

# **Policy Forum 04-18A: North Korea: Guns or Butter?**

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## **North Korea: Guns or Butter?**

by Aidan Foster-Carter

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## I. Introduction

By analyzing recently reported economic data and citing public statements by Minister Pak Pong-ju, Aidan Foster-Carter of Leeds University argues that at the macroeconomic level, Kim Jong-il cannot put off forever his choice between a military-first policy or a viable North Korean economy. Kim's Songun (military-first) policy is a direct and indirect barrier to economic recovery and Prime Minister Pak cannot deliver economic progress while shackled by Songun.

## II. Essay by Aidan Foster-Carter

"North Korea: Guns or Butter?"

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North Korea: Guns or Butter?

A budget, with no numbers. This they call reform?

March's big event in North Korea was the budget. As usual, the Supreme People's Assembly (SPA), the rubber-stamp parliament, met for just a single day (March 25). It heard - and unanimously approved - reports by the finance minister, Mun Il-bong, on the budget, and by the prime minister, Pak Pong-ju, on the wider economy. Each of these looked both forward and back, summing up last year and setting tasks for 2004. (The calendar year is also the financial year in North Korea, which otherwise uses its own unique calendar, starting from the birth in 1912 of the late great leader Kim Il-sung, who died in 1994; thus 2004 is Juche 93, 2003 is Juche 92, and so forth.)

*A budget, but no numbers*

Nor is this the only idiosyncrasy. Despite the rare treat (eagerly anticipated by DPRK-watchers) of an official number or two, as so often in Pyongyang the Star Trek mantra applies. This was a budget speech - but not as we know it. As reported by the official newsagency KCNA, Mun Il-bong did not actually reveal a single solid number. With due prudence, he reported underspending: expenditure was only 98.2% of the planned figure (who lost out is not revealed), while revenue exceeded the plan at 100.9%.

Until last year, such percentages could be plotted against known past figures to derive the real numbers. On that basis, North Korea's recent budget history is startling. After years, indeed decades, of reported steady annual increases on both sides of the ledger, by 1994 income and spending alike had reached 41.5bn won (just under US\$20bn at the then rate of exchange). Then Kim Il-sung died, and for four years the SPA did not meet: supposedly as a sign of mourning, but this was also the worst period of famine.

*Ups and downs*

When in 1999 the SPA finally reconvened, the then finance minister, Yun Ki-jong (a rare woman among Pyongyang's top elite) revealed, but did not try to explain, figures of barely W20bn for 1998 - meaning both income and spending had plunged by half in just four years. After this shock, the pattern of slow annual rises resumed, reaching W22.2bn in 2002. But that year's economic reforms, involving manyfold increases in most prices and wages, created a new problem from 2003: namely what exchange rate to use as between what can in effect be called old and new won. No doubt Pyongyang bureaucrats have their own multiplier for this, but they are not letting on what it is.

So we are stuck with percentages and bitty ones at that. Besides aggregate income and spending, Mun Il-bong gave a partial breakdown. Last year 15.7% of the budget went for defence, 23.3% on the national economy, and 40.5% to "various popular policies for the promotion of the people's welfare" (social services in normal parlance). Where the remaining 20.5% went was not revealed, nor any further breakdown. Of last year's main innovation - North Korea's first government bonds in half a century, intended to flush out foreign currency and other savings kept under the proverbial mattress - Mun just said that "a large revenue" was added and "not a small amount of funds" donated.

### *Taxing free markets*

He was hardly more forthcoming on targets for this year. Total revenue is set to rise by 5.7%, with a planned 16.5% increase in state enterprise profits - while "those of cooperative organizations and others are envisaged to markedly swell." The "others" refers to North Korea's new and burgeoning private sector, whose relationship to the old planned economy - which the budget report presupposes as the norm - is far from clear. Defeated in trying to crush free markets, the state is doubtless keen to tax them.

Otherwise it was targetry as usual. Total spending is slated to rise by 8.6%, suggesting either a deficit or more bond issues. 15.5% goes to defence; in so militarized a society the true figure must be much higher. Interestingly, defence tasks include "stepping up ... informationalization" (sic): a rare admission that North Korea's obsession with IT has a military dimension. (South Korean defence planners, sceptical of sunshine, have added cyberwar to the long list of threats they might confront from across the DMZ.) Overall spending on science and technology is set to rise by a massive 60%, whereas education - surely not unconnected - and health get just 9.5% and 5.9% respectively.

