The 41st year: A different history of the GDR], Vienna: Boehlau

7 See Frank, Rüdiger (2008a): 'Socialist Neo-Conservatism in North Korea? A Return to Old Principles in the 2008 New Year Joint Editorial', in: *Napsnet Policy Forum Online 08-032*, 22.04.2008, online at <http://www.nautilus.org/fora/security/08032.Frank.html>

trymen in South Korea and for neighbours such as China and Japan, but also for the United States and for Europe. Enormous amounts of aid have been transferred to the DPRK despite sanctions and embargos, to prevent a collapse that could have severe consequences. In 2008, North Korea's foreign trade reached the highest level since 1990 (about US\$3.8 billion), along with the highest trade deficit (over US\$1.5 billion). The latter amounts to an external subsidisation of the North Korean economy.<sup>8</sup> The human rights situation is serious and regularly triggers reactions by the UN, Western governments and NGOs. It is obvious that North Korea is not just socialist; it also matters in the above said ways and hence requires active examination by academia.

But are we properly equipped to provide answers to the questions posed by the public, the media and our governments? As indicated above, research on socialist systems has passed its zenith long ago and is recovering only slowly. With the less than optimal results of the wars in Afghanistan and Iraq, there is a renewed understanding in the United States and in the West in general that specific knowledge of other societies beyond (or in addition to) the generalist statements of universal meta-theories can be useful and often crucial. The re-emergence of Russia as a major international player with a strong nationalist sentiment is a case in point. This renaissance should hardly be surprising given the vast natural and human resources of that country. Nevertheless, it comes at a time when most of the Cold War generation of Soviet Union specialists were forced to find new jobs years ago. New scholars of Russia struggle with a reality that on the surface treacherously looks familiarly capitalist and democratic but underneath has been shaped by over seven decades of socialist modernisation and institution building.

Even among China specialists, the number of old-school analyses of socialism seems to dwindle. Among the exceptions are Chen<sup>9</sup> with a discussion of the ideological implications of introducing capitalist economic methods as a means to enhancing socialism, and Hart-Landsberg and Burkett,<sup>10</sup> who insist on preserving the original perspective of Marxism to understand properly current developments and their historical roots. Books such as that by Totten and Zhou<sup>11</sup> illustrate how, in the years after the beginning of the Deng era, analysis of the transformation was still

- 8 KOTRA (2009): *2008 Pukhanŭi Taewoe Muyŏk Tonghyang* [Trends in North Korea's Foreign Trade], KOTRA charyo 09-020, Seoul: Korea Trade and Investment Promotion Agency
- 9 Chen, Feng (1995): *Economic Transition and Political Legitimacy in Post-Mao China*, New York: State University of New York Press
- 10 Hart-Landsberg, Martin and Paul Burkett (2005): *China and Socialism. Market Reforms and Class Struggle*, New York: Monthly Review Press
- 11 Totten, George and Zhou Shulian (1992): *China's Economic Reform. Administering the Introduction of the Market Mechanism*, Boulder CO, San Francisco and Oxford: Westview Press

often based on the perspective of socialism. However, most new research tends<sup>12</sup> to concentrate on the peaceful rise and what this means to the region and the world, the societal problems created by the economic transformation of the country, or the difficulties of keeping a multi-ethnic, diverse society together. Such studies usually draw upon standard theoretical thinking of Western social science. Words such as growth, migration, governance, civil society, markets, institutional reforms, financial systems, etc. are not the usual terminology of socialism.

The same is true for Central and Eastern Europe, where academic interest focuses on current issues such as the rehabilitation of the economies, political integration into the European Union, Russia as a neighbour, and issues of migration, corruption and democratisation.<sup>13</sup> Historians by the nature of their field are less willing to ignore the past but are mostly concerned with finding new evidence on major events, such as the Berlin Wall or the Prague Spring, or try to unearth the dirty secrets of the almighty security and intelligence apparatuses.

Research on Vietnam and Cuba abounds, but is rarely motivated by the officially socialist status of these countries. Vietnam had stopped its transformation of the South into a socialist economy decades ago and now is among the dynamic new tiger economies in East Asia, utilising its labour force to produce for investors from Japan, South Korea and others while catering to the ever-growing Chinese market. The ideology-based one-party state in such socialist countries has managed to maintain its power so far, but is being transformed into a pragmatic bureaucratic state, reminiscent of what has reached its highest level of development in Singapore, not in the Soviet Union.<sup>14</sup> Cuba draws attention mainly because it is so close to the

- 12 Nathan, Andrew J. (1997): *China's Transition*, New York: Columbia University Press; Habuki, Susumu and Stephen M. Harner (1999): *China's New Political Economy*, Boulder CO, San Francisco and Oxford: Westview Press; Lin, Justin Yifu, Fang Cai, and Zhou Li (2003): *The China Miracle. Development Strategy and Economic Reform*, Hong Kong: Chinese University Press; Saich, Tony (2004): *Governance and Politics of China*, Basingstoke UK and New York: Palgrave MacMillan; Yang, Dali L. (2004): *Remaking the Chinese Leviathan. Market Transition and the Politics of Governance in China*, Stanford CA: Stanford University Press; Gries, Peter Hays, and Stanley Rosen (eds.) (2005): *State and Society in 21st-Century China: Crisis, Contention, and Legitimation*, New York and London: Routledge Curzon; Tsai, Kellee S. (2007): *Capitalism without Democracy. The Private Sector in Contemporary China*, Ithaca NY and London: Cornell University Press; Naughton, Barry (2007): *China's Economy. Transitions and Growth*, Cambridge MA and London: MIT Press; Fewsmith, Joseph (ed.) (2008): *China Since Tiananmen*, Cambridge: Cambridge University Press
- 13 See Segert, Dieter (ed.) (2007): *Postsozialismus. Hinterlassenschaften des Staatssozialismus und neue Kapitalismen in Europa* [Postsocialism: Remains of State Socialism and New Capitalisms in Europe], Vienna: Braunmueller
- 14 Fforde, Adam and Stefan De Vylder (1996): *From Plan To Market: The Economic Transition in Vietnam*, Boulder CO, San Francisco and Oxford: Westview Press; Beresford, Melanie and Dang Phong (2001): *Economic Transition in Vietnam: Trade and Aid in the Demise of a Centrally Planned Economy*, London: Edward Elgar; McCargo, Duncan (ed.) (2004): *Rethinking Vietnam*, London and New York: Routledge Curzon

United States, and because a large community of Cubans in their Florida exile – a key state for US elections – keeps the White House interested. But in this case, too, socialism as such is not the major issue.

Regardless of the ups and downs of interest in research on socialism, the available resources for such endeavours or the analytical know-how of researchers, we find that in all the countries mentioned above, Western media and academics enjoy unprecedented access. While not all requests for information are satisfied and the state occasionally issues limitations, the restrictions on freedom of information, economic exchange and political activity are a far cry from the standards of socialism before the end of the 1980s.

Again, North Korea stands out as the great exemption. With regard to accessibility, it seems to have remained largely unchanged. Here, socialism is not only a word that one can find in the news on a daily basis. The country also presents many features of socialism that once were found on the Eastern side of the Iron Curtain, although in varying degrees. If we follow Kornai's classification,<sup>15</sup> the economy is almost completely state owned; the power monopoly of the Party is absolute; a dominant ideology is in place; and the preponderance of bureaucratic co-ordination is undisputed. Access to information for citizens is so severely limited that one could rightfully speak of Orwellian dimensions. Individual activities are valued very lowly; collectivism (*chiptanjuŭi*) is still the official ideal. According to the country's leader Kim Jong Il, ideology is the highest good that needs to be protected by all means.<sup>16</sup> This ideology is officially socialist and has a very strong nationalist core.<sup>17</sup> Whereas Marx, Engels and Lenin have been replaced by Kim Il Sung as the highest authority, their terminology is still being applied. With the creation of the Military First ideology (*sŏn'gun sasang*) by Kim Jong Il, his father's *chuch'e* idea has been even more strongly focused on defence, and the ideological gap between classical European socialism and the North Korean version has widened further,<sup>18</sup> although this has not prevented North Korean society from moving closer to the European example in terms of the development of economic institutions, as will be shown below.

15 Kornai (1992)

16 Kim, Jong Il (1995): *Giving Priority to Ideological Work is Essential for Accomplishing Socialism*, Korean Friendship Association, <http://www.korea-dpr.com/lib> (accessed 15 January 2009)

17 Park, Phillip H. (2002): *Self-Reliance or Self-Destruction? Success and Failure of the Democratic People's Republic of Korea's Development Strategy of Self-Reliance Juche*, New York and London: Routledge

18 Frank, Rüdiger (2008b): 'Nordkorea: Zwischen Stagnation und Veränderungsdruck' [North Korea: Between Stagnation and Reform Pressure], in: Derichs, Claudia, and Thomas Heberer (eds.) (2008): *Einführung in die politischen Systeme Ostasiens: VR China, Hongkong, Japan Nordkorea, Südkorea, Taiwan* [Introduction to the Political Systems of East Asia: PR China, Hongkong, Japan, North Korea, South Korea, Taiwan], 3rd completely revised edition, Wiesbaden: VS-Verlag für Sozialwissenschaften, pp. 351–415

North Korea has not only managed to maintain its own version of socialism despite severe external and internal shocks, but has also so far largely resisted pressure for transformation, reform and opening from such veritable foes as South Korea and the United States. Even more surprising is the resilience of the system despite the example of China, a neighbour that is big in many respects, relatively well known in North Korea, and hard to ignore. Unlike the Soviet Union's satellite states of Eastern Europe, the DPRK claimed its independence from Moscow (and Beijing) relatively early and followed its own path, often at high economic cost. This strategy enabled North Korea to disconnect itself from events in other socialist countries to a certain degree. Nevertheless, China has historically played a special role in Korea as a model for statehood, society and culture. During the Korean War, the PRC saved North Korea from early extinction. Frictions emerged in the context of a failed coup by a pro-Chinese faction of the Worker's Party in 1956 and during the Cultural Revolution, but China still enjoys the highest level of acceptance by North Korea. It is the country to which otherwise strictly isolated North Koreans have the best legal and illegal access. Not accidentally, most scenarios for an indigenous transformation of North Korea include the Chinese example.

But despite the powerful Chinese example, massive problems and observers' expectations, socialism in the Democratic People's Republic of Korea has refused to give up. Neither the sudden collapse of ties with major 'brotherly' trade partners since 1990, nor the death of the country's founder and leader Kim Il Sung in 1994, and not even a major food shortage 1995-1997 have made this last domino fall. The situation of the economy was severe, the loss of the leader was painful, and the famine reduced the legitimacy of the regime. Nevertheless, only around the year 2000 could we see some progress towards a normalisation of North Korea, if normalisation means becoming more like its neighbours. For the first time in history, the top leaders of North and South Korea met and made grand plans for the future. Initially observed with scepticism, these plans were indeed carried out despite a considerable number of obstacles. In 2004, the first buildings in the Kaesŏng Industrial Zone were constructed by South Korean companies on North Korean territory. This added hope that Kaesŏng could play a role similar to the Special Economic Zones in China, supporting the economic reform package announced in July 2002.<sup>19</sup> The latter included a comprehensive and profound reform of state prices, a significant gain in the official recognition and role of markets, a drastic devaluation of the domestic currency against the US dollar, and many other measures that meant a de

19 Frank, Rüdiger (2005): 'Economic Reforms in North Korea (1998-2004): Systemic Restrictions, Quantitative Analysis, Ideological Background', in: *Journal of the Asia Pacific Economy*, vol. 10, no. 3, pp. 278-311

facto monetisation and partial marketisation of the North Korean economy. This step was prepared by ideological adjustments of enormous dimensions, which hints at a rational plan rather than ad hoc measures.

However, the reforms also had far-reaching economic and societal consequences that we still struggle to comprehend. In addition to inflation, increasing imbalances and the loss of moral values, there seems to have been growing public dissatisfaction and a loss of state influence. Amidst the perception of severe external threats and the deteriorating health of its top leader, the regime was not ready to embrace these developments as a necessary component of reforms and tried rather to stop the process before it got out of control. Since about 2005 the reform policy was first slowed down and then partially reversed – or at least this is what the state tried to do. By mid-2009, North Korea had returned to economic policies that explicitly mimic the 1950s and 1960s with their focus on the extensive use of labour, mass campaigns, ideological motivation and socialist orthodoxy. The Korean Worker's Party and the military are the main forces in a society that restricts activities in the just recently expanded markets, asks its citizens to engage in a 150-day battle to increase production, and reduces the once flourishing bilateral contacts with South Korea to a minimum. Within a few years, North Korea has come full circle and entered the era of socialist neo-conservatism.<sup>20</sup>

### **3. Socialism in East Asia: A valid analytical concept?**

We have shown that socialism, although it once was a prominent field of study and research in the West, has lost dramatically in terms of interest and of human and material resources. On the other hand, we have argued that North Korea, still a socialist state, is difficult to ignore but hard to access. Hence it requires a high level of analytical understanding in order to achieve the best possible utilisation ratio of what is available in terms of factual information. We may know little about North Korea, but we know a lot about socialism and about East Asia. This book is based on the hypothesis that by applying this knowledge properly, we can significantly enhance our understanding of this specific case.

