

# Normalizing North Korea: A proposal for principled engagement

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***A likely solution to the North Korea nuclear problem is to turn North Korea into a “normal” country, one that can engage normally with the world around it and without need of nuclear weapons. This means replacing Marxist-Leninism with a reforming market and private ownership-led economy. The US can help make that happen and our South Korea reforms of the 1960s are instructive. This may sound difficult, and it is, but Kim is already half-way there and appears to want to go in that direction. Let’s give him an option he can’t turn down.***

North Korea under Kim Jong Un is giving signs that it wants to become a “normal” country. We should embrace that idea by emphasizing that any normal country that wants to engage others must operate on market rules, such as enforced by the WTO, the IMF and the World Bank. Of all the significant countries in the world, North Korea alone is not a member of these essential organizations and thus cannot be considered normal. Its economic system is incompatible with the rest of the world, even with China. But we can help change this situation provided Pyongyang both begins to back off its nuclear weapons (which will not be needed once it is a normal country) and engages in robust market reforms. In the past this would have been a hopeless task, however, due to the very tough sanctions environment and a confused and dangerous financial environment inside North Korea, where dollars are replacing the use of NK won and are killing the socialist rationing system, it is an ideal time for a US initiative focused on economic and social reform, with denuclearization one essential part. Evidence of this opportunity is the large risks that Kim has taken in reaching out to the US in the Singapore summit, his current emphasis on economic development, and his warming propaganda line toward the US. But taking these kinds of transformative reforms are risky and no doubt there are many in Pyongyang who would resist. A push right now by the US might be all that is needed.

Here is my suggestion for pushing reform forward. It aims at putting a final end to Marxist-Leninism in North Korea and thus it’s felt need for nuclear weapons and its medieval approaches to human rights. But the primary initial focus is on economic reforms that Pyongyang likely already understands are necessarily to its own survival.

1. Secretary of State should ask for a private and secret meeting with several members of Kim’s cabinet who are focused on the economy. This would include, most importantly, Premier of the State Council, Pak Pong Ju, who is likely the key economic advisor to Kim. The central bank governor, the head of planning commission, and the finance minister also should be included. On our side, a representative from the Federal Reserve Board of Governors might participate.
2. Sec. State should outline a plan that would begin a process of bringing North Korea into the IMF and, most importantly, the WTO. WTO is more important since only by joining WTO can North Korea’s trade be put on a “normal” basis with everyone, including the US. Our high tariffs on their exports would come down to MFN or normalized rates, which are very low. This should be emphasized as being much more important than sanctions relief, since it is permanent and necessary if North Korea is to attract needed investment. The US and North Korea have never

had normal trade and investment relations, even long before the nuclear sanctions, and this is what we want to change.

3. Sec State could say that in anticipation of a positive response by North Korea, the administration is proposing to Congress that Trading with the Enemy Act, and Terrorist List, which force the US to veto any North Korean participation, be lifted.
4. The process for joining will be long and difficult for North Korea since many major policies will have to be changed to adhere to economic practices used everywhere else in the world. The US recognizes these difficulties and is willing to work with Pyongyang to mitigate these risks, many of which are financial and from which we expect North Korea is already feeling pressure. (Loss of foreign exchange due to export embargoes.) An excellent model for this kind of help is offered by the program launched by the Kennedy Administration to assist South Korea in the mid-1960s, probably the best example of creating an economic turn-around in world history. But like in South Korea, and in the spirit and necessity of self-reliance, we would expect the Kim government to do most of the work. We feel it very important at this point that North Korea not become too dependent on its four big neighbors, China, Japan, Russia, and South Korea, although we see reform in North Korea as a big step toward ultimate reunification of the peninsula. We can see no reason why results would not be anything less than spectacular. We don't mean to intervene in North Korean politics, but we do want to help it become a normal country that others can deal with on a normal basis.
5. A big part of this would be monetary reform, creating a sound money and banking system (capitalist) that would allow North Korea to have a solid currency, not having to use US or Chinese money internally and which would unify the currently dysfunctional multiple pricing systems. This would greatly help the North Korean government reclaim control over essential government services and end practices that we believe are corrupting the state and the rule of law. But it would also require it to allow the budding private sector to take the lead in most non-essential services and production. We notice that in North Korean official media today, some elements of this narrowing and strengthening the government's role in the economy is being advocated. Under the right circumstances (major pullbacks in nuclear weapons development, for example stopping production of fissile material in all plants) the US would take the lead in backing the North Korean currency until exports can be raised to levels that support the currency and strong domestic growth. We would expect Japan to help, as it did in South Korea's development, by contributing large amounts (\$10-20 billion) of colonial era reparations.
6. An essential part of the reforms must be the direct pay of workers in North Korea, including for the government's own staff, and possibly the military, thus formally ending the ration and central planning system. Normal countries do this; in fact, North Korea is the only one that does not. This will require a very large increase in the government's budget expenditure, putting the money in workers' pockets. We think this can be accomplished in a non-inflationary way by selective sales of North Korean state property to North Korean entrepreneurs and some to foreign entities. It will also mean dropping many state activities, allowing them to turn private, and optimization of the military to focus on needed defense, not offense. And it requires good

banks so that people's savings will pour into them, creating the resources for investment and dynamic growth, just as occurred in South Korea in its boom years.

7. Another key reform, we think, should be in agriculture, allowing private, that is family farming. The US pushed such land reform in Japan, South Korea, and Taiwan after WWII with outstanding success. China has done the same since Deng Xiao Ping's reforms. North Korea seems to have initiated some such reforms, but they do not seem to be extensive enough, thus breeding discontent. We feel certain that such reforms would make North Korea self-reliant in food supply and release large numbers of farmers for productive work in export generating industry. In the midst of this progress we must be sure not to dump food aid into the country, aid which in the past has all but destroyed the North Korean farmer.
8. And along with such reforms we must pay attention to human rights concerns. We ask that North Korea's medieval practice of punishing relatives of those convicted of crimes, especially political crimes, be ended and that the large political prison camps be closed. Many of the inmates can become productive workers in the reformed economy; some may have to emigrate, and we will help make that happen. Outside aid can be provided, perhaps ten thousand dollars per person, when we are sure the funds will go to the former prisoners to help them start new lives. The money would spur development all around them. Again, money from Japanese war reparations might be used as well as great involvement from the many NGOs that want to help North Korean people.
9. This investment and growth program will not require a lot of new aid money and will easily be self-financed by what we would expect to be a huge inflow of foreign investment into North Korea. We understand the dangers of such foreign investment, however, and can work with the government to make sure private North Korean and state companies reap most of the benefits. This is the South Korean model of which we are proud, and it requires good banks to connect North Korean savers to North Korean investors. Avoiding selling out to foreign (especially Chinese) interests must be a high priority.
10. As a sign of US sincerity, Sec. State could say that we would like to work out a side deal in which the two countries could set up official tourism offices in their opposite capitals and that the US will remove constraints on US travel to North Korea. (These are US-only sanctions and thus would not require changes in UN sanctions.) And he can say we agree with Kim that tourism is a natural comparative advantage of North Korea that can and should be exploited.

Sec. State can emphasize that such changes can't be done overnight and should offer to initiate a series of in-depth meetings between US and North Korean experts, with the aim of putting a proposal for top level discussion and approval in a summit meeting. He should designate a senior US government official to begin this process and ask that the Premier do the same.

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