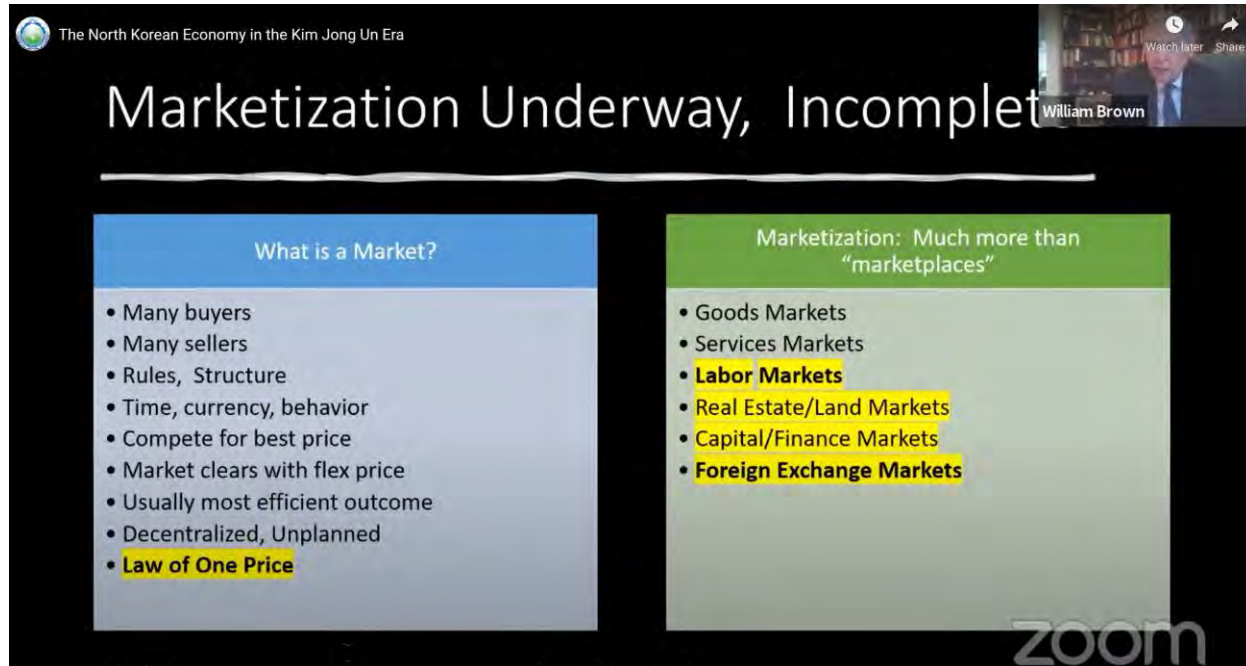


## UPF-USA: The North Korean Economy in the Kim Jung Un Era

Roger Wetherall  
December 21, 2021



The screenshot shows a Zoom webinar slide with the title "Marketization Underway, Incomplete" and a small video inset of William Brown in the top right corner. The slide is divided into two columns. The left column, titled "What is a Market?", lists several characteristics of a market, with "Law of One Price" highlighted in yellow. The right column, titled "Marketization: Much more than 'marketplaces'", lists various market types, with "Labor Markets", "Foreign Exchange Markets", and "Capital/Finance Markets" highlighted in yellow. The Zoom logo is visible in the bottom right corner of the slide.

The North Korean Economy in the Kim Jong Un Era

### Marketization Underway, Incomplete

William Brown

- What is a Market?
  - Many buyers
  - Many sellers
  - Rules, Structure
  - Time, currency, behavior
  - Compete for best price
  - Market clears with flex price
  - Usually most efficient outcome
  - Decentralized, Unplanned
  - **Law of One Price**
- Marketization: Much more than "marketplaces"
  - Goods Markets
  - Services Markets
  - **Labor Markets**
  - Real Estate/Land Markets
  - Capital/Finance Markets
  - **Foreign Exchange Markets**

zoom

**UPF-USA** -- On December 21, 2021, UPF-USA held a webinar on the North Korean Economy in the Kim Jung Un Era. Hopes for a peaceful reunification on the Korean peninsula have focused on the **security and geopolitical issues such as nuclear disarmament**. **This webinar will look at the economic considerations**. The border closings during the pandemic have led to uncertainty and inflationary pressures in North Korea's economy that may present an opportunity for change.

According to Bill Brown:

Kim Jong Un recently brought attention to the country's **poor food situation**, but his more immediate and unmentioned concern may be **growing confusion in the country's unusual, partially dollarized monetary system**. North Korean won, US dollars, and Chinese yuan all circulate in a system that mixes state-controlled and market-determined wages and prices.



