

**A COMPARISON OF NORTH KOREA WITH CZECH REPUBLIC AND
CZECHOSLOVAKIA FOCUSED ON ECONOMIC REFORMS IN BOTH
COUNTRIES**

By

Radim Vaculovic

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY

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ABSTRACT

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North Korea (Democratic People's Republic of Korea) and Czech Republic or Czechoslovakia - is it possible to compare these two countries? Is there anything what is common for both countries? Many people will answer to this question probably „NOT“. Czech Republic is the country in the middle of Europe, (the Capital – Prague is very often called „the heart of Europe“), which quite successfully transferred social planned economy to market economy. North Korea is on the other hand a country with very central planned economy in North East Asia, where to talk about market economy is something not really possible. So two countries – no geographical connection, (the geographical distance between the two countries is about 8.000 km), no economic connection, each of the state is really in total different pole. Well if a person is satisfied with this explanation it is true there is probably not so much common and these two countries are not really comparable.

But I have bit different opinion. I allege that if we think about it very carefully and very deeply there are so much common between the two countries. I am not saying that Czech Republic is the best and only possible country for comparison with North Korea. No. But I think I have quite good arguments, which I hope can pursue a reader of

this paper that comparison of these two countries is possible and may be quite useful for future development of North Korea. But to make this comparison more realistic and try to find higher correlation I will compare not only North Korea with Czech Republic, but I plan to put quite much emphasis on the comparison between North Korea and Czechoslovakia, former Czech Republic.

My goal is to compare these two countries because there are lots of similarities, which makes the comparison possible. Czechoslovakia and KLDPR had very similar initial conditions, similar type of governments, similar reforms, which they made, and similar dependency on Soviet Union etc. I want to build up this paper on these similarities.

I would like to divide this paper into three main parts. In the first part I want to briefly talk about North Korean history from year 1945 till now and about the reforms, which North Korea introduced during that time. In history overview I want to focus on the main ideology which North Korean took and on the main strategies which the country used. When I will talk about reforms, which DPRK took in past, I will write mostly about North Korean reform from July 1st 2002. This reform is the most crucial in latest history and can have significant effect on the country.

Second part of thesis is focused on Czechoslovakia and Czech Republic. The second part will look at the beginning on Czechoslovakian history from 1945 till now. In this historic overview I will try to focus on the ideology which Czechoslovakia took and on the most important points in the history, which had crucial effect on the events in Czechoslovakia. In this part I will also look on the reforms, which Czechoslovakia took during the periods. I will focus mostly on three reforms – reform from 1965 - 1968, reform from 1980-1987 and reform from 1989 till now.

In my third part I will try to find similarities between the two countries first. As it will be seen from first and second part North Korea and Czechoslovakia had for example central planned economy, one main communistic party, which leded actually the country. Both countries had economy mostly oriented to heavy industry, similar natural resources - both countries had quite much of coal; none of the countries has noticeable resources of crude oil and was fully depended on Soviet support of the crude oil. Soviet Union and his support toward the planned economies were for both economies very important. Both countries used five or seven years plans for their economy and for both of the countries is similar that at the beginning (after second World War) they fulfilled the plan quite successfully but later on, the economy had started to slow down. Both of the countries put high emphasis on social subsidy. Free medication, free school system, very cheap basic food and free holidays are just examples of these subsidies. These are just few examples of similarities which I am going to talk about.

As the next step I will try to compare the North Korean reform from 2002 with Czechoslovakian reforms between 1945 and 1989. Are there comparable? I believe so. What the Communistic party in Czechoslovakia did in 1960ties and between and 1980ties is quite similar what did North Korea in summer 2002. For each step which introduced NK in 2002 I will try to find out similar step in the Czechoslovakian reforms and upon Czechoslovakian experiences I will try to predict the effect of the NK reform. Can we predict upon Czechoslovakia history what will be the future development in North Korea? Will the Kim Jong-Il regime terminate and how? Is it reasonable to expect Korean Unification and what should be done if yes? I will try to answer these questions at the end of my paper. Of course any predictions about NK have certain

limitation, because the regime is quite unpredictable. I will try to find out what the limits are and what we can expect.

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2004 (Year of publication)

Dedicated to the beloved of my parents

ACKNOWLEDGEMENT

Many people knew what topic I took for my thesis and many people tried to help me so much. Especially thanks to professor Jin Park for his good advices and materials which he supported to me. I also want to thank to professor Tony Michell, who allowed me to use his company's KABC latest data about North Korean current situation. I should not forget to thank to journalist Michael Breen, who is the author of the book about Kim Jong-Il with whom I discussed for many hours the possibility about changes in North Korea. The Czech Economic University, especially professor Magda Sombergova also helped me so much with obtaining data about Czechoslovakia. Thanks to all of you for your great job!

TABLE OF CONTENTS

Introduction – why I write about Czechoslovakia, Czech Republic and North Korea	8
Part I. – Overview of North Korea 1945 - 1981	9
I.A. Overview of North Korean economy 1945 - 1981	9
I.B. Opening of the economy 1981 - 1995	15
Part II. Reforms in DPRK	16
II.A. Reforms in 1980ties	16
II.B. Reforms in 1990ties	19
II.C.Reform on July 1 st 2002 of Czechoslovakia	21
Part III. Overview of Czechoslovak economy 1945 - 2004	29
Part IV. Reforms in Czechoslovakia	35
IV.A. Reform in Czechoslovakia 1960-1968	36
IV.B. Reform in Czechoslovakia 1980 - 1987	44
IV.C. Czechoslovak/Czech Reform 1989 - today	50
Part V. Similarities between Czechoslovakia and DPRK	56
Part VI. Comparison of the reforms	61
Part VII. Current Situation in North Korea	72
Part VIII. Prediction about future, tasks ahead of DPRK	75
Part IX. Conclusion	81
Part X. Tables and Charts	83
Bibliography - References	92

INTRODUCTION

There are several reasons why I have chosen these countries to compare. At the beginning I wanted to compare Czech and Slovak economy – but after I was thinking the entire problem over very deeply I have found that I would like to try to find some more challenging topic – so I have chosen comparison of North Korea and Czech Republic. The reason for choosing Czech Republic is quite obvious – I am from the Czech Republic – so I know about this country, its problems and economy quite much. North Korea – I have been interested in that country for quite a long time. At this time it is really one of the unique and most scraggy regimes in the world. Because I grew up in the communistic country, I think I can see, understand and imagine from my outside understanding view what is going on in North Korea during these days.

I have been interested in North Korean state from the year 1997, when I took some lectures about North Korea at my university. In year 2002, after three years waiting for my visa to North Korea, I finally got approved and had a chance to visit this communistic country for two weeks. Who ever visited North Korea in last years and had the chance to look bit around and had the chance to speak with some North Koreans would say the same as me – it is unbelievable, unique, and indescribable. Even If I have read so many materials and papers about North Korea, even I have spoken with several people who had the chance to visit North Korea, the reality what I saw still surprised me so much and I was fascinated by many things there.

So because I think I know a bit about this country now and it is one of my hobbies I have chosen for comparison the Czech Republic and Democratic People's Republic of Korea. I have also welcomed that because of researching for this paper I

had to read many new papers and other materials about North Korea and have obtained so much new information about the country.

PART I.

I.A. OVERVIEW OF NORTH KOREAN ECONOMY 1945 - 1981

This overview is describing the North Korean economy from the year 1945 till now. (The current situation is described in third part after comparison of reforms.) For the first period - till 1957 is very characteristic the economic development through Post – Korean War rehabilitation.

After the Second World War, the Korea can be characterized as agriculture – in the South accounted around 60% and mining and manufacturing in North - accounted about 43%. On per capita basis the North was much more productive than South. The North had the advantage of mineral natural resources. In North there were about 200 types of minerals, including the largest magnesite inventory in the world. The North had also much bigger electric power potential. About 92 per cent of all electric power was made in North – so the conditions for creating enterprises were quite favorable in North Korea.

After the Japanese left the land of North Korea, there was quite bit chaos. The Japanese monopolized during their stay there much of the industries, so suddenly after the Japanese left there was shortage of qualified skilled manpower. One of the first reforms which the communists introduced after they got to power was a land reform. Korean believed that it is the most important issue, which had to be solved as first and as soon as possible. It was very quick. Generally lands owned by the Japanese, Korean landlords, temples and others were confiscated and were given to farm laborers, landless

peasant and those who owned only small plots of land. This reform brought end to the existence of landlord class. The reason for that I believe was to erase the differences between classes and demonstrate toward Japanese that the country was in Korean hands and there was no way to change it back. But it was only the beginning.

Another reform were preparing for major industries. Generally all private industry properties were confiscated and under the Soviet supervision were transferred to North Korean People Committee. In 1946 the socialistic regime controlled over 72 per cent of all industrial output. The first year after the war can be characterized as a chaos and production decline. The reasons can be seen in very quick reforms and shortage of skilled people. But the situation was improving quite rapidly. The Soviet Union financial assistance but also Soviet human recourses helped the Korea so much during those years. So in 1949 the Korean production was only about 5 per cent smaller than in 1940. Also in other sectors the situation was getting better. It means the recovery looked pretty good. But Korean War came.

The Korean War really destroyed the North part of the country. The total damage was about 420 billion Won. It was about 4 times more than the North Korean GNP in 1953. More than 8.5 thousand factories, 600 thousands house units were destroyed.

To recover the economy from this tragic situation, the North Korean politicians established the first 3-year plan for the period 1954-1956. The main goal of the plan was to restore the production to the level of year 1949. It is very important to write now, that very characteristic for post war period was that North Korea put so much emphasis on self-reliance. In the vision of North Korea leader, Korea should change to totally socialistic oriented economy.

There were three main goals during post war period. Firstly Korea wanted to develop heavy industry. Secondly NK wanted to transform small-scale agriculture economy to socialistic economy through collectivization. Finally the country wanted to implement of socialistic labor competition campaigns to motivate population. At Sixth Plenum of the Central Committee of the North Korea Workers Party in 1953 was also approved the most importance of heavy oriented industry. The vision was to develop heavy industry first while to create simultaneously rapid growth and development of light industry and agriculture. How important the heavy industry was can illustrate the percentage of investment money, which were put into heavy industry – it was about 80 per cent. Korea could not achieve this number without assistance from other countries. The helper number „one“ was as well as before war Soviet Union. By that help USSR wanted to create great influence on Korean Peninsula. Not only the USSR, but also other Eastern European countries were sending their experts to North Korea. Thousands of North Koreans studied abroad – again mostly in USSR and tried to learn how the socialistic economy works. The import from the helpers was mostly oriented to production rather than consumption – 46% were machinery and equipment, 27% raw material and fuel, and only about 10 per cent were consumer’s goods.

The period till 1960 is characterized by rapid growth and fulfills the plans, which were set up. But the question is what would happen if there was no support from socialistic block countries? South, which had no comparable support, did much worse during that period. So we can guess that the result for North would be also worse if there was no help from communistic block. But theoretically the North performance would be probably better than South Korean performance anyway, because of better

initial conditions, such as existence of heavy industry, huge natural resources, better technology etc. (Table1).

Beginning in 1960 serious problems began to impede development. Bottlenecks were pervasive and generally were created by the lack of arable land, skilled labor, energy and deficiencies in the extractive industries. The first seven-year plan changed the focus of the industrialization. Heavy industry was still given the priority number one. But at the same time there was a focus on innovation technology, improvements of national welfare and building up military - industry complex. But during this time the economy slowed down and in year 1967 it was seen that the plan is not possible to meet. So the plan was exceed for another three years. Mostly during this extension the economy was also focused on military - industry complex because of situation in South Korea and also the escalation between USA a NK. So finally the necessity of the goals diversification was as the North Koreans argued the main reason why the seven years plan failed.

Right after the plan was met were about to start the Six Year Plan (1971 – 1976). The targets were set up bit lower than previous plan also because of poor performance of previous plan. This plan emphasized more technological advance, self - sufficiency in industry raw materials, improving product quality, correcting imbalance among different sectors and developing the power and extractive industries. The plan called for attaining a self-sufficiency rate above 60% in all industrial sectors by substituting domestic raw material wherever possible and by organizing and renovating technical processes to make substitution feasible. The self-sufficiency was very important for military industry. The plan again did not really make any importance towards consumers. Also light industry and agriculture were not the main goal. The country

took the self-sufficiency way. But for this attitude it is necessary to have some financial resources, which should be used to finance this. But these did not really exist. Actually only domestic agriculture surplus was able to finance the self-sufficient program but there were not enough money. The regime knew it and also knew it needed hard currency. One way how to get it was in organizing special working plans which were called “To earn the dollars for Kim Il-sung.” Because of these “special actions” thousands of people were pushed to work extra shifts, which would create extra goods, which could be export in exchange for hard currency. Important sources of North Korean hard currency were a gold and wild ginseng.

Officially this plan was fulfilled about one year ahead of schedule, so the next plan could start from 1976. But unfortunately new plan was not realized till the 1978. The simplest question is: Why not in 1976 but two years later in 1978? One of the possible explanation is that even it was officially announced the plan was fulfill in reality it was not true. The officials knew it so they had to wait with new plan the old was really done.

Second Seven Years plan (1978 – 1984) had three main goals – self – reliance, modernization and scientific. Self-reliance was not new, Modernization – the North Korean hoped to increase through that mechanization and automation in all sectors. Scientific means adoption of new manager techniques. Another goal was the education – the eleven years compulsory educations were supposed to create more quality technicians, mechanicals and automatic engineers. The plan was not successfully fulfilled. National income was after that not even published. 10 million tons of grain production was finally done but only five others commodities from plan target were fulfilled. The official numbers, which presented NK about this plan, has not been

actually very doubtful. The reality was probably much worse which may indicate also that the next plan was not realized for another 2 years.

The Third Seven Years plan (1987 – 1993) did not bring anything-special new or new orientation of economy. It actually rather repeated the goals from previous plans – self-reliance, modernization, scientific. Economic growth was set up only 7.9% (lower than previous plan). Target for steel was dramatically reduced other exporting targets were increased. Plan, indicating that it would again depend on capital and technology from developed countries for its economic development. The plan wanted also to increase the standard of living and consumer needs. But again the prospectus of reaching the goals set, at the outset of the plan appeared grim. Rather, North Korea economy seemed had been experiencing serious crisis, generally attributable to structural causes.

First, having reached the stage of semi developed socialist country; North Korea must enlarge the role of equipment and technology over mobilization of labor. Yet it still maintained old facilities and backward technology. Second, North Korea's huge military expenditure have inhibited its economic development. Third, the emphases of juche ideology and strategy have certainly damaged North Korea's economic potential. The final cause is collapse of formal socialistic countries, which removed major North Korea's economic partners. (Table 2, 3.)