This is by no means to say that we can explain everything with this method. We do not intend to debate the fact that every single society is special. The DPRK's heritage includes a specific Korean tradition that embraces a neo-Confucian state,

20 Frank, Rüdiger (2009a): 'North Korea: Domestic Politics and Economy', in: Rüdiger Frank, James E. Hoare, Patrick Köllner and Susan Pares (eds.): *Korea Yearbook 2009: Politics, Economy, and Society*, Leiden and Boston: Brill, pp. 27-44

the collapse of that order in the late 19th century, and the colonial period under Japanese domination from 1910 to 1945. North Korea has existed formally since 1948 and has ever since developed institutions and conditions that distinguish it from its neighbours including South Korea. However, on a general level, this is a country with a society formed of human beings and hence is a place where the laws of social science apply.<sup>21</sup>

These two levels of analysis – the particularistic and the universalist approach – are relatively well established and produce good results. We would now argue that a third, intermediary level is missing. It could provide valuable insights that the other two are unable to deliver. We suggest that North Korea should also be seen and analysed as a socialist society and as an East Asian society.

This is an approach that can in principle be applied to any other country case. One conceptual way of doing so is based on the New Institutional Economists' (NIEs') understanding of society as a game of interaction that is shaped by general laws and restricted by specific rules of the game.<sup>22</sup> These, called institutions, reduce the number of available options from which the players (i.e. members of society) can choose, and influence their choices. Williamson introduces four levels of an analysis of institutions:<sup>23</sup> (1) Embeddedness (informal institutions, customs, traditions, norms, religion), changes occurring over centuries; (2) Institutional environment (formal rules of the game, including property, polity, judiciary, bureaucracy), changes occurring over decades; (3) Governance (play of the game, aligning governance structures with transactions), changes occurring over years; and (4) Resource allocation and employment (prices and quantities; incentive alignment), changes occurring continuously. Observing the 'play of the game' is often the only way to actually understand the invisible 'rules of the game', especially when they exist in a non-codified form.

Institutions are non-physical limitations to human behaviour. To be called institutions, these limitations need to apply to groups of individuals. Institutions include and go beyond preferences, and they need societies to emerge, to exist and to develop. Institutions can be informal, such as customs or traditions, and formal, such as laws. Together, they form an institutional environment within which individuals operate. This institutional framework is changing continuously, but at different speeds depending on the affected component. Some like laws can be changed

- 21 Frank, Rüdiger (2006): 'Can Economic Theory Demystify North Korea?', in: *Korea Review of International Studies*, vol. 9, no. 1, pp. 3–26
- 22 See North, Douglass C. (1992): *Institutionen, institutioneller Wandel und Wirtschaftsleistung* [Institutions, Institutional Change and Economic Performance], Tübingen: Mohr Siebeck
- 23 Williamson, Oliver E. (2000): 'The New Institutional Economics: Taking Stock, Looking Ahead', in: *Journal of Economic Literature*, vol. 38, no. 3, pp. 595–613

quickly, while values often change very slowly. The concept of institutions includes the acknowledgement of transaction costs. It would be an illusion to think that any action is for free; it either entails direct costs, or it prevents us from pursuing alternatives (opportunity costs). But looking for the least costly solution creates costs itself which are sometimes higher than pursuing a less efficient option right away. This makes institutions so irreplaceable; we would not be able to live our lives without them. Over time, individuals find ways to minimise transaction costs by developing standard solutions for recurring problems. Such shortcuts make life manageable. They are sometimes horizontally shared with others or vertically passed on from generation to generation. These shortcuts are known under many names, such as experience, customs, traditions, dos and don'ts. We call them informal institutions. Some of these were developed in response to concrete situations long ago. They deviate more and more away from the reality of everyday life. But they have become rules of the game that are not questioned. This makes them less and less understandable for the outside observer.

Thus, institutions define rationality in a specific cultural and societal context. Institutions vary, which often leads to a lack of understanding of actions and choices by individuals and groups thereof that operate under a different set of institutions. This is responsible for allegations of irrationality, something that we observe particularly frequently with regard to North Korea. Far from being naively apologetic, the adequate consideration of specifics of the institutional environment of actors is crucial for a correct analysis of their behaviour.

From this point of view, the observation that East Asia has a distinctive history of thought and interaction that was prevalent for a sufficiently long period of time suggests that societies in an East Asian context share certain specifics. The same applies to socialism, although the forms of concrete socialist societies have varied greatly. Life in a socialist society took or takes place in a very different set of institutions as compared to those of liberal democracies. If we acknowledge that North Korea is more than an isolated case, that it is part of a cultural region and a society where the socialist model has been implemented, then we should try to analyse this country from these two perspectives to complete, but not to replace, the insights gained from the application of strictly particularistic and universalist approaches.

#### **4. Defining socialism**

But what is a socialist society? If we compare those countries that claimed to be socialist, we quickly find that none was like the other. In fact, against the background of institutions as discussed above, it would make little sense to expect such a perfect

similarity. Differences in pre-socialist history and tradition as well as in resource endowment and geopolitical positioning, along with the influence of the personalities and preferences of leading individuals and their peers in other countries inevitably led to the emergence of a great variety of socialist countries.

Some were industrialised, others agrarian. Some were economically successful, had no problems in providing food to their citizens and even generated a fair amount of individual wealth including private cars and homes, while in some cases economic performance did not suffice to prevent famines. Some socialist states were led by collectives, others by single leaders. Some co-operated closely with fellow socialist countries, others refused to do so and took a nationalist stance. Collectivisation of agriculture was sometimes followed through right up to nationalisation, in other cases it stopped at joint ownership and even allowed individual plots. Expropriation in some extreme cases included personal belongings, while in others even private ownership of means of production was possible to varying degrees. In some cases, Marxism was the leading doctrine, in others an indigenous version of socialist ideology was developed. Some socialist countries applied a type of socialism that first educated and then asked citizens to act as enlightened, deliberate agents of socialism, while in other cases they were told to follow their leader's example without asking too many questions. The names of the leading political parties were different, the attitude towards non-socialist countries differed, and the state's restrictions on the individual freedom of citizens varied starkly. Power was achieved by indigenous forces in some cases, while socialism was implemented by outsiders in other countries. This list could be continued; in fact, it will be difficult to find two socialist countries that were alike. In addition, throughout their existence, every single one of the socialist countries underwent changes along the lines mentioned above that were often significant and further contributed to diversity.

With this in mind, it comes as no surprise that if we contrast this reality with the writings of Owen, Saint-Simon, Marx, Engels or Lenin, we find that hardly any of the socialist countries matched all standards and ideals of classical socialist theory, in as far as it dealt with laying out the specifics of socialist societies at all. Just the most obvious deviations include the level of development at which a transition to socialism would happen; the question of whether socialist revolution could be successful in a single country; and whether such a transformation was a matter of history or the result of deliberate actions of individuals. In fact, no socialist country did indeed fit the prescriptions of those men on whose works they had based their claim for legitimacy. Hence we understand how tempting and even crucial it was for single socialist leaders to develop their own theoretical framework. North Korea is a case where the deviation from socialist orthodoxy has been developed to one of the highest degrees. Resembling the nationalist slogan of the late 19th century

'*tongdo sŏgi*' (Eastern Way, Western Technology), *chuch'e* claims that no idea should be imported without prior adjustment to the unique conditions in one's own country. *Chuch'e* remains largely silent about the ways in which such adjustment should take place. It delegates this task to the leader, providing him with an astonishingly flexible ideology, while at the same time ensuring that he occupies a central and vital position in society as the chief operator.

It is the diversity outlined above that makes research into socialism so difficult. Two people can discuss for hours about socialism, only to find that they are talking past each other. Occasionally, this leads to the conclusion that there was no socialism, that in fact we have observed a variety of socialisms. This poses a challenge to the assumption that socialism is a valid category of research. The crucial issue hence seems to be to find an appropriate level of abstraction high enough to avoid the trap of particularism that prevents us from discovering and accepting any similarities between socialist countries, and low enough to still allow for reasonable applicability beyond a few general statements. The question of whether there has ever been anything like socialism, and whether a country qualifies for this category, is obviously a matter of definition.

Few attempts at providing such a comprehensive definition match those by Janos Kornai,<sup>24</sup> as already mentioned above. Basing himself on his observations of socialist societies mainly in the Soviet Union and Eastern Europe, he developed a complex framework for the analysis of socialism that is both sufficiently theoretical and applicable. Importantly, he distinguishes between various stages of socialism. In particular, he argues that the first few years after the revolution differ markedly from the next, the classical stage. This main stage of socialism is followed by the reform period and finally the post-socialist system.

Kornai identifies a number of key criteria that define classical socialism, in hierarchical order: Undivided power of the Communist Party and dominant influence of the official ideology; dominant position of state- and quasi-state ownership; preponderance of bureaucratic co-ordination. Kornai calls this the "main line of causality".<sup>25</sup> The effects directly and inevitably related to such a system are plan bargaining, quantity drives, paternalism, a soft budget constraint for producers and hence weak price responsiveness, over-investment, little consideration of costs and returns, no exit mechanism for firms, no incentives for efficiency, and what is generally known as a seller's market.<sup>26</sup> Production decisions are made to please the higher levels of the hierarchy, not the consumers. The state applies a policy of forced growth in this chronic shortage economy, with the paradoxically co-existing phenomena of

24 Kornai (1992)

25 Kornai (1992), p. 361

26 Kornai (1992), p. 245

labour shortage and unemployment on the job. Unlike state-owned firms, individuals face a hard budget constraint,<sup>27</sup> but still display weak price responsiveness due to the importance of non-monetary factors such as availability of products or social capital required to purchase them. Foreign trade is conducted under system-specific conditions and subject to political considerations. Political repression is also a direct consequence of the systemic design of classical socialism.

In works on comparative economic systems, authors such as Thieme<sup>28</sup> or Gregory and Stuart<sup>29</sup> have identified a number of criteria to determine the type of an economy or society. They argue that all societies must solve the tasks of planning, steering, co-ordination, information, motivation and control. Depending on how this is done, societies can be categorised. For socialism, Thieme finds planning and steering to be central and deliberate (rather than decentralised and chaotic), with a high degree of vertical organisation and information, co-ordination through the state bureaucracy (rather than through demand, supply and prices, i.e. the market), motivation by ideological (rather than material) incentives, and control by superior levels of the administrative hierarchy (rather than return on investment and market exit). Gregory and Stuart<sup>30</sup> argue that the combination of state ownership with market allocation can be called market socialism.

These are just two examples that show how a definition of socialism both as a means to group similar societies together and as a tool to distinguish them from others is possible. Utilising 'socialism' as a category of research seems to be functional, if applied cautiously, broadly and comprehensively.

## 5. What is East Asia?

The term, as the underlying concept, has initially received mixed reactions for historical reasons but meanwhile is applied broadly not only without, but increasingly also within the region. As Weigelin-Schwiedrzik<sup>31</sup> points out, the situation seems

27 Kornai (1992), p. 144

28 Thieme, H. Joerg (1992): 'Wirtschaftssysteme' [Economic Systems], in: Dieter Bender et al. (1992): Vahlens Kompendium der Wirtschaftstheorie und Wirtschaftspolitik [Vahlen's Compendium of Economic Theory and Economic Policy], vol. 1, Munich: Franz Vahlen, pp. 1-17

29 Gregory, Paul R., and Robert C. Stuart (1999): *Comparative Economic Systems*, Boston and New York: Houghton Mifflin Company

30 Gregory and Stuart (1999), pp. 250-272

31 Weigelin-Schwiedrzik, Susanne (2007): 'Ist Ostasien eine europäische Erfindung? Anmerkungen zu einem Artikel von Wang Hui' [Is East Asia an European Invention? Remarks on an Article by Wang Hui], in: Sepp Linhart and Susanne Weigelin-Schwiedrzik (eds.) (2007): *Ostasien im 20. Jahrhundert: Geschichte und Gesellschaft* [East Asia in the 20th Century: History and Society], Vienna: Promedia

right for East Asians to rediscover (not reclaim) their region and use it as an option for the solution of a multitude of pressing issues.

