

## North Korea in 2012 and beyond

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2012 looks to be a year in which South Korea, North Korea, the US and China will all make preparations for their futures in 2013 and beyond. These four countries will all see the emergence of new leadership in 2012, and from 2013 they will likely enter into a series of fundamental showdowns and negotiations over North Korean issues. As it anticipates the situation in 2012 and beyond, what sort of challenges and tasks does North Korea face? What plans have they made for dealing with these, and how were these plans prepared?

This analysis can be divided into three aspects. First of all, their most immediate task is to successfully carry out the various planned festivals that are concentrated in the first half of 2012. North Korea appears to have already spent considerable time and money systematically preparing for these. A second and more important core task is securely establishing the Kim Jong Eun succession system. In the process the regime is likely to unveil some sort of new national goal and ideology. Meanwhile, a core focus of their internal and external economic policy for 2012 and beyond will be on building up an economic foundation for the new power coalition. Third, in foreign and security policy, North Korea's actions in 2012 will be taken in preparation for their future movements in 2013 and beyond. This is

because we expect that any serious negotiations on North Korean issues can only begin from 2013 onward, after the inauguration of new leadership in all four countries.

These three elements are inter-connected, but this paper is limited to a discussion of North Korea's preparations to deal with the first issue – that of North Korea's planned "celebrations" for 2012 – particularly focusing on economic aspects.

## The Significance of the Year 2012

First, let us look at what the North Korean authorities themselves have said about the significance of 2012. They will have to show some evidence they can "open the gate to a strong and prosperous nation" in 2012. For this they must hold celebrations marking significant dates such as Kim Jong Il's 70th birthday (February 16), the 100th anniversary of the late Kim Il Sung's birth (April 15), the 80th anniversary of the founding of the Korean People's Army (April 25), etc. Kim Il Sung's birthday appears likely to be the most significant of these celebrations. On April 14th, 2011 a *Rodong Shinmun* article announced the establishment of an "international preparatory committee for commemorating the centenary of birth of President Kim Il Sung." Also, the regime plans to complete construction of 100,000 new housing units in Pyongyang, as well as new cultural activity centers, and to remodel the 105-story Ryugyong Hotel (up to the 25th floor); these projects were scheduled to be completed in time for the April 15th celebration. The experimental light water reactor under construction at Yongbyon is also scheduled for completion in 2012.

## Restoration of Regular Food Distribution for All

In line with Kim Jong Eun's overall emergence in 2012, the regime is said to be preparing to restart regular food distribution to the entire population.<sup>1)</sup> For North Korea to operate food distribution continuously for one year it must secure approximately 3.6 million tons of food. In fact the regime took many measures in 2011 to secure food for public consumption, but it stopped short of enacting agricultural reforms. Realistically speaking, in 2011 the North Korean authorities do not have the ability to restart regular food distribution. Of course, if they were to

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1) Lee Myeong Ho, "North Korea's Recent Food Problems: Goal of 2012 Food Distribution is Major Cause" (in Korean), North Korea Strategic Information Service Center (NKSIS), April 28, 2011; Kim Jun Ho, "North Korea Declares General Food Distribution to Restart from Next Year" (in Korean), Radio Free Asia, Oct. 31, 2011; Lee Jun Sam, "North Korea Preoccupied with Normalizing Food Distribution in Inaugural Year of Strong and Prosperous Nation," Yonhap News, Nov. 1, 2011.

release the food stores that have been stockpiled for the 2012 celebrations, they could probably temporarily restore distribution for a period. However, past experience shows that when the regime takes steps to normalize food distribution it is generally done alongside a policy to suppress market activities.

## Construction of 100,000 Households and Cultural Service Facilities in Pyongyang

The most important symbol of the “strong and prosperous nation” is to be the construction of 100,000 housing units and new cultural facilities in Pyongyang. Construction of the housing units began in November 2009. However the pace of progress has been very slow, and some reports claim that in April 2011 the North Korean authorities actually reduced the goal from 100,000 new housing units down to 22,500.<sup>2)</sup> It appears that North Korea has mobilized nearly all available resources in the country for the sake of these construction projects. Nearly all powerful institutions were mobilized to participate in fundraising, distribution of materials or actual construction work, including the various Cabinet agencies, the People’s Safety Ministry, the State Security Agency, various prosecutor’s offices, universities and military agencies.<sup>3)</sup> The general public was also made to bear a heavy part of the fundraising burden under various pretexts. From June 27th, 2011 onward the major universities in Pyongyang and the provinces were closed so that even university students could be mobilized.<sup>4)</sup>