After this plan was finished no other plans were released. This can be explained as following: First: The plans have been not doubtful any more. Second: North Korean had found out that planning was not the best way how to lead the economy and how to make its growth. I am not talking only about the efficiency of planning. It is quite obvious and many macro economists have already proved that the planning is not the

best most efficient way of leading economy and creating the highest social value. I am talking that perilous planning followed by failure of the plan. I think the regime found out that it might be danger for the regime and it would be much safer do not create any plans any more. If a new plan starts two years after the old one is met people may try to start to ask: Why that late? Is something hiding there? Can we trust our leaders? These questions, actually the answers may be quite danger for the regime. So it is better not give a chance to people to raise these questions. Even more there is no other country to compete with in planning and fulfilling the plan.

I.B. 1981 – 1995 OPENING OF THE ECONOMY

At the beginning of eighties the economy was going to deeper and deeper trouble. Poor quality of goods, which were not really competitive, shortage of export, shortage of hard currency, low efficiency and productive of company, industry which demanded extremely lots of energy, short of new technology, impossibility to obtain foreign debt - that are just few of problems which Korean economy in 1980ies had. It was more than clear that something has to be done, at least some partial reform, something that would bring more hard currency to the state, some reform, which would increase the poor efficiency of North Korean economy. North Korea introduced some very small partial reform, which was supposed to attract foreign investors. But because of very poor quality of the reform, it did not happen. Few years later, Kim-Il sung came with other partial reform, mostly focused on changing of enterprises planning strategies. But nor this partial reform did not helped North Korean economy (Table 4.)

The fall of communism regime in Eastern Europe but mostly in Soviet Union was just another disaster for North Korea economy (Chart1.)Year 1991 was a year of

very serious economic crisis. Economy, which life was very closely connected to USSR special their import of crude oil, machinery and other resources needed for the enterprises, had much more serious difficulty. The import from Soviet Union in 1991 was about 70 per cent lower than previous year. Especially the situation with energy started to be very critical. The import of oil decreased from 440,000 tons of crude oil in 1990 to only 40,000 in 1991. Recently the USSR provided oil to North Korea at “fraternal „price, raised this to standard international price. Russia also requested that North Korea would pay in US dollars rather than in barter (graph 2.) Also China informed North Korea of new Chinese trade policy of hard currency settlement.

The production of coal was extremely expensive because of self-reliance attitude. Simply everything was depending on coal. So it was more than sure that again something has to be done.

North Korea introduced new partial reform, which was supposed again to create special economic zones, similar to Chinese ones. But again the results were poor. In 1996 total investments of 350 millions USD were made only. The economy did not improved significantly. For the period between 1995 and 2001 the economy did not show anything significant. The state closed as much as possible and the economy still declined. In 1996 the GDP per capita was about 1,000 USD, in 2001 less than 800 USD. In year 2002 North Korea introduced the biggest reform ever. It has changed price system, hard currency exchange rate, planning strategy and many other things. If it would solve North Korean economy problem from long-term view is not clear at the moment but the true is that the economy is growing up now.

PART II.

NORTH KOREAN REFORMS

Between 1953 and 2002 North Korea introduced several reforms as I have already mentioned. The most important and biggest reform was introduced in year 2002, but also in 1980ties and 1990ties were introduced some partial reforms which I would like to briefly talk about now.

II.A. REFORMS IN 1980ties

In 1980ties North Korea wanted to improve its economic performance through various measures including foreign trade expansion. As the industrialization policy relying on the expansion of foreign trade with the West in the 1980ties was short of expectation and sector imbalances in industry simultaneously became aggravated, North Korea adopted some reform measures. The year 1982 can be settled as the real break in North Korean thinking. It was the year where first reform in North Korea was introduced. The Koreans found out that the economy went down and some steps had to be done to improve it again. It can be said that 180 per cent turnover was made. Till the beginning of 1980ties the importance of *juche* ideology - self-reliance was number one. But in mid 1980ties the North Korean decided to attract foreign direct investments and change this attitude. The self-reliance way was just too expensive and was not able to be financed by the government any more. There was shortage of hard currency. In January 1984, when the Supreme People's Assembly passed the resolution "On further Strengthening South – South Cooperation and External Economic Work and Further Developing Foreign Trade," the country called for economic transaction even with capitalistic countries, with who has not yet established diplomatic relations. Later that

year – in September 1984 the new Joint Venture Law was promulgated. North Korea wanted to establish new Joint Ventures with foreign investors. They wanted to attract mostly investors from Japan and South Korea who had relatives in NK or were born in NK. But at the time they really did not take its reform seriously. The reform was just too small, too partial. Without systematic linkage between domestic and external economy and meaningful price system in North Korea, however, other than earning some hard currency, such limited approach to the expansion of foreign economic relationship could not be expected to assume a positive economic role.

The politicians probably believed that everybody wanted to invest in North Korea and it would be very easy to attract the investors. North Korea had experiences only from social planned economy, where was quite easy to establish any industry anywhere. The government just decided which enterprise would be where and the problem was solved. The efficiency was secondary problem. But it was not possible to attract Japanese or South Korean investors by the same way how North Korea decided for example about a Joint venture with Soviet Union enterprises. Some experts say that because of lack of business experiences and knowledge they made a plan, which did not attract foreign investors at all. The foreign investors just did not want to accept the North's own style of management guided by the principle of establishing a self – reliant nation economy within the basic framework of the command economy. The lack of private property guarantee law, the low trustful of Korean politician, the Korean way in which they wanted to manage these joint ventures – these were the biggest problems. North Korea was simply still very unfavorable investment environment. So in conclusion at that, it was not really a reform of industry, but rather wishes for a reform.

Few months later, another reform measure was called by leader Kim. On August 1984 the Leader emphasized an increase in the supply of consumer goods by means “tapping and using by product, waste materials, and other inner reserves.” Consumer goods produced under the program were allowed to be sold through something like a free market mechanism. But the program could only be an attempt to squeeze some consumer goods out of an industrial structure. That is geared to heavy industry, reflecting a continuing unwillingness to reallocate investment resources from heavy to light industry. It looked more like mobilizing the untapped local resources rather than an attempt to utilizing any market mechanism, since it was designed to keep any deviations from central planning system within carefully monitored limits.

The country also tried to reorganize all the industrial management and tried to change the way of planning for individual enterprises. The government centrally stopped with financing the enterprises and all enterprises if they wanted capital, they should asked the national bank for borrowing. Double independent accounting system was established. North Korean enterprises because of new independent accounting system were permitted more independent decision about the mix of production factors and were allowed to retain apart of excess profits for the expansion of production, welfare and bonuses. But this applied only to production inputs and not to decision regarding products, prices and marketing. In reality the huge bureaucracy still existed. The bureaucracies authorized to assign workers to specific job sites, allocate equipment and material, and distribute funds to enterprises. That independent accounting system could not independently accounted for the economic performance of an enterprise.

II.B. REFORMS IN 1990ties

The revolutionary transformation of the socialistic countries and China aggressive moved toward openness and market – oriented economy, left North Korea alone. Korea got to a very serious trouble and its response was to more aggressively pursue the opening of its economy. It emulated the Chinese strategy of opening special economic zones and adopted an economic strategy emphasizing three priorities such as agriculture, light industry and foreign trade.

North Korea wanted to develop the Najin and Sondong Free Economic and Trade Zone. (The main reason for establishing any special economic zones in a market economy is to provide some advantages for foreigners' investors, who wish to come to that zone. The typical example can be favorable taxable environment or providing needed social overhead capital facilities. Establishing a zone means also application of market prices, separation of management and ownership of state – owned enterprises financial and tax reform etc. This did not happen in DPRK.) North Korea took the inspiration for its Najin and Sondong zone in Chinese special economic zones, but did not copy everything, but only certain parts of the zones. The North Korean attitude towards these special economic zones was in 1990ties much better than in 1980ties, but still so far behind China. Chinese economic zones were in that time doing quite well and NK believed they might compete with them. But honestly, was it possible to compete with them? Actually some of the condition for the economic zones, which were set up by Koreans, for example tax rate, were better than conditions in China, but in summary the North Korean economic zone was not able to compete at all. Chinese were prepared to open the economy and introduced some market principle. North Korean did not. They did not want to change the whole socialistic system. They wanted something,

which would bring them money but at the same time would let them to lead the state without any changes.

It is true that the DPRK changed because of this special economic zone 20 law and regulation and guaranteed that the new investors could wholly owned a firm within the zone and permitted them to assign and mortgage the land rented to them for a period of up to 50 years but it was not enough. Also the structure of the economy was not in good proportion for the reform (graph 3.) The state did not have enough credibility to trust that the private rights would be in real life guaranteed. The true was that North Koreans did not have a clue what these economics zones really needed and what had to be done and what could not be avoided. They believed they could make its own special economic zones, but the reality showed them it was not possible. According to North Korea source, total foreign investment in the North as of the end of January 1996 amounted to 350 million dollars for 33 cases on a contract basis and 20 million dollars on an investment basis. The problem at that time as I already mentioned was also that the reality showed something different than what was on the paper. According to plans, the economic zone supposed to be prepared and developed. In reality the place for economic zone was not prepared at all, the infrastructure was missing. So the effect for the state was very small from this. – Logically it failed.

I.L.C. REFORM ON JULY 1, 2002

After the fall of communism NK closed and did not really wish to reform or change. But many things happened in 1990ties and these things finally pushed DPRK to reform in 2002. One of the things was a flood in 1995. The flood was a disaster and it was not possible for DPRK to go through it by it self. This flood resulted in huge

food shortages and North Korea found out that nobody actually wanted to help DPRK if North Korea did not change and cooperate a bit (Chart 4.) Other countries offered help. But with an offer for large help they asked for system opening and some bigger reforms. The other problem was that NK reforms from 1990ties had about zero effect and did not help the economy. The state was going in deeper and deeper trouble. Also when North Korea looked at its “big brother” China they saw, that Chinese economy was improving and drawing apart from North Korea.

So because of these several reasons DPRK was forced to accept the reality that something has to be done again, otherwise the system could not be maintain. North Korea never officially informed about the reasons, which led the country to introduce the new reform, but basically, as it has been mentioned according to experts it was a result of several factors.

On July 1st 2002 DPRK introduced the biggest reform ever. It is still only partial economic reform, but compare with all reforms done earlier that one is far before them.

This partial reform consisted of prices and wages changes including change of dollar exchange rate followed by changes in social substitution system, changes in planning creating policy and others changes.

The biggest change and impact had new price of rice. It increased about 500 times from 0.08 won per kilo to 44 won. The price was set up bit lower than was black market price. Why the main reform was focused on rice? There was shortage of rice – which was caused by flood, low productivity, impossibility to import rice and rationing system, which was applied, in previous years. This system delivered more rice for healthy men and productive people and less for women, elders etc. By this reform this system was abolished. Because of shortage, the black market with this commodity was

in previous years introduced. According to North Korean refugees more than 60 % of goods, which were bought by the inhabitants, were bought in black market. (One of the best-known North Korean refugees in South Korea – Kang Chon – Hwan alleges that black market was everywhere and actually whole the country sold and bought there.)

Black market means market, over which state did not have any control and also any advantage. The people simply went to the farmers and were pushed by the shortage at official market, to buy rice from farmers directly, with realistic black market price. Before the reform the state was buying the rice from farmers for unrealistic low price. Every farmer had to sell rice to state. Private selling was abolished. There was no stipulation for the farmers to produce officially more rice if the state did not pay it well. The farmers were logically shrinking and did not work effective.

This outcome was not specific for North Korea only; it is just the economic rule, which simply must work! This is just result of demand and supply curve. Of course there were many other factors, (such as political factors, terrible flood etc.) but clearly from economic point of view the food shortage occurred because the official price of food was too low (0.08 WON per kilo) and was not set up at the Equilibrium point where Demand curve crossed with the Supply curve (around 44WON per kilo).

What about black market? It worked well. If the people had money (majority unfortunately did not), they could buy as much rice as they wanted. The price, which the farmers charged, (around 44WON per kilo) was the price where the total Supply curves met the total Demand curve (around 44WON per kilo). Ordinary people needed rice and the price, which they were prepared to pay, was reasonable good for the people as well as for the farmers. So people tried to sell its product at black market. The

farmers rather than work efficiency for the farms and through the for the state were shrinking as much as possible and tried to sell rice under their own managing for the realistic prices at black market.

Because officially it was forbidden to sell any rice at black market, there was a certain amount of DWL – business which was not realized, because some people were scared of making a business if it was forbidden. These farmers instead of growing corn or anything else privately just did not produce anything.

The state by this price reform of rice in 2002 wanted to meet two goals: To collect more money from the people and secondly – to control again the market with rice. North Korea needs every year about 5.5 million tons of rice. But its production was only about 3.5 million tons, which means 2 million tons of shortage. Even with the humanitarian aid from abroad, which was about 1 million, ton the Korean consumption was not met. The new price system NK assumed may help in improving the production on own fields. It may seem that North Korea was trying to introduce market economy at least in rice production but unfortunately this was not true. The country wanted by this step to obtain back the control of the market only and maintain a Socialist Power Country doctrine. The country did not really wish reform its system.

The country wanted to mobilize the money from people simply. By the new system only price of rice was increased close to real level. Other prices were also increased but not on the cost level. In general the increase was about 20 times.

Also wages increased about 18 times. By this step NK government probably wanted to change bit structure of people's consumption. The prices of goods or services, which were from the socialistic point of view unwanted, were increased the most. The government also wanted by this step to mobilize the people's money. There was a huge

overhang of the money – people had money but did not have a chance to buy anything for it – so government wanted to obtain this money from them. The increasing of wages was highest for production engineers, skilled technicians and scientists.

This increasing was also followed by introduction of new merit – base wage system. The general ideas were – to abolish the average system of distribution, to contract pay system and to introduce a transitional socialist system. Employees should be paid according to profit of their company and not according to number of hours spent in work. There was very clear said that if the company would not have a profit it would result in employee wage cutting.

There were also changing in social aid system. Especially during 1970ties and 1980ties the social aid system was very benevolent. By the reform the national subsidy was generally canceled and people should try to live on their own income. Because of different wages and canceling the rationing system, the widespread between individuals should be greater.

Another part of the reform was about changing the exchange rate between USD and NK Won. From artificial official rate 1 USD for 2 NK Won it had been changed to 151 won selling and 157 won buying. (For illustration now the exchange rate is about 1150 per USD, which also means that 1 NK Won is about the same as 1 SK WON). More details about it are written later. By this step NK again wanted to mobilize the private money, which was overhanged.

