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Les Nouvelles de Chine

Prospects for Economic Reform in North Korea

Analysis by Nathan Beauchamp-Mustafaga based on:

- Piao Yinzhe, Li Shenghua, and Yan Ying'en, "The Powerful Push for North Korean Economic Reform: China-South Korea Economic Cooperation," *Jingji Wenti Tansuo*, No. 12, December 2011. ⁽¹⁾
- Gong Yutao, "The Current Situation and Trends of North Korea's Economic Reforms and Its Influences on the Korean Peninsula," *Yunnan Caijing Daxue Xuebao*, No. 151, May 2011. ⁽²⁾
- Zhu Liaoye and Xu Yonggen, "Analysis of the Prospects for North Korea Economic Reform," *Liaodong Xueyuan Xuebao* (Shehui Kexue Ban), Vol. 13, No. 5, October 2011. ⁽³⁾
- Zhang Huizhi, "Exploration of DPRK's Economic Development Model," *Dongbeiyu Luntan*, No. 98, June 2011. ⁽⁴⁾
- Zhang Liangui, "Will North Korea Have 'Reform and Opening'?", *Guoji Shiye*, May 2010. ⁽⁵⁾
- Cui Yan, "Analysis of the Effects of North Korea's Currency Reform on China-North Korea Trade," *Zhongguo Shangjie*, No. 2, February 2010. ⁽⁶⁾

As China's lone treaty ally and unruly neighbour, North Korea is closely watched by Chinese officials and scholars for developments that may impact Sino-North Korean relations, the Korean Peninsula, and even the Northeast Asia region. While North Korea's nuclear program has attracted the world's attention since the first crisis erupted in 1994, Chinese academics remain attentive to the progress of economic reform in the North. Taking the long view, Chinese scholars are generally optimistic about the prospects for continued North Korean economic reform under favourable international conditions.

28 years of economic reform and counting

Over the last three decades, North Korea has initiated a series of largely unsuccessful economic reforms, but has recently renewed Chinese hopes with a series of new initiatives since January 2010. According to Zhu Liaoye and Xu Yonggen, the history of economic reform in the North can be traced back as far as 1984 with the introduction of the Joint Venture Law (*heyingsha* 合资法) in an early attempt to attract foreign investment. ⁽⁷⁾ This was followed by the creation of two Free Economic Trade Zones in 1991, which failed to attract significant investment. ⁽⁸⁾ Most scholars trace the recent arc of reforms to 1 July 2002 ("7.1 *jingji gaige*" 7.1 经济改革 or "7.1 *cuoshi*" 7.1 措施), when Kim Jong-il's government enacted a more liberalised economic policy that allowed a certain degree of private markets and more independent operation of farms and businesses, while raising wages and adjusting prices.

The December 2009 currency reform was officially intended to stop inflation and eliminate illegal black markets. ⁽⁹⁾ The reform allowed North Korean citizens seven days to convert their old currency to the new currency

at variable rates and in limited quantities. ⁽¹⁰⁾ The 2009 currency reform caused unrest and forced the government to relax its strict limits, and to eventually offer subsidies as compensation. While most scholars view the reform as an unsuccessful attempt to stop inflation and eliminate inequality and corruption, Cui Yan sees it as an attempt by the state to reassert control over the economy. Cui Yan asserts that the reform most importantly was intended to "reclaim the personal capital that was circulating in the markets and to monitor the markets in order to once again bring the entire national economy back under the supervision of the traditional planned economy."

The most recent surge of reform is generally dated to January 2010. In rapid succession, North Korea announced the Strategic 10 Year Plan (2011-

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2. Gong Yutao is a lecturer in the School of Marxism at Minzu University of China.
3. Zhu Liaoye is a researcher in the Korean Studies Institute at the Jilin Academy of Social Sciences. Xu Yonggen is an associate professor of Japanese at Changchun University.
4. Zhang Huizhi is the associate dean of the Northeast Asian Studies Academy at Jilin University.
5. Zhang Liangui is a professor of Korean studies at the Central Party School of the Communist Party of China Central Committee.
6. Cui Yan earned a master's degree from Heilongjiang University.
7. The 26-article Joint Venture Law was promulgated on 8 September 1984 and was modeled after China's 1979 Joint Venture Law. It allowed foreign investment in North Korea for the first time.
8. The two zones, Rajin-Sonbong and Chongjin, were located in northeast North Korea.
9. There have been five currency reforms since the founding of the DPRK: 1947, 1959, 1979, three times in 1992, and most recently in 2009.
10. While previous currency reforms allowed a 1:1 conversion, the 2009 reform set the exchange rate for cash at 100:1, while bank deposits valued under 150,000 won were exchanged at 10:1, and accounts over 150,000 exchanged at 1000:1. The government also enforced a limit on the amount of currency a family could convert, which was initially set at 100,000 won but was later raised to 500,000. Any amount over 500,000 was required to be deposited in a bank, and total deposits were limited initially to 300,000 but later to 3 million won.

