

# A difficult path ahead for the DPRK's economic “reform”

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Does the DPRK's external policy still anchor around the U.S.?

- The traditional pillars of the DPRK's national strategy since the 1990s:
  1. Economic "reform"; and
  2. Normalization of its relationship with the U.S.
- For decades, the DPRK leaders have considered that the country's stable external relationships are indispensable for achieving the national economic development through "reform" because:
  - Such international settings are expected to enable stable economic relationships with other countries; and
  - More resources could be allocated for civilian sectors than for the military sector.

QUESTION: *does these premises still hold valid?*

## Notable characteristics in the DPRK's statements since 2022

- The DPRK's statements since 2022 points to the followings:
  - Increased confidence in its ability of “self-reliance” in saving the national economy despite the border closure for almost 3.5 years;
  - The DPRK's perception of the waning U.S. power and influence;
  - Increasing emphasis on developing “strategic and tactical cooperation” with China and Russia to secure the DPRK's sovereignty and the national economy; and
  - The DPRK's perception of the decreased US's role in guaranteeing the country's stable external environment and economic development.

# Kim Jong Un's changing views of the world order and a greater focus on national defense

Kim Jong Un's speech during the Supreme People's Assembly on September 26-27, 2023

- “[The DPRK’s] **nuclear force-building policy** has been made permanent as **the basic law of the state**, which no one is allowed to flout with anything”.
- “[KJU] stressed the need to push ahead with the work for exponentially **boosting the production of nuclear weapons and diversifying the nuclear strike means**”.
- “[T]he accelerated establishment of the [U.S.] triangular military alliance with Japan and the "Republic of Korea" finally resulted in **the emergence of the "Asian-version NATO"**, the root cause of war and aggression. This is just the **worst actual threat**, not threatening rhetoric or an imaginary entity.”
- “[KJU] urged the external affairs sector to ... solidarity with the nations **standing against the U.S. and the West's strategy for hegemony** while firmly adhering to the revolutionary principle and the stand of independence at the fore of the struggle of the anti-imperialist independent countries.”

(Rodong Sinmun, “Respected Comrade Kim Jong Un Makes Speech at 9th Session of 14th SPA”, September 28, 2023)

## The DPRK's changing views of the world order: multipolarity and new Cold War

- The DPRK's increasing emphasis on the “multipolar world” and “new Cold War” since 2022:
  - In the fall 2023, Kim Jong Un himself made an unusual reference to “**the change from a unipolar world advocated by the United States into a multipolar world**”, which reflects the seriousness with which the country's top leadership was taking this development.

(Source: <http://rodong.rep.kp/en/index.php?MTJAMjAyMi0wOS0wOS1OMDaxQDE1QDFAQDBAMQ==>)

(Source: Rachael Minyoung Lee, former chief of the North Korea section in Open Source Center under the U.S. CIA, “The North Korea Conundrum: Pyongyang's Strategic Calculus and Future Trajectory”, Georgetown Journal of International Affairs, May 31, 2022, available at: <https://gjia.georgetown.edu/2023/05/31/the-north-korea-conundrum-pyongyangs-strategic-calculus-and-future-trajectory/>)

# The DPRK's changing views of the world order: Russia and China

- The Russia-China joint statement on February 4, 2022:
  - “[ The world] sees the development of such processes and phenomena as **multipolarity ... transformation of the global governance architecture and world order**; ...a trend has emerged towards **redistribution of power in the world**; and the international community is **showing a growing demand for the leadership** aiming at peaceful and gradual development.”
  - “[Russia and China] reaffirm their strong mutual support for the protection of their core interests, state sovereignty and territorial integrity, and oppose interference by external forces in their internal affairs.”
  - “[Russia and China] oppose further enlargement of **NATO** and call on the North Atlantic Alliance to abandon its ideologized cold war approaches”.
  - “[Russia and China] **stand against the formation of closed bloc structures and opposing camps in the Asia-Pacific region** and remain highly vigilant about **the negative impact of the United States' Indo-Pacific strategy on peace and stability in the region.**”

