

Unavoidable Muddling Through? North Korean Economic Policy for 2003

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INTRODUCTION

North Korea's New Year's message for 2003 is "Let Us Fully Demonstrate the Dignity and Power of DPRK Under the Great Banner of Army-Based Policy."¹⁾ Despite its inspiring title, the message, as printed in the *Rodong Sinmun*, *Joson Inmingun* and *Chongnyon Jonwi*, organs of the Workers' Party, the People's Armed Forces, and the Kimilsung Socialist Youth League, respectively,²⁾ presents no new visions or specific policies in economic areas.³⁾

1) In this article, sentences and terms in quotation marks are directly quoted from the *People's Korea*, Tokyo-based unofficial mouthpiece of the North Korean government [www.korea-np.co.jp/pk].

2) Departing from the usual tradition, the 1998 New Year's editorial was issued by only two organs, *Rodong Sinmun* and *Choson Inmingun*.

3) It is obvious that North Korea's economic difficulties prevented the issuing of a new economic policy in the New Year's editorial. To some extent, however, it is understandable considering general characteristics of New Year messages; that is, they evaluate the accomplishments of the previous year, emphasize existing policies and tasks and encourage people to achieve goals. In fact, major policy

While the editorial highlights the military-first policy and stresses *Minjok Gongjo*, or national cooperation between South and North Korea, its economic policy announcements practically reiterate the same message as previous years.⁴⁾ One distinct difference: instead of economic development to “improve the people’s lives,” the objective this year is to “show the power of the Republic under military leadership.”⁵⁾

Since the North Korean authorities launched the economic management improvement measures in July 2002, some had assessed that North Korea was moving toward a market economy. This year’s editorial, however, reaffirms that they were designed to further solidify socialist principles.⁶⁾

This paper focuses on the economic policy line portrayed in this

changes and economic objectives have traditionally been announced in the plenary session of Party Congress, Party Central Committee, Supreme People’s Assembly, etc. For example, the first seven-year plan (1961-1970) was announced in the fourth Party Congress, the six-year plan (1971-76) in the fifth Party Congress, the second seven-year plan (1978-84) in the first plenary session of the 6th Supreme People’s Assembly, the third seven-year plan (1987-1993) in the second plenary session of the 8th Supreme People’s Assembly, the buffering period economic strategy (1994-1996) in the 21st plenary meeting of the 6th Party Central Committee. However, the economic management improvement measures of July 2002 are an exception: Seen as a dramatic change in North Korea economic policy, they were implemented via an internal document without any official announcement.

4) For analysis of the 2002 editorial’s economic section, refer to Jo Dong-ho, and Kim Sang-ki, “Economic Revival Strategy Through Increasing Production Efficiency: Analysis and Assessment of the 2002 North Korean Economic Policy Line,” *KDI North Korean Economic Review*, Korea Development Institute, Vol. 160 (January 2002).

5) This somewhat radical expression was a reaction to tensions with the United States and the international community over North Korea’s nuclear development, and is no more than rhetoric and propaganda.

6) On the viewpoint that the objective of the economic management improvement measures of July 2002 was to improve the socialist economic system, refer to Jo Dong-ho, “Normalization of the Planned Economic System: Analysis and Access-

year's editorial; It aims to analyze it in comparison with previous years' New Year messages and to evaluate prospects of the future North Korean economy.

NORTH KOREA'S ECONOMIC POLICY LINE FOR 2003

Objective: Economic Stimuli for Constructing a Prosperous and Powerful Nation

Just as in the past several years, the objective of the North Korean economic policy line is to stimulate the economy in order to build *Kangsong Daekuk*, or a prosperous and powerful nation. "Building a powerful nation" was presented as an objective for the new era on August 22, 1998 in the *Rodong Sinmun*, and it has since been advocated as a national slogan for the Kim Jong-il regime.⁷⁾ However, the theory of *Kangsong Daekuk* lacks specific contents.

