Korea Economic Institute
Academic Paper Series

April 2011 • Volume 6 • Number 4

Similar Policies, Different Outcomes: Two Decades of Economic Reforms in North Korea and Cuba

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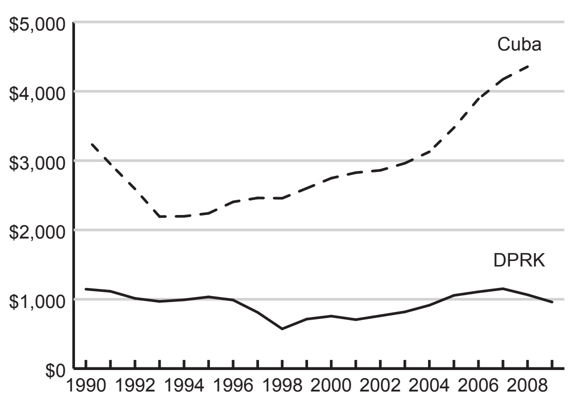
This article is aimed at analyzing, in a comparative perspective, the economic reforms undertaken by Democratic People's Republic of Korea (DPRK, or North Korea) and Cuba since the demise of the Soviet bloc in the late 1980s and the early 1990s.[1] The comparison seems pertinent inasmuch as both the DPRK and Cuba are relatively small countries that managed to survive the collapse of real socialism. Although the geographic areas of both countries are roughly the same, the North Korean population is more than double Cuba's; by contrast, the Cuban GDP per capita is four times bigger than the DPRK's individual income (***Figure 1***). Both countries have been ruled by single parties and have undertaken successful dynastic successions, and both countries have tried to maintain, with increasing tribulations, economic systems that advocate central planning and state property.

Figure 1: **Gross Domestic Product per Capita in the DPRK and Cuba, 1990–2009**



Sources: Bank of Korea, various years; Economic Commission for Latin America and the Caribbean, various years.

With different intensities and styles, in the early 1990s the DPRK and Cuba launched partial liberalizations of agricultural markets, gradual reforms of the management of state enterprises, and policies aimed at attracting increasing amounts of foreign direct investment (FDI). Both Cuba and the DPRK started their respective reforms in 1990–91: the former implemented changes that allowed joint ventures in tourism, while the latter allowed the establishment of a special economic zone (SEZ) in Rajin-Sonbong (also known as Rason). Cuba undertook additional changes to allow larger, but still small, portions of markets in 1993 and 2008. North Korea, in turn, announced a package of economic changes in 2002; since the late 1990s, though, Pyongyang has been courting major South Korean investments in tourism and the industrial sector. In both cases, the patterns of economic change have zigzagged, with the intention of carrying out the bare minimum of reforms for ensuring regime's survival.

In spite of the above similarities, economic reforms have had different outcomes in the DPRK and Cuba. Although both countries feature a stop-go pattern, the Cuban economy has achieved a swifter recovery. Cuba managed to overcome the effects of the crisis caused by the end of support by the former Soviet Union and began growing in the mid-1990s, achieving double-digit rates of growth in the second half of the 2000s. In contrast, by the end of 2009 the North Korean economy was still smaller than two decades before. My hypothesis is that the main difference in how the DPRK and Cuba handled the demise of their socialist systems of support dwells in the greater constancy of Havana's policies to acquire foreign currencies. Cuba engaged in, for example, the promotion of FDI, tourism, remittances, and selling of professional services to Venezuela. Although the North Korean government tried to attract East Asian investment in tourism projects and SEZs, geopolitical tensions in Northeast Asia have limited the potential scope of these and other ambitious projects.

Dr. León-Manríquez's paper is the forty third in KEI's Academic Paper Series. As part of this program, KEI commissions and distributes 10 papers per year on original subjects of current interest to over 3,000 Korea watchers, government officials, think tank experts, and scholars around the United States and the world. A public discussion at KEI with the author generally follows in conjunction with distribution. At the end of the year, these papers are compiled and published in On Korea. Volume 4 of On Korea has been published. For more information, please visit www.keia.org/paper_series.php.

This article is divided into three parts. The first section posits that the centrally planned economy and the autarkic strategies in the DPRK and Cuba are experiencing a protracted crisis that has lasted for several years; in section one I offer various indicators of growth, performance by economic sectors, social welfare, and foreign economic relations in both countries. The second part describes and analyzes, in a comparative fashion, the market reforms implemented by the two countries since the early 1990s; it also reviews the constitutional changes in the economic realm and addresses the changes in official discourse about reforms. The third section evaluates the results of these processes of economic change, sketches some scenarios for both economies, and delves into the reasons why Cuba's recovery has been less difficult than the DPRK's despite Havana's initial reluctance to radically deepen the reforms started in the 1990s.

Goodbye, Utopias: Origins and Evolution of the Economic Crises in North Korea and Cuba

Rather than an accumulation of short-term shocks, the steep crises in Cuba and North Korea were the result of *slow-motion economic declines*, which in turn derived from the limitations and contradictions of their style of economic development. As a result of the crises, both countries experienced a sharp deindustrialization, which meant a drastic reduction or even the disappearance of entire industrial sectors. The growing international isolation of the DPRK and Cuba, expressed in a variety of economic sanctions (such as the Cuban Democracy Act of 1992 and the Cuban Liberty and Democratic Solidarity [Libertad] Act of 1996 [also known as the Helms-Burton Act] passed by the U.S. Congress regarding Cuba in the 1990s, and the sanctions decreed by the Japanese government and the UN Security Council against the DPRK in the 2000s), exacerbated the scope of the crises.

Since the early 1990s, North Korea has undergone a deep crisis of the so-called *juche* idea. The North Korean government often argues that the DPRK's economic woes stem from the demise of the Soviet Union (its main ally and trading partner until the late 1980s), the floods of 1995 and 1996, and the droughts of 1997 and 2001. It should not be ignored that Moscow provided generous aid and loans to the DPRK; it also supplied arms, oil, gas, and manufactured goods on concessional terms. Thus, the Soviet implosion deprived Pyongyang of all these benefits while flooding caused severe problems in North Korea's agriculture. Its plausibility notwithstanding, this line of argument hardly stands a fairly critical analysis.

I contend that, rather than a short-term accumulation of economic misfortunes, the North Korean crisis means the failure of the development strategy that the DPRK has followed for more than six decades. Such a strategy was successful at meeting the initial stages of import substitution industrialization. In the 1960s the DPRK was the object of praise of VIPs such as Cambridge economist Joan Robinson and Ernesto "Ché" Guevara—who recommended the North Korean model not only for Cuba but also for other developing countries. The DPRK was seen by many analysts as an outstanding experience of economic development. The country was compared favorably with its southern neighbor, which at that time had not achieved an impressive economic performance.