Academic literature on East Asia is abundant. At universities worldwide, departments of East Asian Studies are created. This almost exponential growth is, however, a relatively recent phenomenon that has started since the late 1980s, when the collapse of the bipolar world coincided with the growing awareness in the West of what was identified as the East Asian model of socio-economic development and the spread of this model to ever more countries. It is hard not to be impressed with double digit economic growth, peaceful democratic transition and a new regional consciousness. The interest in East Asia across the board is unbrokenly high and research output is expected to grow.

However, in this large number of publications on East Asia, the question of the validity of the East Asia concept as such is scarcely being asked explicitly despite the undisputed prominence of East Asia in academic thinking and the public policy debate in the West and in the region itself. Studies tend to focus on single-country approaches, on bilateral comparisons, on perceptions (rather than characteristics), or on the application of specific methodology to East Asian countries. The focus of the majority of the regionally oriented books on East Asia is more or less explicitly on regionalism (as a policy, not a quality) and on the driving forces behind it or obstacles to it.

Monographs on 'East Asia' have covered issues such as East Asian political systems,<sup>32</sup> economic development,<sup>33</sup> history,<sup>34</sup> regionalism,<sup>35</sup> trade<sup>36</sup> and internation-

- 32 E.g. Derichs, Claudia, and Thomas Heberer (eds.) (2008): *Einführung in die politischen Systeme Ostasiens: VR China, Hongkong, Japan, Nordkorea, Südkorea, Taiwan* [Introduction to the Political Systems of East Asia: PR China, Hongkong, Japan, North Korea, South Korea, Taiwan], 3rd completely revised edition, Wiesbaden: VS-Verlag für Sozialwissenschaften
- 33 Masina, Pietro P. (ed.) (2002): *Rethinking Development in East Asia: From Illusory Miracle to Economic Crisis*, Richmond, Surrey UK: Curzon; Norlund, Irene, and Pham Duc Thanh (eds.) (2000): *Asian Values and Vietnam's Development in Comparative Perspectives*, Copenhagen: NIAS Press; Islam, Iyanatul, and Anis Chowdhury (2000): *The Political Economy of East Asia: Post Crisis Debates*, Oxford: Oxford University Press
- 34 Linhart, Sepp, and Susanne Weigelin-Schwiedrzik (eds.) (2007): *Ostasien im 20. Jahrhundert: Geschichte und Gesellschaft* [East Asia in the 20th Century: History and Society], Vienna: Promedia
- 35 JPI (ed.) (2006): *Peace and Prosperity in Northeast Asia: Exploring the European Experience*, vols. I+II, Seoul: Jeju Peace Institute and East Asia Foundation; Munakata, Naoko (2006): *Transforming East Asia: The Evolution of Regional Economic Integration*, Washington DC: Brookings Institution Press
- 36 Lee, Chang Jae et al. (2006): *From East Asian FTAs to an EAFTA*, Seoul: Korea Institute for International Economic Policy; Kim, Yangseon and Lee Chang Jae (eds.) (2003): *Northeast Asian Economic Integration: Prospects for a Northeast Asian FTA*, Seoul: Korea Institute for International Economic Policy

al relations.<sup>37</sup> Most studies dating from before 1990 focus on East Asian history;<sup>38</sup> their structure follows the single-country approach and deals in high detail with the major countries in the region (China and Japan) and their impact on their neighbours. The concept of East Asia as such is not singled out as the central theme. Many new volumes on East Asian history<sup>39</sup> have the same structure and largely omit the regional dimension.

Cauquelin, Lim, and Mayer-König aim at improving the understanding between 'Asia' and Europe.<sup>39</sup> To do so, they try to identify Asian values by exploring the issues of duties, Buddhism, Confucianism, Islam, Hinduism, and the reception of the concept of 'market'. Similar research has been undertaken from an anthropological point of view by Han.<sup>40</sup> Other studies focus on East Asian perceptions of their surroundings, including the EU.<sup>41</sup> Rozman directly links the concept of 'East Asia' with Confucianism, exploring the influence of this school of thought in China, Korea and Japan and asking about the transition of these values in modern times.<sup>42</sup>

Camilleri follows the thematic approach and studies the political economy and development of the region, exploring economic transformation, geopolitical changes, and the role of civil society.<sup>43</sup> The focus is, however, more on international relations; the question of the relevance and impact of the East Asia concept is not discussed. Booth provides an interesting study of the effects of colonialism, asking about the different effects of the various colonial regimes and develop-

- 37 Yahuda, Michael (2004): *The International Politics of the Asia Pacific*, London and New York: Routledge
- Curzon; Dent, Christopher M. (1999): *The European Union and East Asia: An Economic Relationship*, London and New York: Routledge; Ikenberry, G. John, and Michael Mastanduno (eds.) (2003): *International Relations Theory and the Asia-Pacific*, New York: Columbia University Press; Kim, Samuel S. (ed.) (2004): *The International Relations of Northeast Asia*, Lanham MD: Rowman & Littlefield Publishers; Weatherbee, Donald E. (2009): *International Relations in Southeast Asia: The Struggle for Autonomy*, Lanham MD: Rowman & Littlefield Publishers
- 38 Fairbank, John K., Edwin O. Reischauer and Albert M. Craig (1973): *East Asia: Tradition and Transformation*, London: George Allen and Unwin Ltd
- 39 Ebrey, Patricia, Anne Walthall, and James B. Palais (2006): *East Asia: A Cultural, Social and Political History*, Boston and New York: Houghton Mifflin Company; Murphey, Rhoads (2007): *East Asia: A New History*, New York: Pearson Longman
- 39 Cauquelin, Lim and Mayer-König (1998)
- 40 Han, Sang-bok (ed.) (1986): *Asian Peoples and their Cultures: Continuity and Change*, Seoul: Seoul National University Press
- 41 Chaban, Natalia and Martin Holland (eds.) (2008): *The European Union and the Asia-Pacific: Media, Public and Elite Perceptions of the EU*, London and New York: Routledge
- 42 Rozman, Gilbert (ed.) (1991): *The East Asian Region: Confucian Heritage and its Modern Adaptation*, Princeton NJ: Princeton University Press
- 43 Camilleri, Joseph A. (2000): *States, Markets and Civil Society in the Asia Pacific*, Cheltenham and Northampton: Edward Elgar

ment strategies.<sup>44</sup> But at the centre of his analysis is colonialism, not the concept of East Asia.

There are even suggestions that the existence of specific societal values among East and Southeast Asians is a myth. Blondel and Inoguchi find that there is “little evidence” to sustain such a view.<sup>45</sup> They point to the beginnings of the Western perception of Asia as a homogeneous cultural entity, a movement that reached its peak with Wittfogel’s thesis on Oriental Despotism.<sup>46</sup> Only later were such unitary views replaced by more differentiated ones, but these were rarely systematic from a comparative standpoint.<sup>47</sup> Again, the issue of “perception” emerges.

There are a growing number of studies on the field of governance in East Asia.<sup>48</sup> Relatively speaking, these are focused thematically (either classically, looking at the state, or oriented towards multiple actors in the sense of the new approach of network governance), and explore the connection between observable actions and behaviour and the driving forces behind them. Ahrens convincingly applies the concepts of new institutional economics and governance to East Asia, but the goal of his research is to test these methods, not to identify specific regional characteristics.<sup>49</sup> Frost observes a long-term strategic shift in the regional order and the mutual attempts of India and East Asia to develop closer co-operation; she argues that it is even time to change our notions of Asia and suggests Buddhism as the common denominator to justify such an inclusion.<sup>50</sup>

Groundbreaking work on the question of the comparative effects of different complex institutional settings and socio-economic systems has been done by what has become known as the California School. However, their views are contested. Vries, for example, disagrees with the argument that the ‘Great Divergence’ between the West and Asia is only a relatively recent phenomenon.<sup>51</sup> He points espe-

44 Booth, Anne (2007): *Colonial Legacies: Economic and Social Development in East and Southeast Asia*, Honolulu HI: University of Hawai’i Press

45 Blondel, Jean, and Takashi Inoguchi (2006): *Political Cultures in Asia and Europe: Citizens, States, and Societal Values*, London and New York: Routledge, p. 89

46 Wittfogel, Karl A. (1980): *Oriental Despotism*, New Haven CT: Yale University Press

47 Blondel and Inoguchi (2006), p. 92

48 Bhatta, Gambhir, and Joaquin L. Gonzalez III (1998): *Governance Innovation in the Asia-Pacific Region*, Aldershot UK: Ashgate; Alagappa, Muthiah (2001): *Coercion and Governance: The Declining Political Role of the Military in Asia*, Stanford CA: Stanford University Press

49 Ahrens, Joachim (2002): *Governance and Economic Development: A Comparative Institutional Approach*, Cheltenham and Northampton: Edward Elgar

50 Frost, Ellen L. (2009): ‘India’s Role in East Asia: Lessons from Cultural and Historical Linkages’, *RIS Discussion Papers 147*, New Delhi: Research and Information System for Developing Countries, [http://www.ris.org.in/dp147\\_pap.pdf](http://www.ris.org.in/dp147_pap.pdf) (accessed 8 April 2009)

51 Vries, Peer (2005): ‘Is California the Measure of all Things Global? A Rejoinder to Richardo Duchesne’, in: *World History Connected*, vol. 2, no. 2, <http://worldhistoryconnected.press.uiuc.edu/2.2/vries.html> (accessed 8 April 2009)

cially at the underestimated role of culture and, in particular, institutions, although he insists on not being branded as a cultural determinist. We do not want to enter the debate of whether and how Europe was able to overtake China as the leading global economic power; however, the related discussion<sup>52</sup> is very fruitful in terms of providing inspiration for the search for East Asian characteristics. The same is true for such classics as Max Weber.<sup>53</sup>

An interesting methodology is used by Arrighi, Hamashita and Selden, who look at “snapshots” of the region at distinct points in history and explicitly take a long-term perspective.<sup>54</sup> Hipsher, Hansanti and Pomsuwan challenge the notion of a globalised world and emphasise the particularities of ‘Asian’ firms (referring mostly to East Asia).<sup>55</sup> Guo goes one step further and applies the hypothesis about East Asia’s particularity to the educational field, but then stops at a cluster of single-country studies without a profound synopsis.<sup>56</sup> Keyes, Kendall, and Hardacre have collected contributions on East Asia with a focus on authority, including interesting work on the religious dimension.<sup>57</sup> A few studies contain attempts at mainly quantifying the interrelationship in the region, such as that by Ohkawa and Key.<sup>58</sup> The research by Neary is representative of many others: in his book, thematically much focused on human rights, only eight pages are designated to comparative aspects; the rest consists of single country studies.<sup>59</sup>

The study by Norlund and Thanh is remarkable because it is one of the rare publications to consider Vietnam in the East Asian context, and for its attempt at

- 52 Pomeranz, Kenneth (2000): *The Great Divergence: Europe, China, and the Making of the Modern World Economy*, Princeton NJ: Princeton University Press; Pomeranz, Kenneth (2001): ‘Is There an East Asian Development Path? Long-term Comparisons, Constraints, and Continuities’, in: *Journal of the Economic and Social History of the Orient*, vol. 44, no. 3, pp. 322–362; Frank, Andre Gunder (1998): *ReOrient: Global Economy in the Asian Age*, Berkeley CA, Los Angeles and London: California University Press
- 53 See Schluchter, Wolfgang (ed.) (1983): *Max Webers Studie über Hinduismus und Buddhismus. Interpretation und Kritik* [Max Weber’s Study on Hinduism and Buddhism], Frankfurt am Main: Suhrkamp; Schluchter, Wolfgang (ed.) (1984): *Max Webers Studie über Konfuzianismus und Taoismus* [Max Weber’s Study on Confucianism and Daoism], Frankfurt am Main: Suhrkamp
- 54 Arrighi, Giovanni, Takeshi Hamashita and Mark Selden (2003): *The Resurgence of East Asia*, London and New York: Routledge
- 55 Hipsher, Scott A., Songporn Hansanti and Suthinan Pomsuwan (2007): *The Nature of Asian Firms: An Evolutionary Perspective*, Oxford: Chandos Publishing
- 56 Guo, Yugu (2005): *Asia’s Educational Edge: Current Achievements in Japan, Korea, Taiwan, China, and India*, Lanham MD: Lexington Books
- 57 Keyes, Charles F., Laurel Kendall, and Helen Hardacre (eds.) (1994): *Asian Visions of Authority: Religion and the Modern States of East and Southeast Asia*, Honolulu HI: University of Hawaii Press
- 58 Ohkawa, Kazushi and Bernard Key (eds.) (1980): *Asian Socioeconomic Development: A National Accounts Approach*, Tokyo: University of Tokyo Press
- 59 Neary, Ian (2002): *Human Rights in Japan, South Korea, and Taiwan*, London and New York: Routledge

focusing on the question of universal and particular values.<sup>60</sup> The discussion on East Asian regionalism experienced an upswing after the Asian financial crisis of 1997/98 and the decline of APEC in the wake of China's rise and the new US unilateralism under the George W. Bush administration. The Chiang Mai initiative has thus been a nucleus of institutionalisation since 2000. The topic had been almost taboo for decades, which can partly be explained by the memory of Japan's justification for their territorial expansion into the Asian mainland under the idea of the Greater East Asian Co-Prosperty Zone. The resuscitation of the 'East Asia' debate in the region itself was started by Prime Minister Mahathir bin Mohamad of Malaysia with his promotion of the East Asian Economic Caucus.

