



Forks in the Road to Reform: Socio-Economic Changes Under Kim Jong Un

By Glyn Ford

Plagued by mismanagement for decades, one of North Korea's most daunting challenges and one of its greatest vulnerabilities is its economy. When Kim Jong Un assumed power following the death of his father just over two years ago, economic reform and opening quickly moved to center stage.

Glyn Ford looks at the many changes that have taken place and charts the options facing policymakers in North Korea.

TIMES CHANGE. In 1994, when Kim Jong Il succeeded his father Kim Il Sung, the “Arduous March” was about to start as tens of thousands of people began dying month on month from the effects of malnutrition, while the economy was in meltdown, and factories, farms and workshops closed due to the scarcity of inputs, including electricity. When North Korea's second transition of power occurred, after the death of Kim Jong Il in December 2011, the economic situation was sharply different.

CHANGES ON THE POLITICAL SIDE

Under Kim Jong Un, Pyongyang's leadership style has shifted back toward the Workers' Party of Korea (WPK), with, at least initially, a more “collective” leadership. The harbingers of change could be seen at least two years before Kim Jong Un took power, as Kim Jong Il put in place the institutional architecture he saw as necessary for a smooth leadership transition. September 2010's party conference in Pyongyang was the first such event for the party since 1980. From that point on, the WPK had been allowed to slowly atrophy, increasingly replaced by a charismatic leadership needing no such institutional support. It was often challenged as the most important decision-making body by the military and even the cabinet. The party's leadership had literally wrinkled and died. Of the 145 members elected to the Central Committee at the sixth Party Congress in 1980, over 60 percent were dead by 2010. At the lower levels, the result was the rise of mediocrity, with posts filled by placemen on the basis of seniority rather than merit. The WPK ran day-to-day

affairs, keeping the machinery ticking over, but key decisions were made by Kim Il Sung. When Kim Jong Il took the reigns of power in 1997, little changed. Decisions were as much driven by the reforming zeal of the Cabinet or the deep conservatism of the Korean People's Army as by the WPK, when they weren't reserved to Kim Jong Il.

The 2010 restoration of the party's role within the state reflected Kim Jong Il's view that Kim Jong Un would need to rule as the spokesman of the party and the first among equals in a collective leadership of family and friends. Indeed, when he took power, Kim Jong Un had several very influential and powerful relatives to support him as mentors in a cabal, led by his aunt Kim Kyong Hui and her husband Jang Song Thaek, who had been slotted into place within North Korea's political institutions for that very purpose. The question then was exactly how much power was to be restored to the party and how much would it serve as a washing machine to launder decisions made elsewhere.

Of the two, party and cabal, the first has fared better than the second. Since coming to power, Kim Jong Un has systematically strengthened his personal authority by eliminating — literally, in some cases — those put in place to guide his first years of power. Last December's execution of his uncle Jang Song Thaek was effectively the removal of a mentor who suffered the delusion of believing he was a regent, a kingmaker rather than a confidant. Simultaneously, Kim himself has become a cult figure — almost a “rock star” — with the charisma to carry it off. At the opening of the Fatherland Liberation War Museum last July, he was mobbed by adulatory crowds of young people excitedly surging around him as he walked the halls. In the entrance hall to the museum is a larger-than-life statue of a young Kim Il Sung with an uncanny resemblance to Kim Jong Un.

The coincidence of new leaders in South Korea,

Japan and China, and with a second-term US president released from any further electoral cycles, offered North Korea's new leadership a window of opportunity. But the need to prioritize the domestic consolidation of the regime and to secure military support placed an effective embargo on any early international conciliation. While United Nations Security Council resolutions might have been stretched a little for the “peaceful use of space,” the same elasticity was not available to justify the testing of nuclear weapons. The result was the council further ratcheting up sanctions, and a UN Commission of Inquiry into Human Rights Abuses in North Korea resulting in an inevitable request to refer North Korea to the International Criminal Court for crimes against humanity. Any new launch of a weather satellite will only tighten the screws further, as will any attempt to provide enriched uranium fuel for the light water reactor in Yongbyon.