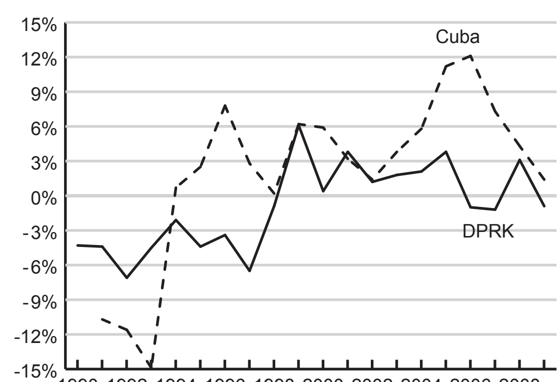
Over time, North Korea's centrally planned economy became a model of economic decline, almost impossible to sustain under changing international conditions. In fact, the involution of the North Korean economy had already begun in the 1980s, long before the fall of the Berlin Wall and the end of real socialism. For instance, in 1984 the DPRK stopped paying interest on its foreign debt to Western creditors, and three years later Pyongyang in effect declared bankruptcy and never paid.[2] Moreover, the seven-year development plan for 1978–84 failed to comply fully with its objectives. The same happened with plans for 1985–86 and 1987–93. On 8 December 1993, during the evaluation of the country's 1987–93 plan, Prime Minister Kang Song-san appeared chagrined:

> *Due to the collapse of socialist countries and the socialist market, our country's economic cooperation and trade have faced setbacks. This has brought serious damage to our economic construction and, therefore, our third Seven Year Plan has had difficult times achieving its goals.*[3]

As shown in ***Figure 2,*** the North Korean economy experienced a sustained regression in the 1990s, with a cumulative fall in GDP of 38 percent between 1990 and 1998, with every year showing negative growth. In 1999–2005 the North Korean economy underwent a modest recovery, but after 2006 negative growth rates resumed. This performance has been mostly caused by the difficulties that the DPRK has had in reshaping its economic strategy and finding new engines of growth after the crisis of the 1990s.

Structural problems have affected the entire North Korean economy: agriculture, industry, services, infrastructure, and the external sector have been put under serious stress. As shown in

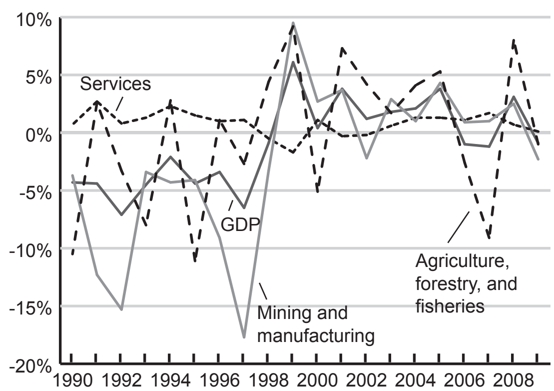
Figure 2: **Growth of Gross Domestic Product in the DPRK and Cuba, 1990–2009**



Sources: Bank of Korea, various years; Economic Commission for Latin America and the Caribbean, various years.

Figure 3, between 1992 and 1997, agricultural GDP fell by 30 percent. Although it recovered later, between 2006 and 2009 there were three years of negative growth. Because of the agricultural crisis in the 1990s, the North Korean state lost its ability to provide for population survival, which should be the first mandate of any government. Between 1995 and 1998 a famine lashed the DPRK. Between one and two million people (that is, 5–10 percent of the total population at that time) are thought to have died.[4] The age of the famine was named "Arduous March" or "March of Tribulation" by the government.[5] Its most adverse effects were overcome only by large amounts of aid from multilateral agencies such as the UN World Food Program; a great number of nongovernmental organizations (NGOs); and the governments of China, Japan, South Korea, and the United States.

Figure 3: **Change in Growth in Selected Economic Sectors in the DPRK, 1990–2009**



Source: Bank of Korea, various years.

Since the early 2000s no new outbreaks of famine have been reported, but food shortages are still a problem. The DPRK is estimated to have a 20 percent gap between production and consumption of cereals. The North Korean population consumes five million metric tons of grain a year, and the DPRK must import about one million tons. The deficit must be covered through either imports or foreign aid. The cereal deficit has become chronic: more than a decade after the most critical phase of the North Korean famine, a joint report published in 2010 by the Food and Agriculture Organization (FAO) of the United Nations and the World Food Program portrayed North Korea as one of the 22 countries in the world that is undergoing a protracted food crisis. According to the report, the number of malnourished North Koreans increased from 6.7 million in 1997 to 7.8 million in 2007—almost one-third of the total population. Given the shortcomings of North Korean agriculture and the rise of food prices in the world markets, this human contingent is threatened by the not-so-remote possibility of a new famine.[6]

The situation is not much better for industries in North Korea. In fact, the manufacturing sector experienced a more serious drop than other economic activities, a fact that brings into question the official thesis that the primary sector was the almost exclusive locus of the crisis. According to data in Figure 3, by 1998 the manufacturing output in North Korea was only one-quarter of its level in 1989. Like agriculture, industry began its recovery in 1998, but the extent of the recovery was much more limited than in the agricultural sector. By 2009, the size of manufacturing sector was half of its level of the late 1980s; this is a genuine collapse of the industrialization process. It is no secret that a significant bottleneck has been in the areas of electricity, gas, and water, where GDP fell by 50 percent in the reference years. Despite its uneven recovery, in 2009 this sector was still 16.5 percent smaller than in 1989.

Infrastructure, meanwhile, underwent a noteworthy decline: the electricity network is plagued by a sharp obsolescence, while less than 10 percent of roads are paved and many of them have a single lane.[7] Empirical observations from the author's visit to North Korea in September 2010 confirm these data. For instance, the road connecting Pyongyang with the strategic port of Wonsan on the East Sea was dotted with large potholes. The highway between Wonsan and Hamhung Province was virtually destroyed and under reconstruction. Pyongyang and other cities, meanwhile, rationed electricity at night. While the slender towers of apartments have a few lights on, much of the public lighting is off. Regarding the performance of the services sector, Figure 3 shows clearly the stagnation since 1990; these data may be reflecting the obsolescence of many public services in the DPRK.

The structural crisis of the *juche* experience is also reflected in a weak external sector. Since the mid-1980s, North Korea has failed to pay the principal and interest on external debt, which totals approximately $12 billion. Moreover, given the nature of the distortions in the country's economic model, acquiring foreign currencies through trade is extremely difficult: North Korean exports total only $1 billion a year, but imports exceed $1.8 billion. North Korea faces, therefore, an annual gap of $800 million.

There is a strand of mystery about the mechanisms that North Korea employs to finance its current account deficit, but observers can make some educated guesses on this subject. One funding mechanism has to do with arms trade; although it is not reported on current account transactions, this activity might be a great contributor to North Korea's external sector. Some analysts posit that the foreign trade imbalance is offset by illegal activities such as drug trafficking (mostly opium and methamphetamines), counterfeiting, smuggling, and piracy.[8] Remittances from North Koreans living in Japan, China, and other Asian countries are still another mechanism for mitigating the external deficit. Finally, aid from multilateral agencies, NGOs, and nearly 50 countries help to buffer North Korea's poor international performance. Under these conditions, it is clear that the long-term viability of *juche* is not assured.