(Source: President of Russia, “Joint Statement of the Russian Federation and the People’s Republic of China on the International Relations Entering a New Era and the Global Sustainable Development”, February 4, 2022, available at: <http://www.en.kremlin.ru/supplement/5770>)

## A greater focus on national defense

- The DPRK's greater focus on national defense has highly likely required a shift in policy priorities and resource allocation away from the civilian economic sector to the military sector, which has likely created considerable challenges in economic "reform".
- The DPRK leaders have continued to emphasize the necessity for the economic reform and may probably not intend to reverse its course. At least since the border closure under the COVID-19 pandemic, however, the economic reform has not been positioned as the top priority.

## Greater centralization of the economic activities during the corona pandemic

- Greater centralization has been a trend in the economic activities during the COVID-19 pandemic period.
  - The objectives of the national economy has shifted from the pursuit of increasing industrial outputs toward the most efficient use of limited resources under the pre-determined economic plan (Source: Professor Mitsuhiro MIMURA, Niigata-Prefectural University, “North Korean economy in 2022”, Japan Institute of International Affairs, available at: [https://www.jiia.or.jp/pdf/research/R04\\_Korean\\_Peninsula/01-04.pdf](https://www.jiia.or.jp/pdf/research/R04_Korean_Peninsula/01-04.pdf)).

Question: ***does greater centralization mean reversing the course of economic reform?***

- The economic reform policy was codified in the DPRK’s constitution in April 2019, which has not been changed.
- “Kim appears to be still seeking a "North Korean-style economic reform," a highly regulated form of economic reform.” (Source: the author’s correspondence with Rachael Minyoung Lee, September 27, 2023)



## "North Korean-style economic reform"

- “[R]eform’ in the North Korean context comes with certain strings attached. In short, central control — specifically the state’s unified guidance of the economy, giving greater freedom to enterprises within the bounds of the socialist economy, and the party’s leadership over economic work — has been an innate part of Kim Jong Un’s reform policy since its inception.”

(Source: Rachael Minyoung Lee, “Kim Jong Um’s Tortuous Path To Economic Reform”, War on the Rocks, June 9, 2-22, available at: <https://warontherocks.com/2022/06/kim-jong-uns-tortuous-path-to-economic-reform/>)

- The “socialist enterprise responsibility management system” (SERMS), which is considered as a means of economic reform in the DPRK, was codified in the constitution in 2019. Under the SERMS, individual enterprises are granted with actual management rights across planning, resources, production, and profits. There is no evidence that these initiatives have been reversed, thus far.
  - Since Kim Jong Un called for the “completion” of economic management methods in 2013, the DPRK is still working on them.
- ✓ “Muddling through” – or “research” and experiments in the DPRK terminology

## Transition to a “with-COVID-19” phase

### Observations by Professor Mitsumasa MIMURA

- Privatization of the production means (eg. approval of small- to medium enterprises) has been suspended. However, attempts to facilitate various administrative procedures related to the sales and production by the individuals, associations, or national companies have been continuing.
- In 2023, the DPRK may focus on revitalizing the industrial sectors directly relevant to the people’s daily life (eg. agriculture, light industry, or service industry), which is perceived by the DPRK leaders as being fundamentally relevant to securing the public support to the legitimacy of the Kim regime.

(Source: Professor Mitsuhiro MIMURA, Niigata-Prefectural University, “North Korean economy in 2022”, Japan Institute of International Affairs, available at:

[https://www.jiia.or.jp/pdf/research/R04\\_Korean\\_Peninsula/01-04.pdf](https://www.jiia.or.jp/pdf/research/R04_Korean_Peninsula/01-04.pdf))

# Food insecurity appear to remain a serious issue in the DPRK

- Food shortages remain a serious issue, given the following facts:
  - The Workers' Party of Korea already held two plenary meetings early in 2023. The second one was held from February 26 to March 1, which focused exclusively on agriculture.
  - The DPRK's propaganda media constantly emphasizes the importance of farming throughout 2023.
- However, we should also keep in mind the followings:
  - The DPRK's food shortages are chronic.
  - The DPRK managed without opening its borders for 3.5 years.
  - The data concerning the production of vegetables by each household and the amount of food supply from Russia and China remain uncertain.

