

Between nuclear armament and economic pragmatism: Is North Korea facing change?

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The balance a year and a half after the meanwhile second hereditary power transfer to Kim Jong-Un (Kim Chöng-ün), grandson of the founder of the state, is undecided. The breakdown of the system, predicted by many analysts, has not happened yet. Neither have the reforms that were expected from the young man who has supposedly been educated in Switzerland. The country is not in stagnation however – quite the opposite. What has happened in North Korea in the last two years? What development trends are there and how can other countries approach them? These questions are discussed in the light of the tense security-political and humanitarian environment and the corresponding risks in this Asia Policy Brief.

Two tests of three-stage rockets in April and December 2012 and the third nuclear test after 2006 and 2009 in February 2013 led to harsh sanctions. In March 2013, the PR China for the first time supported a corresponding UNSC-Resolution (no. 2094). In the first quarter of 2013 this was followed by a North Korean reaction to the US and South-Korean military maneuver that was unusually strong even by P'yöngyang's standards. While it remained rhetorical, it did reach a new level with the threat of a nuclear first strike against US facilities.

The escalation was not without consequences: the industrial zone of Kaesöng that had been operated since 2004, a unique Korea-internal economic project, was closed and has been in the process of being reopened only since August. Furthermore, South Korean president Park Geun-Hye, in office since February 2013, now finds it even harder to pursue rapprochement with the North. Such engagement is urgently necessary after years of stagnation under hardliner Lee Myung-Bak, and desired by the general public. P'yöngyang also did some direct

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damage to itself: Foreign Direct Investment was intensely promoted in the context of a diversification strategy to get out of the unilateral dependence on the overpowering economic partner China. For the foreseeable future, such investment will now be lower than the country's potential would permit.

Consolidation of power: Sooner than expected

Kim Jong-Il – the father of the current leader – was officially declared successor 14 years before he took power at the age of 52. He had been intensely prepared for his function for at least two decades. Under consideration of this, there was some skepticism when his son Kim Jong-Un took over the helm in December 2011, aged only 27 or 28 – his precise date of birth is not known. Only one year earlier, he had been presented to the public at a Worker's Party conference, but was not explicitly declared successor. The Party therefore assumed the role of the kingmaker and generally declared Kim Jong-Un the “Great successor of the revolutionary cause of chuch'e and outstanding leader of party, army and the people” two days after the death of Kim Jong-Il.

In contrast to his father, he did not observe a mourning period of three years, but almost immediately took those offices that supported his absolute claim to power. On April 11th, 2012, he became First Secretary of the Workers' Party of Korea. Like Kim Jong-Il before him, Kim Jong-Un waived a formal position in the government. His grandfather, who died in 1994, is “Eternal President”. The cabinet is chaired by a prime minister. The nominal head of state is the chairman of the presidium of the Supreme People's Assembly (the parliament). However, according to article 100 of the constitution, Kim Jong-Un is not only the supreme military commander but also the “Supreme Leader” of North Korea in his office as First Chairman of the National Defense Commission that he took over on April 13th, 2012.

Thus, Kim Jong-Un firmly held all three pillars of power only four months after his father's death: party,

army and state. Suggestions that he was acting as a puppet of his aunt Kim Kyōng-Hŭi and her husband Chang Sŏng-T'aek have not been confirmed. Both do hold high offices, however, and are politically active. There are also indications for a division of labor. A political future is expected for Kim's younger sister Kim Yō-Chōng. His older brothers Kim Chōng-Nam (living in Macao) and Kim Chōng-Ch'ol currently do not seem to play a decisive role.

Leadership style: New attitudes

The speed and scope at which he set accents of his own in the public media support our assumptions about Kim Jong-Un's relative independence. Again, the contrast to his father is striking: Kim Jong-il avoided public appearances in the first three years after he came to power and did not give a single speech to his people. In contrast, Kim Jong-Un used the parade in honor of the 100th birthday of his grandfather on April 15th, 2012, to speak from the stage at Kim Il-Sung Square in front of tens of thousands of his people. Once again, it became clear how much his outer appearance, such as girth, hair cut and clothes, but also his body language were aligned with those of his grandfather Kim Il-Sung, who is highly respected and idealized in North Korea. In January 2013, the supreme leader held the first New Year's speech after this tradition had been suspended for 17 years under the rather remote Kim Jong-Il, who had replaced it by a joint editorial in the country's leading media.