As in the North Korean case, in the 1990s the economic problems of Cuba were on both the international and domestic fronts. Internationally, the economic collapse of the Soviet Union brought an end to the subsidies that ruled the exchange between the USSR and Cuba. Under the Council for Mutual Economic Assistance (COMECON), Moscow bought Cuban sugar at higher prices than those prevailing in the international market, while it sold oil and gas to Havana below those prices. The Soviet Union also provided credits with preferential interest rates for the development of industrial projects, provided free technical education to many Cubans, and sent either low-cost or free arms to the military. This pattern of a subsidized economy, largely explained by the geopolitical significance of Cuba to the Soviet Union, would crash in the final years of Mikhail Gorbachev (1985–91). Concerned for its own economic adversities, the USSR began cutting funds for cooperation with Cuba; Gorbachev's successors canceled almost all programs of assistance to the Caribbean island.[9]

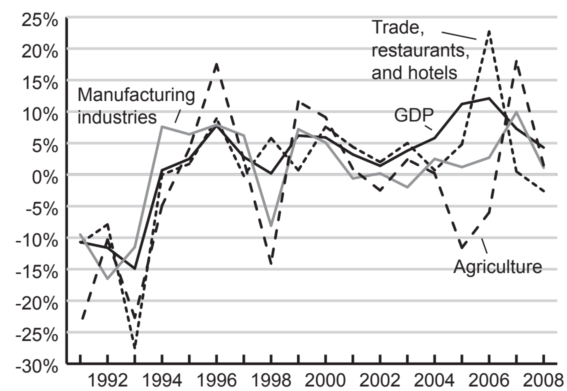
Cuban leaders, like their North Korean peers, have insisted on blaming external variables for the economic regression. Havana not only complained about the collapse of real socialism but also addressed the exacerbation of the U.S. blockade put in place by such measures as the Helms-Burton Act of 1996. Although it is true that both variables had deleterious effects, the Cuban economy had been experiencing serious structural problems since the first half of the 1980s. Excessive centralization and bureaucracy, matched with low productivity, had slowed the pace of economic growth. Between 1976 and 1985 Cuba's GDP grew at an annual rate of 5.3 percent. This figure was below the 7.1 percent recorded between 1971 and 1975, but was still higher than the 4.2 percent from 1964 to 1970.[10] In 1982 Havana gradually stopped paying its foreign debt obligations; after that decision Fidel Castro advocated that Third World debtors create a common front to cancel their foreign debt. Castro was not successful in that effort.

The severe economic downturn after 1990 was officially labeled *periodo especial en tiempos de paz* (special period in peacetime; also called the "special period"). The worst phase of this crisis occurred between 1991 and 1993, when GDP fell 37.2 percent (see Figure 2). Thanks to the minor but timely reforms undertaken by the Castro regime, the economy started to recover piecemeal after 1994. By the early 2000s and despite various hurricanes that struck the country, the decline in remittances from Cubans in the United States, the belligerence of George W. Bush, the unexpected attack on the World Trade Center in New York, and the consequent reduction in touristic flows to Cuba, GDP rebounded more quickly. Some analysts even feared that these problems could mean the extension ad infinitum of the special period.[11]

The opposite happened, though. By 2004 Cuban GDP had returned to its 1989 level. Between 2004 and 2008, Cuban GDP reached an average growth rate of 8.1 percent per year, with double digits in 2005 and 2006. In the second half of the 2000s, this performance placed Cuba as one of the most dynamic countries in the Latin American context. Cuba's economic improvement can be largely explained by high profitability in the service sector. The change at the beginning of the decade of the 2000s in the methodology for calculating GDP also created a bias toward high figures.[12]

As shown in ***Figure 4,*** the primary sector in Cuba has become a major bottleneck, thus reducing its productivity levels and its relative share of Cuba's GDP. The reforms implemented in the 1990s led to the creation of the so-called basic units of cooperative production (UBPCs). These cooperatives complemented (but did not replace altogether) the ossified state agricultural enterprises. The centralization and bureaucratization of the sector has remained, however, because the UBPCs must sell their products to a state monopsony, which often purchases agricultural goods below the costs of production.[13] Low productivity levels explain the fact that the primary sector employs one-fifth of Cuba's economically active population, but agricultural activities account for less than 5 percent of GDP. While production of items such as pork, eggs, and certain vegetables has increased since the special period, the sharp drop in production and exports of sugar has led the decline of primary activities. The demand for maize, milk, and many other basic products cannot be met by domestic production.[14]

Figure 4: **Change in Growth in Selected Economic Sectors in Cuba, 1990–2009**



Source: Economic Commission for Latin America and the Caribbean, various years.

Regarding secondary activities, after the special period the Cuban economy experienced a swift deindustrialization despite good results in traditional activities such as the production of liqueurs and beverages. Industrial activity as a whole has been hit hard by the decline of the sugar industry, the jewel of the Cuban economic crown before and during the golden era of central planning. Currently, the sugar harvests (*zafras*) total one million tons per annum. If we compare this figure with the ambitious attempt to achieve a 10-million-ton *zafra* in 1970 (in actuality, Cuba gathered 8.5 million tons), the collapse of the sugar industry is clearly understood. Depletion of the mills, the erratic evolution of international prices, and the lack of incentives available to sugar cane producers led to the decision in 2002 to close nearly half of Cuba's sugar mills.

Since the sugar industry has declined, the exploitation of nickel has emerged as Cuba's main industry. Nickel is a strategic metal whose international prices rose steadily during the boom in commodity prices between 2000 and 2008. Cuba has also promoted the extraction of oil, which has reduced marginally the country's high dependence on energy imports. Given the scarcity of capital as well as the technological backwardness of Cuba in these fields, nickel and oil exploitation has been made possible by joint ventures with Canadian and Chinese firms. In any case, the relative contribution of industrial activities to GDP has declined. Moreover, as Figure 4 shows, in the 2000s manufacturing has consistently performed below the average for GDP.

Undoubtedly, the bulk of Cuban growth in the post–Cold War era has taken place in the services sector. In 2007, services already represented 76 percent of the economy, compared with 19.3 percent for industry and 4.7 percent for agriculture and mining. This growth of services not only reflects the impact of social spending as a percentage of GDP (with heavy expenditures on education, health, pensions, and social assistance) but also the growing importance of activities such as tourism. In contrast, the revival of the Cuban economy has not yet occurred, or has been slow to do so, in three sectors: transport, housing, and electricity generation. The persistence of these bottlenecks has had adverse implications for the daily life of most Cubans.[15]

Despite the dynamism of the services sector, Cuba has usually recorded a growing deficit in its current account balance. This trend, repeated during the country's revolutionary period, has been rooted in several structural problems. In line with the crisis in the sugar industry, exports of raw sugar decreased from 3.4 to 0.77 million metric tons between 2000 and 2005.[16] In 2005, raw sugar accounted for 8 percent of total exports, against 85 percent in the mid-1980s. Other traditional products, like tobacco and fish, also lost competitiveness in the world markets. By contrast, the export of goods such as pharmaceutical products and medical equipment has increased. These problems notwithstanding, in 2003–05 Cuba managed to achieve positive economic numbers.

