



Can North Korea Prioritize Nukes and the Economy At the Same Time?

By Rüdiger Frank

It has been more than 10 years since North Korea announced its 'Military First' policy, even though prior to that the militarization of the country at the expense of the economy and the wellbeing of its people was already evident to any observer.

But in what may signal a significant modification — if not an abandonment — of that policy, North Korean leader Kim Jong Un has put economic development on a par with the country's pursuit of nuclear weapons. Rüdiger Frank examines whether Pyongyang can actually afford to pursue both goals simultaneously.

ON MARCH 31, 2013, North Korean leader Kim Jong Un, in a speech to the plenary meeting of the Central Committee of the Workers' Party of Korea (KCNA 2013), announced a strategy to simultaneously pursue economic development and nuclear weapons, a concept that Kim expressed by using the term *byungjin*,¹ which literally means "move two things forward simultaneously." It was coined back in 1962 by Kim Il Sung, founder of the Democratic People's Republic of Korea and the current leader's grandfather (Kim 2013).

The two questions we need to ask are: What does it mean, and can it work? From a methodological point of view, it must be admitted that the answers will involve a good bit of educated guesswork. But since the topic is North Korea, it is justifiable to hope for some tolerance from readers in this regard.

THE MEANING OF BYUNGJIN

It is helpful to remember that Kim Jong Un's March 31 speech was by no means the first time that a North Korean official has announced the simultaneous pursuit of major policy goals. Many New Year's editorials — which are a traditional outlet for important policy statements in North Korea — as well as speeches at the annual parliamentary session have included formulations such as "this year, priority will be given to the development of sector A," only to be followed a few sentences later by "and we will also give priority to B," and somewhat later by "priority will be given to C as well." Analysts of North Korea, baffled but under pressure, would look at the order in which the various sectors of the economy were

¹ *Byungjin* has by now become widely established in the western media, so for pragmatic reasons I was this somewhat arbitrary romanization of the Korean term 병진 (*pyŏngjin*).

mentioned to try and rank their priority, but that often proved to be a rather weak argument.

This is not to say, however, that Kim's latest announcement of *byungjin* was just empty rhetoric. The key issue to consider is that unlike in parliamentary reports on the economy, the North Korean leadership more than a decade ago very explicitly declared its No. 1 priority: *sŏn'gun*, or the "Military First" policy. I still have major doubts whether the name of this policy really had to be understood literally, because it was hard to imagine how North Korea could become even more oriented toward militarization. It was equally hard to believe that the military would indeed be given a political role independent of, or even as a competitor to, the Party. But that is not the point here. If we look at Kim's *byungjin* announcement from this point of view, it very obviously means the official end to *sŏn'gun*. No matter how the state media have tried to argue away any impression of a contradiction, "military first" and "economy and military at the same time" logically cannot be the same, not even in North Korea.

If we think about the short-term historical context of the *byungjin* announcement, we might wonder about the reconciliatory nature of this policy and the timing of its introduction. Removing national defense from being the sole the top priority took place at a time when massive verbal abuse and accusations were exchanged with the United States and South Korea, including the threat by North Korea to use nuclear weapons against American bases in Guam.

To me, the end of *sŏn'gun* is thus the main meaning of *byungjin*. In addition, it reaffirms North Korea's claim — included in the country's constitution — to be a nuclear-weapons state, and is an early attempt by Kim Jong Un to leave his own ideological mark. That he did so by using a term coined by his grandfather is not without elegance, because it kills two birds with one

stone: it reinforces the message that Kim Jong Un is a kind of modern reincarnation of the nation's founder and most powerful symbol, and it suppresses potential criticism of the inconvenient truth that the now-defunct *sŏn'gun* was a policy of his late father, Kim Jong Il. Not that such a move away from an established policy would have been too much of a problem in principle; the often overlooked essence of the *juche* ideology is its flexibility, giving the leader complete freedom to do whatever he sees fit under the present conditions without being too much hampered by tradition. Nevertheless, the de facto cancellation of the key ideological line of his predecessor is not a minor issue for a new leader who is supposed to exhibit maximum filial piety on all occasions.

There is no reason, however, to interpret the announcement of *byungjin* as erratic or arbitrary. In a way, returning economic policies to the same level previously held exclusively by the military is consistent with the political line promoted by Kim Jong Un from day one of his rule in late December 2011. As I argued back then (Frank 2012), his emphasis on improving the material living conditions of the North Korean people has been obvious and strong. If the new leader intends to base his claim to legitimacy on the promise that his rule will make people live not only happily, but also affluently, then he has to adjust the ideological foundation of such an approach. Rather than replacing the military priority with a new economic priority, he upgraded the latter and thus, in both de facto and real terms (although somewhat subtly), downgraded the former. *Byungjin* looks almost like a Solomonic decision.

HOW REALISTIC IS BYUNGJIN?

While I believe that my interpretations are much more than just the kind of ivory-tower musings that only a long-time North Korea specialist would regard as relevant, we should not forget



A military air: North Korean People's Army soldiers participating in a musical and artistic performance at the People's Palace of Culture in Pyongyang in 2007 to promote the then paramount political philosophy of *sŏn'gun*, which places the military at the highest level of society. Photo courtesy of KCNA

the very practical question: can *byungjin* work? In the end, nobody escapes the laws of gravity. The same is true for politicians who, despite lofty ideas about the wonderful projects they would like to see implemented, cannot avoid questions about the resources necessary to realize them.

Two issues need to be considered: political and economic feasibility. On the political side, only if the military were a political force in its own right would we expect any serious pushback. While I agree that the military is powerful, I do not believe that it has the potential to make Kim Jong Un do what it wants. Only the Party, an instrument of the leading families, calls the shots in North Korea. The lack of any noticeable political fallout from the announcement of *byungjin* is thus not a major surprise.