So, is the **socialist command economy** still strongly in place or has it evolved, and is Chairman Kim in a position to make economic reforms the way China has in the past to move toward integration with the world economy?

This webinar featured a primary presenter and two distinguished commentators:

**Mr. William Brown**, a member of the Board of Directors of the [Korea Economic Institute of America](#) and chair of George Washington University's North Korea Economic Forum in the Institute of Korean

Studies ([GWIKS](#)), first shared his research for discussion and consideration:

Korea is poor, but not because of its lack of resources; its low productivity makes it poor. But this also means there is a way out for them. The US sanctions, together with the pandemic, have been disastrous, and external trade and foreign investment in the country have been nearly zero in 2021 as a result of the pandemic. This has led to a tightening of monetary policy and a reduction in government expenditures in order to control inflation.



There is a hope for reform though, as a "bottom-up" marketization of the economy is underway with the wide circulation of dollars and yuan that have largely supplanted the rationing system. However, this has not been supported by "top-down" monetary policy and reforms. Without imports coming in, the markets are drying up and traders in North Korea are losing money.

Kim's singular achievement over the last year has been getting control of inflation. His father, Kim Jung Il, publicly executed the previous finance minister due to his failure to control inflation and this was a big lesson for Kim Jong Un. However, by limiting the supply of money to control inflation, they have also stifled the economy. To improve the situation, they could sell off state assets and they need to raise the wages of public employees. Because the state wages and budgets are so constrained, government workers need to engage in private market activities or bribery in order to survive. State wages are set at 3-5,000 won per month (+ ration cards), while private wages are about 300,000 won per month. This has led to two separate economies in NK, private and government-controlled, and the government is losing control due to corruption.

Mr. Brown offered the following recommendations for North Korea to reform its economy along similar lines to what China has done in the past:

- Unify the price and wage system
- Establish some private property rights
- De-collectivize agriculture
- Create a new money and banking system, using interest rates to encourage private savings and direct investment into best uses (following the South Korean model)
- Raise government pay, but shrink the size of the huge bureaucracy and the military
- Privatize significant state assets including major factories.
- Establish a tax system and transparent budget

Following Mr. Brown's presentation, **Col. Albert Short, Managing Partner, [Global Resources Network](#)**, provided some commentary and feedback on the presentation, stating:

In assessing the ability to make significant economic changes, we must look to the political structure. It is a one-party state with only three leaders in 70 plus years. They have been consistent, but it is an authoritarian dictatorship run by a narrow group of elites and as William noted, these elites may not be interested in change. Anything that threatens their prerogatives, and their perks may not be welcome.

In my view, authoritarian regimes, such as we have in Pyongyang, are brittle and resistant to change out of fear that they will not be able to maintain total control .... like it or not, that model has worked for them. You have a happy Workers Party, and an unhappy population.



Without nukes the North would be irrelevant. It would be up there with Somalia, Eritrea, Albania and other failed states and of little concern to the great powers. So nuclear weapons and now delivery systems have given the North leverage ... they are fighting well beyond their weight class.

Col. Short also questioned whether China truly wants major economic advances in North Korea, as they have a vested interest in keeping North Korea impoverished and controlled as a buffer to Japanese and US influence through South Korea.



After Col. Short, **Ambassador Joseph DeTrani**, former **Special Envoy for Negotiations with North Korea and the Director of the National Counterproliferation Center**, commented that at the 8th congress of the Workers Party in January of this year, the focus was almost exclusively on economics because they are in a bad state, even though the harvest this year was pretty good. The isolation and economic sanctions mean that the situation is dire! The North Korean GDP in 2020 decreased by 4-5%, which is comparable to the 6% decline during the Famine in the 90's. The immediate issue of sanctions needs to be re-evaluated. Kim Jung Un is looking at the model of China where they maintained state political control but opened up the economy to market reforms.

In 2005, a joint statement was submitted from the six-party talks to dismantle the nuclear facilities in North Korea, and asking for reform of their academics and economy. We saw some progress after that, with the North sending academics to Western countries to learn and study different subjects, but what we have now are sanctions that are heavy hitting. This was talked about at the Hanoi Summit with President Trump and there were a lot of expectations that these sanctions would be lifted, allowing North Korea to be able to import the crude oil and petroleum that they need. The sanctions have been stultifying to the economy! Even before COVID, a UN study showed that 40% of its population was malnourished, so we can only imagine what the situation is now.

A lively discussion followed between the participants on the possibilities for reform in the economy and the ineffectiveness of the sanctions in stimulating real change in North Korea. It was an engaging webinar that proposed new ideas about the way for North Korea to be able to internally reform its economy following the Chinese model.