The high coefficient of imports adversely affects the balance of goods as long as Cuba is a large importer of energy, industrial inputs, household appliances, and foodstuffs. For foodstuffs, Cuba must pay a price for its inefficient agricultural policy, since many imported agricultural products could be produced internally. This deficit is balanced, if sometimes only partially, with a chronic surplus in the export of services. Prominent among services is tourism, which amounted to between $1.5 and $2 billion per year during 2001–03 and climbed to $2.4 billion in 2006. Unfortunately, in recent years the number of foreign visitors has stagnated, largely related to the dual exchange rate, which has increased the cost of visiting Cuba for international travelers. By contrast, exports of professional services in education, health, and sports to Venezuela have had a positive impact on the current account balance.[17]

The deficit in the current account is not easy to compensate via foreign debt because of the reluctance of private banks to lend fresh resources to a country that stopped paying its debts in the early 1980s. This reluctance, though, may recede in the future. After the hardships of the special period, Cuba has recovered its payment capacity by increasing its foreign earnings from its export of services. In addition, Havana has sought to clean up its act in international capital markets; among the reforms included in *Proyecto de Lineamientos de la política económica y social* (Guidelines for economic and social policy), Cuba explicitly stated that it aims to "work with the utmost rigor to increase the country's credibility in international economic relations through strict compliance with its commitments."[18]

A positive feature of the Cuban case was that, even in the midst of the special period, the government sustained a very active social policy. Educational enrollment in basic and secondary education kept increasing, and Cuba recorded one of the highest educational levels in Latin America. One study among many, a comparative study by UNESCO about language and math skills in the third and fourth grades, shows the broad and consistent advantage of Cuban students over their counterparts in the rest of Latin America.[19] Cuba has virtually eliminated illiteracy, and infant mortality has been substantially reduced. In contrast, there has been a deterioration in the provision of public services and backlogs in housing and infrastructure. Food shortages were a major problem in the special period and brought malnutrition to certain social sectors. In 2002, 57 percent of the working age population (14 to 64 years) had a lower caloric intake than the international average.[20] Unlike in the DPRK, however, this problem did not worsen into episodes of famine. Malnutrition, in fact, has been shrinking as the economy recovers and Cuba can devote more resources to importing food.

Market Reforms in North Korea and Cuba: Same Intentions, Different Outcomes

Given these problems, it has not been surprising that North Korea and Cuba, faced with undertaking market reforms in their economies, have considered following the successful examples of China and Vietnam, their socialist peers. Notwithstanding the allure of the reforms in those countries, both Pyongyang and Havana have shown great concern that the implementation of a comprehensive economic transformation could bring into question the political control of the Korean Workers' Party (KWP) and the Communist Party of Cuba (CPC). Hence, rather than systematic policies of marketization, it seems more correct to characterize the changes in North Korea and Cuba as schemes that combine modest survival reforms with either international aid flows (North Korea) or FDI targeted at tourism projects (Cuba). These policies have sought to obtain the necessary material resources for preserving the political hegemony of the KWP and the CPC while avoiding the political risks and social imbalances that could stem from full-fledged economic reforms.

In the case of North Korea, the reforms have moved very slowly, usually depicting a stop-and-go trajectory. At the empirical level of trial and error there is some evidence of change, but reforms still seem too parsimonious and incomplete. The areas where changes have occurred are in the promotion of FDI, the creation of SEZs, and the half-hearted tolerance of some small businesses. In the area of FDI, South Korean companies have made some progress into North Korea. The single most ambitious project was the development of the Mount Kumgang resort, launched in 1998 by the South Korean *chaebol* Hyundai Asan. Hyundai later started one-day trips to the border city of Kaesong and sought authorization from the DPRK to invest in a tourist project at Mount Paektu, on the border with China. Some high-tech companies such as Ntrack, Hanaro Telecom, and Computer BIT started joint ventures in the DPRK. Their initial expectation was to create a sort of a Silicon Valley in North Korea, taking advantage of highly skilled human resources and low costs of labor.[21] Firms from Europe and Hong Kong also invested in North Korea. Asea Brown Boveri, a Swedish-Swiss corporation, has been involved in modernizing the electricity network.

Another area in which reforms have made some inroads is the creation of SEZs, similar to those established by China since 1978. The first North Korean SEZ was Rajin-Sonbong. Founded in 1991, when North Korea was still under the chairmanship of Kim Il-sung, Rajin-Sonbong is located on the border with China and Russia. Another project was the establishment of an SEZ for South Korean companies in the city of Kaesong, near the Demilitarized Zone. Established in 2004, Kaesong's SEZ is the clearest success of this policy insofar as it has attracted hundreds of South Korean firms to invest resources and create jobs in North Korea. Seoul even managed to include in its various free trade agreements the "clause Kaesong," which extends tariff preferences provided by their partners for products made in Kaesong. Following the good performance of this SEZ, the two Koreas began negotiations to start similar projects in Sinuiju, Nampo, and Wonson.

The North Korean government has also tolerated the emergence of some informal markets. By the early 1990s, the North Korean leadership published a new civil code, designed to regulate property rights, and a commerce law that permitted some trade among private citizens. Rather than these spare laws, reality itself was the best promoter of these small markets. The public distribution system virtually collapsed after the Arduous March and even more so since the 2002 reforms.[22] In spite of governmental distrust, private informal businesses (*changsha*) have bloomed. The Pyongson market, located near Pyongyang, has been thriving, while nearly all over the country it is easy to find old carts that sell agricultural products and small stalls where consumers can find sweets and cigarettes imported from China. There are also small restaurants and garment factories as well as traders engaged in selling clothes, lending money, and selling foreign currencies. By the late 1990s it was estimated that market relations in the North Korean economy reached 20 percent of GDP;[23] a decade later, this ratio must be much higher.

Beyond spontaneous entrepreneurship and changes to the legal framework, perhaps the event that most embodies the desire for change in a sector of the North Korean elite is the economic reform launched in July 2002. The government announced a bold set of measures of economic policy. Salient among them were the steep increases in prices of agricultural products, particularly rice; a 6,888 percent devaluation of the *won* against the dollar, which seemed to indicate an interest in promoting foreign trade; the instruction to state enterprises to cover their own expenses, which in practice meant the end of subsidies; and a general rise in prices and wages, especially in sectors linked to the international economy.

In the legal and institutional realms, the constitutions of 1998 and 2009 incorporated the possibility that private property could exist in North Korea. Thus, Article 24 of the constitution of 2009 states:

> *Private property is property owned and consumed by individual citizens. Private property is derived from socialist distribution according to work done and from supplementary benefits granted by the state and society. The products of individual sideline activities including those from kitchen gardens, as well as income from other legal economic activities shall also be private property. The state shall protect private property and guarantee by law the right to inherit it.*[24]

In addition, Article 32 refers to the need to combine "the unified guidance of the State with the creativeness of each unit, unitary direction with democracy, and political and moral incentive with material incentive in the guidance and management of the socialist economy." Article 33, in turn, underlines that the state is responsible for directing the economy, but at the same time "shall make proper use of such economic levers as cost, price and profit." An example of constitutional flirtations with market mechanisms is Article 37, which advises: "The state shall encourage institutions, enterprises and organizations in the country to conduct equity or contractual joint ventures with foreign corporations and individuals, and to establish and operate enterprises of various kinds in special economic zones."[25] To support constitutional changes, in the 1990s the government introduced specific laws to regulate FDI, foreign businesses, and joint ventures. During that period, 57 other laws and regulations on foreign economic relations were issued by the North Korean government.[26]

Regardless of the actual scope of market reforms, the North Korean government carries on quite an ambiguous discourse about them. Initially, when the North Korean leaders made reference to China's economic reforms, they called marketization a "sweet poison" and used to argue that any opening would be a Trojan horse for the North Korean economy. The possibility of further economic reforms was so stressful for Pyongyang that in 1999 *Rodong Sinmun*, the official newspaper, stated with alarm: "the corrupt ideas spread by the imperialists are more dangerous than A-bombs for those countries in the process of socialism construction. . . . It is important to sternly smash capitalist and non-socialist factors in the bud. All catastrophic consequences originate in small things."[27]