The closest the literature has so far got to approaching the validity of the actual concept of East Asia has been in the context of the discussion on Asian Values. This, however, has been mainly politically driven. Mahathir and Singapore's Lee Kuan Yew were part of the development of the highly politicised 'Asian Values' debate<sup>61</sup> in a book originally published in Japanese under the title 'no to ieru ajia' (The Asia that can say 'No'). This was a reference to the 1989 essay titled 'The Japan that can say "No"' by Sony chairman Akio Morita and Tokyo mayor Shintaro Ishihara,<sup>62</sup> the content of which aroused the surrounding former victims of Japanese imperialism by referring to Japan's technological and moral superiority (vis-à-vis the United States). The basic idea was an emancipation of East Asia from the alleged dominance of Western concepts and especially US influence. The East Asia debate on this level has remained highly nationalist ever since. This corresponds with Terada who identifies the successful establishment of regional arrangements elsewhere (such as the European Union and FTAA) as a strong push factor for the emergence of regionalist debates in East Asia.<sup>63</sup> The same author suggests applying the constructivist school of international relations theory, which "stresses the significance of shared knowledge, understanding and identity in the formation of international institutions."<sup>64</sup> It should be noted that the assumptions of constructivism seem to coincide remarkably with the intellectual foundations of the above mentioned New Institutional Economics approach. Most authors agree that the rationale for the 'Asian Values' debate was a politically motivated attempt to emancipate (East) Asia from the West,

60 Norlund and Thanh (2000)

61 Mahathir, Mohammad, and Shintaro Ishihara (1995): *The Voice of Asia: Two Leaders Discuss the Coming Century*, Tokyo, New York, London: Kodansha International

62 Morita, Akio and Shintaro Ishihara (1989): *The Japan that can say No: The New U.S.-Japan Relations Card*, online at <http://www.csse.monash.edu.au/~jwb/japanno.txt> (accessed 7 April 2009)

63 Terada, Takashi (2003): 'Constructing an "East Asian" Concept and Growing Regional Identity: From EAEC to ASEAN+3', in: *The Pacific Review*, vol. 16, no. 2, p. 255

64 Terada (2003), p. 252

not an academic search for commonalities that would justify the concept of East Asia as a region without including normative implications from the outset.

As we can see, despite the overwhelming interest in East Asia, the validity of this term as a scientific concept has not yet been properly addressed. This is indeed a striking fact. What are the reasons? Ikenberry and Mastanduno point to an important problem in their study on international relations theory and East Asia: “the two worlds of area specialty and [...] theory often do not meet”.<sup>65</sup> This refers to a dilemma of area specialists who are overwhelmed by the ever growing amount of factual information. Keeping track of the field becomes harder with every new book, leading to deepening specialisation and the loss of a generalist overview. At the same time, academic rigor is expected from academics who focus on methodology, such as political scientists or economists. Accordingly, the gap between both sides is growing, leaving less room for comprehensively addressing such basic questions as the validity of ‘East Asia’.

The globalisation of academia has had its effects too. Increasingly unitary quality standards in the academic world have created a situation in which, without applying universally accepted methodology, academic work receives low acceptance among peers and employers. The problem is that taken together, both factors – the growing amount of data and rising expectations of theoretical rigor – bring individual researchers to the limits of their capabilities.

The logical reaction should be specialisation. However, this requires a sophisticated division of work and a large number of researchers who co-operate in a structured way so that their contributions form a larger whole. An analysis of the literature shows that a division of labour is ongoing, however, as an unco-ordinated, spontaneous process. Osiander and Doering acknowledge that, because of the absence of a common basis, in East Asian studies “an interdisciplinary exchange is almost non-existent”.<sup>66</sup>

Against this background, it would be preposterous to attempt to answer the question of what precisely defines East Asia in such an introductory chapter. Not only do we face the difficulty of defining membership of this region; we also find it enormously complicated to find characteristics that these member countries share exclusively. Perhaps the easiest way is to define East Asia as a cultural area that has been shaped by the influence of China, including script, philosophy and statecraft. However, once we include religion, the boundaries of East Asia get blurred.

65 Ikenberry and Mastanduno (2003), p. 1

66 Osiander, Anja, and Ole Doering (1999): *Zur Modernisierung der Ostasienforschung: Konzepte, Strukturen, Empfehlungen* [On the Modernisation of East Asia Research: Concepts, Structures, Recommendations], Hamburg: Institute of Asian Studies, p. 19

Depending on the time period we look at, membership will change again. Last but not least, the views by the people in what we regard as East Asia often do not correspond with an outsider's categorisation. Even more questionable is the attempt to associate certain behavioural and organisational values with East Asia. The scale and scope of the discussion briefly outlined above demonstrates impressively that, although they rarely do so explicitly, a large number of academics assume that East Asia as such is indeed a valid category of research. This will have to suffice for the purpose of this edited volume. However, it is to be hoped that the issue of defining East Asia more precisely will soon become the subject of a larger academic debate.

From the NIE perspective as briefly introduced above, we would strongly suggest emphasising regular and long-term contacts as one necessary condition for grouping countries into a region, as only such exchanges would facilitate the emergence of common sets of institutions that go beyond accidental similarities. As we focus on socialist systems, the East Asian countries addressed in this book are North Korea, China and Vietnam. For pragmatic reasons we have not included Mongolia, Laos, Burma and Cambodia, although these are potentially interesting cases. We are aware that this is a gap that must be filled in order to complete the picture.

## **6. The purpose and contents of this book**

Our goal for this book is naturally very humble. We are fully aware of the fact that most of the issues highlighted above are impossible to resolve in one edited volume. They would require a much more targeted collaborative effort. What we want to achieve are two goals: (1) we want to bring these issues to the attention of a wider readership, and hopefully inspire deeper research into single aspects. Furthermore, we hope to (2) provide some new perspectives on North Korea research that has so far mostly taken place in the context of very particularistic studies. These shall not be criticised, as they have made (and continue to make) an important and vital contribution to our understanding of this country. However, as we have argued above, we feel the need to expand the scope of North Korea-related research to consider other levels of abstraction, including the intermediate levels of 'socialism' and 'East Asia'.

Accordingly, what distinguishes this volume from others that carry the term 'North Korea' in their title is the deliberately diverse background of the contributors. We have tried not to assemble another group of North Korea specialists, but wanted rather to trigger a dialogue between academics who usually do not meet. We present contributions by experts on socialism as a system, on socialism in Central and Eastern Europe, on socialism in China, and then add the expertise of researchers who focus on North Korea. It is an understandable but regrettable result of

academic segregation that such a group of specialists rarely gets a chance to interact. The feedback we received from the participants tells us that we were right in making this experiment, although much is still left to be desired. Despite the higher transaction costs in terms of having to explain concepts that are common to the single disciplines but relatively new to outsiders, it was this reaching out across the boundaries of established academic communities that has been rated as particularly valuable by participants and audience alike. We hope that this book will achieve a similar result. As is often the case, we are raising more questions than we provide answers to. Rather than offering authoritative solutions, we want to inspire new thinking.

The views and approaches in this volume differ, as it is often the case with edited volumes. Some of our authors oppose Kornai's model and the idea that the failure of socialism was systemic and inevitable. Some provide evidence that the specific institutional setting that, as we suggested, defines 'East Asia' can be found elsewhere too. Some use a very particularistic approach to their cases, while others deviate only little from universalist views. However, we do not regard this diversity of opinion as a necessary evil, and we will not try to cover this up by forcibly squeezing these diverse contributions into a makeshift unitary analytical framework. Rather, we ask our readers to treat this multifaceted nature as an added value.

Many of the complex and sometimes contradictory issues as outlined in this chapter are picked up in the single contributions in more depth. Each contribution sheds light on the question of socialism in North Korea and East Asia from a different angle. As a result, we would argue that this volume in its entirety is often much better capable of illuminating these complex matters than monothematic books with a unitary approach.

The connections between the single contributions and the major theme of this book are sometimes more, sometimes less, obvious. We will therefore attempt to highlight below some of these implications, following their order of appearance.

### **6.1. Initial differences and their impact**

In the first part of the book, we explore a few details of the question of socialism and post-socialist development and their relevance as categories for research. David Lane looks at the various paths that state socialist countries have taken since the collapse of the Soviet Union and the Eastern Bloc. He does not agree with the view that the institutions that had grown in state socialist societies could all be replaced quickly and easily. Instead, he implicitly supports the NIE position that the previous social institutions of socialism are constraints which limit and channel the course of reform. He points at the diversity of development within the Eastern Bloc and provides a hint as to why the socialisms in Eastern Europe and East Asia might differ. Using the Human Development Index, Lane shows that most European cases

of state socialism ranked among the “high” human development category, while Cuba, North Korea, China and Vietnam were in the “medium” or “low” categories.

These initial differences seem to have had an impact on post-socialist development. Lane finds that the introduction of economic reform measures as well as the degrees of political reform varied greatly across the post-socialist states. He inquires in how far post-state-socialist countries were able to develop alternative models to those of the advanced Western states, and in conclusion identifies three groups of countries: the central European post-socialist countries that have become integrated into Western economic and political structures and processes; most of the former republics of the USSR, including Kyrgyzstan and Kazakhstan, which have developed hybrid systems of more or less comprehensive economic marketisation while retaining many of the features of state socialism; and a third group of countries that have made marginal economic reforms but have retained many of the statist features of state socialism. Again, the East Asian socialist countries can be found in the latter group. The reasons for this diversity are mainly threefold. Those countries with a high level of wealth inherited from their state socialist past, those with geographical proximity to Europe, and those with a weaker “footprint” of state socialism were among the most dynamic reformers. Lane states that his findings

seriously compromise the idea that a rapid move could be made (even if it would be welcomed) from the state socialist system to stable democratic market regimes. Rather than a transition to ‘capitalist economic democracy’, a consolidation of a ‘hybrid’ type of regime seems to be characteristic of a large number of post-socialist states: societies with some aspects of competitive political and economic markets coexisting with many of the values, processes and institutions from the Soviet period.

He identifies parallels between many central Asian states and North Korea, in particular regarding a historically grown predisposition to state redistribution, the lack of a developed middle class that could back up managerial counter-elites, and political elites that operate on regional and kin-based personal networks. Accordingly, as Lane concludes:

The driving motors of internal reform of the socialist systems (the rise of counter political elites and a population predisposed to a market system) were not present (or not to the same degree) in the Asian republics of the former USSR.

He predicts that these countries, like the East Asian examples of state socialism, are likely to consolidate into the above-mentioned ‘hybrid regimes’ that transform their economies but maintain state rather than electoral political co-ordination.

## 6.2. The silent value shift

Dieter Segert asks why there was no “dilemma of simultaneousness”, referring to the three elements of socialist transformation (economic restructuring, change of the political system, transformation of the welfare system). His regional focus is mainly on Central and Eastern Europe.

He argues that state socialism collapsed not only because of hard facts such as its lower level of economic efficiency when compared to capitalism, but because people in Eastern Europe changed their orientations. A particularly important point from the view of research into North Korea is that, in the period leading up to the profound changeover of the system in Eastern Europe, he notes a “silent value shift”, i.e. a period preceding actual reform when the legitimacy of the system was shaken.

