

Kim Turns to Exhortation Economics, What is His Plan B?

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By William Brown

Can an economy grow by being told to do so? Kim Jong-un is launching his “economy first” messaging, spreading the word inside North Korea that he is sincere in his new emphasis on economic growth and improved living standards. And many Koreans on both sides of the DMZ seem to be buying it. But doubts may be creeping in as sanctions are not neatly falling away and as denuclearization peace talks enter a more difficult phase. The ebullient Kim of Singapore and Panmunjom may now feel he is trapped in a box, having promised his citizens something he can’t deliver except through politically dangerous changes his elders may not allow, both on the nuclear and economic fronts. A [new editorial](#) in the Party run newspaper warns with dire famine-era words, “belt tightening” and “arduous march” if the summit promises don’t pan out.

In April, Kim told his Worker’s Party leadership that the “focus of the entire party, and country, will now be on socialist economic construction. That is our new party line.” According to defector sources, this message is being studied all across the country with people accepting it with newfound optimism. Maybe too much, hence the weekend warning. And ever since, Kim has been on the move, travelling to Singapore to meet Trump, back to China to meet Xi, and back to the DMZ to meet again with Moon, all, presumably, in an effort to get stifling sanctions lifted and the economy moving. And he is following up those meetings with a tour across northern North Korea, visiting production units and dispensing advice about how to improve output.

The visits themselves are not extraordinary—a page from the on-the-spot guidance provided by his father and grandfather—but the content is. In a visit to a children’s bookbag plant, he berates the factory for poor zippers and weak, shoddy, production.^[i] In a visit to a small hydro power cascade, he complains bitterly that the project was begun thirty years ago by his grandfather and is still not finished due to lazy managers and poor planning. In a visit to the Sinuiju chemical fibre plant, he complains the bureaucrats (“functionaries” in North Korean terminology) were not managing.^[ii] And in a visit to an old person’s home he complains of unsanitary and generally mean conditions. Stark changes from the smiling, happy Kim the public is used to seeing in these official propaganda releases. Although not always. He was happy with a small shipyard, saying that since they produced a boat for the navy they can build a cruise ship, and he liked the results of a reforestation project.^[iii]

Analysts differ on what led to Kim’s changed focus from militarism to development, first seen in his annual New Year’s address and accelerating through the half year. Some see Kim as working from a position of strength, following by far the biggest nuclear test last September and an ICBM test in November, thus enabling Kim to pivot from a successful nuclear first *byongjin* to an economic first *byongjin*—originally, they were supposed to be parallel. But another, not incompatible view, seems more likely. As Kim was taking his train to Beijing in mid-April, for his first ever meeting with Xi Jinping, just before the party leader’s announcement, China’s Custom’s Bureau was announcing trade between the two allies had fallen to probably the lowest level since the 1990s; almost no exports to China and plummeting imports as North Korea’s foreign currency reserves were probably

drying up. No textiles, no coal, no lead or zinc, no fish, no iron ore being exported and no vehicle or machinery or industrial components were being imported. Only tobacco and sugar were crossing into North Korea in meaningful amounts, addictive products not very helpful to economic production, and a small volume of milled products, possibly provided by foreign aid donors. The only meaningful exception was the crude oil lifeline, virtually all of North Korea's petroleum supply—that China has provided for decades. Beijing doesn't charge for the crude but Xi, no doubt, uses it to string Kim along, one last tool, a sledge hammer, in case Pyongyang gets too far out of line. Its easy to imagine this was not a pleasant experience for the young comrade meeting the elder Chinese statesman.

But either way, whether caused by foreign and domestic economic pressures, or a genuine feeling of strength and ambition to progress, Kim must now find himself at a crossroads, with fundamental decisions to be made about the future of his country. He has promised economic advance amidst the country's most complex, and by some counts, worst economic conditions in recent memory, caused immediately by China's cutoff in trade, but also by a longer running slide in the state's planned or "command" economy. And this comes after five years of relative economic success, as he has been able to squash inflation and peg his once disappearing currency to the U.S. dollar and Chinese yuan. But this too has come at a cost. The state's fixed priced and supposedly centrally planned economy is slowly eroding in the face of nearly uncontrolled market activity, which had been buoying productivity and growth. The Bank of Korea, South Korea's central bank, bravely fills in a gap left by Pyongyang's unwillingness to provide its own economic data, said last week it figures North Korea's GDP dropped 3.5 percent in 2017, as the trade cuts were just beginning to set in, the worst performance in a decade. The drop in exports to China in the fourth quarter was mostly to blame, but interestingly, the Bank claims, using data provided by the country's intelligence services, and by defector and open source reporting, that the impact of the trade is being felt heavily in the country's industrial sector, presumably by a drop of imports of required intermediate inputs and parts. Manufacturing, it estimates, was down about 6.9 percent. More seriously, the data only covers last year whereas worse problems are likely to be occurring in 2018, as China reports a near shutdown in its purchase of North Korean exports in the first half and plummeting North Korean imports. [1]