But official discourse is not always the same and has undergone radical shifts from time to time. Kim Jong-il himself often advocates changes in the economic system. On 4 January 2001 the "Dear Leader" published in *Rodong Sinmun* an article entitled "The XXI Century Is a Century of Enormous Change and Creation," in which the North Korean leader wrote:

> *Things are not what they used to be in the 1960s. So no one should follow the way people used to do things in the past. . . . We should make constant efforts to renew the landscape to replace the one which was formed in the past, to meet the requirements of a new era.*[28]

In a visit to Beijing a few months later, Kim said he supported the great achievements of China's economic opening, and then he issued the following statement: "All outworn and dogmatic 'Soviet-type' patterns should be renounced . . . foreign trade should be conducted in accordance with the mechanism and principles of capitalism."[29] In May 2010, as part of his fifth visit to China, Kim Jong-il visited the Chinese port of Dalian, which is regarded as a major logistics center where economic reforms have had a positive impact. The example of the city, some thought, could be replicated in North Korea.

To what extent should the combination of trial and error, the explicit decisions about economic policy, and the changes of the legal framework in the DPRK be interpreted as a victory for the reformist tendencies? A moderately realistic analysis of North Korean economic transformations casts many doubts not only on the economic efficiency of such changes but also on the regime's political will to move decisively through this path. While several foreign firms have ventured to invest in the DPRK, the balance has been nothing short of devastating. An important group of firms that entered the country in the 1990s have already suspended their activities. For example, a Belgian company dedicated to cutting diamonds withdrew in 1996, the Dutch bank ING operated there for only four years, the consulting firm Euro-Asian Business Consultancy (EABC) for six, and Shell suspended operations very quickly as well. A number of joint ventures have been agreed upon, but very few have managed to stand the test of time. Foreign firms face many day-to-day problems such as difficulties of getting work visas for their staffs, sudden changes in the rules of the game by the North Korean government, delay of payments agreed with state enterprises, and large differences in terms of industrial and organizational cultures.[30]

Such problems have also affected the Mount Kumgang resort, which was the jewel in the crown of FDI projects in the DPRK. After the first years of operation, the results of this project were favorable, albeit not spectacular. Between 1998 and 2008, Hyundai had paid Pyongyang about $1.5 billion for the right to operate the resort. Visitors had reached a total of two million, but Hyundai needed to receive at least a half million tourists per year if its investment was to be fully profitable. Just when Mount Kumgang was reaching its equilibrium point, the renewed wave of tensions on the Korean Peninsula began to affect the permanence of the project. In July 2008, a South Korean tourist was shot to death by members of the DPRK army. According to Pyongyang, the woman had entered an unauthorized military zone on a beach near Kumgang. As a result of the incident, the South Korean government ordered Hyundai to stop tours to Mount Kumgang and Kaesong. Given the reluctance of South Korea to resume the visits, the DPRK froze the properties of Hyundai Asan, valued at $325 million. To add fuel to the fire, in April 2010, Pyongyang announced that, except for 16 people, all South Korean personnel working in Kumgang would have to leave the complex within two weeks. These incidents illustrate the adverse conditions that FDI still faces in North Korea.

The limitations of the SEZs are also clear in the design and implementation of Rajin-Sonbong. To avoid possible "contagion" from outside and to put physical distance between the SEZ and the rest of the economy, the North Korean government decided to locate this complex on the borders with Russia and China, in one of the country's most remote areas. Despite its location near the two giants, Rason has not received the expected FDI flows. Investors have had to play against cumbersome red tape, the relatively high wages set by the North Korean government, and the lack of basic infrastructure. For example, there is no airport, and no bridges reach Russia; the 17-kilometer route between Rajin and Sonbong takes half an hour by car, and the trip to Pyongyang by train takes 19 hours. No wonder, then, that Rason has performed poorly. Although the original goal in 1991 was to get $4.7 billion in FDI in 10 years, by 2001 Rason had attracted only $80 million. The most dynamic business in the zone is not a factory but the Orakjang Casino, established by Hong Kong entrepreneurs.[31]

The SEZ at Kaesong has fared much better, but it is not without problems. The poor infrastructure in the DPRK has led South Korean companies to generate electricity on their own. Furthermore, political tensions between the two Koreas, which resumed in 2008, have cast doubt on the viability of the project. The DPRK has imposed some restrictions on entry to the SEZ and even threatened to close it. In turn, some South Korean firms have closed their operations because of geopolitical uncertainty and inter-Korean acrimony. In sum, FDI management by North Korea has lacked consistency and continuity. Foreign investors also face some problems in Cuba, but it seems that Havana has had a more fluid administration of foreign investment. Irrelevant as it might seem, this difference can be a central explanation for the differing performances of the two countries since the 1990s.

An important example of the hesitancy to deepen North Korean economic reforms is the controversial currency reform (or, rather, counterreform), issued on 30 November 2009. Beyond any technical rationality, it seems that this measure's main goal was controlling the spread of "capitalism from below." The main countermeasure was the revaluation of the *won*. The government stopped the circulation of old banknotes and decreed that they should be changed to new currency at a rate of 100 to 1, which in practice meant a revaluation of 100 percent. The main controversial matter was that only 100,000 *won* could be exchanged for the new banknotes. In the official discourse, the reform was said to be aiming at fighting inflation, inhibiting black market transactions, and, last but not least, "stopping the CIA and its machinery, that were producing fake *won* and trying to introduce them over the border with China to destroy the economy."[32]

In fact, this was a confiscatory reform aimed at expropriating, or at least nullifying, the savings of petty entrepreneurs who emerged after the timid reforms of the 1990s. Profiting from the trade of imported products, these merchants had managed to accumulate money in the form of hard currencies—U.S. dollars, euros, or Chinese yuan. In blatant contradiction to the official discourse, this measure provoked drastic price increases and worsened food shortages. Not surprisingly, the currency reform was met with anger by those affected, who would carry out various protest actions including the burning of old notes. Some traders might even have committed suicide. To alleviate social unrest, in December 2009 the government increased the amounts of money that could be exchanged: 150,000 *won* in banknotes and 300,000 *won* in bank deposits but only after the source of those funds had been investigated. In February 2010 the chief financial officer of the KWP, Park Nam-gi, was fired. Blamed for the failure of the monetary reform, Park was executed in March, after receiving a sentence of "having ruined the economy in a planned way."[33]

This situation is symptomatic of the lack of government commitment to thorough and systematic reforms of the economy. Despite fruitless Chinese pressure for more radical changes, the zigzag pattern of reforms shows that the North Korean regime is willing to undertake only those transformations that are necessary to create a bare minimum material base to ensure the regime's survival. The government implements strategies to get hard currency while gradual and focused economic reforms are sterilized from any political contagion. In this sense, the enclave economies in industry and tourism and the search for greater international aid flows would be the highest priority for Kim Jong-il and his successor. The implementation of comprehensive market reforms would be postponed as long as possible, as Havana did in the mid-1990s.

