

## Is the Kim Jong-un Regime Ready for Reforms?

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Recently, a number of domestic and foreign press agencies commented that the Kim Jong-un regime is prepared for reformations, as indicated in Kim's speech presented at the April 15<sup>th</sup> military parade.

This article will present three main issues in regards to North Korea's potential economic reforms. First, Kim Jong-un's basic economic policy is identical to that of Kim Jong-il in accordance to official North Korean media sources. Second, even when the term "reform" is used, it is deprived of any meaning due to limitations. Third, even though the Kim Jong-un regime recognizes the problems associated with the current economic arrangements, it will maintain its policy due to its complacency in earning foreign currency without reform and a general collective resistance towards reform.

### Adherence to Economic Policy of the Kim Jong-il Era

Kim Jong-un's economic policy is detailed in the April 6<sup>th</sup> speech, his first official speech.<sup>1)</sup> Although it was introduced prior to the April 15<sup>th</sup> public speech at military parade, it was officially published in the *Rodong Shimun* on April 19, 2012. The main goals of the economic policies are

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1) Kim Jong-un, "Let Us Hold Great Comrade Kim Jong-il in High Esteem as General Secretary of our Party Forever and Successfully Accomplish the Revolutionary Cause of *Juche*," *Rodong Sinmun*, April 19, 2012, This article was based on *Choson Sinbo* of the same date.

as follows: promoting the defense industry to a high level of independence, modernization and scientific development; introducing critical and positive changes to the people's living standards and emerging as a country with economic power; providing food security; providing consumer goods through the development of light-industry; prioritizing sectors such as electricity, coal, metal, and railroad transportation; building a strong country on a knowledge-based economy through an industrial revolution in the new era; concentrating on economic affairs at the Cabinet level and establishing discipline and order based on Cabinet's unitary command; and adhering to the socialist principles in economic matters and increasing the workers' responsibilities and roles.

The combination of economic policy ideas presented in Kim Jong-un's April 6<sup>th</sup> speech demonstrates that it will maintain the conservative economic policy that have been implemented since 2005. The conservative economic policy, which has become predominant since 2006, does not include terms, such as the "pursuit of real-benefit," "decentralization of plan" and market tolerance. In contrast to the combination of reformist policy ideas, which were predominant between 2000 and 2004, it includes the implementation of independent accounting and relative independence in the management of state firms, emphasis on material incentives, and the utilization of commodity-money relations. In this sense, the slogans of ushering "an industrial revolution in the new era" and developing a "knowledge-based economy" in North Korea, which first appeared in 2009, demonstrate the regime's intentions to avoid reformist economic measures. They also fail to mention the defects in the economic system and policy, and try to solve economic issues through greater investments and improved technology. In order to build a knowledge-based economy, it is essential to guarantee free thinking to develop creativity; however, this is an absolutely implausible condition in North Korea. In conclusion, the April 6<sup>th</sup> speech demonstrates the Kim Jong-un's economic policy will remain the same as that of Kim Jong-il.

## The Meaning of Reform, mentioned by Kim Jong-un

Although Kim Jong-un clearly asserted in the April 6<sup>th</sup> speech that he would maintain the existing policy of Kim Jong-il, he also mentioned reform. During an interview with the Associated Press on January 17, 2012, Yang Hyung-sup, the vice chairperson of Supreme Assembly, insisted that Kim Jong-un has focused on establishing a knowledge-based economy, while also conducting research into successful examples of economic reforms in other countries, including China.<sup>2)</sup> Kim Jong-un has been quoted stating, "Either a Chinese, Russian or Japanese way, introduce every available means."<sup>3)</sup> According to the newspaper article that quoted the aforementioned statement, Kim also issued directives to "come up with a means to restructure the economy that is best suited to North Korea without instigating controversy." Nonetheless, Kim Jong-un firmly believes that the "biggest issue of economic management" is that it does "not meet its theoretical basis and scientific calculation." This indicates that while Kim does consider the possibility of "reform in the North," he also limits his arguments to suit the conservative ideals. In other

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2) AP, "Top N. Korean Official Dismisses Concerns about Kim Jong-un," *Yonhap News*, January 17, 2012.