Before the reform, foreigners, who were traveling to North Korea, were not allowed to have NK Won – only Donpyo, which was something like vouchers. By this NK wanted to protect the dollars black market and wanted to have a control over the money, which the foreigners brought. The Donpyo was accepted only in limited shops

mostly around the big hotels or monuments where the foreigners were aloud to move. But from July 1 the Donpyo was not valid any more.

Also reform in state owned enterprises was introduced. Till 2002 very strict state planning attitude with detailing planning for each enterprise was practiced. The State Planning Committee made the goals and translated them into long – term development plans and quantitative targets for the economy as a whole, as well as for each industrial sector and enterprise. But the reformers wanted to introduce something new – the planning committee let the enterprises to establish their own plans. The committee established only strategic indexes. No more detailed central plans from Pyongyang. Each company should make their own strategy and plan depend on the profitability. The management got more powers but also more responsibility. The companies for their first time started to work with terms such as “cost and revenue.” The management could bit negotiated about the prices what was something really revolutionary. This actually means limited opening of the market under state control. This new system also means that some very unprofitable and Non-strategic important companies should be closed. This also means in some sense unemployment.

The question is why the state committee stopped with the central planning. Did they really want to give more freedom to the enterprises and open the economy? I do not think so. More realistic seems different explanation. The plans were during the time much more difficult to meet. The reason was not because the planned committee could not have good vision about the future, but because very often something very unpredictable had happened. To meet the plans did not really depended in 1980ties on the people but on other unpredictable factors, which the planners could not influence. The Korean economy was depending for example on the imports of steel or production

of electricity. So if there were not enough electricity or raw steel, a company simply could not work and could not fulfill the plan. It means the plan did not have any importance at all. That is probably the reason why the committee rather than shrinking in fulfilling the plans stopped with their issuing. I believe that for the leaders of the regime and their goal to hold and maintain their power, it was much better to have no plans rather than to meet the plans only on paper. If the ordinary people apprehended that government lied to them, the trust to its own government and therefore the regime declined and it could be dangerous for the leaders.

The reform also wanted to establish economic zones. The first plans in mid 1980ties and its disaster were described earlier. The new plan which is still under construction is actually looking much better, but it is necessary to say that important is how it will be finally settled down. At the moment there has been talk about three main zones - Shinuiju special administrative district, Keumkangsan district and Gaesung district. The special economic zone should become something like capitalistic islands. The private property law should be guarantee, the infrastructure necessary for making business should be made, and also administrative preparation should be done.

The problem of North Korea is that its neighbor is China, which created already some SEZ, and actually quite effectively. So to attract any foreigners means that the NK should offer to investor better conditions than the Chinese SEZ. But this is something what is very difficult for the NK. For example NK vision about the wages in Gaesung district was about 100 USD per months at the beginning. This was not really competitive! As far as it cannot be lower than 80 USD, not many companies can be attracted by this special economic zone. In this particular case the North Koreans took

its request for 100 USD salaries per month back and it was settled that the wage should be 50 USD only.

The general idea about the SEZ, which has been practicing in China, Kim Jong-Il and his people do not really want to accept. The model of SEZ in China has supposed that around this special zone would be created many new companies, which will support the companies in SEZ with raw material, or other untreated material. Through them the prosperity will be made in larger and larger area. So the Chinese actually did not set up strict borders of the SEZ but rather wanted to increase the region later when more companies started to work for the region. North Korea does not want that. Their idea is to have something like a real island with fence and not really connection with the rest of the country. They want to minimize the influence of this zone to rest of the country. But if this going to be practiced – it means the effect which we can see in China is not possible to expect, because of different conditions. But as there has not been said decision done yet, this vision can change.

What kind of business should be created in these zones? As we learned it is the best to start with something very simple, which does not really need great skills – so for the first stage something likes making textiles or dresses. During the second stage, when some skilled workers may be created, it should be tried something more advanced like computer electronic components followed by development of software. From long-term view there should be made the supply for the foreign trade market of Korean goods.

At the moment it seems that The Gaesong economic zone in southern part of the country is best prepared. Mostly investors from South Korea want to go there. But the situation is bit complicated right now. The plans and visions actually exist. The money, which should be used for financing this program at the time of writing these sentences

not. There is no any progress at the moment from South Korean side. The political situation in South Korea is bit unstable now (within few weeks there will be general election and also the Constitutional Court should announce its decision about Presidential impeachment.) The current government wants to invest in NK, but if it really happened or when it will happen cannot be said now. If the election proves strong position of URI party the building up of the Gaesong zone will start relatively soon.

PART III.

OVERVIEW OF CZECHOSLOVAK ECONOMY 1945 - 2004

Czechoslovak economy after the Second World War was relatively undamaged. Industry was in private hands as well as agriculture and foreign trade. The foreign trade was quite crucial for the post war economy. The quality of the goods was comparable with goods produced in other industrialized countries such as France or Great Britain. In first years after the WW II the Czechoslovakia wanted to participate in Marshal Plan and received help mostly from Western countries. But after the democratic election in 1947 and introducing of Communistic government this was abolished. Stalin forbid to take any assistance from West and the partners for us in the future supposed to be socialistic countries only. By 1952 the government nationalized nearly all sectors of economy. Politically reliable communists without any technical skills replaced many well skilled managers. Nobody really opposed that. Central planned economy period could start (Chart 7.)

Most common for the planned economy after the War were five years plans. The first one supposed to start in 1949. Under the Soviet advice the heavy industry was

preferred. The emphasis on heavy industry was strongly repeated from Soviet government to our politician especially after the start of Korean War. The country became important supplier of machinery and arms to other communistic countries. The trade with socialistic countries was about 70 per cent of total trade (compare to 40 % in 1948) the price of quite high growth during this period was huge investment and inflationary pressure. It resulted in currency conversion in 1953. After this bit shock for next two years only 1-year plans were realized. The second five-year plan (1956 – 1960) had as a goal again to support heavy industry but also to increase the supply of consumer goods. The Economists recognized during that period that only with continuing of high investments it was possible to maintain the economy growth.

The economy started again to be in trouble in 1958 – industrial production staged and situation in agriculture was also not very improving – so voices for reforms were about to hear. So some minor partial reform consisted of decentralization of authority was made. This decentralization means that the enterprises were free in handling investments funds. But the reform did not bring any success. So in 1962 everything was put back under the strict central control.

The target for next five-year plan (1961 – 1965) was putting goal on a foreign trade. The socialistic economists had correct feeling that the economy was sick. They knew what the medicine should be, but from certain reasons they did not give the economy the right treatment in right amount. So it was rather plan than reality to increase the foreign trade. The importance of foreign non-socialistic trade did not increase significantly.

The economy resulted in poor performance and it was still much clearer that the Soviet dreams in having small model of Soviet economy in Czechoslovak condition was

not possible to realize. Simply first of all, the country did not have those great national resources as USSR. Also the country had quite developed light industry after the war compare to USSR, but not heavy industry. At that time, Czechoslovakia was much more oriented toward foreign trade than USSR. The soviet model wanted to change industry structure in Czechoslovakia from lighter industry to heavy industry. They wanted to build new heavy industry factories in Czechoslovakia rather than to put intensive investments in present lighter industry enterprises, which would increase production and efficiency. This also resulted that private consumption grew slowly than net material product. There was a shortage of consumer goods and because of that people did not have enough opportunities to spend their money, which means that consumers were pushed to save their money rather than to invest. Complementation of most investment projects required an inordinate time, freezing funds in unproductive uses. The prices didn't reflect cost neither scarcity. And the prices in Czechoslovakia were extremely different from world prices.

At the beginning of 1960ties the economy started to slow down and the economists noticed that something wrong was happening and something should be done. Even if Czechoslovakia was one of the countries under the command of Soviet Union, the political dependency on USSR seemed to be not that big. The government was relatively independent and it believed it could reform its economy.

In middle of 1960ties the government in cooperation with planning committee introduced the biggest reform ever. Also other countries such as Poland or Hungary introduced some small partial reforms at that time, but in comparison with them the Czechoslovakian reform was much comprehensive. No single other country from socialistic countries under USSR introduced such a big reform as Czechoslovakia did.

Unfortunately after few months of running the reform, all the reforms steps were stopped in 1968. Even that the first results of economy reform looked quite nicely and many economists believed the reform can be successful, the reform finished. The Warsaw pact armies invaded in democratic Czechoslovakia on August 21 in 1968. The armies under command of USSR had occupied our country and abolished everything. The armies came to Czechoslovakia without any notice, without any agreement from Czechoslovak government. Some of the soldiers stayed in Czechoslovakia till in 1990, it means more that 22 years. The official reason for this invasion was that the socialism in Czechoslovakia was in danger and it was necessary to rescue it and helped the republic. For Czechoslovakia it was a really big shock. Nobody believed that our “socialistic friends” would ever come to Czechoslovakia with tanks and weapons. It is very important to say that nobody from Czechoslovakia invited the Warsaw troop’s armies. It was rather an action under Soviet command. The Soviet were scared they were going to loose their influence in Czechoslovakia and that our country might change the socialistic system with market economy. Because they did not want to let this change happened, the Soviets with other socialistic troops, came to Czechoslovakia. The only country from Warsaw pact, which did not join the invasion, was Rumania. The Czechoslovakia did not defend against the occupation very much and gave up.

The tanks brought of course new leaders. Those leaders were prepared to do what ever Soviet Union would ask for. The first what the Russians ordered was as I already mentioned to stop majority of the economic and social reform steps. New leaders grant the order very quickly.

After that had happened again very direct central planning, and 100 % state price control were applied. The central planning and the state control were actually much more intensive than before the reform.

But instead of new very strict state control in next few years the economy was slightly growing up from 1966 – 1970 the net material growing was 6.9%. But this growth was more than 1 % lower than growth in 1967. Economy continued to grow also in next 5 years but the growth was again decreasing and was only 5.7 %. Chemicals industry made the fastest growth; the lowest growth had consumer good and fuels.

Next period (1976 – 1980) was characterized with even less satisfactory. Net growth was not only 3.7%. Agriculture and industry did not meet their plan targets. Especially the situation in agriculture started to be quite serious during the last period of the plan. Large imports of grain were necessary and the consumers started to complain about the shortage of basic food such as meat and milk. Another plan target – to increase the labor productivity was not met also. Czechoslovakia tried to increase the export and maintained the balance between export and import on zero level. But because of the poor quality of goods certain limitation especially towards west markets was the main barrier (Table 7).

The increasing of oil prices and other raw materials, which Czechoslovakia imported, was one of the reasons for slowdown in 1980ties and 1990ties. The other one was in huge Czechoslovak energy consumption per capita. The energy consumption started to be really a headache. Czechoslovakia had largest energy consumption per capita from all socialistic countries. It is true that the increase in GDP during that period was possible only because of growing energy consumption and material imports. If we

deducted the increasing of energy consumption we would see that the efficiency of the economy did not improved at all during that period.

One of the main goals for the plan 1981 - 1985 was to use more efficiency resources. It was not really met. The energy consumption declined by 1.7% only. Very much depending on imports of crude oil from Soviet Union, it was very problematic situation – special when the Soviet announced that their import to socialistic countries would be reduced by 10%.

Last few years before the communistic regime was overthrow (November 17th, 1989) can be characterized as period, when our economy was still slowing down. The regime recognized it and introduced set of partial reforms, but these reforms were just too small. Even after the reforms, number of goods, which were under supply, was increasing. To export any goods to Western countries was very uncommon.

The regime also started to have a social problem with the people. The displeasure of society was increasing and more and more complaining voices could be heard. The underground opposition started to be more and more active and important. The number of people who were listening illegally the western radio station “Radio Free Europe” was increasing dramatically. More and more people through that radio started to understand that everything was not as good as the regime told the people. The illegal demonstrations against the regime were more and more often.

Set of many reasons (mostly the situation in other communistic countries around Czechoslovakia) finally over through the regime on Friday, November 17th, 1989. Because the change of the regime was very peaceful it has been called “Velvet revolution”. The first democratic president Vaclav Havel had been named in December 1989 and from that time it can be says that democratic system has been applied in

Czechoslovakia. Year 1989 also dramatically change the economy situation. Since that time the principles of socialist economy were terminated, the principles of market economy have been introduced.

In year 2004 I believe all the main transition already finished. Thousands of enterprises have been in private hands and the state holds only few strategically important companies. In year 2002 the GDP per capita was nearly 15.300 USD and still increasing. From 1st of May 2004 we have been part of European Union, which means a country, where democratic principles and market economy have been applied.

PART IV.

REFORMS IN CZECHOSLOVAKIA

Between the end of Second World War and today several reforms had been introduced in Czechoslovakia and later on in the Czech Republic. Because this paper is focusing on comparison between North Korea and Czechoslovakia, I would like to look mainly on Czechoslovakian reforms, which had similar characteristics with reforms in North Korea – specially the reform on July 1st, 2002.

Because of that I want to talk firstly about the reform, which was applied between 1965 and 1968 in Czechoslovakia. Secondly I want to talk about the reform, which was introduced in 1985 and mainly applied between 1986 and 1989. Finally I want to discuss the reform after 1989, where the economy system changed from central planned economy to market economy.

IV.A. REFORM 1960 - 1968

After 1960 the Czechoslovakian economy started to slow down as it has been already mentioned. The situation was not really critical at the time, but many Economists recognized that the country strategy, which based on central planning, was not the best one, and some steps should be done to increase the speed of our economy. These economists mainly under the leadership of Mr. Oto Šik openly informed about the problems and in cooperation with communistic party started to work on preparation of the reform.

This reform was introduced in 1964. It was called “Šik reform”. It had four main goals:

1. The national plans would show only direction of the economy without detailed plans for each enterprise. The planning strategy would reflect the actual market situation, demand a supply.
2. The enterprises would get more freedom and independency, which should created conditions, which let them to carry business.
3. The measurement of a success of any enterprise would be the profit.
4. The enterprises and their managements would be responsible for good as well as bad economy of the enterprises.

NEW PLANNING STRATEGY

The basic framework, on which was the reform build up was changing of planning strategy. Number of local planning committee supposed to be reduced by

more than 80%. (These local planning committees were in the past mostly responsible for individual plans for local enterprises.)

The goal of central planning committee was totally changed. The central committee was still directly inferior to Communistic party, but it changed its status from a servant to a partner for discussion. According to the reformers the central plans should showed only overall long term planning of economic development and provided general guidance about the formulation of goals.

The central planning committee did not have any power to create plans for individual enterprises (except the strategic enterprises.) Enterprises were free to determinate short – term production targets within the framework of the overall goals. Plans principal object was to limit significantly the role of the central planning authorities while expanding the autonomy and responsibility of the enterprises.