Cuba reacted quickly to the collapse of the socialist bloc and the end of Soviet aid. Cuba's response to these problems resulted in various policy measures, of which two will be examined here in some detail: the attraction of FDI and the endorsement of small business and agriculture cooperatives. Regarding FDI, on 23 June 1990 during a meeting with the Political Bureau of the CPC, Fidel Castro announced the initiation of a policy to invite foreign investment into Cuba as joint ventures with Cuban state enterprises. To allay fears about a radical change of the economic model, Castro was quick to clarify that the proposal "does not clash with our Socialist system; rather it means a speedier use of potential resources."[34]

Cuba implemented legal and institutional changes after starting the reforms. The major legal change was the addition of clauses to allow property rights under certain circumstances and for specific economic activities. In July 1992, the constitution of 1976 was the subject of reforms designed to deal with the gloomy economic reality that Cuba was facing in the midst of the special period. Article 15 maintained the concept of "Socialist entire state property of the people" but stated that property could be transferred to natural or legal persons "in exceptional cases in which the total or partial transfer of an economic objective is carried out for the development of the country and does not affect the political, economic and social foundations of the state." To complete the constitutional FDI regulations, Article 15 stipulated that the transfer of ownership was subject to approval by the Council of Ministers or its Executive Committee.[35]

In 1995, the enactment of the so-called Act 77 (Ley 77) reaffirmed these changes. The new law regulated FDI, provided mechanisms for the settlement of disputes, and defined more specific conditions for state enterprises to start joint ventures with foreign companies. Judging by their outcomes, the constitutional changes and the promulgation of Ley 77 have boosted FDI flows. These resources became a key ingredient of economic reforms in Cuba. FDI increased from $5 million in 1995, to $207 million in 1998, and to $448 million in 2000. The bulk of this investment was channeled to the tourism sector through the construction of large hotels by Spanish companies. In the industrial sector other important projects were implemented. In 1994 the Canadian company Sherritt and the General Nickel Company of Cuba (Compañía General de Níquel de Cuba) began to exploit the vast reserves of that metal. Meanwhile, Chinese companies have revamped nickel-processing plants and have explored new oil fields.

From a political viewpoint, FDI has been a great advantage to Havana: it allows the government to negotiate the working conditions from above, strengthens state tourism companies such as Cubanacán and Gran Caribe, generates substantial foreign exchange earnings, and does not produce a native entrepreneurial class that could eventually demand its share of economic or political power. Nevertheless, the Cuban commitment to FDI has not been without problems: foreign companies have been hampered as they tried to set market prices for their products or services, are not granted complete freedom for incentivizing worker productivity, and have faced bureaucratic inefficiencies to get visas for their executives. They have also had to pay taxes that were not in the original agreements and have had to accept expensive imports using the Cuban convertible peso.[36]

These and other problems have also arisen in the four Cuban SEZs, which were authorized to open in 1996. Despite the nearly free access to the Cuban market that the government offers for products of firms based in these areas, the many difficulties encountered in their operation have discouraged their growth. There is fierce competition from the Dominican Republic and other Caribbean countries. Other obstacles have to do with the complexity of importing inputs; this is due to the U.S. economic blockade, the comparatively high wages set by the Cuban government, and the reluctance of companies to hire foreign workers via state agencies. Not all of the foreign firms have managed to survive these constraints on investment in Cuba; in fact, fewer than half of the joint ventures launched between 1990 and 1993 still remained in operation at the beginning of the next decade.[37] In spite of those shortcomings, foreign enterprises have found better conditions and more reliability in Cuba than in North Korea. This explains why FDI has been one of the key pieces of the Cuban economy in the last two decades.

The second pillar of the Cuban economic reforms was marketization. As in the case of North Korea, Cuba's attitude toward the emergence of small private businesses and the resulting markets has fluctuated between caution, respect, and repression. Let us recall that one of the most controversial measures of Fidel Castro was the nationalization, in 1968, of 60,000 small- and medium-size enterprises (SMEs) that had survived after the success of the Cuban revolution in 1959. This act eliminated any vestiges of private enterprise. In 1993, the Cuban government hesitantly accepted a meager liberalization, legalizing self-employment in a few economic activities and allowing individuals to use foreign currencies, including U.S. dollars. As a result of this policy, many small private businesses flourished rapidly. Perhaps the most representative were small restaurants, known as *paladares*, and householders who rented rooms to foreign tourists. The operation of these businesses required that employees were members of the owner's family.[38]

Afraid to proceed with a reprivatization of economic activities, the government tried to promote cooperatives, a property form halfway between public and private. In 1993 Cuba decreed the creation of the aforementioned UBPCs. To guarantee state control of the UBPCs, the state leased out land to members of cooperatives but maintained state ownership of land. The government also issued a great number of regulations designed to prevent too much autonomy of cooperatives. Many UBPCs were able to flourish nonetheless. Generally speaking, they fared better than the remaining state enterprises in agriculture. Small businesses and cooperatives that emerged in the 1990s helped to raise Cuban productivity; their growth certainly made an impact on the employment structure. In 1981, the state provided jobs to 92 percent of the labor force; by 2002 this proportion had fallen to less than 77 percent. Meanwhile, as a percentage of the labor force, private farmers increased from 7 to 11 percent, the cooperatives from 1 to 8 percent, and the urban self-employed from 1.6 to 3.8 percent.[39]

These changes also brought adverse distributional effects and unexpected effects to the economy. University enrollment halved in 1994–95 as many youngsters preferred to make their money in the private markets rather than embark on university studies whose economic returns were uncertain in the long run.[40] The reforms soon spawned a rapid social division, which clashed with Fidel Castro's project of social equality. Beyond this situation, the Cuban establishment feared that new entrepreneurs could become increasingly alienated from the existing political structure. The conjunction of these factors explains the reversal of the market promotion measures that the government began to implement in the mid-1990s.

In August 1995, President Castro put on the brakes on reforms, declaring: "The opening has brought risks. If more reforms are needed, we will make them. For the moment, they are not necessary."[41] After that the Cuban leadership embarked on a complex exercise of promoting and halting reforms in different time periods and sectors. Shortly after Castro's speech, the government introduced new regulations for SMEs; they had a particular impact on cooperatives, rooms for rent in private homes, and small restaurants. Regarding the UBPCs, the government carefully prevented their growth, trying to lessen income disparities between cooperative members and the workers of state agricultural enterprises. In the case of the proto-hotels and *paladares*, the government increased tax burdens and oversight. For instance, Cuban authorities informed *paladares* that they could operate only if they had a maximum of 12 seats per establishment. Authorization for opening new SMEs became almost impossible to get.

Restrictive measures were aimed at reducing the profit margin of cooperatives, proto-hotels, and small restaurants as well as narrowing the income gap between their workers and the state employees. The combination of the policies to attract FDI and to curb the development of SMEs brought mixed consequences: on the one hand, the income from tourism helped to ensure the basic functioning of the economy; on the other, market repression inhibited a more dynamic performance of Cuba's productive apparatus. Because of restrictions on SMEs, the number of self-employed fell from 200,000 in December 1995 to about 160,000 in 1998.[42] The unexpected emergence of a new sponsor of the Cuban economy facilitated the partial reverse of market reforms. Blessed with the oil boom of the 2000s, Venezuelan president Hugo Chávez provided subsidized energy to Cuba. At the same time, Venezuela imported from Cuba the services of well-paid doctors and nurses.