Segert shows that the Western model as such was in flux, moving towards the neo-liberal model of the Washington Consensus precisely at the time when former socialist states started using it as a role model for their own transformation. As he writes, “the ‘East’ then became an important testing ground for that very restructuring of the capitalist order”. Susanne Weigelin-Schwiedrzik commented that the effects of transformation were not limited to state socialist countries. She argued that the former foes were affected as well, which carries far-reaching implications especially from the South Korean perspective on North Korean development.

An elite shift and a significant redistribution of wealth occurred in the transformation states of Eastern Europe, naturally creating winners and losers. This is important if we consider that the North Korean leadership has studied the Eastern European experience closely and will certainly not have overlooked these phenomena. This helps us to understand why so far there is no noticeable pressure by the North Korean elite for reform. Why should they take the risk of being replaced and losing their economic wealth?

Segert looks at the status of formerly socialist countries and concludes that their transformation is now mostly finished. He, too, identifies different groups of former European socialist countries, supporting the finding of diversity. He agrees with David Lane that

the footprints of state socialism have in no way completely disappeared from the present type of East European capitalism. They can be found within the expectations, values and behaviour of the people mainly, but equally in the functioning of institutions.

He also points at the significant investment into human resources during the socialist period, which is why “the East did not become the South”.

We have already mentioned the ideological blinders that have often informed research on socialism in the West. Segert points at an important issue that is easily

ignored for such reasons when he argues that “socialism [...] had a certain degree of acquiescence and even support from those ruled”. This is one of the reasons why many components of the old system tend to be so persistent despite transformation.

This leads us to another thought. If capitalism in previously socialist societies has been so heavily influenced by the footprint of the former political and economic order, would it not be logical to expect the same relationship one era earlier, i.e. between the socialist societies and their predecessors? And should we not expect that a certain part of the pre-socialist heritage has survived until the post-socialist age? It would indeed make little sense to assume that socialism was built on a ground free of existing institutions. As shown above, some of these could be replaced easily, but others have lasted over centuries. The observable diversity of classical socialist societies can be explained against this background.

Segert agrees that the death of Stalin (1953) roughly marked a change in the nature of socialism. In principle, the socialist states started competing with the West on the latter’s terms, a struggle they inevitably lost. There is an interesting hint here if we try to understand why North Korea has been able to survive without major internal challenges for so long, despite faring relatively badly on most indicators that the West would use to ascertain the wellbeing of individuals in a society. The answer is that the rules of the game were different. Accordingly, we would have to expect a similar fate for North Korea once it follows the Eastern European example and accepts some of the institutions of the West. From this point of view, the often ridiculed insistence on *chuch’e* can be interpreted as being a main reason for the persistence of the North Korean system.

Segert’s observation that the new elite in the transforming socialist countries has mainly been formed of the second and third ranks of the former socialist elite carries a very practical implication. In order to understand the human resources potential of an actually or potentially transforming society, such as North Korea, the status of the second-tier elite seems to be important. If we want to further explore the particularities of East Asian socialism, we might want to look at the personal histories of these people and contrast them with those of their peers in Eastern Europe.

Last but not least, bearing in mind the fact that a government in the politically reformed Eastern European post-socialist states has rarely been re-elected, it will be hard to persuade the political elite in statist socialist societies including East Asia to introduce political pluralism and face the same risk. The alienation from politics of a large part of the population as described by Segert again does not provide strong arguments in favour of such political reform. Accordingly, it is fair to expect that economic liberalisation will continue to co-exist with little movement in terms of political change, at least as long as we expect the drivers of reform to be at the top level of society. This view is not unilaterally shared, as Young-Ja Park’s comments below demonstrate.

Segert points at the importance of the stability of the political centre in East Asia as opposed to Eastern Europe and stresses that a functioning and authoritative government is a precondition for radical economic change. Of crucial importance for political stability seems to be the ability of the old system to integrate emerging new elites; the Communist Parties of China and Vietnam have obviously been much more capable of doing so, a fact that is dealt with in more depth in the contribution by Kong and Xiang.

## 7. The European experience of socialist transformation

### 7.1. Legitimacy and socialism

In the second part, we continue the effort made by Lane and Segert to extract some valuable insights from the experience of socialism in Central and Eastern Europe, this time with a more narrow focus on single country cases.

András Bozóki explores the interaction between society and non-democratic political power as a “relationship that determines legitimacy or non-legitimacy in a given regime”, which, he suggests, would provide valuable lessons for other non-democratic regions of the world including socialist countries of East Asia and most notably North Korea.

He divides the forms of political rule in European socialist countries into three main consecutive categories: totalitarian, authoritarian, and transitory. Most notable from the viewpoint of East Asian socialism seems to be the difference between the first two forms. The transition from mostly Stalinist totalitarian rule to authoritarian regimes marked the beginning of what later developed into reforms. The post-totalitarian, authoritarian regimes were characterised by a relatively relaxed policy of industrialisation, depoliticised social control, latent pluralisation of leadership and increasing acceptance of private ownership and initiative in the economy.

An important observation is that the socialist systems were ideologically based on enlightenment promises<sup>67</sup> which were in sharp contradiction to everyday political practice. While Bozóki states that people in Europe were aware of this discrepancy, we have reason to believe that this is not yet, or at least has not been until recently, the case in North Korea. When we argued that North Korea is in the process of becoming more similar to the socialist states of Eastern Europe,<sup>68</sup> this is what we had in mind. Bozóki observes that “originally, the regime in question was ‘legitimised’

67 Kornai (1992) calls this the “Messianic Belief” and the claim of moral superiority, p. 51

68 Frank, Rüdiger (2009b): ‘Dreaming an Impossible Dream? Opening, Reform, and the Future of the North Korean Economy’, in: *Global Asia* vol. 4, no. 2, pp. 18–23

not by its achievements but by its final goal". This still seems to be the case in North Korea, with the ideal of achieving Korean unification looming on the horizon, while socialist ideology has been so closely connected to this nationalist endeavour that most North Koreans cannot imagine unification without socialism and hence would only with difficulty consider giving up the latter.

Looking at the experience in Eastern Europe, Bozóki argues that these two concepts of human rights and civil society "proved to be the most powerful ideological tool in [...] resistance to late socialism". Accordingly, he suggests as a blueprint for dissenters in existing Communist regimes that they first realise that they have to present an ethical alternative to the corrupt regime, second to organise themselves outside the established regime, and third to be able to present themselves as representatives of the majority of people.

Bozóki provides another clue as to why East Asian socialism was able to prevent the collapse of the political system that could be witnessed in Eastern Europe. He argues that the Communist era was most damaging for those countries that had had democratic traditions and a flourishing market economy in the pre-socialist era. This coincides with Lane's observation of a generally lower developmental level of socialist countries in East Asia. Depending on the base development level of a society, socialism could have a modernising or a destructive effect. In some cases it pushed urbanisation, eliminated illiteracy and feudal structures; in others, it destroyed civil society and economic structures. Once again we see how crucial the point of departure seems to be for our understanding of the diversity of the various socialist system. An intriguing research question for North Korea is posed by Bozóki's five stages of the relationship between system integration and social integration. Do we witness forced stabilisation or mass loyalty? When did China switch from the latter to the former? How is the situation in Vietnam or Cuba?

Moreover, Bozóki argues that "in the long run there are basically two types of principles of legitimacy: nationalist and democratic". What if, as is clearly the case in North Korea, nationalism and socialism are closely intertwined? Could this connection be one of the major differences between socialism in East Asia and in Eastern Europe, where nationalism existed to a certain degree but was regarded as not politically correct in the face of the paradigms of proletarian internationalism and the leading role of the Soviet Union?

## 7.2. Political reform in Poland

Dieter Bingen provides insights into the failed transformation of socialism in Poland in the early 1980s, i.e. before the start of the post-socialist period. This perspective is particularly valuable for research on North Korea, a country where socialist transformation has experienced a setback too.

He shows that despite significant changes within the Party, its role in society and the political system itself remained unchanged. As a major factor for reform, he identifies a severe loss of legitimacy. Quoting Zdzisław Cackowski, he points at the discrepancy “between the pluralisation of the instruments of political leadership and power on the one hand and the immutability of the party’s monopoly on responsibility on the other”. After having acquired and consolidated power, the Party had failed to complete the third step – inclusion of social elites. This would have been the basis for regime legitimisation that was missing. If we look at the case of China, we see that there, massive efforts at such inclusion are being made, as evidenced by the policy of the ‘Three Represents’. We would argue that this is another important difference between socialism in East Asia and Eastern Europe.

Bingen’s account of the attempted electoral reforms in Poland shows that these eventually failed because of inability to discard the hegemonic position of the communist party. Under such a precondition, reforms could not create a system where parties would compete against each other and hence failed to enhance the legitimacy of the political system. This is why Kornai identified the power monopoly of the communist party as one of the core features of classical socialism.<sup>69</sup> The Polish example implies that unless this monopoly is removed, a transformation is impossible. The Chinese example, however, seems to prove that this is not necessarily true.

The question is, therefore, whether the Chinese model of inclusion is indeed a solution to the dilemma of not being ready to give up hegemony on one hand, but being aware of the need for enhanced political legitimacy on the other. In this context, it is useful to consider the chances for inclusion in the North Korean case. The Military First Policy could, under certain conditions, be interpreted as such an attempt as it discarded the leading role of the working class in exchange for a rise in the status of the ‘military’, a very vaguely defined term in a society where a huge percentage of the population has at one time served in the military, are members of paramilitary organisations, or work in military-related enterprises. North Korea’s defensive nationalism looks strikingly similar to Chinese patriotism, which served as the ideological foundation for the inclusionary policy of the Three Represents.

Bingen shows that the creation of consultative bodies could not remove the pressure for reform, but led rather to a further aggravation of frustration and exhaustion. As with many other cases, Poland also demonstrated that economic decay will eventually lead to reform demands.

With regard to the applicability of the Polish experience to North Korea, Bingen stresses the very early stage of development of socialism if compared to Eastern Eu-

69 Kornai (1992)

rope. He argues that leaders in North Korea might have a very short timeframe for a gradual change to achieve a peaceful settlement between the ruling class and the rest of the elite, if such a group exists at all. He shows how important a non-ruling elite is for the transformation of socialism. Until the beginning of the economic reforms in North Korea around 2000, it is indeed hard to see such a group, as nationalists, pro-Chinese and pro-Soviet factions were purged repeatedly from the mid and late 1940s and more or less fully eradicated by the late 1950s.<sup>70</sup> However, the new economic opportunities arising from the monetisation and partial marketisation of the North Korean economy have created a group of people who have an elevated status in society without being part of the state apparatus. The emergence of this new middle class is another reason why we find it appropriate to state that North Korea is becoming more similar to the Eastern European case, as mentioned above.

### 7.3. Privatisation and lessons from the Czech example

Dušan Tříška provides a first-hand account of privatisation in former Czechoslovakia, and the part that later became the Czech Republic. In particular, he points at the substantial differences between privatisation in Western market economies and in socialist societies.

As emphasised above, from Marx to Kornai the question of ownership of the means of production has been regarded as central to the character of an economy. On the road to the market, the issue of property rights is crucial for the establishment of an efficient mechanism of allocation, co-ordination and decentralised planning. This profound change in the ownership structure of the economy has not only been at the centre of attention of the affected governments and their domestic and international advisors, but is also the major reason for dramatic social shifts and resulting problems. These have for many years shaped the public image of transformation, and often still do so. If we had to narrow down the complex puzzle of transformation to one factor, we would say that success depends on whether a society has been able to reduce the negative side effects of privatisation to a minimum. This is particularly important if we consider that especially in Europe, marketisation was accompanied by democratisation. This substantially reduced the scope of policy options for the new governments, which now faced a forced exit option in the case of public dissatisfaction, either through not being re-elected, or worse, by being ousted from power by a disgruntled electorate.

Such a central role of property rights corresponds with Tříška's argument that the destruction of the pre-socialist system of these rights turned out to be the major

70 See Nam, Koon Woo (1974): *The North Korean Communist Leadership, 1945-1965: A Study of Factionalism and Political Consolidation*, Tuscaloosa AL: University of Alabama Press

damage inflicted by the Communist regime(s) upon the affected societies in Central and Eastern Europe. He further stresses that property rights affect the whole of society; hence such a deficiency is far more complex than it seems and goes well beyond a few legal provisions that can be passed in a short time. This is exactly what the New Institutional Economists have in mind when they differentiate between rules of the game that change quickly or much more slowly, and those that are visible and less visible. Trust is a key element of stable interaction in any society, and no law can function without enforcement. Customary behaviour can be at least as powerful for this purpose as a judiciary and a strong executive.

