

How Kim Jong-un can bring his economy in from the cold

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In the early spring of 1990, Pyongyang was more prosperous than many foreign analysts, who had never been there, had thought. The CIA, for decades, had believed the country was on its knees, on the verge of economic collapse, although the Agency had not had any first-hand contact there.

Subventions from the Soviet Union had been important in supporting the economy, but then it was able to trade freely with the world and especially the former Communist Bloc and China. In the twin-tower Koryo Hotel where all foreigners were housed, Japanese presence was obvious everywhere, especially in the module bathroom units, crockery and elevators. Official cars were new Mercedes Benz paid for in gold bars on delivery. Belgium diamond traders were having their diamonds cut where the work force was disciplined and, most importantly for the diamond industry, trustworthy – the workers dare not steal. French textile manufactures were busily relocating from Hong Kong, where wages were rising rapidly, and China was too bureaucratically complicated, to North Korea where the workforce was cheap and the workers highly disciplined.

For two years, counsellors from the Australian Embassy in Beijing went to Pyongyang to engage with officials to try to encourage some engagement with the region outside the Communist world. The visits were with the knowledge of Washington, Tokyo and Seoul. My visit was in the second year, 1990. We were also trying to gain North Korea's support for Melbourne's ill-fated attempt to host the 1996 Olympics. When the North Korean Olympic delegation transited Beijing, they cleaned out all the mini-bars in their rooms at the then new fashionable China World Hotel.

In the week I spent in Pyongyang in April 1990, as the Australian Embassy's economist, I diligently and earnestly set about writing a report on the state of the North Korean economy. Before my posting to Beijing, I had been the Office of National Assessments' economist working on China, Taiwan, South Korea and North Korea. In those days, China and North Korea were boutique interests.

Most of the information we had on North Korea came from the CIA, but it was all second-hand. It always had the Democratic People's Republic of Korea (DPRK) on the verge of collapse, but somehow the DPRK went on from year to year. It seemed to me that we were underestimating the resilience of the country, its resources and the economic interests that countries such as the Soviet Union and Japan had in supporting the DPRK.

During the week that I was there in 1990, I visited all the major ministries – finance, planning, trade and commerce, agriculture, industry – the National Bank and trade associations. In the Hotel Koryo, any foreigner I saw I struck up a conversation with and quizzed them about what they were doing in Pyongyang.

At the end of the week and being fully alert to the official lying and falsifying of data, and after a trip out to the coast that enabled us to observe the countryside and seeing fledging tiny farmers' markets, I began drafting my report. The conclusion was that DPRK was wealthier than western intelligence and media commentators believed. It seemed – as a best guess – that the DPRK's living standards were about on the same level as China's central Shanxi Province at the time. China was then still poor, and Shanxi was well below the national average, but it was not destitute. The difficulties were to come much later for the DPRK when Soviet support was withdrawn and there was a series of harvest failures in the mid-1990s.

A step too far

The heroic prediction in my report was that it would be just a matter of a few years before the DPRK pursued Chinese-style economic reforms and began to open the economy to the outside world. In that, I joined a distinguished group of diplomats, intelligence analysts and western journalists who have continuously got the DPRK wrong. In mitigation, then China's market-oriented economic reforms and its opening were minimal. For the DPRK to do what China had done by 1990 would have been a relatively small step, but it was a step too far for the political leadership.

Seventeen years later, when I returned to Pyongyang to present my credentials as the non-resident ambassador, nothing had changed except the country was more run-down and poorer than it was on my first visit.

Happily, my call in 1990 that the DPRK would follow Chinese-style economic reform, was not a career-limiting bad judgment. But could it have been just 28 years too early? Following the Singapore summit, is the DPRK under Kim Jong-un

about to change fundamentally and follow China in opening its economy to some extent and allowing markets to play a greater role in allocating resources?

Perhaps. It is not just that Kim is a young leader and may wish to break from the past isolation of his country. More importantly, he may, unlike his father and grandfather, now feel secure with China as the guarantor of DPRK's security and as a proven model of an authoritarian market economy where the ruling elite is able to allow markets to operate, engage with the outside world and yet still remain in power.

What has changed since 1990 is that China is stable, economically prosperous and the Communist Party remains firmly in control. Indeed, the modern technology of political control is likely to ensure that this continues, and dissent is totally suppressed. This would all be highly attractive to the young Kim. China is also militarily powerful and could now credibly provide Pyongyang with a security guarantee.

While Donald Trump may seem as if he is prepared to accommodate the DPRK with only a weak understanding on denuclearisation, Kim is unlikely, as with Xi Jinping, to see this as something that might outlast Trump's presidency. What then has changed is not Trump, but China with a stable, authoritarian leadership that has both military power to defend the DPRK and with the means internally to control political dissent while allowing markets to operate and trade and investment to flow. This is the new reality that Australian foreign policy has yet to come to grips with. And Chinese-style economic reform could well begin in the DPRK.

North Korea is a resource-rich country that has been appallingly mismanaged in the interests of the Kim ruling family and its clique.

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