The slogan was born on September 5, 1998, in the first plenary session of the 10th Supreme People's Assembly, when the Kim Jong-il regime was officially launched. A political slogan to proclaim the beginning of a new era was in order, and in a time of economic hardship, the Kim regime needed a more optimistic and effective slogan than the previous "arduous march," which was somewhat

ment of the Recent North Korean Economic Measures," *KDI Policy Forum*, Vol. 160 (July 30, 2002); and Kang Il-chon, an economist residing in Japan also expresses a similar opinion in "Temporary Interpretation of the Economic Measures Recently Implemented in Our Country, I," *KDI North Korean Economic Review* (October 2002).

7) A *Rodong Sinmun* (July 22, 1997) editorial titled "Let's Enhance the Socialist Structure Following the Lead of the Great Party" used the expressions "a self-reliant, prosperous and powerful country." In early 1998 when Kim Jong-il gave on-site instruction in Jagang Province and around August 15, 1998, the term also appeared. However, it has been used more frequently since August 22, 1998 when it was used in the *Rodong Sinmun*.

defensive and not upbeat enough to inspire the people.

The current regime emphasizes the role of the economic sector in building this future nation. Every year, the term frequently crops up in joint editorials and various publications in North Korea.⁸⁾ This year, for example, the editorial stated: "It is the firm will of our party to radically change the appearance of the country and enable the people to live as happily as others in a few years to come."

North Korean authorities perceive that the nation is politically and socially stable. Moreover, they assess that once economic stability is attained, the regime will not have to worry about challenges to its position. Unfortunately, the North Korean regime has encountered insurmountable obstacles that block the path to stability: First, the country lacks the internal resources and policy tools to make this happen, and second, the external environment is not improving. On the horns of a dilemma, the regime has no choice but to repeat an empty slogan that reflects the regime's current perception: Unless the country's dire economic problems are resolved, however, the regime cannot survive.

Strategy: Military-first Policy

Following the same line as the 2002 joint editorial, this year's editorial also proposes a military-first policy for building a prosperous and powerful nation. In fact, the term "army-based" was used in the title for the first time in the editorial's eight-year history. And compared to last year, when the term was used nine times, it was used 24 times in this year's editorial. This increased emphasis reflects recent international tension caused by North Korea's nuclear

8) The 2000 joint editorial stated, "Our struggle...is to make a leap forward in building an economically powerful nation." Also, the 2001 joint editorial mentioned, "Today, for us...strengthening national competitiveness is more important than anything. The 2002 editorial also said, "At present...the most important thing is to build a socialist economy."

development program.

While the slogan of the Kim Jong-il era is the construction of a prosperous and powerful nation, the governing strategy is the army-based policy. That policy aims to promote and strengthen the military, and is defined as “all issues arising from revolution and the construction of a socialist country under the principle of placing the military in the center of the revolution to uphold and advance socialist accomplishments.”⁹⁾ It is designed to govern the society in a military fashion in the midst of an economic crisis. Furthermore, since it seemed impossible to obtain necessary resources during the economic crisis—the military approach was adopted as a basic system by which to run the regime. In other words, the military is the core of all attempts to sustain the economy, and the army’s way of doing business is exemplified as the new direction for the whole economy. In fact Kim Jong-il has described it as “treasured sword” with which to win the revolution.¹⁰⁾

After years without a new economic plan on policy direction, North Korea managed to implement economic management improvement measures in July 2002. However, these measures were merely business-as-usual pertaining to the official sectors, and they stopped short of presenting any new economic visions or strategies. Apparently, North Korean authorities feel the need to present a strategic blueprint now. Recognizing that economic improvement measures have been working, at least to a certain degree, they could possibly announce a more sophisticated plan in the name of the “Kim Jong-il’s grand plan” that is more systematic and methodical.¹¹⁾ The clue of this movement is also found in the New Year’s editorial stating: “It is the fixed will of our party to radically change the appearance of the country and enable the people to live as happily as

9) Seung Jae-sun, and Kim Hong-ryong, “The Great Leader Who Glorified Socialism Through Experience and Wisdom,” *Rodong Sinmun*, October 19, 1998.