CHANGES ON THE ECONOMIC SIDE

In economic terms, a non-capitalist market increasingly reigns supreme in North Korea in a form of market Leninism. The two key groups that matter in the country are the military leadership and the million-plus people living in Pyongyang. Today in Pyongyang, everyday life serves to demonstrate the absurd failure of sanctions: the capital's citizens have never had it so good. The change is both quantitative and qualitative. Vast sums have been spent to improve living standards, with 100,000 new apartments, theaters, funfairs and even an outdoor ice rink, riding school and dolphinarium. In the markets — if you have the money — anything and everything is available. There are fast-food restaurants serving burgers and fries, pizza and pasta and a series of new private and expensive gourmet restaurants. For the first time, the beginnings of a traffic problem can be seen.

Mobile phones are ubiquitous, with somewhere between two and three million subscribers who talk, text and take “selfies” relentlessly. The regime is assembling and producing DVD players (but few DVDs), quietly acquiescing to the popularity of South Korean “soaps” and K-pop. Psy’s “Gangnam Style” is the in-house face of entertainment even if the public face of entertainment is the more sedate mass dances on show in Kim Il Sung Square. Although, even here, the songs of praise for Arirang, the Army and Authority are performed by troupes of girl singers in mini-skirts. And fashion has hit the streets and the barracks, with female soldiers seen sporting four-inch heels on duty. Italian and other designer shops have been in Pyongyang for years, and there is a flourishing business in bespoke tailoring. This consumerism is only part of a much more complex reality, but it offers a very different image of North Korea from the one that has for so long been assiduously cultivated in the West. For much of the Western media, “believing is seeing,” but they appear to be purblind to everything they don’t want to see. Pyongyang’s privilege now extends outside its environs, with the new Masik ski resort alongside the motorway to Wonsan and the total remodeling of the Songdowon International Children’s Camp on the beach to the north of Wonsan, next to the “foreigners” beach, into an international tourist resort.

CONTENDING WITH UNEQUAL DEVELOPMENT

Improving living standards, however, are unevenly shared. First, there is a sharp asymmetry between capital and country, even if there has been some progress in rural areas. The agricultural reforms of a decade ago with their new lower targets for delivery to the state have given farmers, collectively and individually, the space to raise productivity in their own self-interest,

selling above target production in the markets. To encourage this further, in the absence of fertilizer, the size of work teams has been reduced in some cases to family level. Outside assistance also helps. For example, in Yongkwang County, near Hamhung, and just up from the new provincial water-park, the European Union has helped finance, through the charity Save the Children, a series of flood control and gravity-fed irrigation projects benefiting 30,000 to 40,000 people, alongside programs for integrated pest management, new greenhouses, reduced deforestation and the construction and operation of a new bakery.

The second dichotomy is in the urban northeast, where cities like Hamhung, Hungnam, Chongjin and Kimchaek show endless miles of rusting steel, cement and chemical plants. Here life is bleak, even in the face of some limited signs of revival in recent years. Backed up against North Korea’s central mountain range, there is no agricultural hinterland, and its population is remote and inaccessible from the breadbasket provinces hundreds of miles to the south. If anywhere, it is here that real hunger stalks the streets, schools and orphanages. EU public health programs have put water systems into both Wonsan and Hamhung, allowing the majority of residents to buy drinking water from “water shops” scattered around the city for between 20 and 30 chon a liter (in comparison, bus fare is 5 won, or 500 chon). This has reduced gastroenteritis by up to 92 percent. The hospitals are basic, and suffer from high-tech donor fads of barely used Intranet links with Pyongyang and the county hospitals, while unfinished hospital buildings languish outside the windows housing these high-tech fashion items.