Kim Jong-Un also quickly showed that he was not to be trifled with. When visiting a theme park near his grandfather's place of birth, he harshly criticized the insufficient condition of the facilities and the responsible functionaries under the eyes of the state media. In the course of his short term of office, the country has already gone through three ministers of defense. Elsewhere the staff carrousel is turning quickly as well, as if he wanted to show every official under the supreme leader just who the master of North Korea is. A prominent example is

the rapid rise and just as rapid fall of Ri Yong-Ho, Vice Marshal and politburo member, who was relieved of all his offices in July 2012. Vice Marshal Ch'oe Ryong-Hae, deemed the number two in the system, is still secure in his position at this time.

The first ever introduction of a current “First Lady” in the history of North Korea was another sign of great self-confidence. The first wife of Kim Il-Sung and mother of Kim Jong-Il was only glorified long after her death. The wives of Kim Jong-Il were never mentioned officially at all. “Comrade Ri Sol-Ju” was presented to the surprised public as the new leader’s wife at a somewhat bizarre cultural performance including Disney figures. The attractive, self-confident young lady with her Western dresses and practically short hair quickly became a fashion icon for North Korean women. When she reappeared by her husband’s side at official events after a brief break, her pregnancy was already obvious. It is assumed that she gave birth to a daughter at the end of 2012.

Such an insight into his private life had never been offered by founder and supreme leader Kim Il-Sung, even though he was described as charismatic and close to his people and appeared sociable and approachable. Is this the personality of the new man in the lead or is it a well-calculated maneuver to support his image among the people? We can only speculate. However, there are other changes as well, ones that very clearly have a targeted political background.

Ideological adjustment: Risky game with symbols

The central question just after Kim Jong-Un took power was: On what would he base his legitimacy as the supreme leader. This is of the highest importance for internal political stability and coherence in the system of North Korea. Kim Jong-Un decided to merge the persons of his father and grandfather in all aspects. In January 2012, a mounted statue of Kim Il-Sung and Kim Jong-Il was unveiled on the premises of the Mansudae art studio.

In April 2012, the central monument for Kim Il-Sung on Mansudae hill in P'yongyang was modified, moved aside and supplemented by an equally large bronze statue of Kim Jong-Il. The latter has meanwhile undergone its first modification.

Also in April 2012, Kim Jong-Il was designated “Eternal General Secretary of the Workers’ Party of Korea” following the example of his father, who had been designated “Eternal President” in 1998 by a change of the constitution. The guiding ideology was renamed “Kimilsungism-Kimjongilism”, posters and slogans were modified accordingly. At the annual meeting of the parliament that took place a few days later, Kim Jong-Il was also declared the “Eternal Chairman of the National Defense Commission”. The latest version of the badges worn over the hearts of all North Koreans now shows the faces of both deceased leaders.

The basic rationale behind this is easy to understand. For reasons of age, Kim Jong-Un cannot draw any direct connection to his grandfather, the source of all legitimacy in North Korea. The link to his father alone would also be insufficient, since the latter avoided placing his own person clearly at the center of the leader cult during his lifetime. While Kim Jong-Il’s picture hung in every apartment, there were no bronze statues or bank notes with his likeness. Except for the red flower “Kimjongilia”, his image was absent from public squares, and not a single one of them was named after him. All of this has been changed radically now.

However, Kim Jong-Un is taking a risk by modifying the icon-like images of his grandfather (the new statue at the Mansudae-hill now wears glasses, a Western suit, appears decades older and is smiling). This and supplementing it with another, far less charismatic person may dilute the power of this revolutionary symbol. In a system based on ideology as much as that of North Korea, this may have fatal consequences.

However, Kim Jong-Un made it clear early on that he was going to found his claim to power not exclusively on



ideology but on actual achievements as well. These include an explicit focus on the improvement of material living conditions of his people. For this purpose, a policy that can best be called "Bread and Circuses" has been developed. The access to food and consumer goods has been improved. The effectiveness of such measures notwithstanding, old theme parks have been renovated and new ones created – including a dolphinarium in the capital.

Economic growth: Slow but steady

To keep up this policy and to be able to offer more to his increasingly materialistically oriented people, Kim Jong-Un needs a functioning and prospering economy. In the light of the wide-spread desolate situation of energy scarcity and lack of staple food, this is quite an ambitious goal. South Korean sources such as the Bank of Korea assume that the gross national product of North Korea grew by 0.8 percent in 2011 and by 1.2 percent in 2012 to about 30 Billion US\$, which is 2.6 percent of the value of its neighbor South Korea. There are no official North Korean macroeconomic statistics. However, the country's media publish annual data on the state budget. In the light of the lack of private property in the economy, these figures can be assumed to be official estimates of economic growth.