10) “The Army-based Policy of Our Party is a Winning Policy.” *Rodong Sinmun*, January 16, 1999.

others in a few years to come. We should put into practice in all aspects leader Kim Jong Il's grand plan for the building of a prosperous and powerful nation, confident of the future of the DPRK."

Pending Tasks: Normalization of the Preceding Sectors and Improvement in the Quality of Life.

To build a powerful socialist country, the 2003 joint editorial pointed out that "Proceeding from the fundamental interests of the revolution, we should attach importance to the defense industry and direct primary efforts to it," the first time that the defense industry was mentioned as an economic task.

With the nuclear issue escalating international tension, the message of the editorial stems from Pyongyang's calculation to solidify national unity by creating internal tension, while at the same time, displaying its aggressive will externally. In other words, it cannot be interpreted as a plan to develop its defense industry. In fact, North Korea lacks the resources and the technology for such development, and besides, it needs to develop its public industries first in order to overcome the serious economic crisis.

This year's joint editorial stresses normalization of the preceding economic sectors¹²⁾ as a prerequisite to normalization in other sectors.

11) The economic management improvement measures have been evaluated as successful. However, detractors point to the two-and three-fold price increase on goods traded in peasant markets. In fact, the price increase does indicate the measures are successful. In other words, with increased flexibility due to the wage increase, goods are absorbed into the official sectors, decreasing supply in the peasant markets, leading to a price increase. The Ministry of Unification of South Korea also said in its analysis of the 2002 that North Korean economic management improvement measures had stimulated production, resulting in minor positive economic growth in the second half of 2002. The Ministry of Unification, *Comprehensive Assessment and Prospect of North Korea Economy 2002*, January 17, 2003.

Just as the previous year's editorial did—with the exception of the defense industry, the 2003 editorial emphasizes two points: First, the need for “power, coal and metal industries and railway transport, considering these fields as a main link in the efforts to revitalize the national economy” and second, the importance of starting “a fresh revolution.” This strategy aims to induce normalization of all other economic sectors by first restoring the preceding sectors that underpin the economy. However, for the past several years, the same tasks have been presented repeatedly, demonstrating that normalization has not been attained.

With respect to improvements in quality of life, the editorial presents light industry, agriculture development and land realignment projects as major tasks—just as it did in previous joint editorials. One minor difference is seen in reference to light industry. This year's editorial focuses on light industry more specifically, saying that “The modernization of light industry should be accelerated to increase the production of quality consumer goods,” a reflection of the economic management improvement measures in effect since July 2002.

Notable in this year's joint editorial is a phrase: “It is important to build Pyongyang more magnificently and beautifully to meet the needs of the new century.” Previous editorials have also highlighted the need to comprehensively redevelop the country. For example, a 1998 joint editorial mentioned that “We need to make a new move in city management projects.” The 2002 joint editorial also noted: “Transform our cities and rural areas into a socialist paradise, where life is pleasant.” However, the 2003 editorial mentions a specific city for the first time.

The specific reason for the emphasis on Pyongyang's beautification is not clear. Most likely, it is a propaganda move to

12) A North Korean term “preceding economic sectors” mean those industries that have priority in order to socialist economy; in particular, the power, coal, and metal industries and transportation.