The reform introduced new concept to planning strategy - market concept, which was based on total market supply and demand curve. It means that even the setting of overall goals for the economy by the central planning committee was not depend on the wishes of Soviet Union or any other socialistic country, but depended on real world demand and supply.

The reformers also wanted to divide the economy to several branches, which would concentrate and specialize in the industrial production. According to the planners visions there should be created large production units – something like cartels, which should be linked to the ministries. The head of branch directorates would have the overall responsibility for the performance of enterprises. But their power over the subordinate should be limited – so it is not another central planned burro.

FREEDOM OF THE ENTERPRISES

As it has been indicated the enterprises received much more freedom by this reform. This freedom means first of all freedom in planning. Only the management was responsible for the planning. They had the power to set up low or high targets. They had the power to stop producing certain goods or introduced new products. They still had to inform the planning committee about its plans and visions, but it was rather for statistical purposes than for approving reasons. Increasing of the enterprises independency had only one reason. The reason was to create competitive environment for the companies. The new main goal of the companies was not to fulfill the plans but to carry effectively their own business.

By this increasing of independency the government also wanted to stipulate export and increase the quality of the goods. The government wanted to increase the foreign competition, which they hoped would increase state productivity and lower the costs. Because of extremely need of hard currency the export to West World would be stipulated through incentives encouraging enterprises to make their products competitive on world market. The reformers expected that Czechoslovakian enterprises could cooperate with the Western companies on licensing basis, which would bring them quickly new technology. With lower labor costs and western technology they could relatively easily compete on foreign markets. It also included, that the companies could have a part of the hard currency what they earned. (According to Czechoslovak law all hard currency earned supposed to be converting through state bank to Czechoslovak koruna.)

The reform wanted to stop the central directives about prices. Newly it depended only on the enterprises, what would be the price. The enterprises would make all their

investments through their own resources and interest bearing bank loans. The basic idea was that each enterprise should realistically realize how much resource it needed to make its business effective - simply no soft budgets. State subsidy should be terminating. If any enterprise was not a key enterprise for the economy state would not help the company by financing the lost. The state should continue with financing only the key economic projects such as power plants or infrastructure investments.

MEASUREMENT OF SUCCESS – PROFIT

This goal is very closely connected with the previous one. The independence for the enterprises means also responsibility. And success means profit. The new measurement of the enterprise's success was profit. It of course went along with other economic steps, which had to be introduced.

First of all as has been already mention, the enterprises had a freedom to set up its own prices. The prices were supposed to reflect real cost, demand, supply, scarcity, necessary investments and the world prices. Enterprises supposed to become financially independent realizing the profit from their sales after covering all operating costs and taxes. It was necessary to finish with soft budgeting before realizing this new price strategy.

Also new double independent accounting system had to start to work. Actually nobody was able to say if a company is profitable or not before the new system was introduced.

Another step, which had to be introduced, was new wage system. According to the new system, the egalitarianism should finish. The individual performance rather than collective performance should be the major key for the level of any individual wage.

The most important for the worker's salary supposed to be two factors: firstly - his or her individual work, secondly the profit of the company. To insure that the workers could influence the management of an enterprise, the workers were supposed to have a certain rights to manage the company through the enterprise council. This council had an important vote when the management of the company was elected. This new strategy also supposed to bring more discipline among the workers and increase their performance. Simply the reformers believed that to increase the efficiency and production of the employees was possible mostly through their motivation, which was one of the biggest problems of socialistic workers. Because in socialistic time "people" owned everything and no specific private rights existed, there was such a small pressure or motivation for better performance among workers. (Chart 9.)

RESPONSIBILITY OF THE MANAGEMENT

The word responsibility was actually something new in Czechoslovak economy. Before the reform, the responsibility of the companies' management was about zero. It is logical, because the enterprises did not have any freedom and were servants of the government only and Communistic party. At that stage nobody could seek any responsibility from the enterprises. But with all the steps, which I have already talked about, it was total different situation.

The enterprises could create their own plans, their own prices, and their own wages. Also newly, they could influence the number of workers. The managements had the right to fire employees, of course with proper notice, if it was necessary. It did not mean to fire only the lazy ones, but also the people for which the company did not have enough work. These rights had to be accompanied with responsibilities and duties

logically. The duties of the enterprises were to survive. As it has been mentioned the soft budgeting was terminated. If the companies needed new investments and did not have enough money, they should ask commercial banks for the loan. State was not supposed to help them at all.

If the companies were not able to make a profit, the managements would be responsible for that. If they were not able to manage the companies, they supposed to leave the companies. If even with new managements the companies were not able to make a profit, they would be closed. Enterprises, which were not crucial for the state, and which would not be able to make a profit from long-term view, were supposed to be closed very quickly. The new bankruptcy law, which was also introduced, should guarantee the speed.

On the other hand the profitability of any enterprise should guarantee higher wages, and new technology. The enterprises were allowed to hold part of the hard currency, which they earned by exporting to western world, if they invested it in new technology. The companies could buy this new technology easily with their hard currency.

TESTING OF THE REFORM – REAL EXPERIMENT

The previous part of this thesis described the reform, how it was written on the paper. The reality was slightly different. In year 1965 the reformers choused 30 state enterprises, where they wanted to apply all the steps as an experiment. According to the results of the experiment the government and Communistic party should finally decide if Czechoslovakia would apply the revolutionary reform or not and if yes, which steps should be changed.

One of the companies where the reform experiment took a place in 1965 was “AGROSTROJ JIČÍN”. This company was a state owned enterprise, which produced medium gardens machinery. Their specialization was mowers. The company had 400 employees. 75% of its production was placed in Czechoslovak market or in other socialistic countries markets in 1960. The remaining 25% was exported to Western countries. Before 1965 the production was steadily decreasing because decreasing demand from Western countries, which were results of poor quality. In 1965 the export to Western countries decreased to 1% only. The demand from other socialistic countries remained about the same level.

After one year of experiment the company presented reasonable good results at the end of 1965. In comparison with year 1964, the productivity increased by 5.8%. The wages increased by 6%. 30 decreased the number of employees. The most important is that the company made a license agreement with French – German company “Gutbrod”. The Czechoslovak company received the license, which allowed it to make new mountain mower MF 70. With new western technology and cheap skilled labor work, the company created very high quality product for reasonable price. Part of the license agreement was that French and Germans partners helped the new product at Western markets, which they were not really interested in. On the other hands Gutborg Company hoped that through cooperation with Czechoslovakia, they could obtain some Eastern markets. After the 1965, the company had quite positive hard currency surplus, which it invested in new technology. Next year they exported to Western states 15% of its production and according to their vision, the number should double in 1967. Not only the result of Agrostoj Jicin, but also results of other enterprises, which were part of the

experiment, pursued the government the reform was the correct one and should be applied through the whole country (Table 6.)

THE REFORM IN REAL PRACTICE

Twelfth Party Congress gave its official approval to the new program in 1965 – it was called New Economic Model. One year later in 1966 the government agreed with the final version of the reform and the experiment could start. The first part of the reform started in 1967, right after XIII. Communistic party Congress gave the final approval for the reform. The second part, which needed more preparation such as new bankruptcy law started on 1st January 1968. This final approving by the thirteenth Communistic Congress had also social aspect. People understood the party wanted to deliver more freedom and independency among enterprises. The liked the idea and at the same time they got the feeling that also more individual freedom and democracy should be applied for the Czechoslovak nation. Because people in the enterprises had some freedom they wanted also had similar freedom in civil life. If in the enterprise the workers through its committee voted the general manager of the company, they also wanted to have real democratic elections, they wanted to have the right to travel and get some experiences in individual life, the people wanted to enjoy the democracy.

The typical example can be my seen in my father, who finished the University in 1968. He felt that there was much big freedom in the society at that time and he wanted to go abroad for few months to receive some working experiences. Till 1965 it was possible to receive the working experiences only in other socialistic countries such as Russia, Rumania etc. Actually nobody complained about it because everybody knew complaining was not really allowed and would not change anything. In 1968 my father

went at the office where these working experiences were organized. They offered him as usually firstly working experiences in Poland. He refused, complained and asked for working experiences in Great Britain. He believed at that special time he had the right to complain and to go to other country than Poland or Russia. Finally he was accepted and sent to London for three months. He personally felt the reform brought also democratization.

The reform did not want to abolish socialism either did not want to create free enterprises market system. It wanted through less direct central control to improve the management under the supervising of Communistic party. This reform was called „Reform of socialism with human face.” As many economists said the country wanted to apply the Scandinavian model where state guarantee high social level but at the same time the enterprises are quite free to carry business. The economists say that if the reform would work in practice Czechoslovakia would be in 1990 around the same level such as Denmark or Sweden those days. In reality the Czechoslovak GDP level in 1990 was less than 50% of Swedish GDP.

As it has been mention in overview about Czechoslovak economy the reform was terminated in September 1968 when Armies from other socialistic countries invaded Czechoslovakia and all reforms steps abolished. Oto Šik, who was the father of the reform, emigrated to Basiley in Switzerland, where he became expert in Swiss economy institute.

IV.B. REFORMS IN CZECHOSLOVAKIA 1980 - 1987.

After the changes in 1968 the very strict state control over the economy was applied. The economy was in long term loosing its speed. The poor performance in

1980 persuaded party leaders to think about some changes, which would treat the economy. Therefore the government introduced a partial reform, which described in document called the „Set of Measure to Improve the System of Planned National Economic Management after 1980.“ The document was approved by the government as well as by the Communistic party without any grand complains. The partial reform was nothing really new. Comparing with the planned reforms from 1965 this reform from 1980 was much more conservative. Some of the Economists experts were not happy about the measure of the reform. They predicted the steps of the reform were not big enough and therefore would not improve the economic situation significantly. The history proved they were right.

The reform had two main goals:

1. To increase the competitiveness and quality of Czechoslovakian products.
2. To decrease the energy consumption.

QUALITY OF PRODUCTS

The poor quality of Czechoslovakian products was not anything new. The country had that problem for many years and the Economists understood that the qualities of the products were in some way related to the situation in the enterprises. In 1980 the average age of industrial machinery and equipment was 13 years. 10% of the machinery was more than 25 years old. The newest Western technology was not available at all. The people did not have any motivation to work hard. The wage system did not really reflect any differences among workers. The wage system made differences between industries, but not between individuals. The system mostly preferred manually workers, rather than scientists or intelligences.

Because of these problems the reformers actually permitted somewhat greater freedom of action for managers of enterprises in selected operational areas, giving them more authority over their own investments and providing financial incentives to workers. Before the reform, the managers did not have any significant influence over the plan production. The central planning committee was in charge of that. This reform bit liberalized the situation. The managers had newly the power to discuss the production with central planning committee and according to the law they had the right to refuse the plan from very serious reason and apply to higher authorities. But on the other hand that refusing would have in real situation very serious impact on the manager's position. The real world actually showed that only two enterprises refused their plans in first year of the reform.

Also newly the enterprises were more independent in financing of new technology. Before the reform, all the investments were coming from outside. The enterprises could not have to use their own money, which they earned, but had to wait for outside ministerial decision and outside money. But the reform did not bring absolute freedom. They could not use all the resources, but only small part of them. (In most cases the enterprises were allowed to use only 40% of their own earnings.) Another problem was that even for financing from their own resources they needed the approval from ministry about the using of the funds. This approval was not automatic.

The reforms also introduced the wage differentiation. The workers were stimulated through much higher pay which reflected how well they worked as well as how profitable were the enterprises. Also some individual distinction rather than collective rewards were introduced. These higher salaries had certain conditions, which limited their applications. These higher pays were concentrating only over the 100 per

cent production. If the companies did not meet the plans, there were no any financial sanctions.

The reformers wanted through better managerial ability also increase the foreign trade. The vision was actually quite ambitious. It supposed that this reform could increase the foreign trade faster than national income.

What was written above means that the government understood where the problem was but at the same time they understood that more freedom for enterprises would mean lost of their control over the economy. Because they did not really want that, the reform had very restraining limitation. Situation after first year of the reform showed that production increased by 0.5%, while the wages increased by 1.2%. Most of the prices were still under the state command and did not reflect the real cost. The prices increased in first year by 2% only.

DECREASING OF ENERGY CONSUMPTION

As it has been already mention one of the biggest problems of Czechoslovak economy was highest energy consumption per capita. The increasing speed of the economy in previous years was possible to achieve mainly through increasing of energy consumption rather than increasing efficiency. The increasing through energy consumption had of course certain limits. Czechoslovakia produced the energy mainly from three resources: coal, which was available in Czechoslovakia and crude oil and natural gas, which were imported from Soviet Union. In 1980 the production of coal in Czechoslovakia was on maximum level and there was not really a big space for increasing that. (Czechoslovakia was self-sufficient in coal production and did not

import almost any from abroad.) The amount of crude oil and gas from Soviet Union could not be also increased because of limits in Soviet production.

The situation got worse in middle of 1980, when Soviet Union announced that they wanted to cut the export to socialistic countries by 10%. By the reform the Communists wanted to improve the bad situation. The government saw that some of the heavy industry enterprises were inefficient and consumed inadequate amount of energy. The government wanted to reduce these productions which were unbelievable expensive and ordered us by Soviet Union in previous years and shifted the production back to light industry. The government wanted mainly to shift the structure of the economy from productive side, which required huge energy to more advanced technologies and capital-intensive industry.(Chart 8)

The government wanted to focus on specialization rather than on self-sufficiency in all sectors. Because of that special attention was given to machine building, electronic and chemical industry where the Czechoslovak government believed could compete with Western world. But in reality the enterprises were not independent as much as they needed to compete with foreigner companies. Even after the reform the working standards were still lower than in West Europe. The Economists argued that this was because of inadequate specialization; insufficient use of foreign licenses, and cumbersome restraints on research projects. After first year of the five-year plan the government recognized the reform was not enough and that it should be more radical.

In 1984 the government accepted the poor results of the reform and tried to rewrite the reform. They understood that much wider reform should be set up. They looked in the history and inspired by the Czechoslovak experiment in 1965, especially by the planning strategy.

It was decided that for the year 1987 one hundred and twenty largest enterprises would receive only key planning figures from the central authorities. These firms were supposed to find profitable forms for their activities and managing their own finance. It was about 100 % more than what was seeking by “The Set of Measures“– which planned to remain the state control over the firms in 1980.

In comparison with experiment in 1965 the new reform was not as radical as the reform in 1965. For example the 1965 experiment supposed to finish with state control over the prices. In the latest reform the state still wanted to control them, but set up them at more realistic level. In other words the state still wanted to maintain the control over the economy. The enterprises from experiment showed not as bad results as the enterprises, which were not included in experiment. But still the reality was far behind the expectation. The growth rate among the enterprises in experiment increased by 1.8%, while the rest of the economy showed only 1.1% increasing. (Chart 9.)

