



**KIM JONG UN'S CHOICE –  
ECONOMIC REFORM WOULD BE A  
RISK WELL TAKEN BY NORTH  
KOREA**

BY THOMAS BYRNE AND JONATHAN  
CORRADO

*Thomas Byrne ([thomas.byrne@koreasociety.org](mailto:thomas.byrne@koreasociety.org)) is president of The Korea Society in New York City. He was formerly senior vice president for sovereign risk in Asia-Pacific and the Middle East for Moody's Investors Service.*

*Jonathan Corrado ([jonathan.corrado@koreasociety.org](mailto:jonathan.corrado@koreasociety.org)) is associate policy director at The Korea Society. He was previously a translator for Daily NK.*

Despite [threats](#) by North Korea to back out of negotiations, a proposal from the White House promising economic modernization in exchange for denuclearization remains on the [table](#) for North Korean leader Kim Jong Un. Pyongyang's concerns with relinquishing its nuclear weapons have been extensively scrutinized by foreign policy experts, but its approach toward economic development is much less understood. Pyongyang's leadership seems to be more attuned than ever about benefits from economic development, but so far bold action and systemic reform are missing.

For Chairman Kim, economic modernization is an important source of legitimacy. In his 2019 [New Year Address](#), Kim mentioned the word "economy" 39 times. North Korea's state media is chock full of the leader performing site visits to the country's most "productive" factories. Propaganda posters tout the consumerist economic benefits of Kim's rule, an odd juxtaposition for a self-proclaimed Socialist state. However, the words "reform" and "market reform" did not appear at all in his speech. Rather, "socialism" and "juche" appeared 31 and 8 times, respectively.

As Chairman Kim attempts to accelerate economic development, international sanctions are restraining economic activity, according to the South Korea's central bank. And the sharp 88% drop in North Korean exports to China in 2018 reported by that country's Customs agency means that the likely crimping of foreign exchange revenues from North Korea's exports have stressed the operations of the state-owned firms dominating the foreign trade sector, despite North Korea's usage of increasingly sophisticated evasion tactics. Scores of state owned enterprises in Pyongyang shut down and laid off workers in March due to financial problems, according to a recent [report](#) citing sources inside North Korea. The economic effects of sanctions must be dire. Otherwise, why would North Korea's primary request at the Trump-Kim summit in Hanoi be that the most potent UN Security Council sanctions be eased in exchange for shutting down nuclear production at the Yongbyon facility?

Yet sanctions have not led to a complete collapse of the North's economy. The ongoing, ad hoc "reform from below" has created more than 400 marketplaces throughout the country driven from private initiative. With the collapse of the socialized system, the state has opportunistically co-opted the marketization and in doing so has probably found a new source of fiscal revenue that enhances regime resilience against external shocks such as international sanctions. These marketplaces are tolerated if not encouraged by the government. The Center for Strategic and International Studies (CSIS) calculates that the state [earns](#) between \$50-70 million per year in stall fees paid by vendors for the right to sell. Revenues obtained by the state from market activity might eclipse revenues obtained from state trade with China.

But opening and reform along the lines of the South Korean and East Asian tiger model might pose threats to Kim's patronage networks and rent seeking officials and the loyalty of such groups. The North Korean state's [bribery](#) take from households is several times greater than that of the Soviet Union's, according to Seoul National University economics Professor Kim Byeong-yeon. Defector [surveys](#) tell us that market

participants resent the interference by the state in their economic activities.

But so far Kim appears to be in no rush to undertake serious reform. His gradual, step-by-step approach to denuclearization is premised on keeping the United States interested and that “corresponding measures” such as sanctions relief can help economic activity. Yet, although gradual reform and a symbiotic relationship with the private sector might enhance regime resiliency for now, Kim’s gambit of tolerating but not institutionally developing a private sector will not generate enough capital accumulation to foster East Asian tiger-like sustained and rapid economic growth. North Korea has neither adequate domestic savings nor access to foreign credit and development assistance to finance any meaningful level of investment to modernize its economy.

At a recent Korea Society [event](#) in New York City, former UNC Commander Gen. Vincent Brooks recommended the creation of an international development fund that would be accessible to North Korea only upon North Korea’s demonstrated commitment to denuclearization. This would be an intermediary step in financing North Korea’s infrastructure needs. Wider access to financing would only become available with serious economic and financial reforms that open up funding from international development institutions. Over the long term, growth will hinge on Pyongyang’s ability to develop institutions and legal rights that allow for a predictable investment regime that reduces the risk of arbitrary state confiscation of assets.

For the political reasons mentioned earlier, such a move will entail some risk for Kim’s hold on power. But the cases of China and Vietnam show a path to prosperity if North Korea also embraces a pluralistic communist system in which new interest groups coalesce to support reform. Such a transition would likely allow the international community—including the U.S., South Korea, Japan and the international financial institutions, including the IMF, the World Bank, ADB and even the AIIB—to help Pyongyang proceed down that road. Economic benefits from this process could change Pyongyang’s suspicious attitude towards the U.S. and the outside world.

This could also change Pyongyang’s purportedly existential need for nuclear weapons. With increased awareness by the average North Korean of his relatively poor plight and with rising expectations for a better life, the threat to regime survival could indeed be internal from a restive population. Rising prosperity as a result of a North Korea that buys into the international economic order would provide positive incentives for good relations with the global financial community. At some point Kim Jong Un may realize that his grip on power may very well depend more on growing the economy than on building a bigger and better nuclear arsenal. The sooner this happens, the better for the people of North Korea and for peace and prosperity on the Korean Peninsula.

*PacNet commentaries and responses represent the views of the respective authors. Alternative viewpoints are always welcomed and encouraged. Click [here](#) to request a PacNet subscription.*