Tříška therefore points at a crucial source of possible mistakes during the transformation process when he argues that “it was not the enterprise itself, but the overall economy, which required therapy”. Kornai has argued that to understand transformation, it is essential to study the classical, pre-reform system.<sup>71</sup> We would suggest going a step further. To understand the obstacles and options of post-socialist reform, it is equally essential to study the pre-socialist period. This provides one important clue to the question of what characterises and distinguishes present-day East Asia: the past, the historical experience and the resulting institutions that around the mid-18th century took such a different turn if compared to Europe that Kenneth Pomeranz, a leading proponent of the above-mentioned California School, called it the “Great Divergence”.<sup>72</sup>

Basing himself on the Czech reform paradigm that he helped to shape in close co-operation with Václav Klaus, Tříška emphasises that true transformation means more than cosmetic changes; it requires nothing less than an “entirely new institutional setup”. Kornai called this “depth and radicalism” to distinguish between modifications of the existing system (perfection) and true reform.<sup>73</sup>

To understand the dimension of the institutional repair needed that the post-socialist reformers faced, Tříška illustrates a few of the effects that the socialist system of public ownership had on the economy. He demonstrates that ‘privatisation’ in a Western market economy may be the same term, but in essence differs substantially from the homonymous process in post-socialist societies. Whereas in the former case, ownership shifts from the state to a private entity, reformers in socialist countries had to create ownership as such and find a “first owner”. In other words, property rights were not to be transferred, but to be created.

It is obvious that such a task produced very unique requirements. Referring to the example of privatisation under Margaret Thatcher in Great Britain, Tříška argues

71 Kornai (1992), p. xxvi

72 Pomeranz (2000)

73 Kornai (1992), p. 386

that “this experience has almost nothing in common with the post-communist [...] privatisation”. Actually, he cautions that it might even be dangerously misleading and counter-productive to attempt to apply lessons from such case-by-case privatisation to the complete reconstruction of the institutional framework of a formerly socialist system of ownership. This is exemplified by a significant weight of what Tríska calls “non-standard” methods of privatisation such as restitution, municipalisation, dissolution of co-operatives, voucher privatisation, etc.

On the basis of the Czech experience, Tríska outlines a number of principles of privatisation in which this specific example had been grounded. These include the priority of politics over the economy; the goal of minimising costs as opposed to maximising revenue; the goal to increase the efficiency of the whole economic system rather than of the single enterprise; the need to find any owner at all rather than the perfect one; the strategy to curtail the influence of foreign investors and in particular to exclude them from being the first owners; the insight that growth will primarily come from newly established, not from privatised companies; and that the new institutional environment should be the result of the transformation process, not its prerequisite. In particular, he stresses that the restructuring of enterprises has to be done by the new owner, not by the state.

Other insights presented by Tríska include the fact that transformation is not without costs, and that these need not only be monetary – which corresponds with the NIEs’ transaction cost theory. He also points out that ‘justice’ is often in the eye of the beholder: there is a high likelihood that the beneficiaries of privatisation might be the same individuals who have been the beneficiaries of the old system. This has become the subject of public interest in many formerly socialist countries including Germany; given the highly ideologised view of North Korea taken by the South, it remains to be seen whether such reservations will hamper transformation or create social stress and dissatisfaction.

Tríska suggests the following lessons for East Asia and in particular North Korea: far-reaching reforms weaken the responsible government; ‘ownership’ of and participation in the reform process should be as broad as possible to create legitimacy and acceptance; reform enthusiasm vanishes quickly, hence speed is crucial; excessive ex-ante regulation could turn out to be an obstacle to reform; external examples should serve as an inspiration, but should by no means replace indigenous concepts; and, last but not least, those who initiated the reforms should be prepared not to be properly rewarded for their courage.

## 7.4. Big Bang versus gradual change: The cases of Poland and China compared

Günter Heiduk and Ryszard Rapacki explore what they call the “road from plan to market” in Poland and China from a comparative perspective. Their chapter provides an ideal connection to the third part of the book in which we explore some of the experiences of socialism and its transformation in East Asia.

Heiduk and Rapacki provide us with another clue regarding the specifics of the ‘East Asian’ way when they point to the fact that the dichotomy market/democracy versus plan/dictatorship that could be observed in a more or less pure form in Europe makes room for a much more blurred segregation in East Asia, exemplified by what is usually called the ‘developmental state’. Interestingly, this coincides with a seemingly unrelated discussion that was particularly intense in the 1980s and early 1990s, when Western academics, impressed not only by the success of Japan but also by its repetition in South Korea, Singapore, Hong Kong and Taiwan inquired critically into the nature of East Asian capitalism.<sup>74</sup> The World Bank’s appreciation was especially surprising at that time, only a few years after the Washington Consensus and the end of Japan’s bubble economy. With the global financial crisis of 2008, interest in interventionist models of economic policy has witnessed another renaissance.

Heiduk and Rapacki suggest in particular that, on the basis of the experience available with socialist transformation, the plan-dictatorship model cannot be sustained any further. Such a conclusion has far-reaching implications for the case of North Korea. Poland and China were selected for the comparison because they represent two opposing models of transformation: shock therapy, also known as Big Bang, and gradual reform.

They add an important aspect to the task of conceptualising the research field by pointing at the relative confusion about the related terms ‘reform’, ‘transition’ and ‘transformation’. They define transformation as the long-term, all-encompassing process of change from one system to another. Transitions mark single periods within this process, and reforms are measures that lead to such transitions, often with a time lag. Corresponding with the NIE approach as outlined above, they emphasise the relevance of the specific institutional framework, itself the result of societal development that reaches far back into the pre-socialist period. They argue that transformation is a function of initial conditions (political, social, economic, demo-

74 To name only a few: Amsden, Alice (1989): *Asia’s Next Giant: South Korea and Late Industrialisation*, Oxford: Oxford University Press; Krueger, Anne O. (1995): *Growth Theories in Light of the East Asian Experience*, Chicago: University of Chicago Press; World Bank (1993): *The East Asian Miracle: Economic Growth and Public Policy*, New York and Oxford: Oxford University Press

graphic), of geographical location, of the chosen transformational approach and of the characteristics of the political decision-makers.

Proceeding from a set of indicators, Heiduk and Rapacki regard the example of shock therapy in Poland as largely being a success story, with economic growth serving as the most important criterion. Although much is left to be desired, Poland has done relatively well if compared to other post-socialist societies, especially in small-scale privatisation, price liberalisation and foreign trade. Large-scale privatisation including the resolution of pending property rights issues and over-regulation is identified as one of the major weaknesses. This corresponds particularly well with the observations by Tříska for the Czech case (see above).

An important methodological insight provided by Heiduk and Rapacki is the fact that the identification of successful measures and failures during the transformation process is not sufficient; for a correct evaluation of the utility of the single policies, the effects have to be properly weighted. This is not only difficult but also the potential source of misapplication for countries such as North Korea and hence deserves special attention. Another finding is that over time, the institutional framework surrounding reforms increases its influence and has the potential to undo some of the effects of reforms if it is not constructed or adjusted properly.

Heiduk and Rapacki extract a number of success factors from the Polish experience that are applicable to other cases to a varying degree. Among the country-specific success factors are a strong personality behind the reforms, the Solidarity trade union and its ability to prevent social discontent, a sound macroeconomic policy, the survival of pre-socialist market institutions, and the relative openness and pragmatism of Polish socialism, including interaction with the West since 1971.

Among the general lessons developed from the Polish experience, Heiduk and Rapacki identify the proper (in terms of consideration of initial conditions) choice between shock therapy and gradual reforms; the proper pace and sequencing of reforms; the danger of a systemic vacuum; the relevance of historic and national traditions; behavioural factors that correspond with our definition of institutions above; the importance of an 'external anchor', in this case the EU; and the influence of the chosen exchange rate regime on macroeconomic performance. It was found that a fixed exchange rate generated higher growth rates, but also a greater macroeconomic disequilibrium if compared to floating exchange rate regimes.

In the second part of this chapter, the gradual approach of China is presented as the counter-example. Measured by GDP growth, the reform process in China has been particularly successful. However, a number of 'dark sides' of this growth are mentioned, such as poverty, regional income disparities, the urban-rural divide, the gap between high-tech and low-tech enterprises, and the growing diversity in the population's educational level. It is particularly instructive to contrast the fact that

China's reforms started with agriculture with the completely different set of tasks and conditions in Poland. We are also reminded that the Chinese transformation process is yet not finished, in particular the crucial reform of property rights including, but not limited to, the above mentioned agricultural sector, despite a legacy of three decades (!) of reform.

Against this background, the hitherto unchallenged power monopoly of the Chinese Communist Party (CCP) should not necessarily be seen as a component of the newly emerged system after transformation, but rather as a remnant of the old system that has not yet been touched by the transformation process. This and other observations imply that the utility of the Chinese example for application to North Korea should be sought on the procedural level, and not in terms of the final result as this might have not yet been reached despite the long duration of the transformation process.

A profound change, however, has taken place in the realms of legitimacy. Returning to the contributions by Bozóki and by Bingen in this book, we find that the CCP has managed the transition from the purely ideologically based claim to leadership to a more pragmatic and worldly justification of its power: economic success. China is not the first country in the East Asian region that has used the latter as a source of legitimisation for an authoritarian government. In this context, it is intriguing to consider that Woo has shown the role played by a few 'talismanic' economic indicators such as GDP growth or export volume (including state medals to leading exporters) to legitimise the authoritarian rule of Park Chung-hee during his developmental dictatorship.<sup>75</sup> This not only provides another fascinating parallel of economic and societal development in East Asia beyond the boundaries of the socialism vs. capitalism dichotomy, but also emphasises the need for a timely paradigm switch: the Park era ended with his assassination and was followed, with a few years' delay, by an indigenous democratisation.

China's progress, despite the unfinished transformation, has been remarkable. Heiduk and Rapacki point at significant changes in the institutional framework including property rights, liberalisation, regulatory structures, the exchange rate regime, incentive systems, and mechanisms for co-ordination and resource allocation.

In applying the conclusions of their research to North Korea, Heiduk and Rapacki find that for a successful shock therapy, the existence of South Korea could prove to be a supportive factor. However, a number of political issues raise questions as to whether such an approach would indeed work. The gradual, 'Chinese' model therefore is found to have its merits. South Korea could in this scenario serve as an external anchor, and

75 Woo, Jung-en (1991): *Race to the Swift: The State and Finance in Korea's Industrialisation*, New York: Columbia University Press

a gradual change would reduce the risk of external shocks to the vulnerable and weak North Korean economy. However, Heiduk and Rapacki quote a Chinese specialist who emphasises that North Korea is in many ways unprepared to follow the Chinese example; this includes a lack of reform mentality, a lack of political and economic base for reform, and not least a very different international environment as compared to China in 1979. Coinciding with actual developments, Heiduk and Rapacki suggest that North Korea is using the disarmament talks to secure the economic base for transformation.

### 7.5. Conversion despite diversity

János Matyas Kovács in his comments acknowledges that despite the diversity of the hitherto presented approaches and case studies, a number of common crucial points have emerged including liberalisation, legitimacy and the behaviour of the ruling elites. He cautions us to avoid operating with overly generalised terms, and emphasises the many commonalities that socialist countries have exhibited. He suggests focusing less on industrialisation and more on marketisation when assessing the economic evolution of communist regimes. Importantly, Kovács points out that despite the monolithic and totalitarian picture that socialist states usually presented to the outside, they were by no means devoid of pluralism and polarisation.

In concordance with our arguments on the effects of marketisation in North Korea, Kovács emphasises the learning effects generated by the ‘parasitic’ and state-dependent informal economy for the general population; he calls this a “school of liberalism”. Indeed: where else could individuals in a socialist society learn and practice the institutions of a market economy including rational calculation, quasi-free choice and the omnipresence of transaction costs? Kovács argues that a prolonged process of exposure to such subtle internal changes not only ‘westernised’ the population but also prepared the elite for accepting the negotiated changes that led to the dismantling of socialism in their countries. In the end, the *nomenklatura* made a great contribution to defeating itself. Particularly for the case of Poland, Kovács asks whether the elite “defeated itself not through a successive loss of willingness to survive (as, for instance, in Hungary) but through an incessant insistence by an important part of it on staying in power”.

Kovács is critical of the view presented by Dušan Tříška regarding the superiority of the Czech way of privatisation. He asks whether it is indeed correct to assume that the explicit preference for domestic over foreign investors was the silver bullet for successful transformation of a socialist society, and whether it is appropriate to downgrade those privatisation programmes in Eastern Europe that have made extensive use of capital import.