The social explanations of relatively poor results were in society awareness of anything new. The people had experiences with the end of radical reform from 1968 and were not that enthusiastic for new similar reform.

Some analysis said that this reform from 1987 would not be possible in 1970 or 1980, where very strict state control under Soviet command were applied. The latest reform from 1987 was possible to create only because of approval of M. Gorbachev, the Soviet president.

The Communist reforms between 1980 and 1987 helped bit the Czechoslovak economy. The changing in economic planning was really revolutionary thing. But the real activation of economy did not come. The reforms were still too small. So after 2 years, in November 1989 people just decided there was enough of socialism and system

changing was necessary. There were huge demonstrations every day for 2 weeks since November 17th 1989. The regime collapsed very quickly and the real comprehensive reform could come.

IV.C. CZECHOSLOVAK / CZECH REFORM 1989 -TODAY

Czechoslovak transformation from planned economy to market economy was based on few basic stones – price liberalization, liberalization of foreign trade, market liberalization, privatization, macroeconomic stabilization and institutional building. After the fall of socialism, Czechoslovakia was one of the countries with very good initial conditions. The modernization was on quite high level and the distortion was relatively small. The transition in Czechoslovakia was in general very similar to transition in other advanced socialistic countries such as in Poland, Slovenia or Hungary. But few differences and dissimilarities between the reforms in Czechoslovakia and other countries of course occurred.

Macroeconomic stabilization, liberalization, privatization

The Government in Czechoslovakia took as a first step of the reform macroeconomic stabilization. This stabilization consisted of very restrictive control over the whole economy. As next steps were applied price liberalization, foreign trade liberalization and deregulation. The main reason for choosing macroeconomic stabilization before liberalization was to protect country from hyperinflation, which according to many studies supposed to occur if the steps were reversed. The macroeconomic stabilization was simply one of the main goals of the government. There were not so much conflicts between economists about the first step –

macroeconomic stabilization – generally everybody agreed that this was necessary and had to be done first.

But there was no clear answer among the economists how should be done the second step – price liberalization. The first group around the ministry of finance V. Klaus suggested comprehensive price liberalization in connection with very strict fiscal and monetary restructure and devaluation. The opposition around Social democratic party argued that the economy couldn't survive that huge shock liberalization and recommended some partial step-by-step liberalization. Finally the first way was taken.

Next step, which was followed, was privatization. Here I would like to focus only on large-scale privatization. The Czechoslovak government actually also the Czech government knew how important was privatization. The state enterprises with inefficient managers just simply could not continue. They Government wanted to start the privatization as soon as possible because by every day under the state command the enterprises were losing their value.

I should remind that during the socialistic period most of the state enterprises had soft budgets, and whenever they were in trouble, the government always helped them. Because of low quality of goods and high cost of the production the enterprises were in trouble permanently. So it was really huge liability for the state to maintain all the state enterprises. The government wanted to terminate its liability as soon as possible, because the money was needed in other places. That was the main reason why the state choused the shock therapy rather than step-by-step privatization. If they choused step-by-step privatization most of the manager enterprises would focus on how to delay its privatization and how to survive at their positions rather than how to increase the companies values.

New owners of state enterprises

The politicians had to answer the question whom to sell the enterprises -to the current managers? The leaders did not want to take Hungarian way of privatization when they sold the enterprises to enterprise management with communistic history. It seemed that it could not be acceptable by the ordinary people in Czechoslovakia. What about foreign investors? The foreign investors did not really want to participate in initial stage of transition. The unstable economic environment, huge investments which were necessary, no trading connection to west world and lack of information made from Czechoslovakia bit unfriendly environment for foreign investors. The foreigners needed more time and information to think about investments. But time was something what the Czechs did not want to give. The speed was more important. What about Czechoslovak people? To sell the enterprises to domestic people was also not possible because private capital that could invest the restructuring did not exist. The average age of machineries was about 15 years at that time, there was no high technology and huge investments were expected from new owners. But in the Czechoslovakia, there were no reach people who could buy the enterprises and invest massively.

Mass privatization

The Czechs tried to find another way – the mass privatization. The basic principle of mass privatization was very simple - to deliver the state enterprises to state inhabitants. The main purpose for this way of privatization was not to find the greatest owners, to bring the capital or new program. The goal was to separate as soon as possible the enterprises from the state budget and state control. Also it was very

important political decision. The people lived for 40 years in socialism without private property. The state owned everything and the people owned everything collectively.

The privatization and actually first private owning of enterprise was something like first positive result of transition changes. After the privatization started, the people could see that there were not only increasing prices in capitalism but also some benefits. The privatization was supposed to stimulate the people for their creation of own business.

My personal opinion is that this massive privatization actually helped the government in its shock therapy. The people were more tolerating the problems around transition than they would if there was no privatization. The people could really believe that the transition and real prices according to cost would have later some positive effect in their life. From that point of view I believe the way of privatization was very good – actually better than to sell the companies to MBO or EBO or to find strategic partner in long term process.

In socialistic time the people were not push to think. There was planned economy and everybody did what the plan said. Nobody really thought how to work. But after privatization the people had something in their hands. They could see if the companies went up or down. They could see the reasons why and they could understand that the prices had to increase. So I believe the mass privatization helped so much specially in people attitude towards reforms and changes.

As a method of mass privatization, Czechoslovakia choused voucher method. The voucher cost 1.000 Czechoslovak crowns, which was about 15% of average Income. The property, which the people had received for the voucher, was about 12.000 crowns on average, which was about 12 times higher than initial investments, which were

needed. Because of relatively small people's costs, the disappointing if certain company was closed down because of non-profitability was not too bad. People took the privatization more as a lottery game where they could win quite much but loose about nothing. There is another positive effect of this privatization. The unprofitable companies were shut down very soon with minimum cost. Privatization was of course not the only way of creating new private firms. Creating new firms or joint ventures also started to be very popular. From domestic money could be created mostly only small private companies – which was happened in huge measure, but the resources were not big enough to create huge private imperia. The foreigners actually waited and closely watched the situation in Czechoslovakia. They wanted to invest only in safe region. The foreigners came – but it took some times.

The first period of transformation, when the first market liberalization steps were introduced, was attended by huge decline in economy. This decline was occur in all transformation countries and I would say it was necessary tax for the transformation and there was no way how to make a transformation without decline. As Economists said: There is no free lunch! The decline had to come. It is important to notice that during this period our economy lost 1/3 of our industry, 1/4 of our agriculture, and 1/5 of our GDP.

SIDE EFFECTS OF THE REFORM

As the Czech government put so much emphasis on the first three steps of transition, it is good to remind that the institutional building did not really meet the expectation. Actually the real effect and lack of well providing institutional buildings were discovering bit later. Mostly after the first transition steps were finished. If the

institutional building and legal environment would be better prepared, probably more foreign investors would come in the first stage of privatization. As some Economists says it's probably true that some of enterprises, which were should down, could survive. But according what I have written I believe the effect would not be as positive as it was with fast privatization.

The transition period can be also characterized as the huge larceny of state property and business – theft. As the government very concentrated on the privatization and the speed, the legislative, the tax reform and all the law, which were necessary for well functioning private sector, were not well maintained. There was actually no law that reflected well the private property system; there was no a law, which provided complete tax system. The excuse, which the politicians say now, is that the state could not just manage everything in one time. So many properties were stolen. It was side effect, which had to occur when the speed was taken as priority number one.

Especially during the privatization the most important factor was speed, no strict control over the property. It resulted that many really valuable property from the SOE disappeared, also that new shadow economy started to be so massive. The state politics were thinking that lower policy was better than strict policy. If there were strict policy it means for example that instead of one big no perfect privatization per day, there would be only one large privatization per week. But that privatization would be almost perfect.

In our case, we wanted perfect privatization, but more than perfect privatization, we wanted fast privatization. Generally I agree with this allegation. But in Czech case the regulating policies were too low.

Evidences of that can be seen in banking system. The banking system was put in trouble very soon after liberalization because there were no strict regulations for

creating new banks. So during the transition period 28 new banks were created mostly from domestic resources. It was not real picture of Czech economy, because the economy did not have enough money to create that many banks. There were not even enough human resources for these banks. Banking managements and controls over the banks were very weak and state did not manage it really well. The banking bankruptcy had to start. The state felt some responsibility because it missed the control over the banks, so it compensated all the clients who lost their money in banks. So the cost of this lack of institutional building in banking sector finally was about 500 billions Czech crowns. (About 16 billion USD)

PART V.

SIMILARITIES BETWEEN CZECHOSLOVAKIA AND DPRK

As I already mentioned at the beginning of this paper, I believe there are many similarities between DPRK and Czechoslovakia. This can be also seen from the overview of both economies as well as from the described reforms, which the countries introduced in the past. Now I would like to concentrate on some of the similarities and try to find out if similar steps, which took both countries, resulted in similar outcomes or why not. I want to pick up only few similarities, which I believe are important, and which are quite obvious. Do these similarities allow me to predict what would be effect of the latest North Korean reform? If yes, what is the prediction? That is the goal of this third part.

SYSTEM

The first similarity we find is the similarity in situation, which occurred after the war. Both of the countries had private sectors and both of the countries were tried to nationalize their industries. In both countries it was quite successful and the state, after nationalization was finished, owned and governed agriculture and industrial sector.

The state ownership was in both countries introduced very quickly after the war. The countries did not have any experiences about this system and the system changes were quite radical. It was not a big problem for both countries to adopt total new unknown system. When market economy was introduced in Czechoslovakia, the people again quite quickly adopted the changes and have taken advantages of new system. If market economy will be introduced in North Korea, I expect similar positive reaction from the people. There are no historical roots in DPRK, which would block or make difficult these changes.

DEPENDENCY ON SOVIET UNION

One of the main reasons why both countries grew after the world was the assistance of Soviet Union. I believe both countries at this point made a mistake in orientation only toward USSR. And it is important to say that same mistakes made similar results. It is also necessary to say that there was no really alternative solution, so neither CSSR nor DPRK could really change it. The orientation to one big country and its support simply mean that the lives in both countries (CSSR – USSR or NK-USSR) were very connected. It means that the Czechoslovakia or North Korea had to do what the superior - USSR said.

In Czechoslovak case – the very bad result of this strong orientation toward USSR could be seen in energy case. In middle of 1980 the Soviet announced they wanted to cut the export of crude oil to Czechoslovakia by 10 per cent. This cut supposed to have significant effect on the Czechoslovak economy. Czechoslovakia could not do anything else than to accept it and to prepare to slow down the economy.

North Korea had much worse experiences with Soviet crude oil. After the collapse of Soviet Union the import of crude oil was from one to another year down by 90 per cent. Not only the oil but also other crucial goods and material from USSR were cut down very dramatically. These cuts resulted in collapse of economy and crises.

This similarity does not really allow me to make any prediction about the effect of the latest North Korean reform, but I just wanted to show by this example how similar problems were happening in CSSR and DPRK and how similar outcomes these problems made.

PLANNING

Similar planning was another category where we can compare these two countries very closely. The countries had the same system – state planning committee, which made a detailed plans for sectors and in cooperation with regional committees they made the detailed plans for enterprises. The enterprises did not have any freedom, could not influence anything. Both countries found out that it did not work well. In both countries it was one of the main reasons for slowing down of the economy. The Czechoslovak found out for first time in 1960 and again in 1980. North Korea has found out it in 2002.

Generally the central planning was wrong because it did not reflect real demand and supply, the cost of production etc. Czechoslovakia could not change these rules. And upon Czechoslovak experiences even DPRK can not be successful with planning economy. And as many microeconomics theory proved there is no better way for efficiency than the free price market system.

HEAVY INDUSTRY

Both countries tried to have as a main goal heavy industry after the war. In both countries the high growth rate in 50ties and 60ties was because the growth was oriented on production and not on consumption. Both economies also depreciated the agriculture and were thinking that the heavy industry was the only possible way. The problem was that the growth of this part of economy was in both countries made mostly through investments – not through the consumer demand and competitive market. If investments were the reason for this quite rapid artificial growth in heavy industry, the country should not ignore investments in other parts of the economy. To invest only in heavy industry and to invest minimum in agriculture or light industry was in both planned economies a very bad decision.

Both countries made a mistake in that. When the latest radical reform in Czechoslovakia was applied in 1989 one of the biggest problems of the economy was in heavy industry. More than 50% of all heavy industry enterprises stopped at least temporarily. The industry was not modern at all and compared with foreigners' western companies, the production was unacceptable costly. Most of the companies could not survive.

Because of similarity on this field and because the radical North Korean reform from 2002, the country can expect huge problems and many closed down. The situation can be very similar to the situation in Czechoslovakia after 1989.

COUNTRY IMPORTANCE

Last similarity, which I would like to talk, is geographical similarity and importance of the countries for the region. If somebody is describing Czechoslovakia, he or she is usually describing it as very important country, which is in heart of the Europe. During the Communism, Soviet Union always cared about Czechoslovakia more than about other socialistic countries. The Czechoslovak had a direct border with Western Germany and Austria; it was except East Germany the West most country, strategically very important. Also compare to other socialistic countries, Czechoslovakia had usually better outcomes. The people there never fully accepted the socialistic regime, the underground opposition was very powerful and because of that the Soviet Union had to take special attention toward Czechoslovakia. The invasion in 1968 showed how important for the USSR Czechoslovakia was and how much power the Soviets used to hold that strategic country under their command. During the Cold war, Soviet Union had there the most crucial missiles and weapon systems in Czechoslovakia.

When the regime terminated the Western countries cared about Czechoslovakia more than about the others. (Again except West Germany for East Germany). The politicians believed the Czechoslovakia was something like the gate between West Europe and East Europe and it was very important who influenced it.

North Korea was as well as Czechoslovakia very important. Fief between USA and USSR about influence on that country everybody knows. The country has as well as Czechoslovakia very strategic location and West countries as well as East countries want to take a control over it. The importance of the country increased after Kim Jong-Il announced he has had nuclear weapons. I want to talk about this problem more detail later, but the message what I want to show now, is that because of that neither China, nor USA nor Russia can turn aside the country and must to take special attention to DPRK. The country is very important for stability in the region, even if the economic power of DPRK is very limited.

This similarity shows that both countries have been very important for the countries, which lead the World. The World leaders take special attention to these countries, and through offering help and other things try to influence happening inside the countries. On one hand it was positive for Czechoslovakia as well as for North Korea, because the countries could receive special helps and treatments. On the other hand the countries became part of a game about who would win the influence over them and have had only limited power to do anything about it.

