

# Mongolia-DPRK Economic Relations

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## 1. Introduction

In the foreign policy concept of Mongolia, which was updated in 2011, it states that Mongolia shall strengthen its position in Asia and secure a constructive participation in the political and economic integration process in the region. Within the framework of this objective, greater attention shall be given to Asia and the Pacific region, in particular to Northeast Asia. Mongolia shall take an active part in the process of initiating dialogue and negotiations on the issues of strengthening regional security and creating a collective security mechanism. The prerequisites for participating in regional integration shall be created primarily through expanding and promoting bilateral relations with the countries in the region.

From this point this paper discusses: How will the recent changes in the DPRK under the new leader Kim Jong Un affect the bilateral relations between Mongolia and the DPRK?; and what type of option strategy would Mongolia use?

Keeping these questions in mind, a brief overview of the recent situation and the prospects for the DPRK's new economic reforms is discussed in Part 2. At the beginning of 2012, the Eurasia Group ranked the DPRK fifth in the Top Risks for 2012 and focused on instability in the power succession process following the death of former leader Kim Jong Il on 17 December 2011. Many DPRK analysts said that 29-year-old Kim Jong Un is too young and inexperienced to lead a country. However, the new DPRK leader is increasing his position and leadership. Now he is officially Marshall of the DPRK, First Secretary of the Workers' Party, Chairman of the Central Military Commission, First Chairman of the National Defense Commission and Supreme Commander of the Korean People's Army. In addition, he is planning to undertake some new economic reforms. Therefore the changes in the DPRK are very important for understanding the direction of Kim Jong Un's domestic and foreign policies.

Part 3 discusses some features of Mongolia-DPRK economic relations.

## 2. The DPRK's New Economic Reforms

The DPRK still sticks to being a self-reliant socialist economy. In 2010, after 44 years, the political bureau of the Worker's Party called a top party meeting and declared it would lead the people of the DPRK to develop their own Korean version of socialism. In addition, in 2012 it declared that the DPRK will become a "Power State" and a "Strong and Prosperous Nation".

However in recent times, the centrally-planned and isolated economy has been facing some difficulties. In the first New Year message of 2012, the DPRK leadership didn't mention high economic growth. Many of the analysts say that the socioeconomic plan of the DPRK for last year has not been fully realized. The DPRK is spending almost 20% of its GDP on national defense. The DPRK's GDP per capita in 2011 was US\$1,800 and ranks 194 among the 226 countries compared.<sup>1</sup> This shows that the DPRK is still one of the poorest countries in the world. In addition, the Food and Agriculture Organization of the United Nations (FAO) said on 14 June 2012 that the DPRK needs immediate food assistance.<sup>2</sup> Earlier this year, the UN said two-thirds of the DPRK's 24 million people were suffering from a chronic food shortage. According to some data, the DPRK has a shortfall of 400,000-800,000 tons of grain every year. However, external assistance from the ROK and the United States stopped after the Cheonan incident in March 2010 and the exchange of artillery fire on Yeonpyeong Island in November 2010.

Therefore the mission of the new DPRK leader is to resolve the economic and food crises. On 11 July 2012, Kim Jong Un announced the establishment of a new economic reform. (Some sources call it the "June 28 Policy".) He will focus on "developing the economy and improving the people's livelihoods." The new policy will be implemented from September.<sup>3</sup> In my view, the new economic reform has the following characteristics:

1. This is the first step of reform announced since Kim Jong Un took power. Regarding economic reforms, in November 2009 his father approved a currency reform (exchanging new currency for old currency at the rate of 100:1) and it damaged the economy and potentially affected the lifestyle of DPRK citizens. However, many analysts have said that the changes under Kim Jong Un could follow the Chinese or Vietnamese models. Because of China's influence on the DPRK's economy, the DPRK could adopt aspects of China's economic reform policies. However, when I asked DPRK officials, they said the DPRK will undertake reforms following a DPRK style.
2. Kim Jong Un is trying to move economic decision-making power towards the government's control. It is not a secret that the army plays a leading role not only in the political life of the DPRK, but also in economic decision-making. The major infrastructure projects in the DPRK are conducted by the military, and the military has its