3) Reporters' Group on the North Korean Issue, "Records suggest new N. Korean leader open to discussions on capitalism," *Mainichi Shimbun*, April 16, 2012.

words, Kim's remarks suggests that he is not interested in reformist policies, such as the economic measures of July 1<sup>st</sup>, 2002 that included the pursuit of efficient management and of "real-benefit." Rather, his reform must be confined to conservative economic ideals, such as enhancing theories and scientific calculation.

All this shows us that even if Kim Jong-un mentions reform, its meaning is so restricted that it essentially signifies nothing.

## Then, Why Kim Jong-un Still Mentions Reform?

Then why does Kim Jong-un mention reform, even if he maintains his father's conservative economic policy? When the reformist policy stopped in 2005, the North Korean regime has never mentioned reforms, indicating its satisfaction with the existing policy.

However, the discussions of reform since the inauguration of Kim Jong-un indicate that the regime must have somehow become unsatisfied with the existing policy. It appears that there is a need to respond to two problems that the existing economic policy has produced. First, discontent among North Koreans has increased as a consequence to the detrimental revaluation of the currency in November 2009. In particular, the regime had expressed its concerns about the standards of living more visibly and frequently since 2009. Second, the regime's fiscal expenditure significantly increased to bolster large-scale investments and political expenses, including large-scale investment for heavy and chemical industry, construction of a hundred thousand housing units in Pyongyang, celebration of Kim Il Sung's 100<sup>th</sup> birthday, and the production of weapons of mass destruction. Among others, the investment on heavy and chemical industry may appear productive. It has been used for resuscitating obsolete technology and dilapidated facilities without implementing substantial economic reform to enhance the efficiency of state-run sectors. In such case, the value of inputs exceeds that of the outputs. All these demonstrate that the increased state expenditure since 2009 has been wasted on unproductive or political purposes. In addition, the regime is in a permanent state of financial crisis due to the impotency of domestic economy. To maintain the unstable financial status-quo, it is critical that the regime earns adequate foreign currency through whatever means necessary. Consequently, there are no choices than to increase raw material exports, including coal and other minerals.

## Two Policy Options

The fact that Kim Jong-un has mentioned reforms alerts warning signs that the people are dissatisfied about the current financial crisis. He has basically two options: The first is to take measures to significantly increase mineral exports. These actions make it possible to earn the foreign currency needed to maintain regime stability, while also avoiding reforms to enhance the productivity of the domestic economy.

In fact, North Korea's coal exports to China has more than doubled in 2011 in comparison to that of 2010, and doubled again from January to March in 2012 in comparison to the same period in 2011. But there

are three risks involved if Kim maintains this policy. First, even if mineral exports increases, the fiscal demand of maintaining the unproductive regime cannot be sustained. Second, sustaining an economy based solely on an increase in mineral exports cannot alleviate the difficulties in the civilian sectors, especially the high level of unemployment. This may increase political challenges to the regime. Third, if the demand and price of mineral exports suddenly plummet, the North Korean regime would face a serious financial crisis.

The second option is to implement reform measures. They are necessary means to increase economic productivity, while decreasing heavy dependence on the export of minerals. Their main purpose is to enhance the efficiency of state firms and increase the supply of public goods crucial for fostering a domestic manufacturing. If domestic manufacturing is nurtured, employment and pay for workers will increase, absolute poverty will decrease and the gap between rich and poor will alleviate. In order to realize these goals, the privileges based on established foreign currency earning mechanisms should be abolished. Under such circumstances, there will be winners and losers among the privileged elite. The people who suffer losses will tend to resist the introduction of reform measures. They include those engaged in the military economy based on heavy and chemical industries and those who profit from the state-run economy and the oppression of free markets - members of bureaucratic organizations associated with the planning, management and labor of the state-run enterprises, officials in rural regions, and the Party and security agencies. Furthermore, the military would be highly concerned about the decrease in food supply, if collective farms were dissembled.

## Conclusion

It will not be easy for Kim Jong-un to overcome the temptation to indulge in earning foreign currency through mineral exports and prevail over the collective resistance to reform. In fact, he may have no alternative other than to continue his father's economic policy; however, he may be forced to introduce substantial reform measures sometime in the future. First, the foreign currency earning would prove to be insufficient, and as a result, the regime has to introduce measures to increase productivity in the domestic economy. Second, discontent among the population can reach an alarming level. In response, the regime would have to revise the allocation of resources, increase the efficiency of state firms, and allow for the expansion of civilian economic activities. Regrettably, these two options present political risks to the Kim Jong-un regime.