With regard to the paper by Heiduk and Rapacki, Kovács urges us to consider the long-term effects of the strategy of ‘first stabilise, then privatise’, as chosen in

Poland. Although such an approach could speed up transition and reduce its initial costs, it might also create structural problems with long-term negative effects. Pursuing the same logic, he asks whether a deep transformational recession could actually be worth the price as it creates a “Darwinian context” in which inefficient companies would be forced to exit rather than remaining alive and serving as bridgeheads for corruption and populist redistribution.

In his final analysis, Kovács points to a development that is less surprising than it seems to be in the eyes of many particularists. No matter how different the chosen initial paths of reform and transformation, the pre-socialist and the pre-reform conditions were: after 20 years, we witness a remarkable conversion and homogenisation of post-socialist development. This implies two conclusions for North Korea: (1) there is no ‘best practice’ of transformation, and (2) in the end, the long-term result seems more or less predetermined. This makes the European experience valuable for East Asia not as a package solution, but rather as a toolbox.

## **8. The East Asian experience of transformation**

### **8.1. China between implementation and reform of the Soviet model of socialism**

The third part moves the focus of our attention to socialism in East Asia, in particular to China and Vietnam. It is a striking fact that these two countries have so far managed to achieve what was deemed impossible by both practitioners and theoreticians of socialism: they have maintained a political system that is very close to the socialist past, but at the same time have transformed their economies into vibrant forms of market capitalism. The inevitable societal contradictions that have emerged as a result have, quite surprisingly, so far not destabilised these societies.

Kong and Xiang in their contribution look at the highly intriguing question of parallels between the two models of socialism that have competed, often bitterly, for decades. This is one of the relatively few cases of such a perspective as discussed at the beginning of this chapter and hence is particularly valuable for this book.

Kong and Xiang insist that current Chinese socialism is to be seen as a reformed version of the Soviet model. In particular, they argue that throughout three decades of reform, substantial changes were achieved on the surface, but that these only hide the relatively low progress at the core. This view directly challenges the popular argument that China has indeed developed its own model of socialism.

Kong and Xiang provide a characterisation of the Soviet model that largely corresponds with Kornai’s definition of classical socialism. They argue that there is a hierarchy of elements in this model, from the political aspects at the core to economic,

diplomatic and cultural factors. The further away from the core, the easier these can be adjusted or reformed.

The high relevance of what Lane and Heiduk/Rapacki called initial conditions is highlighted by Kong and Xiang, too. They argue that the applicability of the Soviet model to other societies depended strongly on this starting base, roughly described as political autocracy and economic underdevelopment. The latter explains why the socialist model has shown varying degrees of success in single societies; in general, it generated better results when the benefits of a centralised system of resource mobilisation and allocation outweighed the costs of inefficient bureaucratic co-ordination.

The major driver of reforms in a Soviet-type system is identified by Kong and Xiang as the constantly decreasing legitimacy of the ruling elite, a finding that coincides with the arguments by Segert, Bozóki, and Bingen. Such a legitimacy crisis did not emerge in all socialist countries at the same time; hence reform efforts did not take place simultaneously. This explains why Moscow crushed reform efforts in Eastern Europe before embarking on its own reform path under Gorbachev, and why Beijing accused the Soviet Union of being revisionist before making substantial changes to the system created under Mao Zedong.

Kong and Xiang also pick up another recurring theme in this book: the persistency of pre-socialist concepts and experiences throughout the socialist and far into the post-socialist period. They interpret the introduction of socialism in China not as being based on the latter's intrinsic value per se, but as another attempt at achieving modernisation and development after Westernisation, democratic reform and capitalism had failed under Kang Liang and Sun Yat-sen.

We have already seen that many socialist countries, in particular those in Europe, had little choice but to accept the Soviet model as a result of the new power relations after the Second World War. Kong and Xiang show that in China, however, the new elite made a deliberate decision to adopt the Soviet model as they regarded it both as effective and successful, and also as suitable to their country. This included the political system, administration and economic policy and went as far as the system of higher education.

Coincidentally, at the time of writing (2009) China is indeed halfway between three decades before and three decades after 1979. Kong and Xiang argue that 1979 roughly marks the watershed between the adaptation of the Soviet model in China, and its reform. They then show how this reform process proceeded in a very gradual fashion, as emphasised by Heiduk and Rapacki. In particular, they mention the institutional change in the Chinese economy that was brought about as a result of international contacts and interaction. While Soviet Marxism had been criticised as "revisionist" under Mao, it was now regarded as "dogmatic", which called for greater flexibility. Such changed attitudes are remarkable and show that even in terms of im-

portant ideological positions, socialist systems are in principle capable of substantial adjustments. This is particularly important when we ask about the potential for reform in North Korea. The relevance of the 'external anchor' (see Heiduk and Rapacki) is impressively reflected in statistics that show the dominance of Western-trained Chinese in leading positions, including over 77 percent of university presidents.

Despite the many reforms, Kong and Xiang oppose the notion that China has changed substantially, i.e. underwent a complete transformation, as long as what they call the "basic system of socialism" and communist leadership are still in place. The necessity of maintaining both is not called into question; they do, however, insist that alterations that do not result in qualitative changes of these two principles are possible. In particular, Kong and Xiang argue that the root cause of the failure of the Soviet system, "that power is excessively concentrated in the party, and that the party's power cannot be effectively restricted", remains dangerously unchanged. They urge a reformed cadre policy and a strengthened rule of law. Obstacles to change are vested interests of beneficiaries of the old system, and the danger of a vacuum if the old system is abandoned hastily. The latter is regarded as particularly problematic as the core tasks of modernisation have not yet been fully achieved; we note parallels to the arguments in favour of a developmental dictatorship as brought forward under Park Chung-hee in South Korea.

In their conclusion, Kong and Xiang suggest that North Korea faces very similar issues. In particular, it seems that the timing of reforms appears to be crucial in the sense that they will be most successful when taking place at the time when the old system has exhausted its potential for development. As the contacts between the North Korean and the Chinese leadership and intellectual elite are particularly close, it would not be surprising to find that such thoughts are indeed influencing North Korean concepts.

## **8.2. Vietnam: The successes and pitfalls of gradual transformation**

Ari Kokko explores the other major case of gradual socialist transformation in East Asia - Vietnam. He begins his analysis of the reform process with *Doi Moi* as announced in 1986. He shows that while the assessment of the first reform decade had been largely positive, the picture changed thereafter. This does not affect reform itself: "Vietnam's transition from plan to market has continued at an unabated pace". But while Vietnam has been doing quite well in some areas including foreign trade, it continues to exhibit major problems in others. These include the financial sector, the reform of state-owned enterprises, the education system and health care. New issues have emerged as a result of globalisation, such as macroeconomic stability, the decreasing efficiency of economic planning, technological innovation, changed preferences of aid donors, corruption, and sustainability.

Kokko uses the experience of the Nordic countries as a benchmark to assess the performance of Vietnam since 1986. This adds another important facet to this book, since the Nordic model is often seen as being capitalist with socialist elements, in particular strong welfare systems, a high tax rate coupled with redistributive efforts by the state, and a certain sense of collectivism. Although he emphasises that a simplistic analogy between Nordic states and reformed socialism would be misleading, Kokko points out that the propensity of Vietnamese policy-makers to listen to advice from the Nordic perspective will be much higher compared to sources that are known for their strong neo-liberal paradigms. The same could be said for North Korea.

Kokko stresses the relevance of the Vietnamese example for North Korea, especially the ex-ante anticipation of issues on the reform agenda. This is notwithstanding the fact that the solutions to these issues are very likely to be different. In the above-stated context, a crucial point for Vietnam's reform has been the achievement of peace, a condition that is still missing for North Korea. It is particularly interesting to note the argument that the demise of the bipolar world and the progress of globalisation has reduced Vietnam's penchant for self-reliance and increased the perceived benefits of closer integration into the world economy.

Considerations regarding Vietnam's internal stability reflect the basic dilemma of gradual reform, i.e. the growing disparity between economic freedom and political repression. In the Vietnamese case, the problem is aggravated by multi-ethnicity and regional disparities that in this form do not exist in North Korea.

Kokko's analysis of the macroeconomic challenges to the Vietnamese government contains issues that sound very familiar to analysts of Western market economies, such as overcoming protectionism or securing employment. This shows that in the course of the transformation process, Western concepts become better applicable. This seemingly similar nature of problems and policies, however, can also cover the fact that despite these parallels, the post-socialist society in question is fundamentally different from an organically grown market economy, as discussed above.

Kokko shows that these deviations can best be identified by looking at the still mostly direct instruments and concepts of dealing with the various issues. Differences exist not only in comparison to Western examples, but also to those of Big Bang reform in Eastern Europe. Privatisation (see Tříska) is a case in point. The Vietnamese example also shows that privatisation or equitisation does not automatically mean a reduced role of the state in the economy. Kokko demonstrates that this role can even grow. As a result, the playing field is not level between largely small private and big state-owned firms. This includes issues such as access to information, hard versus soft budget constraint, access to finance and to technology.

Regarding the welfare state, Kokko points out that its development in Sweden took several decades. It requires that a fair degree of economic success be main-

tained, which became increasingly difficult by the late 1980s. Similar problems are known in all advanced Western economies, calling into question the ability of low-developed transformation economies to fare much better in the long run. It is hence not surprising to see that the Vietnamese state has quickly shifted responsibility for welfare to the private level. A segregation of society has been the result. However, as the power monopoly has been maintained at the same time, this has created serious threats to political legitimacy.

Kokko's study of Vietnam's experience over two decades further shows the change possible in basic perceptions and policies, including the relationship with external partners and donors. Suspicion and reluctance have made way for open engagement. The role of official development assistance (ODA) in Vietnamese development has increased. And while development is a context-sensitive process, it is to be expected that North Korea on its own reform path will not only face many of the issues that Vietnam has had to deal with, but that external finance and other forms of support will play a crucial role. Against this background, the possibility of a paradigm shift as exemplified by Vietnam is of particular relevance.

## **9. North Korea and transformation**

In the last part of this book, we provide a few examples of how the experience outlined above can be applied to North Korea. This is a far from complete picture, and naturally, opinions will differ about the validity of the results offered by the single authors. However, as outlined above, it is not our aim to provide the final answer. Rather, we want to identify key issues and demonstrate in which directions thoughts based on individual perspectives and interpretations of the post-socialist experience can develop. North Korea is a case of high actual relevance. Strategies and policy recommendations will have their impact on the real world beyond the realm of academia as they might eventually be implemented. Accordingly, it seems appropriate to ask for as thorough and comprehensive a utilisation and processing of the available experience as possible, to find the most effective and efficient policies and to avoid known mistakes.

### **9.1. Initial conditions and their impact on North Korea's transformation**

Jeong Hyung-Gon in his chapter focuses directly on the implications of the experiences of the various cases of socialist reforms for North Korea, providing one example of how the available numeric data can be integrated into a quantitative model to develop predictions of the effects of specific economic policies on a given economy.

Jeong acknowledges the changes in economic policy that the North Korean government has initiated, arguing that these are aimed at improving the efficiency of the socialist system, but not at transformation. This is what Kornai called “perfection” versus “reform”. Jeong’s analysis reaches the same conclusion as Kornai, i.e. that such quantitative changes will fail to achieve their goal unless they develop into truly transitory measures. The question then is how such measures should be designed to minimise the negative side-effects of systemic change. Jeong argues along the same line as Lane, Heiduk/Rapacki and Kong/Xiang: the experience of post-socialist development elsewhere demonstrates that initial conditions matter for the actual course of the transformation process and hence need to be studied and considered appropriately.

To assess these initial conditions, Jeong proposes using a number of variables, including repressed inflation, trade dependency on socialist partners, duration of the planned economy, urbanisation ratio, income per capita before reform, industrial distortion, five-year growth before reform, foreign debts before reform, share of farming, openness, and secondary education enrolment rate. He then further refines this view and develops it into a complex model of dependent and independent variables.