<sup>1</sup> <https://www.cia.gov/library/publications/the-worldfactbook/rankorder/2004rank.html?countryName=Korea,%20North&countryCode=kn&regionCode=eas&rank=194#kn>

<sup>2</sup> <http://japanese.yonhapnews.co.kr/northkorea/2012/06/14/0300000000AJ20120614001900882.HTML> [in Japanese]

<sup>3</sup> <http://sankei.jp.msn.com/world/news/120725/kor12072517250004-n1.htm> [in Japanese]

own channels to get foreign currency. Therefore Kim Jong Un and his uncle Jang Song Taek, a Vice-Chairman of the National Defense Commission, are trying to take more economy-oriented policies. Therefore the removing of the Chief of the General Staff of the People's Army, Vice Marshal Ri Yong Ho, from his posts "because of illness" on 16 July 2012 was a big step in Kim Jong Un's consolidation of his authority over the military. From Ri Yong Ho's removal, we can also suspect that it could be a sign of generational change in DPRK politics.

3. The DPRK is actively managing to attract foreign investment. According to the United Nations Conference on Trade and Development (UNCTAD) statistics handbook report, despite the UNSC sanctions on the DPRK, foreign investment in this country was US\$1,437.24 million in 2009. Furthermore, the DPRK leaders made some foreign visits in 2012, such as the Chairman of the Presidium of the Supreme People's Assembly of the DPRK, Kim Yong Nam, and two top economic officials: one is the Chief of the Joint Venture and Investment Commission, Mr. Ri Kwang Gun, and the other is the Minister of Light Industry, An Jong Su, who visited Singapore and Indonesia. In addition, the DPRK Foreign Minister visited Egypt in May 2012 and in June a delegation of the Workers' Party visited Laos, Vietnam and Myanmar.

However, with the abovementioned new changes in the DPRK, we have every reason to say that Kim Jong Un is ready to change towards a more "normal" state, but it's too early to say that the changes could bring big changes for the country's economy. On 24 July 2012, the ROK Unification Minister Yu Woo-ik said at a forum on Jeju Island that: "North Korea's recent radical changes under new leader Kim Jong Un should not simply be taken as signs for a looming reform drive", "(they) do not need to lead to a hasty conclusion for the shift to a people-first policy from the military-first policy, or for a reform or opening-up" and "Likewise, the Mickey Mouse performance should not necessarily mean a signal for reform and opening-up."<sup>4</sup>

The top priority of DPRK national policy will still be ensuring regime security. Therefore the system will be unstable for the time being and the risk of a nuclear test continues on the Korean Peninsula. The DPRK's rocket launch on 13 April 2012 ended in failure, and in May 2012 Pyongyang proclaimed itself as a "nuclear state" in its new constitution. In addition, the DPRK could be preparing for its third nuclear test.

### 3. Mongolia-DPRK Economic Relations

"We will keep the channel warm with North Korea" Mongolian Prime Minister S. Batbold said in an interview with Bloomberg Television on 21 July 2012, in Beijing<sup>5</sup>

Considering the new changes in the DPRK under new DPRK leader Kim Jong Un, the recent situation and the prospects for the bilateral relations between Mongolia and DPRK can be described as follows:

*First*, Mongolia has maintained close relations with the DPRK for the past sixty years and the relationship between the two countries is developing in the fields of politics, economy, culture, education and health. However there is no trade link at all between the two countries.

Both sides are paying a lot of attention to their growing economic relations. For instance in May 2005, the DPRK Deputy Minister of Food and Agriculture visited Ulaanbaatar and the two sides discussed building a joint farm in Mongolia. In 2007, the Chairman of the Presidium of the Supreme People's Assembly of the DPRK, Kim Yong Nam, visited Mongolia and the two parties signed bilateral cooperation agreements on trade, marine transport and labor force exchange. In addition, in 2010 an MOU on economic and trade cooperation development was signed between the Rason Municipality of the DPRK and the Ministry of Road, Transport, Construction and Urban Development of Mongolia.

