



NORTH KOREAN ECONOMY: WHERE TO GO FROM HERE?

Lim Eul-chul, Research Professor
(The Institute for Far Eastern Studies, Kyungnam University)

With the controversy growing around the sinking of the South Korean naval frigate *Cheonan*, North Korea's measures to freeze inter-Korean tourism and its seizure of South Korean property assets at the Keumgang Mountain tourism area, inter-Korea relations have soured considerably, and continue to worsen. Furthermore, North Korea has decided to "completely re-evaluate" the inter-Korean Kaesong Industrial Complex (KIC) and to re-examine issues with the inter-Korean military agreement allowing cross-border traffic. At the same time the North has been shutting down cooperation with the South, it has also created the Taepung International Investment Group, the State Development Bank and other organs through which it wants to attract increasing foreign investment. This seeming dichotomy has many South Koreans scratching their head.

Currently, this contradictory action also appears to be tied to the recent failure of the North's attempt at currency reform and the difficulties this failure created for broader economic and other policies. In addition, criticisms of the policy failure have been linked to the lack of experience of Kim Jong Il's youngest son, Kim Jong Eun. As Kim Jong Eun is thought to be the chosen successor of Kim Jong Il, his linkage to such failures could weaken the succession efforts. This has led to the emergence of hawkish, conservative policies.

In any case, North Korea's recent economic policy appears to be closely related to the efforts to groom Kim Jong Eun as successor. Economic policies and other measures seen around the time of the recent currency reform were aimed at creating a stronger, more stable economic foundation upon which the younger Kim could build a campaign for succession. In order to strengthen the successor's control over the



economic realm, North Korea is working to restore its ability to control the domestic economy, and at the same time, is working to bring about growth in the realm of the official economy. As for foreign trade, the North is seeking large-scale foreign direct investment (FDI) in order to boost social overhead capital (SOC) and stimulate economic development, creating special economic zones in strategic cities and entice investment from overseas enterprises in order to stimulate economic improvements.

North Korea is putting all of its efforts into the successor issue and the related establishment of a “strong and prosperous nation” by the year 2012. The goal of North Korea’s current economic policy is “improving the lives of the people.” Kim Jong Il publicly admitted that the North had not achieved Kim Il Sung’s dying wish for “meat in every bowl, silk clothing, and a tile roof” for all the people, but has repeatedly promised that economic revival is on the way. Since the beginning of last year, the *Rodong Sinmun*, a newspaper published by the Workers’ Party of Korea (WPK), and other media sources have focused on Kim Jong Il’s visits to facilities related to the economy in Onsan, Daean, and other regions throughout the country. Kim Jong Il paid his first visit to the February 8 Vinalon factory for its reopening, emphasizing efforts to fulfill Kim Il Sung’s dying wishes for an improved economy.

However, for this recent economic push to provide any visible results would require massive investment and public financing. North Korea’s lack of public financing led it to try to confiscate domestic savings through its currency exchange and to garner foreign currency from South Korea and China through economic cooperation. As part of this effort, North Korea made a range of conciliatory gestures to the South. At the same time, closely related to efforts to increase foreign reserves, Pyongyang also demanded the reopening of the Keumgang Mountain tourism project and increased wages for North Korean workers in the Kaesong Industrial Complex. However, the improvement of inter-Korean relations expected by the North did not occur, and so instead, North Korea employed a wide range of mechanisms in order to pressure the South Korean



government to change its policies.

In addition, among the many reasons for the overarching economic reform of late November 2009, North Korean authorities prioritized rectifying their shrinking public coffers, as outflows continued to exceed inflows of funds. Without preparing policies in response to shortages of food and other daily necessities, the North undertook currency reform, closed markets, restricted foreign currency exchange, and took other measures all at one time. This led to disastrous results for the North's economy, but showed just how desperate the DPRK government was to build up its currency reserves.

Now, in an effort to restore order and stability to the lives of the people, North Korean authorities are giving preferential treatment to farmers, setting price controls, building a social labor force, and establishing a system for currency circulation. In particular, the regime is working to stabilize prices and to establish regular distribution of goods through a state distribution system in an effort to restore order to the lives of regular North Koreans. Actually, since the economic difficulties, the measures taken by the regime have led to goods being largely traded in state-run stores instead of markets, unlike previous times of economic woe during which even manufactured goods were found more readily in markets than in stores.

When evaluating North Korea's domestic economic situation in the future, the primary indicator of stability will be rice; price variations and whether or not distribution can be normalized will give us insight into the health of the North Korean domestic economy. It is the primary indicator of not only the overall economy of the people, but also of the stability of the entire North Korean system. Within North Korea, the popular opinion is that the most effective way to resolve economic woes is by normalizing the ration system while also easing restrictions on markets. In order to do this stably, however, would require public finances;



yet domestic and international conditions make this unlikely. Since April, the future of rations, even in Pyongyang and other major cities, is murky, and rice prices have again begun to rise; tensions within North Korea appear to be rising.

Under these conditions, North Korean authorities see no option but to abandon expectations of cooperation with South Korea, and instead, to turn to China for economic recovery. Furthermore, in order for China to pursue development of its northeastern region, it needs cooperation with the DPRK. Through PRC-DPRK cooperation, China can develop the three provinces in its northeastern region, while North Korea can pursue economic revitalization based on infrastructure repairs centered on the modernization and repair of port facilities in Rajin. This creates a “win-win” partnership for Beijing and Pyongyang. It is also worth mentioning that the tourist industry is quickly growing as increasing numbers of Chinese sightseers are travelling to North Korea.

In summer 2009, Chinese authorities established a principle of clearly distinguishing between exchanges in the military realm from exchanges in the economic realm, and in August of last year, the government ratified a plan for the “Changjitu (Jangchun-Jilin-Tumen River)” development promotion project. Stage one of the Changjitu Project calls for the construction of an economic belt from Changchun, Jilin Province, to the Tumen River basin by 2012, and Stage two including quadrupling Jilin Province’s GDP by 2020. The success or failure of this project depends on the extent to which North Korea opens up its “East Sea Road.” North Korean authorities have shown their enthusiasm by designating Rajin and Sonbong cities as the Rason Special City, establishing a state development bank, and taking other steps to open up to foreign partners and improve the environment for foreign investors in order to attract overseas capital. In particular, economic cooperation between China and North Korea became much more necessary as the North needed overseas aid following the worsening of its economic situation.



on in the fallout of last year's currency reform. However, not only is the resolution of the North Korean nuclear issue unclear, the United States, through the UN, has been enforcing strict economic sanctions against the North ever since the second DPRK nuclear test. This, combined with worsened inter-Korean relations, means optimism is in short supply. The future of the North Korean economy will depend on the results of Kim Jong Il's trip to China, whether six-party talks on the nuclear issue are revived and progress toward denuclearization is made, and the nature of PRC-DPRK economic cooperation.