Table 1. Degree of Importance of Economic Tasks Presented by Joint Editorials

Year	1st priority	2nd priority	3rd priority	Others
1998	Agriculture	Preceding sector	Light industry	-
1999	Agriculture	Preceding sector	Light industry	-
2000	Preceding sector	Light industries	Agriculture	-
2001	Preceding sector	Light industries	Agriculture	Hospital, housing
2002	Preceding sector	Agriculture	Light industry	Human Resource
2003	Preceding sector	Light industry	Agriculture	Pyongyang Restoration

bolster domestic unity. Amid rising tensions between North Korea and the international community, particularly the U.S., North Korea has recently created a climate of confrontation by staging numerous mass rallies, in order to give citizens the impression that their nation is capable of confronting the United States, the most powerful nation in the world.¹³⁾ Considering the country's weak position, plus its desperate economic situation, transforming its capital city into a "socialist paradise" would be the ultimate propaganda tool. In line with this, *Rodong Sinmun* (January 6, 2003) issued an article titled "Fruitful Pyongyang Tour by Farm Workers" in which the paper not only explained that the workers were proud to be members of the self-reliant nation of North Korea, but that those tours would be repeated in the future.

The subject of the economy has received less attention for the last several years, indicating economic improvement. Also, until the 1999 joint editorial, agriculture had been the primary focus, stressing the importance of resolving food shortages. Since 2000, however, the

13) For example, on January 11, 2003, in Pyongyang, a rally of more than 1 million people was staged, calling for protection of the sovereignty of the nation. During the rally, banners read "We completely support the republic's statement on nuclear issues," "Let us fight to the end to protect the dignity and sovereignty of the nation." *Rodong Shinmun*, January 12, 2003.

Table 2. Development of Major Industries in North Korea

Section	Unit	1995	1996	1997	1998	1999	2000	2001
GNP	\$100 Million	223	214	177	126	158	168	157
GNP/person	\$	1,034	989	811	573	714	757	706
Growth rate	%	-4.1	-3.6	-6.3	-1.1	6.2	1.3	3.7
Foreign debt	\$100 Million	118	120	119	121	123	125	-
Energy Industry								
Coal production	10,000 tons	2,370	2,100	2,060	1,860	2,120	2,250	2,310
Power generation	100 Million	230	213	193	170	186	194	201.5
Petroleum import	10,000 tons	110	94	51	50	32	39	57.9
Agricultural and Fishery Products								
Grains	10,000 tons	345	369	349	389	422	359	396
Rice	10,000 tons	121	134	150	146	163	142	168
Fish	10,000 tons	105	88	65	63	66	70	75
Minerals and Industrial Products								
Iron ore	10,000 tons	422	344	291	289	379	379	421
Steel	10,000 tons	153	121	102	95	124	109	106
Cars	10,000	0.87	0.85	0.64	0.64	0.73	0.66	0.57
Cement	10,000 tons	422	379	334	315	410	460	516
Light Industrial Products								
Textiles	100Mil. Km ²	1.8	1.5	1.2	1.1	1.0	1.1	1.0
Synthetic fibers	10,000 tons	5.6	5.6	3.7	3.5	2.7	2.9	2.7

Source: The Ministry of Unification [<http://www.unikorea.go.kr>].

normalization of the preceding sectors has taken center stage, meaning that the North Korean economy has passed through the worst phase.¹⁴⁾

14) This is in line with the assumption that the North Korean economic growth rate has been positive since 1999.

Implementation Plan

A. Improving Production Efficiency

The joint editorial stresses the need for two measures: improvements in the country's economic management and the advancement of science and technology. Apparently, Pyongyang intends to increase production and revive the economy by increasing production efficiency at a time when the existing quantitative input of production factors meets marginal productivity.

As a matter of fact, North Korea has pursued an increase in production efficiency for the past several years. Whether in a planned economy or a market economy, economic growth is the result of an increase in input of production factors. In particular, an increase in production efficiency due to capital- and labor-input increases or technological advances is essential for economic growth.

Presently, however, North Korea lacks internal capital, and cannot expect large investments or assistance from the outside world. As for labor, there is now full employment, so additional labor will be hard to secure. An increase in production efficiency is, therefore, the only way to produce more with the same amount of capital and labor. Moreover, it is the only route that North Korea can pursue independently. Recently, North Korea has been stressing the term "profit," which can be understood as meaning the same as an increase in production efficiency.