By the beginning of the 21st century, the Cuban government had fulfilled Fidel Castro's promise of curtailing market reforms. There was continuity in the changes that the government deemed strictly indispensable for its economic and political survival. This situation began changing in the mid-2000s. Along with the problems of the economy itself, the political factor paved the way for further reforms. The illness of Fidel Castro and his brother Raúl's rise to power in 2006 provided the conditions for the launch of a new wave of economic transformations. The new round of reforms began in July 2007, following a call by the new president to discuss the necessary changes for improving the functioning of the Cuban economy. In February 2008, Raúl Castro ordered measures with a dual rationale: freeing some political constraints and providing new impetus to the economy. Thus, the government lifted restrictions on car rentals and the purchase of mobile phones to Cuban citizens. The following year, the government allowed Internet access at post offices.

If the senior Cuban leadership had been tempted to retain the central planning scheme, a series of events in 2008 called into question the achievements of the post–special period years, thus making evident the structural problems of the Cuban economy. Between September and November 2008 the hurricanes Gustav, Ike, and Paloma hit Cuba, triggering economic losses of $5 billion. At the same time, the global economic crisis trimmed the international price of nickel. Tourist flows stagnated because of rising costs to visit the country. This problem arose from both the dual exchange rate regime and the global crisis itself; in 2008–09 half of Cuba's hotel rooms remained empty. To make matters worse, imports—led by basic products—continued to increase; as much as half of Cuban land remains unproductive, and 80 percent of foodstuffs must be imported.[43] The problems in the external sector and the slowdown of in growth of GDP in 2008–10, which is shown in Figure 2, should have been key factors in persuading the Cuban government to undertake further reforms.

The boldest step in the new wave of economic changes has been the launch, in late 2010, of the guidelines for economic and social policy.[44] This seminal document was crafted by the Economic Policy Committee of the Sixth Congress of the CPC, headed by Raúl Castro and coordinated by Marino Murillo, minister of economy and planning. The aim was to discuss the text and promote its adoption at the Sixth Congress of the CPC, to be held in April 2011. If they manage to find a way through a jungle of entangled interests, the new reforms will remove the "supplies booklet" (*libreta de abastecimiento*), by which the state provides modest rations of food and household items, similar to the fading public distribution system in the DPRK. The Cuban government will continue leasing idle lands to cooperatives and will permit many agricultural state-owned SMEs to become UBPCs. These productive units will be managed by their own employees; they will be allowed to own the means of production and will have to pay taxes.[45]

To show that its reformist will is true, the Cuban government announced in September 2010 that it would fire 1.3 million public employees in the next two or three years. On 1 April 2011, the first 500,000 bureaucrats were made to quit their jobs and the rest of them will do so gradually. This measure is not a minor one as it will affect one-fifth of Cuba's economically active population. To compensate for this massive loss in public employment, the Cuban government will continue to provide free education and health services as well as subsidized transport for the entire population. Moreover, the government has authorized individuals to work on 178 private activities previously prohibited. Unlike the provisions of the 1990s reforms, SMEs will be able to employ nonrelatives and will be entitled to get bank loans; like cooperatives, they will have to pay taxes. Properties may be rented or sold, while the government will seek to abolish the dual exchange rate of the Cuban currency.

The design and launch of this new package of reforms have been accompanied by a meaningful change in the economic rhetoric of the Cuban leadership. In an interview published by the *Atlantic* in September 2010, Fidel Castro, who first encouraged and then suspended the reforms of the 1990s, said: "The Cuban model doesn't even work for us anymore."[46] Later Fidel Castro argued that his words had been misread. He pointed out that his argument was that the U.S. economic model could no longer be exported: "My idea, as everyone knows, is that the capitalist system no longer works for either the United States or the world; it is leading from crisis to crisis, which are becoming increasingly serious, comprehensive and repeated. How such a system could serve for a socialist country like Cuba?"[47]

A few months later, however, President Raúl Castro, a leading advocate for changes in the economic structure, returned to the charge and told the National Assembly:

> *We can either rectify the situation, or we will run out of time walking on the edge of the abyss; we will sink, thus sinking the effort of entire generations. We simply must change misconceptions about socialism, deeply rooted for years in broad sectors of the population, as a consequence of the excessive paternalistic, idealistic and egalitarian approach that the revolution established for the sake of social justice.*[48]

The discursive shift of the Cuban government is striking: the reforms went from being a necessary evil (or "sweet poison," to borrow North Korean words) in the 1990s, to a sine qua non for the survival of country and socialism in the 2010s.

Following the Chinese Path? Prospects of Further Economic Changes in North Korea and Cuba

Beyond their resilient vindication of socialism and the structuring of the centrally planned economy, in the 1990s North Korea and Cuba suffered the implosion of real socialism worldwide, the loss of key economic partners, and the need to implement reforms in order to survive. Despite each country's similar responses to the crisis, their results have diverged in terms of the implementation and outcomes of economic changes in each country.

Let us put forward a comparative balance of the reforms, starting with the DPRK. Despite the winding pro-market discourse and the tentative signs of reform, it is clear that the North Korean government is fearful of following the path of economic change. Rather, Kim Jong-il seems to be designing a funding scheme (which does not necessarily mean a development strategy) based on two pillars: (1) pursuing small developments of industrial and tourist enclaves that may attract foreign currencies but do not call into question the legitimacy of the regime, and (2) maximizing the tensions on the Korean Peninsula to negotiate an agreement with East Asian and world powers, thus exchanging security for foreign aid.

Located at the crossroads of economic reform, the DPRK faces three options. The first but almost impossible option is to keep intact the autarkic system, with the consequent risk of a deepening crisis, a new Arduous March, and the likely loss of the regime's legitimacy. The second option would be to adopt a strategy of market socialism, following the familiar experiences of China and Vietnam; this is a hard choice for the North Korean leadership as long as choosing it could erode the leaders' political control vis-à-vis new groups emerging from economic modernization. The third option is to repress marketization but transform North Korea into a recipient of massive amounts of foreign aid and over-regulated FDI. In the third scenario, the political elite could stay in power while seeking to mend fences with the United States, Europe, and Northeast Asian neighbors in exchange for economic aid. Insofar as this strategy would require a diplomatic bargain and could relieve international tensions, the DPRK could also reap a peace dividend from a partially demilitarized economy.

In the case of Cuba, the swift adoption of reforms in the early 1990s avoided a deeper fall than the one that was looming on the horizon as a result of the collapse of Soviet socialism. In subsequent years the Cuban economy underwent hard times, but its performance was less unfavorable than Central Asia's vanishing centrally planned economies. Certainly, as our figures have shown, Cuba's crisis management was sharper than North Korea's. Nevertheless, the brake on reforms hindered an even better performance of the Cuban economy. In the mid-1990s the tension between two different objectives—preserving political control or reviving the economy— was solved in favor of maintaining political control. This decision hindered an earlier recovery from the collapse of the socialist bloc and kept alive the many structural constraints of the Cuban economy.