There are some positive signs. In Hungnam, the Ryonsong Machine Complex is up and running and has received the appropriate recognition. After a series of barren years — there were

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In Pyongyang, evidence of a brighter life for some can be found in everyday sights such as the colorful fashion sense of a group of schoolgirls or the novelty of brightly lit funfairs. Photos: Marialaura De Angelis

only three official government visits between 1998 and 2005 — Kim Jong Il came three times in 2010 and four times in 2011, the year of his death. Also, the manager’s car had one of the few prestigious “727” number plates — a reference to the date of the Armistice Agreement to end the Korean War — to be seen outside of Pyongyang. The nearby Vinalon plant is close to production. Meanwhile, the orthopedic unit supported by Handicap International has now produced, with a team of largely disabled workers, over 10,000 artificial limbs for use countrywide.

THE CHINESE OR SOUTH KOREAN MODEL OF SPECIAL ECONOMIC ZONE?

The real measure of North Korea’s economic success will be the special economic zones (SEZs). Having consolidated support in the military and Pyongyang, the trick for Kim Jong Un in the short term is to find a way to kick-start the economy, and thus maintain recent progress and ensure that the privileging of Pyongyang is sustainable in the longer term. There are two competing models of SEZs vying for dominance — with a third in the wings — and it is the clash between

Pyongyang's rationale for developing Rason is to attract international franchises to the area, not only Chinese ones. It feels very Chinese, with ubiquitous Chinese cars and lorries and yuan the currency of choice in the local markets.



Fish factory workers loading produce to trucks and seamstresses making clothing in the Rajin-Sonbong special economic zone, known as Rason. The zone is dominated by China, and Pyongyang is looking to internationalize it. Photos: Marialaura De Angelis

these alternatives that has underpinned some of the recent turbulence within North Korea's leadership. The first model looks to the example of China, while the second to South Korea. The choices made will be crucial to Pyongyang's future. Both offer opportunities and pose threats.

North Korea's SEZs started with the creation in the early 1990s of the Rajin-Sonbong (Rason) SEZ, an area the size of Singapore located on the borders of both Russia and China that was fenced off from the rest of the country, rather like Shenzhen adjacent to Hong Kong in China. In the early

years, Rason's most notable venture was a casino that relieved Chinese officials of other people's money. More recently, in 2011, Hwanggumpyeong and Wihwado, two small North Korean islands just south of the Chinese border city of Dandong on the Yalu River, were identified as visa-free zones for foreign inward investment with low tariffs, taxes and rents. Despite apparent slow progress on the SEZs already identified, it was announced in December that 13 economic development zones would be established across eight provinces differentiated into a series of themes

— infrastructure, energy, farming and tourism — seeking individual sponsorship from foreign direct investors.

A decade after Rason was established, the first Inter-Korean Summit between Kim Jong Il and then South Korean President Kim Dae-jung led to an alternative SEZ model. In the Kaesong Industrial Complex (KIC), South Korean small- and medium-sized enterprises (SMEs) combine their capital, technology and management with North Korean land and labor in a gated complex; the workers commute from the city of Kaesong and no-one apart from a few hundred South Koreans actually lives in the zone. The KIC, alongside the Mount Kumgang tourist resort, has been at the center of the North-South relationship.

Last summer, production at KIC was effectively suspended for 166 days amid rising tensions between the North and South. Apart from economic losses to the governments of both sides — Seoul even considered using its contingency fund to compensate the companies in KIC and abandon the project altogether — it was a negative signal to the international community that severely undermined investors' confidence. KIC has always produced intense debate in North Korea. Some, like the United Front Department of the WPK, responsible for relations with South Korea, see KIC as a "cash cow" that can be milked for the benefit of Pyongyang, while others consider it a Trojan horse that will provide an excuse for the "barbarians to enter the gates" when Seoul, in collusion with Washington, orchestrates a future closure of KIC when it expands from its current 53,000 workers by almost a factor of ten to its ultimate size of 450,000, maximizing disruption among the 2 million North Koreans dependent on the complex and thus providing an excuse to intervene, as in Libya and to some extent Syria.