The details are provided in a separate study; the results are presented in a concise form and show that initial conditions indeed have a direct impact on economic growth, both directly and by affecting economic policy. Jeong’s quantitative analysis suggests that there is a negative correlation between the economic performance of the classical socialist system and economic recovery after the beginning of transformation. This appears counter-intuitive at first: one would expect lesser difficulties in reaching a higher level of economic development if the starting base is high. However, the further developed a socialist system is, the bigger the necessary effort for a transformation of the institutional framework. We have already pointed to Williamson’s argument that such a change can require decades; this would support Jeong’s analysis. Applying his model to North Korea, Jeong finds that the country is positioned between the other reform cases. In particular, he argues that because of the entrenchment of the socialist economic system, transformation in North Korea will be a relatively difficult task. In combination with the characteristics of the leader-based system, he argues that a bottom-up approach to reform is unlikely, and that we have to expect a gradual top-down transformation.

Jeong’s policy recommendations for the North Korean government include a targeted improvement of the initial conditions, in particular expanded interaction with other economies, and a lowering of depressed or hidden inflation. This could be implemented by focusing on special economic zones to reduce the side-effects of opening, and by initiating (actually, continuing) a process of price liberalisation. The

latter entails the danger of hyper-inflation as demand exceeds the typically low supply of what Kornai calls a shortage economy. This will inevitably affect the whole economy, which necessitates – in correspondence with Kokko’s observations of the Vietnamese case – a skilful macroeconomic policy that includes adequate measures to develop and stabilise the financial system.

## 9.2. In favour of gradual change: lessons for North Korea

Phillip H. Park provides another example of how the experience of the transformation of socialism can be applied to North Korea. He acknowledges a certain readiness to adjust economic policies, although these changes for a long time lacked the determination for truly qualitative changes, i.e. leaving the realm of perfection and turning into true reforms. However, he argues that starting with the measures of July 2002, North Korean economic policy-makers went a step further.

Park adds a new facet to our analysis of North Korea when he identifies the relationship with the United States as a crucial factor determining the success of possible reforms. In principle, the area of external relations has been mentioned in connection with the “external anchor” (Heiduk/Rapacki and Kong/Xiang). Park shows how it is not only important for a successful transformation to have some kind of external support, but how detrimental strong external opposition can be for this process: “whether the DPRK is able to improve relations with the US or not will determine whether or not the DPRK will launch genuine reform”.

Park identifies two major models of transformation: Big Bang, prevalent in Europe, and incremental reform as exemplified by China and Vietnam. Looking to empirical evidence, he draws a dark picture of the Big Bang approach, the elements of which are (rapid) privatisation of state-owned enterprises, price liberalisation, and openness to foreign direct investment. Among the consequences were high inflation (in the most extreme case exceeding 4,000 percent in Ukraine in 1993), transformational recession and slower-than-expected growth (output had reached only 55 percent of the 1990 figure in Russia one decade later), increasing income disparity and poverty (for example, inequality measured by the Gini coefficient doubled in Russia between 1987 and 1998), and a virtual collapse of the social safety net with negative consequences for life expectancy, the number of suicides, etc.

This set of policies, which is seen by Park as an “extreme version” of the Washington Consensus, was focused on the outcome and less concerned with the procedural details. Such an approach stands in contrast to the position of Kenneth Arrow, who regarded economic change as a path-dependent process. Park supports our emphasis on institutions as developed throughout this chapter when he argues that a successful transformation requires the build-up of related institutions including the establishment of legislation to support proper functioning of market mechanisms,

the development of networks of buyers and sellers relying on market mechanisms, and a competitive environment to ensure market mechanisms are sustained. Such a process will inevitably take time.

This leads to a much more positive analysis of the gradual approach chosen by China and Vietnam. The major difference, as Park argues, is that these two countries were able to achieve macroeconomic stability during their transformation process. They did not adopt a policy of across-the-board liberalisation but rather focused on selected areas that were the most promising for success. This included industries with a high elasticity of supply, i.e. a large hidden potential that was suppressed by the institutional framework of the socialist system and could be liberated relatively quickly. In both cases this mainly meant agriculture and small and medium enterprises.

Referring to the Chinese case, Park also stresses the importance of increasing the domestic savings rate. With regard to our previous discussion of East Asian characteristics of economic development models, it is interesting to note that Woo identified a high domestic savings rate as one of the key factors for the success of Park Chung-hee's developmental dictatorship in South Korea, with clear parallels to the Japanese example.<sup>76</sup> In both cases, a high rate of domestic saving did not occur spontaneously but was supported, if not created, by targeted economic policies. This would imply that East Asian similarities stretch across systemic boundaries, which is indeed to be expected if we emphasise the relevance of long-term institutional frameworks, and demonstrates that relatively unspecific institutional characteristics can have similar, specific results.

Park points at the interrelation of various economic indicators and their impact on the process of transformation. The direct connection between growth and investment is obvious, as is the relationship between savings and investment. From this point of view, the success of transformation depends on the ability of the state to create and maintain a sufficiently high level of economic growth, which in turn needs a high level of investment that must be paid for – either externally or by domestic saving. Since social policies are usually financed by the state, there is also a clear connection between tax income and welfare. We arrive at the simple but powerful conclusion that in the end, the ability of enterprises and of the state to spend on investment and welfare depends on economic growth, and hence a transformational recession has to be avoided or at least minimised. Obviously, this is what China and Vietnam have achieved, while Europe failed.

Is therefore the gradual approach the best solution for North Korea? Park argues in favour. He emphasises, however, that in the initial reform period public support, or legitimacy, is crucial. At the same time, a strong and active government is needed to ensure macroeconomic stability and to lead the reconstruction of the institutional framework from socialism towards a market economy. But as Segert, Bozóki, and Bingen have shown in their respective chapters, this creates a dilemma. On one hand, reforms are necessitated by the failure of the communist leadership, while at the same time a high degree of legitimacy is needed for implementing the right economic policies and a strong state would be needed to keep the reform process under control.

It hence makes sense to ask how the governments in China and Vietnam, unlike those in Europe, were able to maintain a sufficiently high level of legitimacy despite their obvious failure to perform on the economic front before the reforms started. In fact, it seems that the degree of such failure showed no correlation with the level of legitimacy. Discontent with the governments was as high, if not higher, in socialist countries with a relatively high level of economic development, such as East Germany. The answer to this puzzle could be the existence of another source of legitimacy that is not dependent on economic performance: nationalism. One of the major differences between most European cases of socialism and socialism in East Asia is the harsh suppression of nationalist ideologies by the Soviet Union in the case of the former, and the key role they played in the case of the latter. This fact also helps us to integrate North Korea into the picture. Against this background, it is helpful to consider Jorganson's definition of *chuch'e*: he called it culture-specific ethnic nationalism.<sup>77</sup>

Returning to Park's chapter, we see a number of important points on the prospect of economic reform in North Korea, based on his critical assessment of the divergent paths taken in Europe and East Asia. Park argues that despite initial success, the North Korean strategy of self-reliance is not sustainable. However, the peculiar architecture of North Korea's political system centred on an individual leader (*suryŏng*) limits the possibilities for a paradigm shift in economic policy, especially since the leader, socialism and national independence are so closely intertwined that a separation of these elements would be difficult, painful and risky from the perspective of maintaining legitimacy and regime stability. Limited room for flexibility is available, which has allowed Kim Jong Il to pursue his Military First Policy (*sŏn'gun*), although views on its content and impact vary.<sup>78</sup>

77 Jorganson, John (1996): 'Tan'gun and the Legitimation of a Threatened Dynasty: North Korea's Rediscovery of Tan'gun', in: *Korea Observer*, vol. 27, no. 2, p. 282

78 See Frank (2008b)

Phillip H. Park concludes that North Korea faces the enormous task of institutional reform, which is a long and difficult process. To this end, a strong, active government is needed as a leading force. This has important implications for policy-makers in other countries: a forced, quick regime change by military intervention or starvation/sanctions could turn out to create known long-term transformation problems. But while in principle support for a gradual transformation is relatively strong, few governments are willing to pay the price, which would entail, in one form or the other, the prolongation of the current regime in North Korea. The choice depends on the priorities and preferences of the single international players, which are not only diverse but also dominated by political and ideological interests.

### **9.3. Reforms from below?**

Park Young-Ja in her comments questions the readiness of the North Korean leadership to implement true reforms and the implications of a US-DPRK rapprochement for socialist transformation. She argues that, although differences remain, North Korea is increasingly exhibiting signs of change from below. She therefore focuses on changes that emanate from the grassroots level while not denying the influence of the other levels of analysis such as stability of leadership and international relations.

Her findings are based on interviews with North Korean defectors, who represent about the only source of what can be regarded as in-depth field work on North Korean society in lieu of any opportunity to do so inside of the DPRK itself. The risk of working with such a selected group is that their views are not necessarily representative of the whole population, since their specific living conditions in the past have led to the decision to defect and their new environment shapes their views and public statements.

The past years since the end of the 'Arduous March' (North Korea's euphemism for the famine 1995-1997) and in particular after the 2000 summit meeting between Kim Jong Il and Kim Dae-jung have witnessed a dramatically increased role for markets that almost replaced the state as the major distribution system for staple food and other products. This has been the combined result of pressure from below, which Park Young-Ja emphasised particularly, and the state's recognition that there was no other option. We also know that there were functionaries in Pyongyang who believed that a new system of providing incentives for higher efficiency was needed to avoid another famine. As was to be expected, the markets got out of control and developed dynamically and autonomously. This has created the huge societal changes that we have noted above. Park, too, argues that these changes are irreversible despite the state's recent attempts at retraction.

## 10. Instead of a conclusion: the need for further research

It is remarkable how the very diverse contributions in this book independently of each other seem to hover around a number of similar key concepts. These include institutions and institutional heritage, initial conditions, property rights, a functioning state, elites and their inclusion, the existence of an external anchor and legitimacy. It is particularly noteworthy that this is the case despite different perspectives and sometimes even opposing suggestions. We would argue that this demonstrates the validity of our conceptual approach for this book, and also shows the great potential of the NIE approach for the combination of social science and area studies.

Future research faces the task of further systematising and deepening this methodological concept and of applying it to other cases. Given the breadth of the field and the relatively small number of studies, it has so far been relatively difficult to apply a comparative perspective with sufficient academic rigor. We hope that this book will contribute to a larger debate about the appropriate analytical framework for such endeavours and that it will serve as a source of inspiration.

We agree that North Korea is a very special case of socialism. However, it would amount to gross neglect to ignore the fact that it is also a socialist country, in many respects much more so than China ever was. North Korea fulfils all the criteria proposed by Janos Kornai such as power monopoly by a communist party, a dominant ideology, state ownership of the means of production and a preponderance of bureaucratic co-ordination.<sup>79</sup> The results are inevitably those that we can expect from such a combination. The extreme view of regarding North Korea as a singular and unique case loses sight of the fact that no socialist country was like another. East Germany, Poland, the Soviet Union, Hungary, Czechoslovakia, Yugoslavia, Vietnam, China, Cuba, etc. – they all have exhibited very different characteristics. But as they were part of the socialist bloc, they were rarely seen as unique cases in their own right. There was a tendency to ignore the diversity within the socialist camp as the idea of a bipolar world was the established concept.

Two decades after the collapse of the socialist bloc it seems that once more, analysts in the West face the danger of falling victim to their own propaganda. Emotionally charged campaigns focusing on a single personality such as Saddam Hussein or Kim Jong Il are useful for mobilising broad public support against the countries that these leaders represent. However, this clearly is an oversimplification and creates the impression that the respective country can be understood like a somewhat weird individual. This is not the case. Societies are much more complex, as the debates in this book show.

79 Kornai (1992)

We have suggested using the concept of institutions to understand how the differences among the socialist countries in Europe and East Asia were based on the unique institutional environment in each case, how the pre-socialist period had a huge influence on later development not only in terms of geopolitics or resource endowment, but also regarding values, preferences and priorities. North Korea stands out as one of the countries that were able to liberate themselves from direct Soviet interference, which gave Kim Il Sung more room to focus on the specifics of his own country and to develop his own structures and modes of governance. This allowed North Korea to deviate more than most European countries from the Soviet model. However, to assume that this makes North Korea completely unlike any other socialist country would be a grave mistake.

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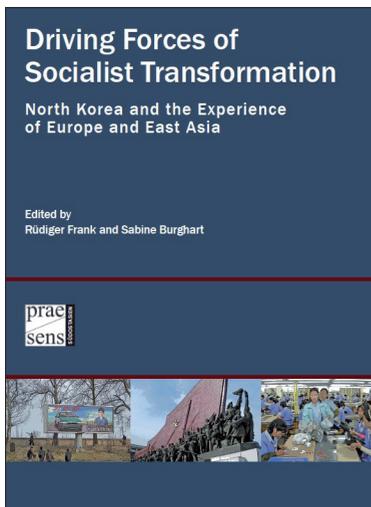
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