What I find more noteworthy is the economic side. If a poor country, and few would doubt that North Korea falls into this category, decides to increase spending in one area, one would expect either a decrease in spending elsewhere or a significant boost in overall revenue.

SPENDING ON THE RISE

However, there are no indications that spending has decreased anywhere. On the contrary, we even have evidence of *increased* state spending. The introduction of an additional school year, as announced in autumn 2012, has pushed up the costs of social policies. Huge sums have been poured into showcase projects such as various entertainment facilities such as the Munsu Water Park, the Rungrado Dolphinarium, and most

recently, the Masikryong Ski Resort, to name only a few. These have certainly involved substantial costs not only in North Korean won, but also in hard currency, which is in short supply in the country and could have been used, despite sanctions, to make productive investments.

This is not all. Numerous monuments have been built, including the remodeled Kim Il Sung statue on Mansudae Hill in Pyongyang and the newly added and already-once-redone Kim Jong Il statue in the same location; the renovated Victorious Fatherland Liberation War (aka Korean War) Museum; the cemetery for Korean War heroes; and many smaller projects such as the new Kimilsungia-Kimjongilia greenhouses. We should also not forget the massive resources that went into updating slogans by adding Kim Jong Il's name, and the many new slogans that are carved into granite rather than being painted on wooden boards. Such investments might pay off ideologically, but not economically.

Beyond these facilities and monuments, major construction projects have included residential buildings such as, most prominently, the Mansudae Apartments and two high-rise buildings for the faculty of Kim Il Sung University. These are just the tip of the iceberg; countrywide, visitors have reported a construction boom of sorts.

WHERE DOES THE MONEY COME FROM?

However, North Korea is not a market economy with predominantly private ownership of the means of production. The state is in control, at least officially and legally. Reality differs somewhat, as we know. Restaurants, shops and recently also gyms seem to be tolerated by the state. But that's just about it. This is important if we think about returns on state investment.

Since the bulk of the North Korean economy is owned by the state, construction is not an investment that can hope for a return. It is mainly just

spending, a one-way street. To be sure, construction does produce added economic value, but not necessarily for the state. As defectors and insiders report, there is a huge gray market for apartments in North Korea. The first batch of tenants receives the new apartments based on some kind of merit; but soon, many of these lucky ones trade their rights to those fancy places to those who can pay for them. Since rents are heavily state-subsidized, and North Korea has no value-added or turnover tax, the state neither benefits from renting out the apartments nor from the sales. But it bears the brunt of the costs.

Not too much is to be expected from the small, quasi-private sector in terms of generating revenue for the state. When it comes to private business, the country is stuck in a low-level equilibrium trap due to, mildly speaking, unreliable property rights. A reasonable businesswoman would try to make her cut at the end of the day, and then wait to see what the next morning brings, rather than planning ahead and risking losses due to some unpredictable change in policy, the greed of a state official, the mistrust of a puritan Party functionary or simply the envy of her less entrepreneurial neighbors. Against this background, the purge and execution of Kim Jong Un's uncle, Jang Song Thaek, has done many things (Moon 2014) but it certainly did not improve the morale of private businesspeople in North Korea.

If no resources have been saved elsewhere, but at the same time spending has increased, then we would expect a rise in state revenues to re-balance the national account. Such revenue hikes could come from reforms that would boost productivity or from an expansion in foreign trade. But while there have been rumors about new economic policies, including the so-called 6.28 Measures of 2012 (IFES 2013), there is no evidence so far of a major change in direction that would result in a breakthrough for the

economy, which still suffers from the typical inefficiencies and distortions of a state-owned, bureaucratized socialist system. In other words, dramatically increased revenue from economic reforms is a no-show.

Trade remains to be considered. Is this where the money for all those new projects comes from? But the country is subject to sanctions that are taken very seriously by most of its neighbors and, most importantly, by the United States. Few countries or companies are stupid or greedy enough to ignore the fact that trading with North Korea will put them high on Washington's watch list while simultaneously harming their reputation in the eyes of the world, their clients and business partners. China is about the only exception, but for rock-hard pragmatic reasons, not because of some bizarre romanticism.

Trade with China, which accounts for more than 80 percent of North Korea's total trade, is no doubt significant, according to the Korea Trade-Investment Promotion Agency (KOTRA) and based on data generated through reverse statistics. Bilateral trade reached US\$6.45 billion in 2013, and more importantly, North Korea's trade deficit has been reduced by 25 percent thanks to faster growth in exports, mainly minerals, compared to imports (Yonhap 2014). This sounds good, but is it good enough?

SO IS BYUNGJIN FEASIBLE?

In the absence of any reliable figures on the cost of the bread-and-circus policies of Kim Jong Un, we are left to speculate on whether the increase in bilateral trade with China has been sufficient to finance the increase in the North Korean state expenditures. My guess would be no, but it is really just that, a guess. Perhaps Pyongyang is living on its reserves, which would be disturbing, because these are naturally limited. Or perhaps international sanctions are less effective than

we think, and the country is generating revenue from sources that have not been fully disclosed.

So far, we cannot be sure that the financing of the *byungjin* policy is economically and strategically sustainable. Neither living on one's reserves nor increasing dependency on an already monopolistic trading partner with obvious political interests in the Peninsula seems to be a good idea from a Korean perspective. Perhaps this is why Pyongyang has accepted Japan, until 2002 its main trading partner, back in talks about diplomatic and economic normalization. In the long run, economic reforms would be the best choice to provide a stable source of increased state revenue, and I believe that the North Korean leader will eventually reach the same conclusion. But we don't yet know when and under what conditions that will happen.

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