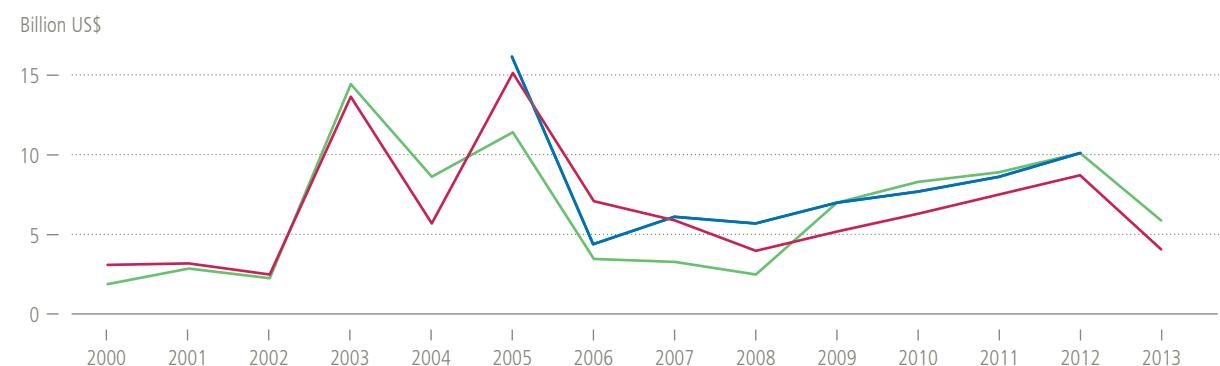
The values nominally deviate from the much lower information from South Korea, but are surprisingly well correlated with it ($r=0.66$ in 2005–2012) and therefore may at least be used as trend lines.

Several things are remarkable about Figure 1: in contrast to what would be expected of typically socialist propaganda, the curves do not continually point upwards. This makes them appear more credible. The reform phase of 2002 to 2005 is clearly visible. We find that the state has apparently been planning a higher growth of expenses than income since 2009, which implies external financing of this deficit. Not least, we see a much lower, i.e. more realistic planned growth rate for 2013. The influence of Kim Jong-Un, and possibly the new prime minister Pak Pong-Ju, can be assumed here.

Foreign trade: Rising, but unilateral

The economy of North Korea seems to be growing, but in the light of earlier massive contraction after 1990 and a low starting level, fast and major improvements are not yet to be expected on the current path. This is true in spite of the country's potential. In addition to the large number of well-trained and highly disciplined workers and a long border towards China offering a direct connection to this

Figure 1: Revenue and expenses of the North Korean state budget



Source: Rüdiger Frank, according to: Korea Central News Agency

Legend: — Achieved revenue — Planned revenue — Planned expenses

huge market, the country also has considerable deposits of natural resources. South Korean estimates suggest, among others, 2000 tons of gold, 5000 tons of silver, 2.9 million tons of copper, 5 billion tons of iron, 21 million tons of zinc, 6 billion tons of magnetite and 20 billion tons of coal in North Korea.

With or without reforms, the income that can be achieved by export in order to finance imports is particularly important to a widely isolated and sanctioned country like North Korea. As Figure 2 shows, the trend is clearly going upwards. A connection to the above economic growth can be assumed.

According to the Korea Trade-Investment Promotion Agency (KOTRA) the foreign trade turnover of North Korea (without trade with South Korea) was almost seven billion US\$ in 2012. The foreign trade deficit is about one billion US\$, but has been mostly constant and was even reduced in relative terms. The by far most important export product in 2012 were mineral products with a share of almost 60 percent, primarily coal and iron ore. Minerals, and mainly crude oil, were the most important import product at about 21 percent, followed by machines and vehicles (16 percent) and textiles (14 percent). The share of Germany in North Korean foreign trade was a mediocre 0.5 percent (36 million US\$). The main trading partner in 2012 was China, at more than 88 percent of the turnover.

This overwhelming dominance of the big neighbor and close ally is a relatively new phenomenon; in 2001, Japan was the most important trading partner, at a much lower percentage share. The government in P'yongyang is seriously concerned about the unilateral and strong dependence on China, and has also publicly stated this discomfort. North Korea has been actively striving for development of alternative markets, including Europe. Due to the reservations of governments and investors and the fatal human rights situation and adventurous foreign policy, however, these efforts have shown little success so far.