“If the food shortage had been serious to a point of threatening the regime's security, Kim likely would have reopened borders sooner.”

(Source: the author's correspondence with Rachael Minyoung Lee, September 27, 2023)

Serious food insecurity has been an undeniable trend in the DPRK although there are considerable uncertainty in the available data.

# Forecast of the DPRK's agricultural production in 2023

- US Department of Agriculture: “this year’s rice and corn crop should be near or at the long-term average.”
  - “images (maps) for June and July also show that crop conditions have been above average during the most critical period of plant growth and development. In general, the crop performance can be characterized as ideal and likely to result in relatively high production”.
  - “the productivity prospects remain favorable barring no major weather disruptions. Widespread favorable conditions during the remainder of the season across all parts of the country’s cropping regions should induce favorable end-of-season crop results.”
  - “food production and food security in North Korea, beyond weather and agricultural conditions, is dependent on a wide range of changing political and social-economic factors. Objective assessments and projections of food production and food security always have a high degree of uncertainty since many of the factors are poorly understood, coupled with lack of on-the-ground validation and verification.”
  - “severe import restrictions of food, farm inputs such as fertilizers, improved seeds, farming equipment, machinery spare parts, as well as humanitarian aid. The circumstances make it difficult to predict, with certainty, how these variables may continue to impact final crop harvest results.”

(Source: US Department of Agriculture, *Commodity Intelligence Report*, August 29, 2023)

The productivity prospects are assessed to remain favorable in 2023, yet food insecurity continues to be a serious problem in the DPRK, which points to systemic problems as one of the major causes of these problems.