## Increased Distribution of Electricity

The three major symbols of the “strong and prosperous nation” are food security, construction of 100,000 housing units, and the resolution of the electricity supply bottleneck. North Korea has particularly focused on construction of the hydroelectric power plant at Heechon. This power plant is viewed as a symbol of the

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- 2) Kim Yong Hun, “North Korean Reduces Planned ‘100,000 Houses Construction Project’ by 1/4” (in Korean), Daily NK, June 20, 2011.
- 3) Good Friends, “[Special Series] Conditions for the Strong and Prosperous Nation, 2012 (3),” North Korea Today No. 413, July 27, 2011 ; Choi Min Seok, “NK Citizens Complain of Funding Drives for 100,000 Housing Units” (in Korean), Radio Free Asia, August 11, 2011; Choi Min Seok, “Amid ‘Fundraising Problems’ NK Collects Donations for 100,000 Housing Units” (in Korean), Radio Free Asia, July 11, 2011.
- 4) Choi Min Seok, “College Students Mobilized for Construction,” Radio Free Asia, July 1, 2011; Yang Hee Jeong, “Universities Closed for Construction of ‘Strong and Prosperous Nation’” (in Korean), Radio Free Asia, July 5, 2011; Cheon Yeong Ran, “Photo Obtained of Kim Il Sung University Students on Leave Mobilized for Labor” (in Korean), VOA, Sept. 2, 2011.

country's rebirth as a "strong and prosperous nation." The region around Heechon in Jagang Province is heavily dotted with munitions factories. Kim Jong Il visited the construction site four times in 2010 and twice in 2011. In 2011 Prime Minister Choi Young Rim also performed an "onsite review" of the Heechon plant.<sup>5)</sup> Construction at Heechon began in March of 2001, and in March of 2011 Kim Jong Il ordered that it must be finished by January of 2012.<sup>6)</sup> However, while the first phase of construction has been completed, the second phase has reportedly not yet begun.<sup>7)</sup> This delay is apparently due to a lack of funds and materials.

## Increased Imports of Luxuries

In addition, the emergence of Kim Jong Eun since 2009 has been accompanied by a sharp rise in imports of luxury items.<sup>8)</sup> North Korea imported US\$272.14 million worth of such items in 2008; in 2009 this figure rose to US\$322.53, marking an 18.5% increase. In 2010 luxury imports increased another 38.3% to US\$446.17 million (481.1 billion in South Korean won). North Korea's total luxury imports for the 2008–2010 period amounted to US\$1040.84 million (1122.5 billion in South Korean won). This increase in luxury imports hints at North Korea's need to satisfy consumer demand among the wealthy class due to the deepening gap between rich and poor, and rising demand for luxurious gifts to party-state officials amidst the Kim Jong Eun succession process. Particularly given the celebrations planned for 2012, it is likely that luxury imports have further increased in 2011.

## Measures for Internal Absorption of Foreign Currency

As previously stated, if North Korea is to host successful events in 2012, it will need significant additional funds. In particular, its demand for foreign currency has risen. In 2010 and 2011 a key focus of the government's actual economic policy<sup>9)</sup> was

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- 5) Paek Na Ri, "North Korean Leader Makes 'On-Site Inspection' of Power Plant; PM Also Attends" (in Korean), YonhapNews, March 23, 2011.
  - 6) Chang Yong Hoon, "Why DPRK Leaders Are Besotted with Remote Heechon in Jagang Province" (in Korean), Yonhap News, March 31, 2011.
  - 7) Good Friends, "[Special Series] Conditions for the Strong and Prosperous Nation, 2012 (2)," North Korea Today, No. 412, July 20, 2011.
  - 8) Cho Jong Ik, "Sharp Rise in Luxury Imports after Kim Jong Eun's Emergence, Says National Assemblyman Yoon Sang Hyun" (in Korean), Daily NK, Sept. 19, 2011.
  - 9) Here we refer to "actual economic policy" as opposed to the official policies announced via formal statements such as the New Year's Joint Editorial. For example nowhere in officially stated policy is there any mention of "special treatment for Pyongyang as the home of the core classes." The key to understanding North Korea's economy is clarifying what the actual policies are. Refer to Lee Kwi Won, "In Preparation for the Strong and Prosperous Nation,

the effort to raise foreign currency. It employed both direct and indirect measures to this end. One measure employed was frequent and heavy buy-ups of foreign exchange from illegal private currency brokers by the major state banks and organs. Each time the authorities implemented a policy to collect internal foreign currency, the exchange rate rose, causing prices to increase and further damaging the public standard of living.