Economic reforms:

The big breakthrough is still pending

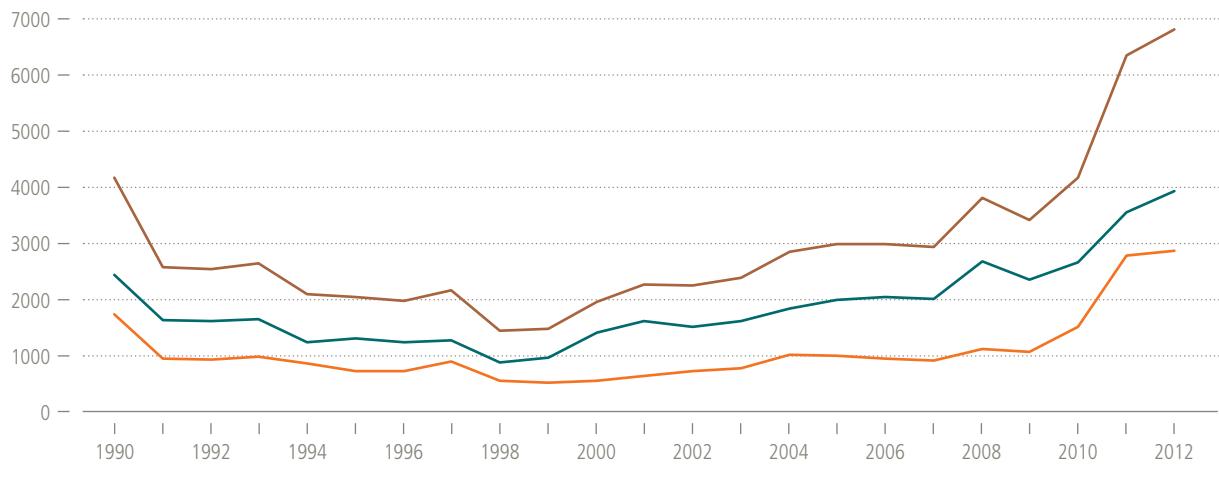
Since the collapse of the Eastern Block, the world has been waiting for a corresponding reaction from North Korea. However, neither a collapse as in Eastern Europe, nor the kind of aggressive reforms and opening policy witnessed in China have happened yet. Kim Jong-Il visited China in 1983, which led to the first joint venture law of his country in 1984, but the government did little up to July 2002. The reforms started after this were comprehensive but unsuccessful for various reasons.

Some of the changes that happened spontaneously during the famine of 1995 to 1997 were made official in 2002. The government prices were adjusted to those on the country-wide farmers' markets, subsidies were eliminated, the currency was depreciated by factor 75(!) as compared to the US-Dollar, the two foreign exchange certificates were discontinued and many other actions were taken. However, following the Chinese example, the 2002 reform was targeted at agriculture. The relatively small group of farmers and traders profited, but the majority of the urban population had to pay higher prices, which led to a massive inflation of 200 percent and more per year. The expected funds from the Eastern neighbor did not materialize because of an unexpected public reaction in Japan related to the abduction issue. In early 2003, the US demonstrated that it would not limit itself to verbal attacks on the "Axis of Evil" when they invaded Iraq. Accordingly, the reforms were halted. A phase of socialist neo-conservatism with an attempted return to the values of the 1980s followed. This policy failed not least because the monetization of society had set off a process that could not be stopped anymore.

When power passed to Kim Jong-Un, a new decisive step towards substantial reforms was expected; it is yet outstanding. However, on April 1st, 2013, Pak Pong-Ju was made prime minister. Pak is deemed an economic pragmatist and is connected with the reforms of July 2002. In 2012 there were rumors according to which the "meas-



Figure 2: Foreign Trade of North Korea 1990–2012, in million US\$



Source: Korea Trade-Investment Promotion Agency (KOTRA)

Legend: — Exports — Imports — Turnover

ures of June 28th" were to give the economic units more freedom to decide on their production and more independence in the use of surpluses. However, the parliament did not treat these items in its extraordinary meeting in September 2012, but decided on an educational reform instead. The number of mandatory school years was increased from eleven to twelve, explicitly with the objective to improve training in technical and practical subjects – not in the ideological area.

Special economic zones: Costs versus benefits

The role of special economic areas in the considerable (market) economic development of China after 1978 suggests that we pay special attention to similar projects in North Korea. At the moment there are three active special economic areas, with a fourth one being built. Rasōn is located in the Northeast, in the country triangle of China-Russia-North Korea. The attempt to combine the advantages of the three countries, which complement each other at least on paper, has been going on since the

early 1990s. These efforts have shown varying degrees of success. Since 2013, it became known that Mongolia is interested in joining in order to use the harbors on North Korean territory in the Rasōn zone for shipping of raw materials. After a failed attempt in 2002 there is currently another special economic area with China being developed in the Northwest on two islands between the border towns of Sinūju und Dandong.