Less soil moisture anomaly observed in the DPRK in 2023 compared to 2022

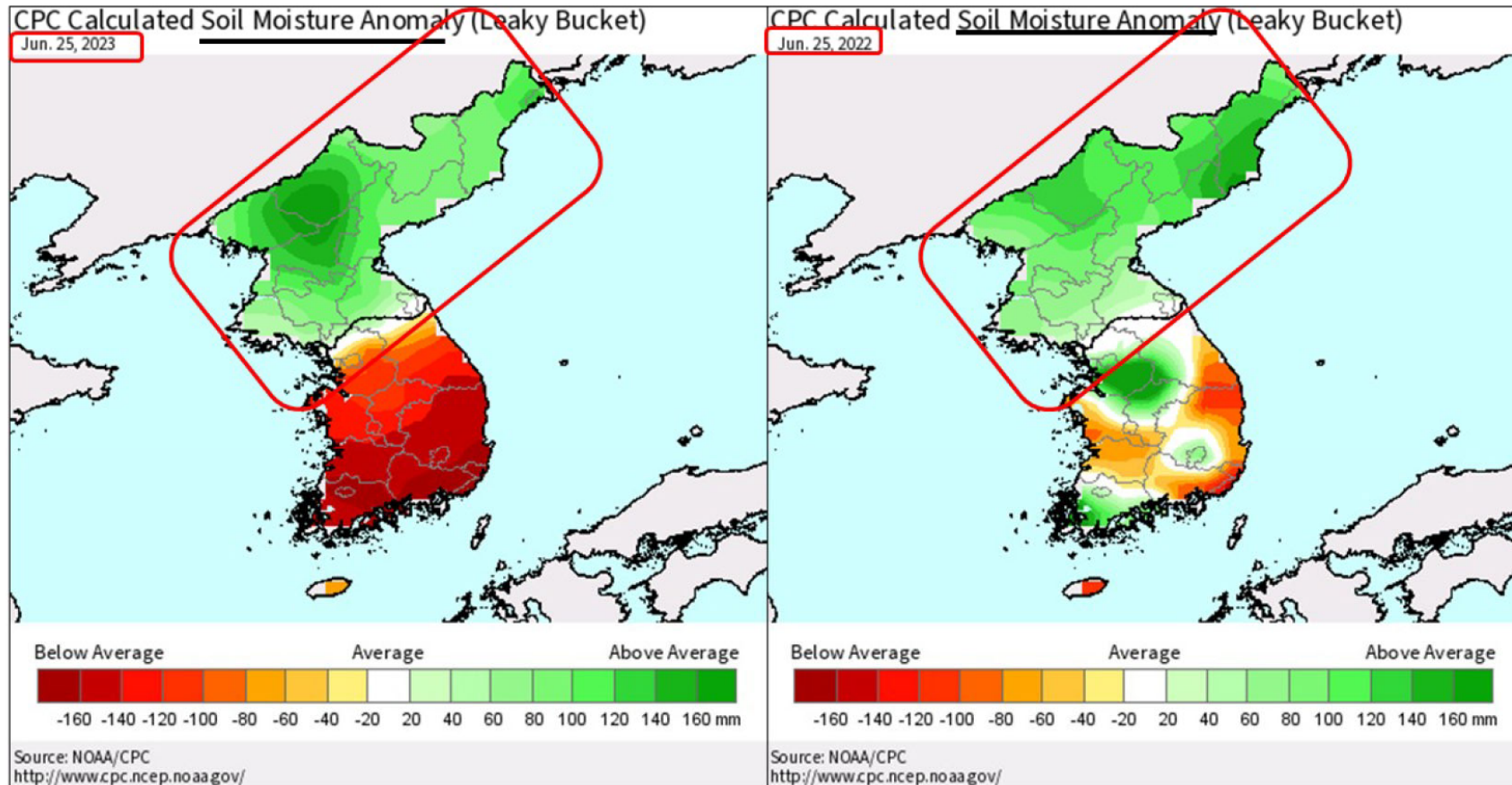
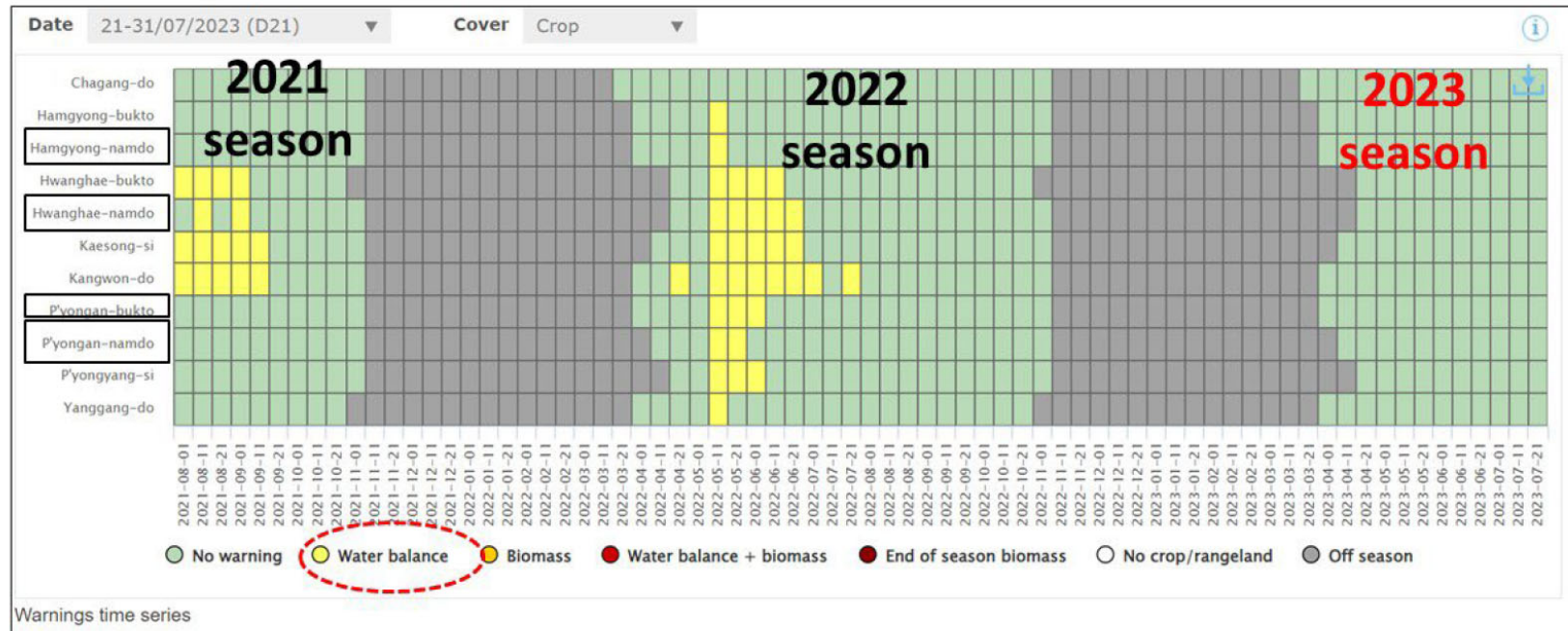