PART VI.

COMPARISON OF THE REFORMS

According to what has been written the countries are quite similar in many aspects. As I already mentioned I just picked up only few similarities, which I believe, are relatively crucial. These similarities in crucial conditions as well as in results of similar steps which both countries took allow me to look on the reforms which have been described in this paper and try to compare them.

I can compare them, because the reforms, which were introduced in both countries, were very similar. The reforms in both countries were about changing planning strategy, independence of enterprises, opening the market, state control etc. If the countries are really similar as I am alleging, the results of the reforms should be relatively comparable (of course with certain differences).

RANKING OF THE REFORMS

My thesis mainly focuses on four reforms:

1. North Korean reform in 2002
2. Czechoslovakian reform (experiment) between 1965 and 1968
3. Czechoslovakian reforms between 1980 and 1987
4. Czechoslovakian reform in 1989

If I should rank the reforms according to their economic integrity, outcomes and economic importance, I believe the biggest effect had the Czechoslovakian reform from 1989. That one was the most comprehensive. Second one was Czechoslovakian reform, which happened between 1965 and 1968, third one was North Korean reform from 2002 and the reform with the smallest influence over the economy was Czechoslovakian reform from 1980 – 1987.

NEW PLANNING SYSTEM

In Czechoslovakia as well as in DPRK the new planning system was one of the most crucial elements of each reform. But is it important to say that introduction of new planning system only, without changes in wages, prices and investment policies cannot

really change much. The planning strategies for all three reforms were not significantly different. They all had the same goal – to open the economy, to give more freedom to enterprises. The differences can be seen firstly in the level of opening, and secondly in the other steps, which were vitally connected with the opening economy. I mean by this mostly the changing of wage system, price system, investment system etc.

The new planning strategy, which introduced DPRK in 2002, is relatively open. The central planning committee set up only the goals, which translated into long-term plans. The enterprises should set up their own plans. This change was also followed by new independent accounting system, more freedom for the managers, new wage system for the workers, new price system and others steps. The state transferred some of its power, but not as much as it could. It seems that the state gave up some of its power, but on the other hand still holds quite crucial control over the economy. It seems that the goal for the state is not to transfer its economy to market economy, but to improve its economic situation only with remaining of control over it.

If we look for comparison in Czechoslovakia, we can find out changing of planning strategy in all three reforms between 1965 and 1985. In 1980 the planning committee set up also only key targets for selected enterprises. But vital changing of wage system, changing of investment system or changing of prices did not follow the changing of planning strategy. The effect of this reform for the economy was nearly zero. The goal of the state was to try to improve the economic situation with all the respect to current power. The state was not prepared to give up anything.

On the other hand, the experiment form 1965 included all these factors. The managers received relatively high independency, very high responsibility. The workers got better money for better work and also through their committee had a right to

influence the managerial staff. The enterprises were also allowed to keep some the hard currency, which they obtained from foreign business. The effect for the enterprises, which were in the experiment, was relatively big. The goal of this reform was I believe bit higher than goal of DPRK reform in 2002. The Czechoslovak state delivered its power because it found out, that the state is not the best owner. The state wanted to improve the general situation. It was prepared to loose its power if it helps the economy.

Because North Korean changing of planning strategy was somewhere between these two Czechoslovakian reforms, if we isolate all others factors we can expect the result should be also somewhere between. From Czechoslovak experiences, I can say the changing of planning strategy how DPRK introduced, would have definitely positive effect at least from short or medium point of view. But this statement is in power only if we isolate this reform steps from other factors such as resolving nuclear issue, Chinese economic growth, weather conditions etc.

NEW PRICE SYSTEM

In its reform in 2002 North Korea introduced also new wage and new price system. Especially the price system was changed really significantly. Before the reform, prices were very strictly controlled by the state and the gap between official prices and unofficial black market prices was huge. In case of rice the increase was about 500 times. Also the gap between official and unofficial prices of other goods was unbelievable big.

Significant rapid change like that can be very dangerous for the stability of the government. If the prices are too high, people can over throw the leaders. Instead of

that danger, DPRK took this tactic before the annually prices changing. I can see two reasons for that.

First – The official market in DPRK did not work at all. Most of the goods were trade unofficially. Only minority of the goods could be bought for official prices. So the rapid changes applied only to these minority goods. These changes actually did not increase the prices, which paid the costumers that significantly as it may seems. These new prices actually brought the goods back from unofficial market to official market only. That was I believe one of the main goal of the price changing.

Second - The state would not introduce something, what will terminate its existence. I believe DPRK government thought before the reform very deeply and found out the government's high possibility of surviving even with new price system.

The new prices actually did not reflect 100% the real prices, but at least decreased the gap between real prices and official prices, which was a positive sign. NK did not give up the prices setting to market. The government was still fully responsible for that, but with certain respects to enterprises managements. Here it can be says again the same thing as before about new planning strategy. The government recognized the problem, tried to solve it, but at the same time the government wanted to have a control over the prices and economy.

Czechoslovakia did not introduced price changes, which could be compared to huge changes in North Korea in 2002. Czechoslovakia was using different strategy. Central authorities set prices on over 1.5 million kinds of goods. The state was increasing the prices annually. Before the reform in 1965, state enterprises were theoretically autonomous financial entities that covered costs and profits from sales. Because the government set production quotas, wage rates, and prices for the products

manufactured and the inputs used in the process, however, managers had little freedom to manage. By the reform in 1965, many quotas were banned; enterprises obtained more control over the prices. Because annually price changes, the gap between official and real prices was not as big as in NK. During the reform in 1965 the prices went up slightly, but not significantly. The managers had more freedom about the prices, but still the final words said the government. The managers had a power to negotiate.

Reform in 1985 did not bring big changes in price strategy. The reformers wanted the enterprises to be financially independent, but the prices were in charge of government as well as the wages. The managers in 1985 did not have real negotiating power.

The biggest increasing of prices brought the reform from 1989. In this reform we can see the measure of the gap between state prices and market prices. Most of the prices increased to market level. The state gave up most of its power over the prices, but not all. It kept the control over the strategic prices such as food or housing. On average the prices increased by 3 times, during two years. Between 1989 and 1991 the price of milk increased from 2 Kcs to 12 Kcs, which is about 6 times. Average price of Czechoslovakia made "Skoda" car increased from 50.000 Kcs to 150.000 Kcs. The price of 1 liter gasoline increased from 8 Kcs to 18 Kcs.

The reforms in North Korea as well as in Czechoslovakia followed generally the same goal in price changes. The goal of the price changes was to put the prices to more realist level, to decrease the gap, between real cost and prices. This was of course positive. In both countries during all reforms (even in the Czechoslovakian reform in 1989, where state also guaranteed prices of certain products) the state did not give up

the control over the prices totally, but only partially. The prices were just too important. From political point of view uncontrolled prices were too dangerous for the government.

The creators of different reforms in both countries had the same goal, but they selected different strategies, which brought different outcomes. From the available results, we can see that more giving up and independency means better outcomes. But it is important to notice that nobody was expecting that governments would give up all control over the prices. Even in developed economies such as France or UK the governments control some prices and to criticize DPRK and Czechoslovakian reformers for not giving up the control over all the prices would not be correct.

I believe in North Korean case, the reformers could be more opened but we should not forgot that the main goal of this reform was not to introduced market economy, but just do only steps, which were necessary to improve the economic situation without loosing control over it.

NEW WAGE SYSTEM

New wage system, which was introduced as a part of the reform also, brought significant changes to North Korean economy. The main goal of this step was to increase the productivity and quality of the goods. The changes in wages were very much connected to new planning strategy and price system. New North Korean wage system as well as planning strategy and price system had certain limits, which decreased its potential effect.

The problem was that the wages were even after reform still under governmental control in general. The enterprises received some power in their creation, but still had to stay within limits, which the government set up. The other important thing, which should be notice here, is that by this radical reform government changed its attitude toward workers. The government was more interested in individual worker's performances than in collective workers performances and the new system fully reflected it. This can be seen as a very positive sign.

Reforms in Czechoslovakia also consisted of new wages system. The goal was very similar to North Korean one. The government wanted to increase productivity and to improve individual workers morality. This statement is valid for all three Czechoslovakian reforms. But of course all three reforms showed different outcomes. The governments in Czechoslovakia as well as the government in North Korea did not give the control over the wages totally, but only partially. The wages in Czechoslovakia even after reforms were under relatively strict government control. One of the reasons was that the government was scared of inflation.

The reform in 1965 allowed the managers to differentiate among the workers according to their individual outcomes. The enterprises could negotiate about the wages generally with the government, who had the final word. The increasing was in many companies guaranteed whenever the productivity went up. Instead of control by the government the managers still had some relatively high influences about wages in their enterprises and we can call them relatively independent. In this reform the trade unions increased their power. Newly they were the partners for the managements and government during the wages negotiations.

Also in 1989 reform the government did not give up fully its control over the wages. As well as prices, the wages were for the government very crucial. But it can be seen slightly different strategy than in 1965 reform. At this time, the government tried to set up clear criteria, which would guarantee wages increasing in state enterprises. Whenever the productivity increased, the amount of money, which were extra earned by a company (certain percentage), were guaranteed to employees. There was also a general rule, which would guarantee increasing wages, whenever the prices would go up over certain level. The government did not control the wages in private companies at all. But the government controlled the general level of wages of state employees and through it actually the whole economy.

Reform in 1985 brought much smaller wage changes than reforms in 1965 and 1989. The enterprises supposed to be financially independent, but at the same the government still wanted to have crucial control over them. Any general wage changes had to be consulted with government, and to receive the governmental approval was quite difficult. Situation in individual wages was bit better. The managers supposed to be relatively independent in making decision about that. The wages among individual workers at the same work place could be quite different. 10% different was quite normal.

In wage situation I think I can predict upon Czechoslovakian experiences possible outcome for North Korean reform. There is no doubt, that the changes in wages were positive sign of improving DPRK economy. It is not surprising that the government still holds the general control over the wages and from Czechoslovakian experiences; we can see that positive outcome can come even with this limitation.

As I already mentioned the crucial changes that we can see is that North Korea changed its attitude about prices. In some sense it actually means that at least

theoretically North Korea left the socialistic theory and started with the capitalistic at wage system field. There is no other way, how can be explained that workers received payment for their individual performances and no for collective performances.

But as it can be seen from Czechoslovak experiences (mostly from reform in 1985) the theoretical rhetoric changes were not enough. The real differentiations among workers and enterprises had to be introduced for a large positive effect. Czechoslovakian reform in 1965 as well as Czechoslovakian reform in 1989 proved that the new wages system were only important part of the reforms. It had to be done, but on the other hand without others steps such as independency in decision making it could not work.

The changes, which Pyongyang introduced in wage, would have according to Czechoslovak experiences positive effect. Actually the positive effect can be seen from the latest data from DPRK. If we look exactly at the steps, which were introduced in the reforms in Czechoslovakia and North Korea both countries introduced mostly similar steps but used different level. According to these levels the final effect of DPRK reform can be seen again somewhere between the Czechoslovakian outcomes from 1985 reform and 1965 reform. I believe the outcome should be closer to 1965 results than the 1985 results.

I believe there are many other reforms steps, which can be compared between reform in North Korea and reforms in Czechoslovakia such as abolishing Donpyo or creating “new” special economic zones etc. (Czechoslovakia in 1980ties also used special dollars voucher similar to Dunpyo. It was called “BON”). I just wanted to pick up the most crucial ones for the economy and tried to compare them relatively deeply.

CONCLUSION

As it can be seen from reform in 1965 or from reform in 1989 in Czechoslovakia, changing in planning strategies had really positive effect on profitability of companies. But this change which brought high independency among enterprises had to be followed by other steps such as new wage system, new accounting system etc. But the crucial was how much independency the enterprises received from the central planning committee.

In reform from 1985 the independency, which companies got, was much smaller than in 1965 and even smaller than in 1989. In 1968 the profitability was number one in importance. The level of freedom, which supposed to be delivered to management, was quite close to independency. The reform in 1965 was expecting total independency in calculating prices followed by new tax system. The plan from 1985 was much conservative in that case. The tax system should not change at all; also independency in price creation was very limited.

If we look on the results of the reforms in Czechoslovakia, the effect of reform in 1985 was much smaller than the effect from 1965 and of course smaller than reform in 1989. I believe the reform, which DPRK introduced in 2002 is somewhere between Czechoslovak reform in 1965 and Czechoslovak reform in 1985. North Korea opened its economy in 2002 more than Czechoslovakia in 1985, but less than Czechoslovakia in 1965. Because of this I can predict the effect of the reform somewhere between the results of Czechoslovak reform in 1965 and 1985.

But of course the final prediction about the effect cannot be made only upon these Czechoslovak experiences, because there are also some differences between these two countries, which should be considered. For North Korean economy is for example

very important current Chinese growth rate and its demand. So in conclusion I can say the changing of planning system with all following changing should have quite positive effect on North Korean economy. From long term point of view the government will have to give up more of its control over the enterprises, to maintain the growth rate, but according to Czechoslovakian experiences the steps which were introduced in North Korea should have significant at least short and mid term positive effect over the economy.

PART VII.

CURRENT SITUATION IN NORTH KOREA

If my prediction about at least the short-term effects of the reform in North Korea are correct, and if it is possible to use Czechoslovakia for comparison, can be seen from current situation in North Korea. The true is that North Korean economy has been increasing in last two years. This is actually what I have been predicting by this thesis. The question, which should be answer first, is why? Is it because of the reform or are there other reasons? What most of the economists says there are several reasons for the recovery? I would like to talk about three - I believe the most important. The reasons are: First - Reform in 2002, Second - Current situation in China and Third - Humanitarian aid.

Probably the biggest reason is the reform, introduced in July 2002. (But it is fair to say that the economy was very slightly increasing already before the reform in 2001. Reasons for this increasing can be seen in massive humanitarian aid from abroad.)

2002 reform was a reform in good direction and big enough to have at least a short term positive effect on the economy.

The first months of the reforms especially between July 2002 and July 2003 were very painful. Inflation was rampant, as the boost in demand created by the increase in wages could not be met by adequate supply. Also the free market exchange rate nearly tripled. A new word was introduced to North Korean economy – unemployment. Unemployment went up. Some even quite large enterprises collapsed. Some enterprises attempt to renege on the price increased. Because of loss of KEDO fuel oil, the energy availability decreased.

After first year of pain the situation improved quite rapidly. The market system started to work energetically. Many Chinese investors came to Korea. New enterprises were created (the biggest boom is expecting in Gaesong economic zone after its opening). The state budget was used to upgrade infrastructure and repair industries. Also demand from China for raw material and other goods went up as well as export. The latest estimates say that the economy grew by 6 % in 2003. The Ministry of Finance announced that Industrial output went up by 10%, Electricity generation went up by 21%, Electricity generation went up by 21%, and Iron ore by 46% and Cement went up by 27%.