2020) for National Economic Development, created the Taepung International Investment Group and the National Development Bank, and elevated the Rason Economic and Trade Zone (*luoxian jingji maoyi qu* 罗先经济贸易区) to the new status of “special city” (*tebie shi* 特别市). This surge coincided with Kim Jong-il’s – unprecedented – four visits to China between May 2010 and August 2011. These events led to a great discussion in China over the prospects for reform, its possible path, and the role of the international community in this process.

Economic reform is the only path to stability and prosperity

The North will continue to deepen its commitment to economic reform since it seems to be the only path towards economic prosperity and political stability. Zhu and Xu assert that economic reform in the North is “historically inevitable [and that] North Korea is at the point that it won’t survive without reform,” adding that it is also the trend of socialism. With earnest reform, the North can become self-sufficient for grain production and join the international community. Gong Yutao claims that “without economic reform there is no economic development” in the North, and that the North will adopt economic reform in order to accomplish the government’s goal of becoming a strong and prosperous country (*qiangsheng daguo* 强盛大国, *gangseong daegug* in Korean) by 2012, along with the need to maintain political control and a stable power transition. This also follows Kim Jong-un’s statement in November 2011 that food is now more important than bullets. Gong adds that the North has been responsive to the needs of its economy in the past, including the agricultural reforms since 2002 in response to food shortages, so the North will embrace reform again. More importantly, Gong believes that successful economic reform will reduce tensions in the peninsula by giving North Korea more confidence in its interactions with the South through non-military means. Furthermore, reform will pave the way for unification with improved leverage for the North, since the ultimate goal of both countries is eventual unification, and the country with the strongest economy will drive the process.

There are many promising signs that the North intends to pursue the necessary economic reforms. Gong Yutao and Zhang Huizhi highlight North Korea’s New Year’s editorials in 2010 and 2011 (*yuandan shelun* 元旦社论) as evidence for the renewed focus on economic reforms.⁽¹¹⁾ Gong notes that North Korea’s increased marketisation after 2002 demonstrates that the North is making progress towards a Chinese-style “Reform and Opening” (*gaige kaifang* 改革开放). Zhang Huizhi views the North’s two Economic Development Zones with China, Rason and the Hwanggumpyong-Mimwha Islands zone (*huangjinping-weihuadao jingji qu* 黄金坪、威化岛经济区), as a proof that the North is committed to economic reform.⁽¹²⁾ She believes that now that the North has started international economic cooperation and stepped toward marketisation, the Democratic Popular Republic of Korea (DPRK) government is unable to stop the steady march of reform.

However, doubts remain over the impetus for reform and the likelihood of a true breakthrough towards a market economy. Zhang Liangui does not see any hope for true economic reform in the North and does not see the previous changes in economic policy as genuine efforts toward reform. He views the true goal of North Korea’s economic reform as supporting the military-first policy (*xianjun zhengce* 先军政策, *Songun* in Korean) by creating another revenue stream for the military’s nuclear and missile programs. The reforms of early 2010 were driven by the North Korean military’s

need for foreign currency, since the sanctions enacted through UN Security Council Resolution 1874 cut off the traditional sources of money, including Japanese remittances, South Korean donations, and arms exports.⁽¹³⁾ Zhang Liangui cites the fact that the National Defence Council announced the January 2010 initiatives, not the Cabinet, which officially should run the economy. He believes Rason is intended to solve the North’s oil shortage by diversifying oil imports and earning foreign currency through transit fees.

Many elements still impede economic reforms in the North

Despite these positive prospects, there are many factors that continue to obstruct the forward progress of reform. Reflecting a common opinion, Zhu and Xu assert that the failure of North Korea’s past reforms was due to the superficiality of early reforms and the government’s lack of consistent effort in implementation. Furthermore, the current reforms are inhibited by the government’s fear of political instability, lack of public will for reform, lack of an overall design, and resistance by state-owned enterprises. Piao Yinzhe, Li Shenghua, and Yan Ying’en cite international sanctions as the biggest factor limiting the North’s ability to enact far-reaching reforms, followed by the contradiction between the military-first policy and economic development, as well as a lack of public will. Zhang Huizhi also ties the difficulties affecting the North’s economic reform to international sanctions and the government’s fear of social instability, challenges to its authority, and problems for the power transition to Kim Jong-un.

While North Korea may embrace deeper economic reform, the government will pursue reform on its own accord. Both Zhang Liangui and Zhang Huizhi note that the DPRK’s state-run newspapers declared distrust of the term “reform and opening.” One North Korean article proclaimed: “The people of every country in the world who uphold self-determination must clearly recognise the reactivity and danger of the conspiracy of ‘reform’ and ‘opening’ advocated by the imperialists, and must confront it with a high level of vigilance.”