Figure 10. June soil moisture measurements and observations (map 2023 left, 2022 right) show favorable conditions across the major cropping regions in North Korea. Source: NOAA Climate Prediction Center (CPC)

(Source: US Department of Agriculture, *Commodity Intelligence Report*, August 29, 2023)



**Figure 13. North Korea Anomaly Hotspots of Agricultural Production (ASAP) warnings time series.** The matrix shows a table view of the relative history of the warnings in 2021, 2022, and 2023 seasons through July for each of the subnational units in North Korea. The table columns are the 10-day periods, the table rows are the subnational levels. The color of each cell corresponds to the warning levels:

- Water balance: water deficit possibly evolving in poor growth
- Biomass: evidence of poor growth
- Water balance + biomass: poor growth and negative prospects
- End of the season biomass: poor season growth: described at the bottom of the matrix.

Source: European Commission, EU Science Hub ASAP Country Assessment

(Source: US Department of Agriculture, *Commodity Intelligence Report*, August 29, 2023)



# An emerging foreign-currency earning industry: Cyber theft

- In 2022, at least \$720 million worth crypt currencies got stolen by the DPRK-backed hackers. This value exceeds the estimated DPRK's total export in this year which was around \$159 million (estimate by KOTRA).
  - March 29, Ronin Bridge incident: \$620million worth Ethereum was stolen.
  - June 24, Harmony Norizon incident: \$100 million worth crypt currency was stolen.  
(the reported dates)
- In 2023, at least \$200 million worth crypt currencies got stolen by the DPRK-backed hackers.
  - June 2, Atomic Wallet incident: \$100 worth crypt currency
  - June 22, Alphapo incident: \$60 million worth crypt currency
  - June 22, CoinsPaid incident: \$37 worth crypt currency  
(the reported dates)

... the list of incidents continues...

(Source: FBI; <https://www.fbi.gov/news/press-releases/fbi-confirms-lazarus-group-cyber-actors-responsible-for-harmonys-horizon-bridge-currency-theft>; <https://www.fbi.gov/news/press-releases/fbi-statement-on-attribution-of-malicious-cyber-activity-posed-by-the-democratic-peoples-republic-of-korea>; <https://www.fbi.gov/news/press-releases/fbi-identifies-cryptocurrency-funds-stolen-by-dprk>, etc.)

***To what extent the pressures on resource allocation between military and civilian sectors can be alleviated by this new foreign currency-earning “industry”?***