

North Korea: Open For Business?

Stephanie Kleine-Ahlbrandt, The Global Observatory | 13 Jan 2012

“You won’t believe this is North Korea,” said our local guide during a trip to Rason three months before the death of Kim Jong-Il.

We were standing in the lobby of the city’s prize tourist attraction, the Hong Kong-invested Emperor Hotel & Casino, a stunning five-star seaside resort where guests pay a minimum of \$500 to gamble. The opulently decorated rooms with 30+ TV channels are rented only to the Chinese, who are whisked directly in and out of the hotel from the Chinese border by a crimson Humvee. Later, we visited the Rason Bazaar, full of locals haggling animatedly for Chinese goods that ranged from clothes to bicycles to DVDs to washing machines—all at black-market prices. Markets are illegal in North Korea and the regime episodically cracks down on those that have sprung up to compensate for the country’s failing food distribution system.

Yet beyond the sparkle of the Emperor Hotel, the majority of Rason’s approximately 200,000 residents still live in dire poverty. Vehicles with huge speakers still blare sŏn'gun("military first") propaganda throughout the city. North Korea has prioritized the Rason Special Economic Zone primarily to generate much-needed foreign capital ahead of the Kim Il Sung centenary celebration this April. Some of this cash is funding a construction boom in Pyongyang to give the city a facelift before the celebration.

But the presence of cell phones, Coca Cola and taxis in Rason are signs of a superficial economic opening rather than evidence of systemic reform in the country. Kim Jong-Il never embraced economic reform and opening advocated by China, and his successor, Kim Jong-Un is very unlikely to do so.

According to my hosts, Kim Jong-Il was personally overseeing Rason’s development, bypassing Pyongyang’s central administration. Local officials boasted of labor costs of \$80 per month and a revised trade law allowing significantly reduced income taxes on foreign investors and full repatriation of generated profits. Officials told us there was a strict prohibition on seizure and nationalization of foreign assets, though they had recently confiscated \$450 million in a tourism project by South Korean company Hyundai. We were also told that there would be no “rioting for higher salaries” in Rason.

At the same time, officials were honest about their daunting to-do list. Rason has weak infrastructure and regular power blackouts. Local officials lamented that the bordering three Chinese provinces were not interested in providing power, but they had some interest from Yunnan, Taiwan, and a Korean-American company; the latter would sell second-hand wind power through Russia.

Beijing’s economic push

Throughout 2011 Pyongyang turned to Beijing for increased support as it faced a food shortage and preparations for succession. According to one Chinese analyst, “The North is using us. They know they will need some support for the succession, and the support could only come from China.” In return,

China asked that the authoritarian state make progress in the economic arena and refrain from deadly provocations, such as the 2010 sinking of the Ch'ŏnan and the shelling of a South Korean island. A better economic situation in North Korea would ensure China a more stable neighbor and fewer refugees while facilitating China's plans for developing its northeastern provinces through access to Rajin's ice-free port and North Korea's raw materials.

Low prospects of reform

But Kim Jong-Il feared that instead of leading to Chinese-style economic growth, reform in North Korea would engender an East German-style collapse. While the regime has dabbled with economic openings to try to attract foreign capital, there are no signs that it has been willing to undertake any of the long-term structural reforms that would be needed to spur genuine national economic growth. While an increasing number of North Koreans know that they are significantly behind the rest of the world, a sudden, significant inflow of outside commercialism and information would risk destabilizing the regime, which is built on propaganda and lies.

Thus, instead of genuinely opening up its system, North Korea has engaged in "mosquito net reform" such as that in Rason: maintaining an overall web of tight control while selectively allowing in pockets of foreign investment under controlled circumstances. Projects are fashioned so that elites continue to capture the rents with little meaningful transfer to the rest of the economy. Electric fences and tight internal security around North Korean workers in Rason ensure that the zone is well separated from the rest of the country.

Kim Jong-Un is as unlikely to engage in reform and opening as his father. Kim Jong-Un took over leadership of the reclusive nation at the tender age of 29 without having consolidated his power. He will be unlikely to rock the boat with bold moves. In the current political context, even if he were inclined towards reform – and there are no signs that he is -- he would find it almost impossible to deliver the successful economic reform-based growth necessary to compensate for the legitimacy lost by exposing the propaganda. Reforms would require the young leader to abandon the command economy and renounce the very same state ideologies and political legacies of his father and grandfather which form the basis of his own legitimacy. Experiments like Rason are therefore likely to remain the exception rather than harbingers of wider North Korean reform and opening.

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