B. Changing Highlights in the Joint Editorial

Pyongyang tried to focus more on inducing foreign investment through normalization of relations with the United States before 2000— but to no avail. As a result of that failure, it turned to increasing production efficiency. Since 2001, the joint editorial has sought various ways to achieve an increase. In 2001, science and technology, seed theory and new thinking were stressed. In 2002, science and technology and human resources development were highlighted. On the other hand, this year, improvements in the

economic management and science and technology are at the top of the list, while seed theory, the new thinking, and development of human resources were removed.

The seed theory originated from a theory on cinematography introduced by North Korean leader Kim Jong-il in April 1973. Regarding literature and art as living organism, Kim defined the germ of idea, i.e. the determining factor of vitality, germination and development, and he drew a parallel between seed development and work, calling for careful selection of the “seed” first, before beginning the creative work. The theory was soon extended to the economic area: increasing production efficiency through quality improvement of input elements. The seed theory has been emphasized mainly in the area of agriculture, but has recently applied to science and technology as well.¹⁵⁾ It was missing in the 2003 editorial, however, indicating that the current North Korean economic situation is incapable of using “high-quality seed or production elements”

The “new thinking” suffered the same fate. Many praised the idea as a step toward full-fledged economic opening and reform, based on Kim Jong-il’s comments made January 2001 in Shanghai. But it seems that the new thinking represents North Korea’s intention to eliminate inefficiency in economic areas rather than to change its ideology in favor of a market economy. In other words, under the new thinking, ordinary workers and officials were to stop blindly following the same path, and come up with new ideas. Not only were they to increase production efficiency, but streamline organization management in order to enhance internal production efficiency. Last year’s editorial, and also this year’s, have barely mentioned the new thinking, mainly because there are no specific

15) For instance, the Central Broadcasting System of North Korea (November 17, 2001) emphasized the need for materialization of the seed theory to advance development in science and technology.

tools to put it into practice. In other words, even though production sites have presented new ideas, there are no facilities or materials to realize them. Therefore, instead of mentioning the new thinking directly, this year's editorial stresses the need for an increase in production efficiency, which is the purpose of the new thinking.

The 2002 editorial stressed the need for human resources development, stating that in order to thoroughly follow through on improving human resources, it was necessary to nurture more talented people in the high-tech science and technology areas. Apparently, the North is aware that human resource development is vital for the country's economic development, and yet that they are pursuing human resource development only in science and technology areas, and not in the economy as a whole. Meanwhile, this year's editorial did not mention human resource development, perhaps because there are no high-tech facilities to foster human resources, nor are there instructors who can teach new technology. Moreover, there are scant funds to address this problem. Focus on human resource development in the joint editorial has therefore been replaced by focusing on science and technology.

The emphasis on science and technology is not to improve pure science and technology or to nurture scientific and technological capabilities. Rather, it emphasizes practical aspects in order to resolve technical problems in production fields, such as replacing old facilities with new ones to increase production efficiency. In this situation, it reduces science and technology to nothing more than a specialized skill. The same problems plague the IT sector.¹⁶⁾ Some analysts believe that the emphasis on the IT sector is an indication that North Korea regards the IT sector as the locomotive for economic development, a rather misguided assessment. An example

16) In fact, North Korea is also using the term "computerization," and the North Korean media, including *Rodong Sinmun*, enthusiastically promotes the introduction and utilization of computers.

of North Korea's new perception of the IT sector is found in a phrase from *Rodong Sinmun*: "Let's increase efficiency by replacing the abacus with electronic calculators and computers." However, given its current isolation, North Korea will find it hard to advance to any level of science and technology.¹⁷⁾

Another emphasis of this year's editorial is on economic management improvement measures,¹⁸⁾ which implies that it will continue to implement the measures that it introduced in July 2002. In fact, the most urgent task facing the North Korean economy is not to increase production efficiency, but rather to improve its legal and institutional system. The fact that North Korea implemented economic management improvement measures last July means that North Korean authorities are recognizing this. And their intentions to continue such measures in the future also indicate North Korea's recognition that this effort has been successful.