Last year, the outcome of the debate over KIC was effectively a defeat for the United Front

Department, because the result was to restore the status quo, with little enthusiasm on either side to see exponential growth in the complex. Seoul wanted some incremental change that would enable it to bring Western companies into KIC to share future economic pain and hence guarantee wider pressure for future good behavior on Pyongyang. Quite how South Korea plans to square the circle with the new sanctions regime is unclear. Are European companies, for example, seriously expected to establish plants in KIC when even humanitarian aid agencies cannot transfer funds to North Korea to help provide emergency aid?

Thus, the priority has become Rason. There are some grounds for optimism. With the strong support of the State Joint Venture Investment Commission (JVIC), the zone is finally beginning to grow. A new Chinese-built road from Rason to the border and the completion by Moscow of a Russian-gauge railway link from Rason Port to the Trans-Siberian Railway were both good news. Rason Port currently has a capacity of 3 million to 4 million metric tons a year. While the first pier handles primarily coal and the second a limited number of tourist cruise ships in the summer, a new third pier, now close to completion, would raise the port capacity to 13 million metric tons a year. The new railway means Rason should begin to receive its first containers from Europe this summer. But energy supply is a crucial restraining factor. Neither the Sonbong Power Station — which ran on the 500,000 metric tons of heavy fuel oil delivered annually under the 1994 Framework Agreement until supplies were suspended by Washington more than a decade ago — nor the adjacent oil refinery are working. There is talk of converting the plant into a coal-fired one, but in the meantime, energy comes from Hunchun in China.

There were plans to increase Rason's current

population of 300,000 with new arrivals from outside. Already, there are a series of clothing factories with around 2,500 workers, mainly producing clothes for the Chinese, European and Japanese markets. The fish processing industry has some 2,000 workers in four plants currently handling squid, crab and sea urchin. Almost all plants have Chinese technicians onsite, and most of the workers are young women who are paid US\$80 a month for six days of work per week, with shifts of 10 hours a day in the clothing factories and 8 hours a day in the fish processing plants.

But Pyongyang's rationale for developing Rason is to attract to the area international franchises, not only Chinese ones. The SEZ is currently dominated by China, with at minimum 70 percent of the investments coming from there, 20 percent from Russia at best and less than 10 percent from elsewhere. It feels very Chinese, with Chinese cars and lorries ubiquitous and the yuan being the currency of choice in the local markets. Attempts to pay in won require the use of calculators. For now at least, cross-border integration is also stronger between Jilin and Rason than with the Russian border, which is desolate, derelict and deserted.

Pyongyang is between a rock and a hard place. Rason reinforces a dependency on China that it understandably resists, while KIC poses the same dilemma with regard to Seoul, with an added political threat. Events over the past months suggest the battle within the Party over the United Front Department's enthusiasm for the KIC model might be re-opened. Certainly Seoul thinks so, with its renewed demands in Brussels to renegotiate the EU-South Korea free-trade agreement to amend the provisions on "rules of origin" to include KIC products as South Korean domestic production — so that its "Made in Korea" label is implicitly read as "Made in the Republic of Korea."

The problem is that neither Beijing nor Seoul offers to North Korea an attractive future on its own. Any way of seriously engaging the West and the rest of the world through either Rason or KIC requires a peace settlement on the Korean Peninsula that Washington's "malign neglect" has so far made impossible. China is desperately trying to get the Six-Party talks back on track, but the current standoff is not unwelcome by some elements in Washington and Tokyo, because it serves other domestic political and economic purposes. After all, America's military industrial complex can't sell theater missile defense to Tokyo without a North Korea that is seen as a "den of evil." In any other circumstance, the Pentagon might be wary that such sales would unduly ratchet up military tension between Japan and China. Equally, Prime Minister Shinzo Abe's only hope of winning any future referendum to abolish Japan's US-imposed constitutional "peace lock" is to frighten the voters with the image of Pyongyang promoting terrorism, not tourism.

The hope is that Seoul and Beijing can convince Tokyo and Washington that they all have more to gain from finding a way for the two Koreas to live together — albeit separate — than from a status quo that could in the future spin dangerously out of control.

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