The path forward

While future progress on economic reforms will continue to be slow and cautious, there are opportunities to ensure their success through experimentation and international support. Zhang Huizhi believes reforms outside the system (*tizhiwai’ gaige* “体制外”改革) are the key to economic reform in the DPRK. She asserts that this style of reform “is outside of the planned economic system [and] is a basic force to develop new offices for managing markets and have them promote market reforms.” The independence from the system allows the reforms to proceed without presenting the typical problems of economic liberalisation, namely inflation, inequality, corruption,

11. Traditionally, the three major North Korean state-run newspapers have all published a joint editorial on 1 January, which is generally regarded as the guiding policy prescription by the DPRK leadership for the upcoming year.
12. Rajin-Sonbong has been rebranded as the Rason Economic and Trade Zone in a renewed attempt to attract foreign investments. Rason is located across from the Chinese city of Yanji in Jilin Province. The Hwanggumpyong-Mimwha Islands Zone was jointly created in 2011 by China and North Korea. The single administrative region comprises both islands, which are located across from the Chinese city of Dandong in Liaoning Province.
13. The United Nations Security Council passed Resolution 1874 in June 2009 in response to the DPRK’s second nuclear test a month earlier. This followed Resolution 1718 from October 2006, which sanctioned the North for its first nuclear test in early October. Resolution 1874 further strengthened the previous ban on arms exports and luxury imports as well as further limiting international trade and investment with the North.

materialism, and illegal markets. Zhang Huizhi believes the new investment company, national investment bank, and other initiatives are all part of this new style of reform, and that these reforms will eventually lead to the creation of a new economic system. In contrast with Zhang Liangui's scepticism over Rason, Zhang Huizhi believes Rason allows the North Korean government to experiment with economic reforms without fear of political instability. Zhu and Xu believe the North Korean leaders will initiate the reforms, since the people lack the ability to initiate reforms themselves. They believe the reforms will start with the agricultural sector, namely agricultural privatisation, possibly based on China's household responsibility system (*baochan daohu* 包产到户) from the late 1970s.

International support for reforms through increased economic cooperation between China, North Korea, and South Korea will be an important component to drive reform externally and integrate the North into the international economic system. Piao *et al.* see an opportunity to align China's Chang-Ji-Tu project¹⁴ (*changjitu kaifa kaifang xiandaogu* 长吉图开发开放先导区), North Korea's strong and prosperous nation claim, and South Korea's desire to become the economic hub of Northeast Asia. China and South Korea can guide the reforms by actively promoting reform through their economic cooperation with the North. Cooperation should first strive to improve the DPRK economy through focusing on agricultural, energy, and industrial policies and giving preferential tax rates to North Korean products sold in China and South Korea. Second, economic cooperation should focus on promoting reform by making the North end its military-first policy, designing aid to push reforms and not merely treat existing problems, as well as China advocating market economics with North Korean officials.

China's role and the international environment

China can encourage economic reform through sharing its own experience as well as continuing to invest and trade with the North. While North Korea's road to reform will undoubtedly be unique, Zhu and Xu, among others, frequently reference the experience of China and Vietnam for comparison. They suggest that the North can learn from China and Vietnam's

success as it makes a similar transition towards a market economy. Zhu and Xu state that "China and Vietnam's Reform and Opening proves that only with Reform and Opening is there development, and only with development can one raise the ruling party's authority and governing ability as well as raise the peoples' quality of life and win the hearts of the people while strengthening the socialist system." Zhang Huizhi views China-DPRK economic cooperation as a good opportunity for North Korea to deepen reform by allowing the North to see China's successful integration of socialism and capitalism while also demonstrating to the world that the North is serious about reform. Following China's experience, although Zhu and Xu, among others, noted that the transition to a market economy would possibly challenge the government's hold on power, they did not link economic reform to progress on political reforms.

The North's international environment will dictate the extent to which a reformed North Korea can thrive in the international community. The North needs to convince the international community to end sanctions, as those have an outsized impact on the North's prospects for economic reform by isolating the country and depriving it of needed capital. Zhu and Xu assert that UN sanctions and the United States make other countries fearful of establishing trade and investment with the North. The United States looms large over discussions of the prospects for economic reform in the DPRK. All authors noted the need for improved US-DPRK relations before there can be genuine reform in the North. Piao *et al.* believe better relations are the biggest factor for economic reform, while Zhang Huizhi believes improved ties would allow the North to gain access to loans and aid from the International Monetary Fund, World Bank, and others. Zhu and Xu view US motives vis-à-vis North Korea with suspicion and claim that the US wants the North to be a member of the "free world," namely to be controlled by South Korea. Similarly, Gong claims that the United States "has never abandoned its goal of toppling the current North Korean government."

While the DPRK government has been hesitant to fully embrace economic reforms, the leadership will eventually be forced to enact fundamental changes to its economic system out of necessity for the continued survival of the country and as the only means to uphold and fulfil promises of economic development for the people of North Korea.

14. The Chang-Ji-Tu project was proposed in 2009 as an economic development plan for the cities of Changchun, Jilin, and Tumen in Jilin Province.