Foundation: A Socialist Planned Economy

The foundation of the North Korean economy is its socialist planned economy, which will be maintained in the future unless the country collapses under the strain of its desperate economic predicament. The goal to build a prosperous and powerful nation means maintaining the existing socialist regime. To that end, various economic guidelines have been designed to normalize the economically troubled socialist planned economy. This year's editorial said that the economic challenge is to build a great and powerful "socialist" nation, and that economic management improvement should be accomplished by "firmly sticking to socialist

17) This year's joint editorial mentions "our own style," and "the anti-imperialist struggle," while, at the same time, stating, "We must learn advanced technology and actively embrace state-of-the-art science and technology."

18) For information on economic management improvement and the new direction of the North Korean economic system, refer to Jo Dong-ho, and Kim Sang-ki, op. cit.

principles.” In addition, the editorial also noted that “Party instructions should be further strengthened in order to enhance the construction of a socialist country,” another indication of the North’s determination to maintain its the *status quo*.

CONCLUSION

As discussed above, North Korea is exerting some efforts to stimulate its economy by improving economic management and developing science and technology in order to increase production efficiency. The obvious questions are whether these efforts will succeed, and in which direction the North Korean economy is headed. From a strategic standpoint, it is natural and rational that Pyongyang should stress an increase in production efficiency since it has few internal resources to revive the economy. There is no other option for North Korea if it wants to maintain its independence. So far, indications are positive that it will continue economic management improvement measures that began last July.

However, it will be difficult to revive the economy merely through economic management improvement and science and technology development. Those measures must be further expanded and developed. In relation to this, the following additional measures should be more actively pursued:

First, there should be a clear definition of the role of the central planning authorities, relevant local institutions and enterprises, based on the guidelines set by the National Planning Committee and those set by local committees. Specially, the National Planning Committee should take responsibility for important indices that are strategically significant for the whole country, while local committees should take the role of devising more specific and detailed indices.

Second, it is necessary to stimulate the socialist-based exchange market. Because it impossible to plan full distribution of goods,

North Korean authorities have indicated that it would introduce a socialist production trade market. Therefore, it is necessary to introduce such a market in the near future to make it possible to trade materials between factories and enterprises in a timely manner.

Third, quality should also be emphasized as well as quantity. So far, one of the major reasons for the deterioration of the North Korean economy is that the North has managed the economy only with quantitative indices, which has resulted in low-quality North Korean products. Statistics on quantitative goals have been exaggerated, disrupting the establishment and implementation of targets. North Korea should thus pay more attention to such qualitative indices as interest rates, labor productivity, and facility utilization rates, in line with the practical economic management now being promoted by Pyongyang.

Fourth, independent profitability should be strengthened. The core of the economic management improvement measures is to encourage each production unit to obtain maximum productivity. For this, plants and enterprises should be made responsible for their own management by strengthening the accountability of the North Korea's Cabinet over economic management.

Fifth, the principle of wage distribution should be strengthened. When there are free-riders, the motivation of good workers declines. Therefore, in order to increase labor productivity, those who have worked productively should be recognized over those who have not. In relation to this, some form of economic reward should also be considered.

In sum, North Korea's pursuit of independence will clearly face limitations in terms of science and technology development. As this year's joint editorial points out, the North Korean economy needs to introduce advanced technology, and to this end, the isolated country must expand and normalize its economic relations. This action is also necessary for inducing foreign investment.

Indeed, even with science and technology development and improved economic management, the lack of capital will limit any

production increases. North Korea should therefore, make every effort to expand economic cooperation—not only with South Korea but also with the rest of the world.