But not only industry, but also agriculture went up in recent years. The main factor behind this continued recoveries include favorable weather conditions, especially at the beginning of the season, a relatively low incidence of crop pests and diseases and increased application of fertilizer provided through international assistance. This year cereal production, including potatoes in cereal equipment, is forecast at 4.16 million tones, the best harvest over the last nine years, and 4.7 percent larger than last year's

revised estimate. But instead of that the domestic production still fall far below the minimum food needs and the country will again have to depend on substantial external food assistance as its capacity to import commercially remains highly constrained.

Second reason for DPRK good economic numbers can be seen as it has been indicated in China. North Korea can be characterizing such a country where nothing grows fast. But instead of that the China – DPRK trade – both exports and imports have been growing at estimated 40-50% per annum (Table 5.) Annual trade in 2004 is expected to be close to 1.2 billion USD, it means about 50% of all trade. The Chinese demand for everything is just huge at the moment. North Korea is flooded by requests from Chinese wishing to come to exploit its abundant resources and reinstate industry. North Korea quite welcomes this demand, but does not want to sell the key assets to the Chinese now. Also the exchange rate seems to be on quite realistic level now, which made the business much easier. The current exchange rate is about 1150 NK WON per 1 USD. Only because of Chinese rapid growth, North Korean economy should be lifted up by 5 – 6% another year. At the moment China is for North Korea trade partner number one.

Third reason for North Korea recovery, which I want to talk about, can be seen in huge aid, which is provided by foreigner countries, mainly by South Korea during these years (Chart 5.) Through the humanitarian aid North Korea get some foods and other staff, which is North Korea short of. This has of course positive effect on the economy. Huge humanitarian aid goes to North Korea this year. After the train tragedy at Ryongchon in April 2004, South Korea has promised to send there extra humanitarian aid worth 30 millions USD. In late May 2004, North Korean leader Kim Jong-Il met with Japanese Prime Minister Koizumi. Koizumi came back to Japan with

five of the eight family members of the five repatriated Japanese abductees. Kim Jong-Il agreed to let them go after Japan offered 250.000 tons of food and medical material worth 10 millions USD. The relationship between North Korea and Japan till that time was very cold. After this deal there is quite a high chance the relationship will improve. North Korea can only benefit from that.

PART VIII.

PREDICTION ABOUT FUTURE, TASKS AHEAD OF DPRK

If the homogenous similarities between these two countries will follow and if the entire conclusion, which I already made, is correct – the next similarity, which should occur logically, is the fail of the regime. The question which should be asked now is: “Can we expect similar end of communistic regime in DPRK as it had happened in Czechoslovakia?” I do not think so. I do not think this similarity will continue on this field. Why? If I compared the reforms, I have found that there were many similar initial conditions which actually led to similar results. So simply when ever there were similar initial conditions and similar reforms steps we could expect similar outcomes.

But this condition is not meet if we compare the initial political conditions before the velvet revolution in 1989 in Czechoslovakia, which brought the termination of the regime, and current situation in North Korea. Because there were not same initial conditions, we cannot expect that the regime in North Korea can finish by the same way as regime in Czechoslovakia finished.

There are generally two ways how to change the regime – slow changing – something like China, or shock end - exactly what happened in Czechoslovakia. The regime in Czechoslovakia failed in 1989 because of several reasons. I want to talk about

two only, which I believe differentiate Czechoslovakia and North Korea very clearly and can explain why shock therapy will not happen in North Korea.

The first reason we can see in political situation in other socialistic countries around Czechoslovakia. In fall 1989 the biggest political changes of regimes were happening in East Germany, Czechoslovakia, Hungary and Poland. Also situation in Rumania, Bulgaria and other eastern European socialistic countries were about the change of the regime. Czechoslovakia was only a part of this massive transformation.

The other reason we can see in existence of underground opposition. The initial step of the Velvet revolution, which brought the changes of the regime, was made by underground opposition. It happened on November 17th 1989. The large opposition demonstration was held back by armed police. They brutally hearted several unarmed people - mostly students. But the police nobody killed. It was too massive demonstration and the regime could not hush it up. The ordinary people were in shock from police behavior and massive demonstration and general strikes occurred shortly after this happened.

If we look in North Korea none of these two very important conditions really exists at the moment. There are no other countries around DPRK, which are expecting to change the regime soon and which should be able to influence by this change people in DPRK. May be if a rapid change of the regime and massive demonstration which finally overcome the Communists in China would happened, it could influence the situation in DPRK. But it does not seem to be realistic at the time. It seems that Chinese Communistic party has the state under total control and this cannot be really expected.

Also compare to Czechoslovakia there is not really any opposition in North Korea. In the Czechoslovakia there was quite large underground opposition, which

finally started the revolution. But in NK there is not this element. As far as I know if there is any opposition in North Korea it is separated small organizations, rather individuals. There are not many demonstrations against the regime. The people are just quiet. If there is an opposition demonstration in NK I believe the regime is prepared to shoot in the crowds and put all the people in prison. Nobody would really complain. The media under state control would not say anything about the incident; most of the people would not get the information.

In Czechoslovakia it was not possible. There were demonstrations quite often and of course the police victimized the underground opposition. But the state had some limits which it could not go beyond. The regime would for example not survive if at any demonstration the police would start to shoot in the crowds. There were radio stations such as Voice of America or Free Europe, which would inform about it and the regime, would not be able to maintain this. It is quite interesting that the state collapsed actually after the police gruel about 100 people only.

Situation in NK is absolutely different than was in Czechoslovakia in 1989. The country is totally isolated and it seems to me that the regime can do what ever it wants. Because of that I do not really believe the shock therapy and revolution can come in North Korea to change the system at least not in near future. The army seems to be very loyal right now and will support Kim Jong-Il regime if there is any needs.

I believe biggest influence on North Korean future have and will have China at least from short term. At the moment it is the biggest North Korean friend and the North Koreans can see that the economy in China is running quite well, and the communistic regime has still the control over the state. I think this is exactly what North Koreans leaders would like to have also. Because of that if we want to predict future

development in North Korea we should look at China and their steps in the past. I believe that it is what more or less we can expect in North Korea. An example which proves this statement can be seen in North Korean economic zones, which are about to start now (at least the one near Gaesong). These zones had been designed in quite similar way as the Chinese ones. Kim Jong-Il during his last visit in China in May 2004 visited at least one Chinese special economic zone and was collecting experiences from its running. I believe if North Korea will be at least relatively successful with their zones, other steps, which introduced China recently will follow.

The tasks which are ahead of North Korea are relatively clear. The reform which was introduced on July 1st 2002 was good direction reform, but we should believe it was beginning only. From economic point of view the economy must be soon or later open more. Steps already introduced will be not enough from long term point of view. For example the ownership of the economy has to be changed from state own enterprises to private enterprises. Situation in legal framework has to be more improved. Foreign investors need basic legal framework, which would guarantee them the investments are secured and will not be nationalized. The infrastructure has to be also rapidly improved. The state has to invest lots of money to phone network, electric power network as well as in roads. The state will have to guarantee also some basic framework of human rights to its own people, which would guarantee that the big investors which would make a business in DPRK will not be accusing from supporting slave regime etc.

The previous paragraphs described how the NK economy changed and what can be expected from the economy in the future. But we should also ask how the reform changed the people and what can be expected from them? Has the reform changed the people or not? I believe yes. Reforms in Czechoslovakia in 1965 and 1989 changed the

people relatively much. The democratization process could be seen everywhere and it had of course an influence on Czechoslovak inhabitants. The reforms brought freedom for the enterprises, price etc. The people saw it. The people were part of it and were influenced by those changes. The people could not be eliminated from that. They received bit of democracy and tried to use it. For example an employees threatening by strike during the negotiations about wages were before 1965 reform actually impossible. Nobody would even think about it. There was a plan and it set up everything. In 1968 it happened in Czechoslovakia several times.

I believe North Korea knows what the side effects of introduction of market reforms are. I think North Korea will try to eliminate this democratization as much as possible. That is actually one of the reasons why North Korea does not really speed up with its reforms.

For North Korea future development are not crucial only the economic factors, but political factors also. There are two political factors which I believe may influence the future of North Korea very significantly. One of the factors is short term factor one and one is long term factor. The short one is the current nuclear crises and long one is Korean Unification.

NUCLEAR CRISES

The result of the nuclear crises will influence the economy quite rapidly. After the second round talks in Beijing this spring it seems much more optimistic than it looked few months before. The question is again why? I see two possible explanations:

Possibility one – “North Korean is in bad situation now and really needed to solve the problem.” I do not really think so. According to what I just said the situation in NK is not that bad as it was earlier.

Possibility two: “North Koreans feel that now is the best time for negotiation and for giving up its nuclear program.” Now they can get as much benefit as possible. The economy is in relatively positive direction; Chinese growth is expecting to continue. With additional help from US and other countries in exchange for stopping of the nuclear program, the economy may recover relatively well. There are presidential elections in USA soon and the settlement about NK nuclear crises can help Mr. Bush in presidential election so I believe also USA want the settlement about the nuclear issue now. Because of that I think it is the right time for terminating the nuclear crises and settle down the deal.

KOREAN UNIFICATION

One of the solutions how to solve the situation in DPRK can be Unification between North and South Korea. This would have titanic effect to DPRK economy, actually much bigger than successfully solving of nuclear crises. But the probability of its happening is on the other hand much smaller than probability of ending the nuclear crisis. The possibility of Korean Unification rose mostly during the democratic changes in Eastern Europe. The experts thought that similar changes could happen in North Korea and Unification similar to German one can happened in Korean peninsula. From certain reasons which I already indicated it did not happened. At the moment it does not look that it will happen in near future, but may be in long term it would be possible.

There has been prepared several scenarios about what should be done if this happened. The gap between DPRK and South Korea economy is huge and it is clear that most of the reconstruction of DPRK would be lie on South Korean back. (Chart 6.) So from South Korean point of view it is good to be prepared for that. The cost will be huge and South Korea will be not able to pay it in short time. The huge cost may slow down the South Korean economy as well as the living standards. Because of that South Korea should pre – invest to North Korea now and by this try to decrease the investments which will be necessary when the unification will happen. It means to invest in North Korea now even if it is not profitable at the moment can save huge money in the future.

It is also important to decide what to do in first days after the Unification. Should the North Korean be allowed to go to South or should they be forced to stay for certain period in North Korea? For the whole economy would be according to many scenarios the best solution if the North would not be allowed to settle down in South for certain period. While the economic situation in North will improve they would be able to travel south.

PART IX.

CONCLUSION

It is extremely difficult to write about North Korea because there are not many information. And if there are some there is always a question how doubtful they are. Instead of that I believe I have used data and information, which can be relatively doubtful and trustful. I tried to use official published information by DPRK as well as many non North Korean sources which I hope eliminate the mistakes.

The task which I picked up is not easy at all. I tried to do something, what probably not many people before me did. I tried to connect two relatively different countries from different continents. But I hope I proved that North Korea is not as much different from Czechoslovakia as many people believe and the comparison can be done. I tried to use raw doubtful data and with simple logic tried to explain why something happened or why not. When I tried to predict something for North Korea based on Czechoslovak experiences, I did it only when several conditions were met. I did it only when similar initial conditions occurred and when similar steps was creating. If I have not found similar results usually at least one of the conditions was not met.

I hope all the conclusions which I made are correct and can be accepted by a reader I am not saying that the entire conclusions which I am presenting are perfectly ok and there cannot be future discussion about them. I just believe I just showed my logic way why I believe this or that was wrong or this or that may happen in the future.

To predict any future for North Korea is extremely difficult. The state is much closed and nobody really knows what is happening inside. One of the latest news says the North Korean leader banned using of mobile phones and that a nearly 3 meters high fence will be built on the border with China. These kinds of news are against all the logics which are normally used for prediction about country development and seems do not have economically reasonable explanation. Because nobody can be really sure what will happen in North Korea tomorrow, this thesis has certain limitation in its prediction about NK future.



TABLES AND CHARTS:




Czech Republic




[Top of Page](#)




Population:   
10,249,216 (July 2003 est.)

Government type:  
parliamentary democracy

Capital:  
Prague

GDP:   
purchasing power parity - \$157.1 billion (2002 est.)

GDP - real growth rate:   
2% (2002 est.)



GDP - per capita:   
purchasing power parity - \$15,300 (2002 est.)




Korea, North




[Top of Page](#)

Population:   
22,466,481 (July 2003 est.)

Government type:  
authoritarian socialist; one-man dictatorship

Capital:  
Pyongyang

GDP:   
purchasing power parity - \$22.26 billion (2002 est.)

GDP - real growth rate:   
1% (2002 est.)




GDP - per capita:   
Purchasing power parity - \$1,000 (2002 est.)