Apart from an opaque mention of an extra 8.1% for unspecified "additional measures" these were the only numbers given by the finance minister. Otherwise, his old-style priorities could have been declaimed at any time in the past half-century: "In order to reenergize the nation's economy as a whole this year the government will allocate huge funds for the fields of the national economy so as to keep the production in the mining, machine-building, chemical and building materials industries and forestry going at a steady rate and effect a new productive upswing in the light industry and the rural economy while channeling main efforts into the power, coal and metal industries and the railway transport." But if everything is a priority, then nothing is.

### *A technocrat at the helm*

Fortunately the prime minister's speech, at the same SPA session, was a little more forthcoming. This was Pak Pong-ju's first annual report since his appointment last September. A year before that, as chemicals minister, he took part in an economic study tour of South Korea; where his practical grasp and eagerness to learn - touring the plants of Samsung et al, he yearned for several extra pairs of eyes to take it all in - impressed his hosts. Hence high hopes are riding on him, as the latest incarnation of a longstanding adventism - waiting for Godot, so far - which pines for the day when Pyongyang's technocrats will finally take over, and economic rationality will reign.

Not yet, alas. Wishful thinking abounds, especially in Seoul these days. The Financial Times, in an upbeat account of Pak's speech to the SPA, quoted Park Suhk-sam (chief North Korea researcher at the Bank of Korea, the South's central bank), as concluding that reform-minded technocrats appear to have firm control over economic policy in Pyongyang: "Market concepts such as profitability are becoming entrenched."

### *Recovering, or rustbelt?*

Yet a close reading of Pak's full speech - a summary is available at [www.kcna.co.jp](http://www.kcna.co.jp) - hardly supports such optimism. The premier patently has drive, and a grasp of detail. But it is quite clear that he is constrained by political, meaning military, priorities. He added a few figures to those given by Mun Il-bong. Last year gross industrial output value rose 10%, electricity 21%, lead and zinc 76%, iron ore 46%, and cement 27%.

That sounds impressive, if true. But repeated references to the need to "normalize" production suggest North Korea is still struggling merely to recover ground lost in the 1990s, when a series of shocks - the abrupt end of Soviet aid, floods, and famine - all but wiped out the already creaking old industrial base. The northeast, where much of this was located, remains a rustbelt, with few plants emitting smoke or other signs of life. Many have been cannibalized for scrap metal, sold across the border in China. A leading Seoul daily, the Chosun Ilbo, claimed on March 10 that workers at the crucial Musan mine, praised by the prime minister for its efforts last year, are selling iron ore to China to buy food instead of sending it as per plan to the Kim Chaek steel mill.

### *Reading between the lines*

While of course Pak Pong-ju mentioned none of this, one can and must read between the lines. Thus he demanded "an efficient use of electricity by minimizing the loss of electricity in transmission, establishing a strict centralized discipline over the power supply and widely introducing meters." There is no point producing 21% more power, only for it to be dissipated either in dilapidated transmission lines or wasteful usage.

Similarly, Pak's calls to "put production on a normal track", in areas ranging from chemicals to foodstuffs, imply an economy still in recovery mode. As such, the few specific targets he mentioned appear unrealistically high - unless the prior baseline is alarmingly low. He wants fabric output to rise by 73%, and footwear by 53%. Even more strikingly, he called for production of 2.3 times more iron ore, 2.5 times more pig iron, and 5 times more rolled steel than last year. Unless this means restarting or repairing plants that had closed, such rates of increase sound absurd and unattainable.

### *The army gets the lion's share*

And what is all this steel for? "To supply national defence industry on a preferential basis." Similarly, more coal - "tunneling should be kept ahead of coal mining", which sounds obvious but suggests problems opening up fresh seams - is essential to "meet the need for coal in munitions industry and key domains of the national economy."

This gives the game away. Kim Jong-il's Songun (military-first) policy, to which Pak duly genuflected, is both a direct and indirect barrier to economic recovery, let alone reform. Steel going to tanks and missiles is lost to more productive uses: for civilian factories or tractors, say. True, arms sales can earn foreign exchange; but this is risky business now, thanks to the US-backed Proliferation Security Initiative (PSI), which has already intercepted several military cargoes heading to and from North Korea.

### *Reformist, or reactionary?*

Not only is Songun unproductive; its priorities are reactionary, putting as they do back at centre stage the old Stalinist heavy industry behemoths: coal, iron, steel. This is not where a 21st century North Korea should be focussing. Its comparative advantage lies in manufacturing for export: as in the planned Kaesong special zone for South Korean firms, Pyongyang's best business hope, which

the premier did not see fit to mention. At home, the heavy industry fetish reduces light industry and agriculture, lip-service aside, to being forever the bridesmaids, never the bride. (Then again, as the US expert Marcus Noland of the Institute for International Economics has noted, in a rational world mountainous North Korea - the South too - would not grow food but import it.)