Propelled by FDI and the services sector, during the first decade of the 21st century the economy managed to improve its growth rates within a framework of monetary stability and fiscal balance. However incremental and timid the Cuban reforms might have been, the outcome of this uneven process has been the construction of new engines of economic accumulation. In just two decades, Cuba evolved from an economy based on agriculture and processing of primary products to an economy based on the exploitation of mineral resources and the export of professional services and tourism. In a sense, these changes have brought about a better utilization of some of the country's most valuable resources: beautiful scenery and highly skilled workers.

Both North Korea and Cuba have been reluctant to implement full-fledged market reforms and have followed a stop-go pattern. Both governments have been quite hesitant about allowing the growth of petty entrepreneurship and have pursued restricted, encapsulated changes. Pyongyang and Havana have undergone diplomatic conflicts and disagreements with big powers. Neither the DPRK nor Cuba has been able to revamp its agriculture or industry to the levels of the late 1980s. Thus, the main differences in economic performance have to do with the continuity of Cuban policy to attract FDI in tourism and the ability of Havana to build new sources of accumulation such as the provision of medical services to Venezuela. By contrast, North Korea's strategy for attracting FDI has been, at the very least, inconsistent. The SEZ in Rajin-Sonbong did not take off as expected, while Kaesong has been suffering the negative effects of roller-coaster changes in inter-Korean relations. Geopolitical tensions led to the closure of the tourism-oriented Mount Kumgang project in 2008, thus depriving the DPRK of a vital source of foreign currency.

An additional variable in this diverging performance could be the evolution of military expenditure. Neither Cuba nor the DPRK provides reliable information on its military costs. The limited data available on the SIPRI database suggest that Cuba's expenditures for arms remained essentially stable between 1988 and 2004 and then increased gradually between 2004 and 2008.[49] Although SIPRI does not issue data for North Korea, it may be assumed that building medium- and long-range missiles and conducting nuclear tests in 2006 and 2009 must have required that significant resources be allocated to the military sector. In fact, some authors estimate that DPRK military expenditures could represent up to 28.6 percent of GDP.[50] Kim Myong-chol, an international analyst close to North Korea's top echelon, has reckoned that the DPRK's economic problems have much to do with the excessive emphasis on military spending since the 1960s.[51] If this hypothesis is correct, the North Korean military buildup would have subtracted important resources for economic reconstruction. Cuba, meanwhile, would have devoted fewer resources, at least in relative terms, to the maintenance of its military apparatus.

What is the future of market reforms in the DPRK and Cuba? The outlook differs for each country. The Cuban economy has outpaced the sharp downturn of the special period and, indeed, achieved high growth rates in the 2000s. Unlike North Korea's economy, Cuba's economy is not likely to collapse in the medium term, but the difficulty of returning to a path of sustained growth in Cuba could head the country toward a scenario of political unrest. In contrast with North Korea, whose expatriates in Japan overwhelmingly support the Pyongyang regime, members of the Cuban diaspora in the United States have been consistently anti-Castro. In yet another difference between the DPRK and Cuba, some political opposition does exist within Cuba. In 2010–11, after the hunger strikes of Orlando Zapata and Guillermo Fariñas, the government was backed into a corner and gradually released 75 political prisoners who had been incarcerated in the Black Spring of 2003. Similarly, several intellectuals of Castro's regime, such as singers Silvio Rodríguez and Pablo Milanés, have openly criticized the revolution. The symbolic opposition and the appearance of public fissures (not fractures) within the regime might push in the direction of economic change.

Clearly, the 291 points prescribed by the guidelines for economic and social policy are the most important attempt to transform Cuban economic relations since the 1976 constitution. It would be wrong to think, however, that Raúl Castro and his allies are seeking the restoration of capitalism; rather, they pursue incremental changes. If successful, the new reforms will allow a dose of market growth, but important sectors would remain under the aegis of the state. As a whole, the regime seeks to preserve the government's ability to plan the economy. Unavoidably, echoes from Beijing reverberate in this project of a mixed economy under state leadership. If the economic changes proposed by the CPC's guidelines manage to overcome bureaucratic resistance and are finally implemented, Cuba could soon follow the path of China and Vietnam, building a Caribbean version of market socialism. It remains to be seen whether unlike in China—where the income distribution has undergone a Latin Americanization process since 1978—economic opening in Cuba will lead to a model that combines concern for social equality with high rates of economic growth. Still another scenario for Cuba would be suffering the fate of the Soviet perestroika, in which the government lost control over the pace of economic change.

Cuba might be moving forward, but North Korea is stuck in a hazardous stasis. Under current conditions, this means nothing other than a frayed economic situation. Although the DPRK's economic recovery has been slower than Cuba's, the bid by the North Korean regime appears to be for the reproduction of the status quo in politics and economics. This possibility would of course be enhanced if the DPRK does negotiate greater flows of assistance in exchange for ensuring the security of the United States and the DPRK's Northeast Asian neighbors. If China does not succeed in pressuring Pyongyang to undergo substantial economic reforms, the more likely scenario is one of only muddling through, which would mean that the North Korean economy remains in a state of slow growth and marginal reforms.[52] The big question, of course, is how long this situation can be sustained without substantial changes in the political and social organization. If both options—muddling through and security for aid—fail, the North Korean regime could be risking collapse.

In a continuum of economic transitions from centrally planned economies, we could place the DPRK in one extreme and Russia in the other. In the post–Cold War era, most of the centrally planned economies have disappeared, but the unrestrained transition to capitalism has not been an optimal solution for them. In fact, one case of economic regression has been even more spectacular than the DPRK and Cuba: Russia, which attempted an abrupt, big-bang transition from a centrally planned economy to a capitalist system, underwent a 50 percent economic decline between 1992 and 1998. By contrast, countries like China and Vietnam that implemented gradual market reforms have achieved considerable and sustained economic growth. In other words, North Korea and Cuba still can avoid the high costs of either sticking to the old centralist model or stampeding toward second-class capitalism. In this sense, Cuba seems to be one or two steps beyond the DPRK. China and Vietnam should be the model for both, but the failed reform of the USSR under Gorbachev is also a bleak scenario that cannot be dismissed.

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Endnotes

1. At this early point, I have to make a key methodological observation. As long as North Korea has not released systematic figures for more than three decades, the analysis of the DPRK economy requires work of almost an archaeological nature, whose conclusions may be unreliable. Anyway, this fascinating subject justifies the effort. Unless otherwise stated, the figures reported in this paper arise from the estimates of the Bank of Korea. I must reckon, however, that the information published by this institution is not exempt from criticisms. Some experts, for example, Anthony Michell, in "The Current North Korean Economy," in Economic Integration of the Korean Peninsula, ed.. Marcus Noland (Washington, D.C.: Institute for International Economics, 1998), 139, estimate that the decline of the North Korean economy has been less pronounced than the figures suggested the Bank of Korea. In the case of Cuba, things are slightly better. Recent statistics are available at the Oficina Nacional de Estadística, but it is not easy to draw historic series because Cuban statistical methodologies have changed over time; see Carmelo Mesa-Lago, "Contribución a la polémica sobre el crecimiento del PIB en Cuba," *Vitral* 15, no. 86 (July–August 2008). In this article, data for earlier years have been taken from the comprehensive work of Matías Holloway and Salvador Marconi, *América Latina y el Caribe: Series históricas de estadísticas económicas 1950–2008* (Santiago: ECLAC, August 2009).

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