Chart 1

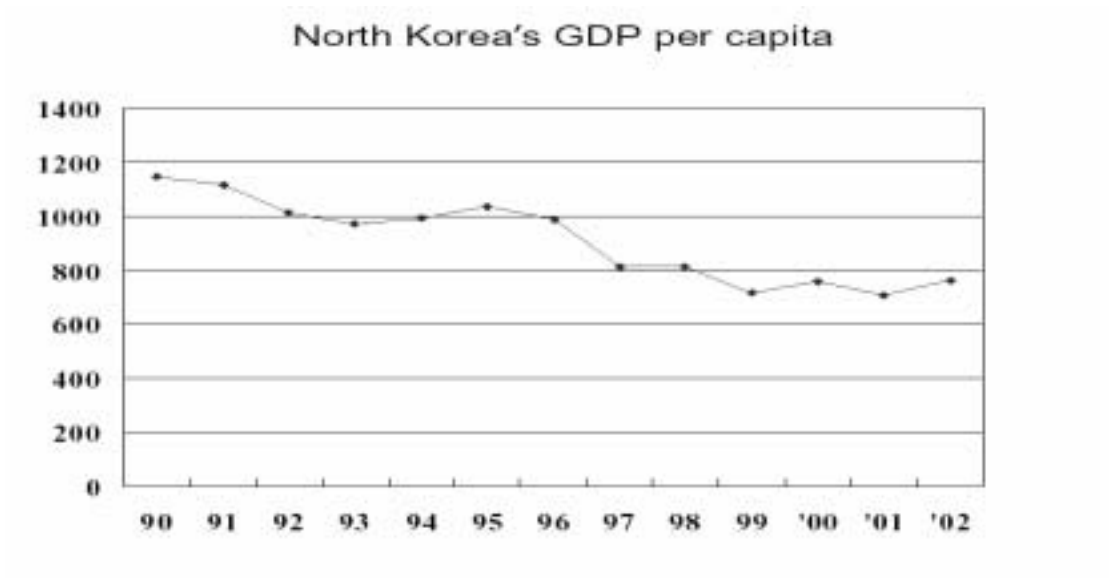


Chart 2

North Korea's Export and Import with the Former Soviet Union

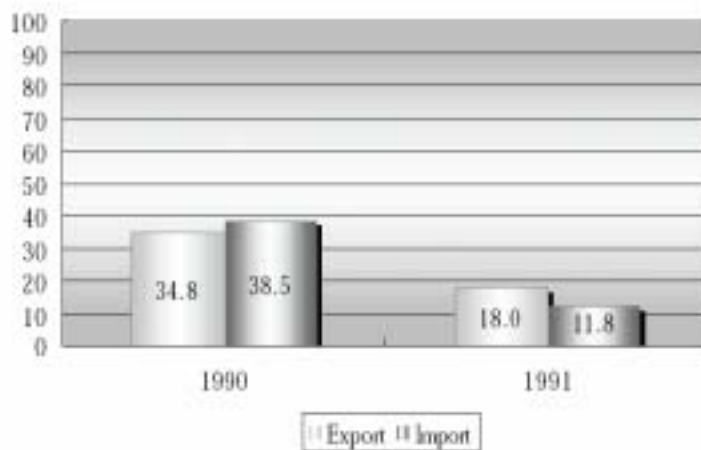


Chart 3

Food supply situation in NK

10 thousand ton

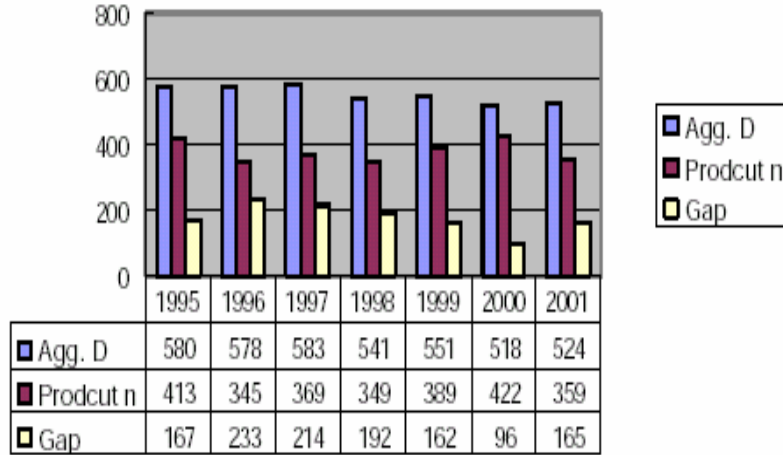


Chart 4

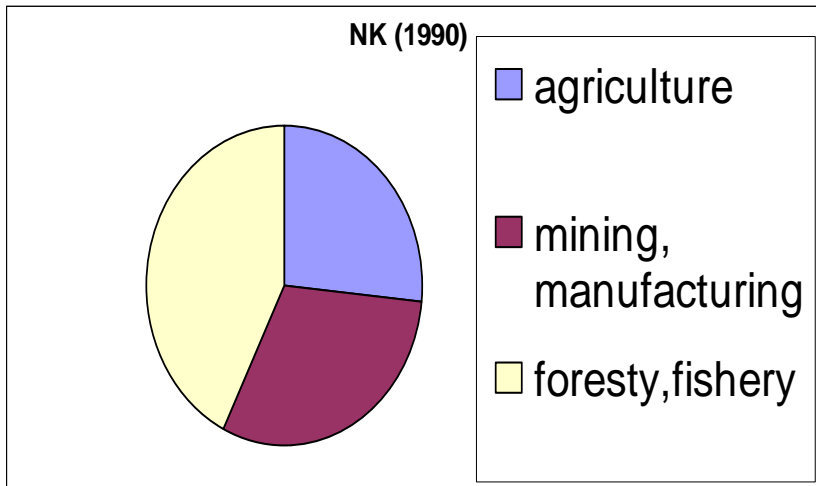


Chart 5

S. Korea's Trade with N. Korea

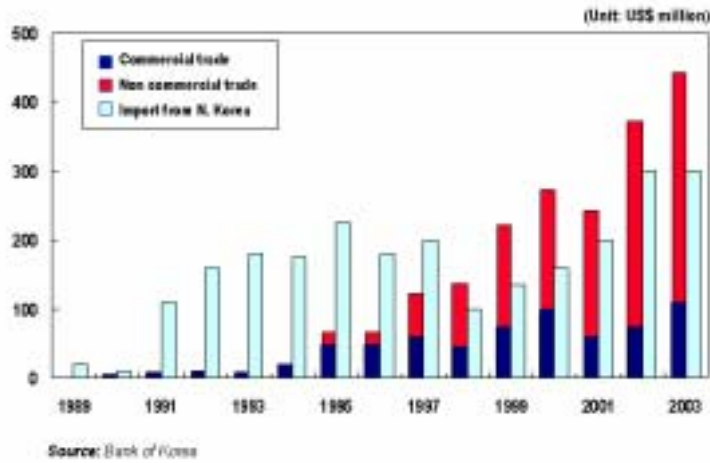


Chart 6

Two economies growing together

- Scenarios of Future Growth for North and South Korea



Chart 7

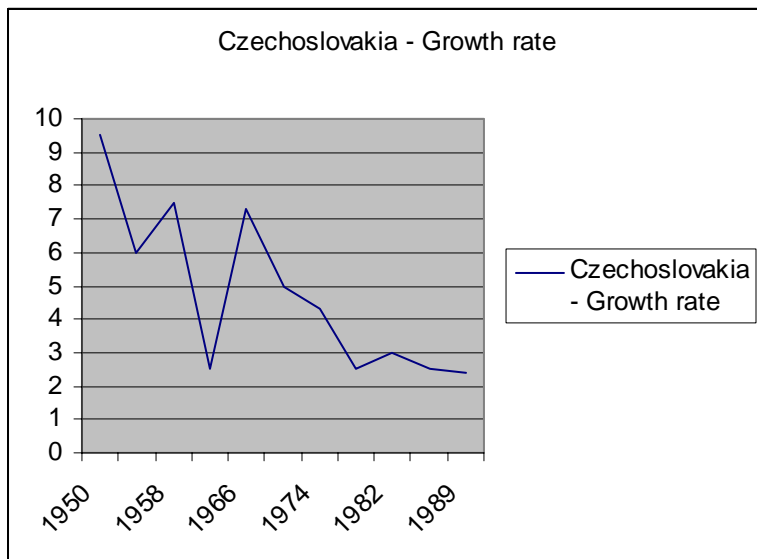


Chart 8

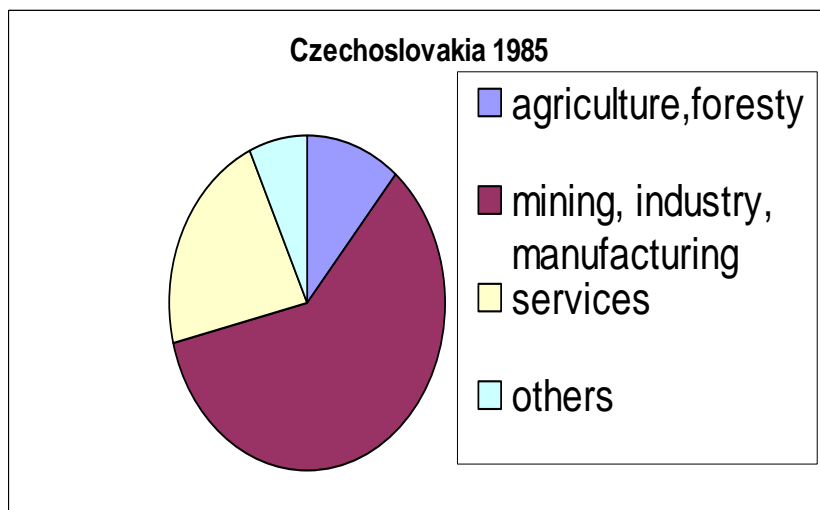


Chart 9



Table 1

Planned and Actual Production of Selected Industrial and Agricultural Products by Economic Plan, 1961-93

(in millions of tons unless otherwise indicated)								
Product	1961-70		1971- 76		1978-84		1987-93	
	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual ¹
Electricity ²	17.0	16.5	28-30	29.7	50-60	50.0	100.0	54.0
Coal	25.0	27.5	50-53	55.0	70-80	70.0	120.0	83.0
Steel	2.3	2.2	3.8	3.8- 4.0	7.4-8.0	7.4-8.0	10.0	6.9
Cement	4.3	4.0	7.5-8.0	8.0	12-13	12- 13	22.0	13.0
Chemical fertilizers	1.7	1.5	2.8-3.0	3.0	5.0	5.0	7.2	n.a.
Textiles ³	500.0	400.0	500-600	580	800	800	1,500.0	850.0
Marine products	1.2	1.1	1.6-1.8	1.6	3.5	3.5	11.0	3.7
Grains	6.6	5.0	7.0-7.5	8.0	10.0	10.0	15.0	10.0

n.a.--not available.

¹1988 figures.

²In billions of kilowatt-hours.

³In millions of meters.

Table 2

Value of Exports to Communist and Noncommunist Countries, Selected Years, 1984-90

(in millions of United States dollars)				
	1984	1986	1988	1990
Communist countries				
Soviet Union	447.9	642.0	887.3	1,047.4
China	247.5	255.2	212.3	141.5
Other	51.4	56.4	85.2	67.7
Total communist countries	746.8	953.6	1,184.8	1,256.6
Noncommunist countries				
Industrial countries				
Japan	131.1	154.3	293.3	271.2
West Germany	135.1	64.1	41.0	50.7
Other	16.1	15.0	39.7	39.0
Total industrial countries	282.3	233.4	374.0	360.9
Developing countries				
Africa	3.4	13.8	15.1	17.1
Asia	62.6	87.3	173.6	175.2
Middle East	13.4	4.6	3.9	2.5
Western Hemisphere	2.1	4.5	36.6	44.9
Total developing countries	81.5	110.2	229.2	239.7
Total noncommunist countries	363.8	343.6	603.2	600.6
TOTAL	1,110.6	1,297.2	1,788.0	1,857.2

Table 3

Value of Imports from Communist and Noncommunist Countries, Selected Years, 1984-90

(in millions of United States dollars)				
	1984	1986	1988	1990
Communist countries				
Soviet Union	467.9	1,186.5	1,921.7	1,667.9
China	248.8	280.8	379.7	403.4
Other	53.6	55.1	78.6	84.5
Total communist countries	770.3	1,522.4	2,380.	2,155.8

Noncommunist countries				
Industrial countries				
Japan	279.4	203.7	262.7	193.7
West Germany	24.9	42.7	44.1	68.7
Other	81.0	84.4	160.1	210.7
Total industrial countries	385.3	330.8	466.9	473.1
Developing countries				
Africa	1.8	2.3	11.2	2.5
Asia	128.2	143.8	258.4	259.1
Middle East	2.5	14.5	6.1	3.1
Western Hemisphere	1.7	8.3	44.2	26.2
Total developing countries	134.2	168.9	319.9	290.9
Total noncommunist countries	519.5	499.7	786.8	764.0
TOTAL	1,289.8	2,022.1	3,166.8	2,919.8

Table 4

Ten Major Targets and Interim Results for Third Seven-Year Plan (1987-93) by Sector

(in millions of tons unless otherwise indicated)			
Sector	Target for 1989	Results by 1989	Target for 1993
Electricity ¹	100.0	60.0	100.0
Coal	120.0	70.0	120.0
Steel	15.0	10.0	7.4
Nonferrous metals	1.5	1.5	1.7
Cement	20.0	12.0	22.0
Chemical fertilizers	7.0	5.0	7.2
Textiles ²	1.5	0.8	1.5
Marine products	5.0	3.1	11.0
Grains	15.0	10.0	15.0
Tideland cultivation ³	300.0	n.a.	300.0

n.a.--not available.

¹In billions of kilowatt-hours.

²In billions of meters.

³In hectares.

Table 5

North Korea - Overseas Trade

Ranking	Country	Export		Import		Total		%	
		2001	2002	2001	2002	2001	2002	2001	2002
1	China	166,797	270,863	570,660	467,309	737,457	738,172	27.6%	25.4%
2	South Korea	176,170	271,575	226,787	370,155	402,957	641,730	15.1%	22.1%
3	Japan	225,618	234,404	249,077	135,137	474,695	369,541	17.8%	12.7%
4	Thailand	24,098	44,616	105,964	171,966	130,062	216,582	4.9%	7.5%
5	India	3,060	4,768	154,793	186,573	157,853	191,341	5.9%	6.6%
6	Germany	22,756	27,799	82,077	140,418	104,833	168,217	3.9%	5.8%
7	Singapore	3,050	796	112,298	83,026	115,348	83,822	4.3%	2.9%
8	Russia	4,541	3,642	63,794	77,048	68,335	80,690	2.6%	2.8%
9	Hong Kong	37,974	21,940	42,555	29,169	80,529	51,109	3.0%	1.8%
10	Netherland	10,424	6,377	9,067	27,620	19,491	33,997	0.7%	1.2%
11	Bangladesh	37,701	32,267	1,275	490	38,976	32,757	1.5%	1.1%
Others		114,189	87,520	228,731	206,640	342,920	294,160	12.8%	10.1%
Total		826,378	1,006,567	1,847,078	1,895,551	2,673,456	2,902,118	100.0%	100.0%

Source: KOTRA, Ministry of Unification

Table 6

Agrostrój Jicin, Economic performance

year	total production in Kcs	socialistic countries marker in Kcs	western marker in Kcs	num. of employees
1958	9,9	7,5	2,4	379
1959	10,2	8,2	2	400
1960	10	8,8	1,2	420
1961	9,8	8,8	1	420
1962	9,2	8,8	0,4	440
1963	9,3	8,9	0,3	455
1964	8,7	8,6	0,1	460
1965	9,2	8,7	0,5	430
1966	9,8	8,7	1,1	425
1967	9,9	8,75	1,15	425
1968	9,8	8,85	0,95	420

Table 7

Czechoslovakia - economic performance 1966 - 1985

	net material product growth= growth%	net material gowth - plan%	personal consumption growth %	Gross investment %of national income
1966-1970	6,9	4,4	1	31
1971-1975	5,7	5,1	2	34
1976-1980	3,7	4,9	-0,5	33
1981-1985	4	7	3	32

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