In the Southwest, there is the Kaesōng Industrial Zone, where about 50,000 North Korean workers are employed by South Korean companies, producing most of the inter-Korean trade. However, this is barely more than a workbench of South Korea extended towards the North. The glossy side of the not always uncontroversial South Korean economic miracle is presented here, doubtlessly with a considerable ideological effect on the North Korean workers and all whom they tell about their experiences. In April 2013, skeptics in North Korea took the opportunity and closed the ideologically risky zone in the context of an escalation of the situation after the third North Korean nuclear test and the annual joint military maneuver of the

US and South Korea. In August 2013, however, economic pragmatism in the North seems to have won, and negotiations on reopening were successful.

Outlook: Can the new middle class be an agent of change?

The monetization of the North Korean economy since the late 1990s had and still has considerable social effects. Apart from a small elite that is mainly invisible to most in everyday life, North Korea was characterized by almost unique equality for decades. Personal ambitions that North Koreans have, just like everyone else, could only be achieved by using political capital. The right family and social background, combined with relationships and special zeal in meeting the state requirements were the only factors for success.

This has changed. Money has recovered many of its once-lost functions in North Korea, weakening the value of political capital. The system's influence is still strong, but receding, and has ceased to be a monopoly. Cadres with access to the corresponding opportunities, as well as people with a business sense and good relations with China, have found ways to profit from the traces of a developing market economy in the country. A class that proudly presents its new wealth has developed. Cell phones are a status symbol. At about 300 EUR, they are not cheap. Still, the only cell phone operator Koryolink, a subsidiary of Egyptian ORASCOM, says that there are 2 million of them already, with a rising trend. The number of private cars is increasing. Many are produced domestically with licenses. High-quality household appliances, computers, even 7" Tablet-PCs "Samjiyon" and air conditioners appear more and more frequently. People are developing more self-confidence.

These "blessings" of the new time are limited to a growing minority that mainly lives in the capital city of P'yongyang but is visible to all. Those not belonging to it yet are hoping for upward social mobility. If it is refused, their new but unfulfilled wishes will cause the same reactions as back in socialist Eastern Europe. Those who have already

made it will never be content either. They want more power, more money, more wealth. The future of North Korea will be determined by how the leadership under Kim Jong-Un will handle this challenge. In the light of what we already know about the new leader and the systemic necessity of reforms, we can be cautiously optimistic – in spite of the war rhetoric that may be merely targeted at stabilizing the system to prepare for the great risk of reforms in the end.

What can the West do? To be sure, the strategic decision will be made in North Korea. But if other countries do not simply sit back and continue waiting for a collapse, they will have the limited opportunity to influence the environment for such decision making. The previous path of sanctions has brought few actual results. The system with all of its negative effects on the people continues to exist. The South Korean "Sunshine Policy" from 1998 to 2008 is unfairly called naïve. All of the above positive changes happened back then. The architects of this long-term policy relied on economic cooperation independent of the political day-to-day-business, thus strengthening the powers of the North Korean market and reducing the government's fear of the related risks to the point where true reforms would become more likely.

This option still exists. In particular the US is currently preventing North Korea from gaining a stable access to international goods and financial markets. Such access is, however, vital for export-oriented growth with a focus on industry, which offers the most promising development strategy in the light of the North Korean economic structure. Blocking such access is doubtlessly justifiable morally and legally. But it also means accepting the government in P'yongyang will bind itself to China even more closely due to a lack of alternatives, further develop the nuclear threat, and neglect necessary changes. The current system of North Korea is not sustainable. There is no way around opening up and engaging in liberalization. Other countries can, however, influence when and how this process will take place.



Further reading:

For more publications by Prof. Dr. Rüdiger Frank on North Korea, see <http://univie.academia.edu/RuedigerFrank>.

On the society of North Korea before the changes in the Mid- 1990s, see Helen Louise Hunter (1999): Kim Il-Song's North Korea, Westport and London: Praeger.

General statistics information on North Korea can be found at the Bank of Korea (www.bok.or.kr), on foreign trade at the Korea Trade-Investment Promotion Agency (www.kotra.or.kr), for a list of natural resources, see the Information System for Resources in North Korea (www.irenk.net).

The official position of North Korea can be found, among others on the website of the party newspaper Rodong Sinmun (www.rodong.rep.kp).

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