## Other Projects, Mass Mobilization and the Shifting of Burdens to Citizens

Whenever North Korea has planned major political events in the past, it has used them as a pretext to mobilize free labor, demand patriotic donations, and tighten discipline. The centennial of Kim Il Sung's birth on April 15, 2012 will be an event of incomparable importance, and has been and will be accompanied by a corresponding degree of strong measures.

## Aftereffects and Outlook

It would be no exaggeration to say that the various nationwide efforts and policies implemented in 2010 and 2011 were all orchestrated in line with the North Korean authorities' plans for 2012. Consequently it can be expected that in the first half of 2012 the regime will work hard to promote a festive atmosphere. However, they will likely suffer significant aftereffects in the wake of the 4.15 holiday. These may take on two different aspects. First, the authorities have raised expectations for 2012 to an extreme level which they seem unlikely to satisfy. Second, in preparing for the 2012 celebrations they have implemented many excessive and costly economic measures.

The economic measures the North has taken in preparation for the 2012 events have already had a negative effect on the North Korean economy. First of all, the massive expenditures for 2012 were basically non-productive consumer expenditures. Amid the economic malaise brought on by the regime's anti-market policies, the government sought to raise additional funds through strong exploitative measures (increased exports of resources, higher taxes on organizations and individuals, collection of internal unofficial stockpiles of foreign currency, etc). These measures have further distorted the economic structure (deeper reliance on resource exports, de-industrialization due to extended neglect of investment in production, increased

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"North Korea Gives Special Treatment to Pyongyang as Home of Core Classes" (in Korean),  
Yonhap News, Nov. 13, 2011.

resource distribution to non-productive sectors) and exacerbated public consumption standards. Also, the economy has been further aggravated by the dramatic increase in demand for foreign currency due to the short-term jump in demand for imports, the increased supply of North Korean won to raise funds for the events, the accompanying rise in the exchange rate, and the uptick in prices of imports and internal goods. This has caused the competitiveness of the manufacturing sector to decline, while economic volatility in general has worsened and the population has slipped further into poverty. On top of everything, trade and the economy have suffered from arbitrary and irresponsible measures such as tighter border control, capricious closures of customs offices, increased volatility of imports and exports, excessive coal exports, and the massive replacement of trade officials. In short, the vicious circle of long-term economic stagnation has picked up additional momentum amid heightened exploitation of the national economy. The preparations for the 2012 celebration of Kim Il Sung's birthday are reminiscent of the 1989 "World Peace Festival of Youth and Students." North Korea's excessive policies in preparation for this festival in the late 1980s were a major factor in driving their economy to the brink of collapse.

In the second half of 2012, the North Korean authorities will likely face an internal political crisis as they are plagued by both public disillusionment and an exacerbated economic situation. At that point they will have the following policy options. First, they may build up a sense of external tension in order to tighten internal discipline and keep public dissatisfaction under the control. Particularly later in 2012, in dealing with the internal problem of exhaustion in the wake of the festivities along with the external problem of establishing a strong negotiating stance toward South Korea and the US for 2013 and beyond, the regime may need to take measures beyond the mere internal circulation of rumors in order to actually raise tensions, for instance through aggressive acts or another nuclear test. Second, they are likely to devote considerable efforts to raising more foreign currency and expanding sources of aid, through such measures as increased exports of resources, more experiments with restricted industrial zones, export of the labor force, increased tourism projects, nuclear diplomacy, and food aid diplomacy. For this purpose they may attempt a tactical charm offensive to test the reactions of South Korea, the US and China. Third, if their efforts to earn foreign exchange and acquire greater external aid fail, as a last resort in view of the internal political threat, they may have to take measures to improve domestic productivity. Of course, they may try some combination of these three things at the same time.