

Analysis of the 4th Session of the 12th SPA and Future Outlook: Focusing on Economics

Kim young yoon

Senior Research Fellow, Center for North Korean Human Rights Studies

Online Series CO 11-14

Just like last year's session, the 4th Session of North Korea's 12th Supreme People's Assembly (SPA) dealt with the business of the 2010 Cabinet, tasks for 2011, conclusion of the 2010 national budget and discussion of the 2011 budget, and organizational issues. The following summarizes the economic results and plans.

First, this year's budget allocation totaled 567.7 billion won (US\$5.73 billion at the official North Korean exchange rate). Compared with the 2010 budget (528.3 billion won, at that time equivalent to US\$5.2 billion), this is a 7.46% increase. If the amount appropriated for this year's budget is fully used, it will amount to an 8.96% increase over last year's expenditures. Considering that the 2010 budget represented an 8.3% increase over the 2009 budget, this rate of increase is typical.

Second, the 2010 budget indicates a 1.3% surplus over the originally calculated budget. Expenses totaled 521 billion won (US\$5.13 billion), or 99.9% of the budget appropriated at the beginning of the year, leaving North Korea in the black by about 7.3 billion won. However, as North Korea's financial system differs from that of the South in that it does not operate by issuing bonds, surpluses are not

particularly meaningful. North Korea has not shown a fiscal deficit in the last several years.

Third, looking at the increases in this year's budgetary allocations by category, it is easy to see which area is getting the most emphasis. Reflecting the major premise of this year's New Year's Joint Editorial, North Korea plans to increase its budgetary outlays for agriculture by 9%, for light industry by 12.9%, and for priority sectors (coal, electricity, metals, and railways) and basic manufacturing by 13.5%. In other words, while the budget for agriculture has increased, the regime is allocating even more funds than called for by the budget increase in light industry and the 4 priority sectors. Of particular note, they added an item for basic construction outlays and a 15% budget increase to cover large-scale construction projects such as 100,000 new houses in Pyongyang and the Heechon Power Plant. It is obvious where North Korea's attention is currently focused.

Fourth, defense spending remains at the same level as last year at 15.8% of the total budget. This percentage has remained unchanged for the last several years. Nevertheless, because this is a fixed percentage, the actual amount has risen along with the overall budget.

Of course the part of the above summary which most catches our interest is North Korea's priority spending. As mentioned above, North Korea has made a conspicuously heavy investment in areas related to the people's quality of life, including agriculture, light industry, the four priority areas, basic manufacturing, and basic construction. This is evidence of how keenly the regime feels the urgent need to improve the people's livelihoods. Reflecting this, in an official statement Prime Minister Choe Young Rim clearly expressed this intent, stating that this year "will bring about a decisive turning point in improving the people's living by dramatically increasing production of consumer products and conquering our grain production goals." Also, this year "will be the year in which the people reap the benefits of light industry," and furthermore, "We will strongly push forward modernization and scientific progress in the production of consumer products."

However this emphasis on agriculture and light industry is nothing new. This year's New Year's Joint Editorial also spoke urgently of the need for development in agriculture and light industry. This plainly reveals their difficulty in resolving the basic problems involved. By the same token, it indicates that the people's living has not improved at all. No matter how fervently the leaders at the SPA session vow to "stoke the flames to brighten the people's standard of living," it is obvious that without enacting the internal reforms and systemic improvements needed to attract

investment of foreign capital they will be unable to solve the fundamental difficulties of the people's standard of living. At present North Korea has no clear strategy for addressing the problem of its food shortages, which amount to a shortfall of nearly 1 million tons of food per year. Prime Minister Choe Young Rim has spoken of "diversifying trade and decisively increasing exports." Yet in reality this merely indicates accelerated exporting of natural resources and goods processed on commission, mostly going to China.

In the future North Korea will continue to struggle in its own way to improve the people's standard of living. Their focus will be on agriculture and light industry. But the moves toward economic reform and opening which we look for at each SPA session will most likely not be adopted. Nevertheless, the recent economic measures announced by North Korea give us some reason to hope. The key question is what sort of external opening will be pursued. On April 6th, one day before the SPA session, a KCNA article declared that the 'Rason Economic and Trade Zone' would be packaged as "an entrepot, exports producer and international financial and tourist hub."

Then on April 8th, immediately following the SPA session, the Korean Asia-Pacific Peace Committee informed Hyundai Asan that it had cancelled the company's exclusive rights to Mt. Kumgang tourism. These two developments hint at closer economic adhesion to China. By developing the Rajin-Sonbong zone in cooperation with China and transferring Mt. Kumgang operating rights to Chinese agencies and businesses, the North is opening one possible route to future external opening. Meanwhile, one point that we must pay particular attention to is technological development in the military. At this SPA session Prime Minister Choe remarked, "In the last year we have seen outstanding progress in scientific and technological development as CNC has advanced strongly into all areas of the people's economy." He added, "Our scientists and technicians have succeeded at mastering the cutting-edge technology of nuclear fusion, winning the world's admiration, and they have developed cutting-edge technological products while making great strides in biotechnology." This is an area we should keep a close watch on.