If Kim is in a box, it is useful to think of a hallway with two doors at the end. One, the hallway, and seemingly the tact he is currently pursuing, is to get China and others, especially South Korea, to quit sanctions and restart trade as quickly as possible, induced by tepid progress on denuclearization and relatively good international behavior. Certainly, no nuclear or missile tests, a happy pause in the "provocation cycle." Shuttering the high-profile satellite launch site, but not toying with the more important uranium and plutonium production facilities, or the mobile ballistic missile systems, may be part of that plan as with, on the domestic side, feel good measures such as giving a three-year early release for criminals—not including, apparently more dangerous, political prisoners. A series of half measures that buy him a little time. And beyond trade, he will try to entice foreign investment and aid. All of this will help, but Kim probably knows it will not solve the internal problems that have created the insanely unproductive economy in the first place—an economy where market prices are routinely 50 times state set ration prices, and wages. Intriguing is the possibility that he will thus allow greater use of market mechanisms, most importantly, flexible market determined prices and wages, at the cost of state controls and the ration system. This is a

dangerous activity since while it promotes improved productivity and wealth for some, it also can split loyal state workers who depend on the ration system, such as those responsible for the failing facilities Kim visited, from entrepreneurs seeking to make money in a capitalist frontier. And it ultimately will require a huge boost in government revenue or a devastating drop in government employment.

An example of the churn is the all-important electric power industry, one that is clearly failing to meet the country's immediate, let alone, long-term needs. A new "Supplemental law on Electric Power" was promulgated in June that names the industry as most critical for the development of the economy and people's welfare.^[iv] Unfortunately, the "law" is all about planning power allocations and says nothing about using market forces to solve inherent problems in capacity and demand. Yet in real life, changes seem to be occurring. According to anecdotal reporting by Chinese businessmen, Pyongyang residents are or soon will be paying for electricity, what had been an essentially free good. The new prices for low usage household levels are still low, and will not come close to the cost of coal needed to produce the power, but for higher level users, at about 4 cents per kilowatt hour, the price is significant and about a third the price, worldwide. A boon to the power industry and to consumers who can pay, but a potential disaster for industry. Again, an important but dangerous half-move to capitalism. In China, similar moves three decades ago crippled thousands of factories dependent of nearly free electricity but allowed new more efficient and competitive factories to emerge. But this has taken thirty years. Can Kim deal with the kind of unemployment indicated by such closures, and does he have decades to play with?

Given these and other critical problems, most importantly the ever larger role foreign currency is playing in North Korean commerce, and the seemingly massive privatization, one might say theft of state property and licenses seen in the new housing markets, one might consider these efforts by Kim to be transitional or temporary in nature. Sooner or later economic and international circumstances will push him to make stark decisions over whether to fundamentally open the economy to domestic and then international competition, and to proceed with denuclearization or whatever is needed to obtain access to foreign markets and finance, or he will try to claw back the market and restore the command, some might say the exhortation, economy. The latter seems unlikely to succeed but the former will create enormous stresses as the regime tries to sort out the many winners and losers who will come from it. Not an easy predicament for the brave, perhaps fool-hardy, comrade commander.

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[1] Chinese trade is itself an enigma. Usually one of the world's fastest and most reliable trade data reporters, China's Custom's Bureau is three months late in delivering its global data, which it says is due to a computer or technical problem. As a result, detailed data for trade with North Korea is available only through March, with China's imports down about 90 percent from year earlier levels, and exports down nearly 60 percent. More aggregative data indicate there was no recovery through June, as sanctions held, but details are not provided.

[i] *Korean Central Television via Satellite* in Korean 0614 GMT 17 Jul 18

[ii] *Pyongyang Rodong Sinmun (Electronic Edition)* in Korean 16 Jul 18

[iii] *Uriminjokkkiri* in Korean 24 Jul 18

[iv] *Pyongyang Minju Joson (Electronic Edition)* in Korean 10 Jun 18 – 15 Jul 18

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