The military aspect aside, tensions between old and new thinking in Pak Pong-ju's speech are palpable. Thus officials - still in control - are now charged with not only "economic guidance" but also "business management", which they must carry out "on the socialist principle and the principle of ensuring profitability". As if being capitalist and socialist at once is not hard enough, they must be militarist too: "actively learning from the fighting trait and working method created by the People's Army."

### *Squaring the circle*

Squaring so many circles inevitably undermines Pak's call for "a leaping advance on the front of economy and science", itself intended to "bring about a decisive turn in improving the standard of the people's living." Notable too, and sadly typical, was the silence on production relations as opposed to productive forces (as Karl Marx would put it). Ironically, to outside observers North Korea today is a classic Marxian case. The main obstacles to development are not technical but social: to wit the dead weight of a regime and system which still wilfully misdirect resources on a monstrous scale.

Ominously, not once did Pak Pong-ju explicitly mention the cautious yet far-reaching market reforms which North Korea has implemented since July 2002. A reform which dares not speak its name must by definition be limited. Yet the day before, the visiting Chinese foreign minister was proudly shown Pyongyang's new Tongil private market, and KCNA reported this. With similar ambivalence, the Economist's correspondent was taken to Tongil - but forbidden to photograph it. Similarly, that stony statistical silence speaks volumes about the limits of reform so far. Foreign investors, not least, will not come unless given numbers to crunch - nor while the nuclear crisis remains unsettled, yet another way in which Songun impedes North Korea's economic growth.

### *Open to trade*

On a brighter note, Pak Pong-ju evidently wants to open the DPRK economy. Yet his call to build modern export production bases for the extractive industries has an oddly old-fashioned ring. True, North Korea has a range of minerals that it can, indeed does, process and sell. Moreover commodity prices are high, unlike in the 1970s when an earlier outward foray landed Pyongyang with debts which it could not, or would not, repay to this day. Yet after half a century of socialism, is this classic Third World raw materials syndrome really the best that a self-styled "people's paradise" can do? And how can it do even this without vast investment, which can only come from outside? North Korea has been trying to flog its mines for years, but has had almost no takers.

At one point, for once almost speaking the same language as the rest of the world, Pak says that "the quality of major commodities in great demand which mainly depend on locally available rich raw materials should be raised to the world's level for their high competitive edge on the international market." Yet to make exports world-class will, again, require finance and technology which North Korea simply does not possess.

### *Good and bad enterprise*

In the most striking section of his report, Pak in effect calls on North Korea to become one big export zone: "All domains and units of the national economy should wage a mass movement to build

their own strong export bases, expand and develop foreign trade in a multifaceted manner and encourage equity and contractual joint ventures on an extensive scale in the direction of introducing advanced science and technology. They should conduct substantial cooperation for economic development with various international organizations in keeping with the changed environment and conditions."

Amen to that. Yet again, this is not wholly new - and it all depends who does what, why, and how. In fact for many years enterprises have been told to maximize foreign exchange earnings - but to show loyalty to the Dear Leader (who often pockets the proceeds, as cash or 'gifts'), rather than to boost the economy as such. The premium here is on one-off deals that turn a quick buck, rather than building stable long-term relationships. Nor is Pyongyang picky about partners or products: witness the Pong Su, a ship caught last year dropping heroin in Australia for Malaysian gangsters. This year the State Department accused North Korea of drug trafficking at state level. The obverse of expanding legitimate trade has to be a complete halt to criminal enterprise.

*On your own: a new twist to Juche*

Or again trade may be an act of desperation. The Chosun Ilbo story quoted above also claims that even public security officials - hitherto privileged, for obvious reasons - were recently told to start trading, simply to obtain food; and that corruption among hungry officials is spreading. The shopworn slogan of Juche (self-reliance), when not simply a lie - North Korea has never been in any sense a self-contained economy, but has always depended on outside subventions - is now given a new twist. Ever since the famine of the mid-1990s, entire regions, sectors, or households have in effect been told to expect nothing from the state: you are on your own now, so fend for yourself.

Yet this same regime, despite defaulting on its side of the social contract in failing to guarantee even the most rudimentary of human needs - food to eat, for sheer physical survival - still has the gall to claim monopoly rights over its longsuffering citizens' bodies and minds. The contradiction is acute; one wonders how long it can last before people start demanding, as the song has it: "What have you done for me, lately?"

At the macroeconomic level, Kim Jong-il cannot put off forever a choice between, literally, guns or butter: a military-first policy, or a viable economy. He cannot have both; and Pak Pong-ju cannot deliver economic progress while shackled by Songun.

### **III. Nautilus Invites Your Responses**

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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