Mongolia's securing of sea access to the Pacific via DPRK ports is highly strategic and could reduce its dependence on Chinese and Russian transit ports.<sup>6</sup> However, there is no movement on developing the access to the DPRK ports. In late 2011 China had already agreed to invest 19 billion yuan (US\$3 billion) into Rason, for which it would receive the lease of three piers for 50 years.<sup>7</sup> Therefore, we should undertake more research on the potential sites for the expansion of port and industrial facilities.

*Second*, currently over 2,000 DPRK citizens are working in several of Mongolia's industrial sectors, such as construction, light industry, health, agriculture, mining, the processing industry, and food. According to the Intergovernmental Agreement between Mongolia and the DPRK on Exchanging Labor Force, the Mongolian government does not impose employment taxation on DPRK citizens. However, the Mongolian Ministry of Social Welfare and Labor may impose other taxation on DPRK workers. According to the DPRK side, if the Mongolian government were to impose a US\$210 tax per person, there would not be any other option for the DPRK workers except going home, since working in Mongolia would not be beneficial for them. Therefore, the DPRK proposes that the Mongolian government should continue to not impose taxation on DPRK workers.

*Third*, during a talk with a DPRK official it was noted that "Self Reliance: Key to Independence", the Juche idea to develop independently relying on one's own strength, is

<sup>4</sup> [http://www.koreatimes.co.kr/www/news/nation/2012/07/120\\_115862.html](http://www.koreatimes.co.kr/www/news/nation/2012/07/120_115862.html)

<sup>5</sup> <http://mongoliaeconomy.blogspot.com/2012/07/north-koreas-ports-mongolias-gateway.html>

<sup>6</sup> Batchimeg M (2006), "Mongolia's DPRK Policy", *Asian Survey* 46: 275-297

<sup>7</sup> <http://www.nkeconwatch.com/category/economic-reform/special-administrative-regions/rajin-sonbong/page/2/>

not an idea only for the DPRK. Mongolia should seek a method to mobilize a consciousness of the people to develop independently and to have an independent economic policy and protect itself from economic globalization.<sup>8</sup> In fact, the DPRK didn't become a member of COMECON in the former socialist system. However, the People's Republic of Mongolia became a member of COMECON in 1962. The two countries haven't joined in any regional economic integration to date, and in particular are not members of APEC. The "Voice of Russia" radio station mentioned in their news of 8 June 2012 whether it would be useful or of consequence to include our two countries in integration. This news also mentioned that although Mongolia had become a member of the World Trade Organization and the Asian Development Bank, it was unclear whether Mongolia would become a member of APEC. Russia will organize for the first time the 24th APEC summit meeting in Vladivostok in September 2012, and it would be possible to invite Mongolia and clarify its position. Making the DPRK closer to APEC would be one method to make it more open. Therefore, they discussed also inviting the DPRK to Vladivostok for the summit meeting. Consequently at this time, when it is unclear whether APEC will discuss new membership during the summit meeting, it would be better for Mongolia to explain its position on becoming a member of the organization and matters relating to involving the DPRK in Northeast Asian integration.

*Fourth*, the other countries in the region, such as the ROK and Japan, have been sensitive to Mongolia's relations with the DPRK. For example, the Japanese side once proposed that Mongolia, like Laos, should avoid being too

close to the DPRK. As an independent, democratic, and sovereign state, Mongolia has every right to cooperate with the DPRK in various fields, including the political sphere, economy and trade. Mongolia develops its relations with the DPRK by distinguishing between the political and economic spheres, but there is a lack of information on these matters. Therefore, Mongolia should take into consideration that the lack of explanation could lead to negative tendencies, such as distrust by other countries.

*Fifth*, analyzing the developments in the first half of 2012, it is clear that the DPRK leaders do not have any intention to let go of the "nuclear ace" they are holding in their hands. According to the constitutional amendment on 13 April 2012, the DPRK issued an announcement that it had become a "nuclear state." However, on 20 July 2012, the DPRK announced it was reconsidering whether it would abandon its nuclear program. It is likely that the process to restart the Six-Party Talks, which are the only way to find a peaceful resolution to the DPRK's nuclear program, will be delayed for the longer term. However, Mongolia should study the possibility of organizing a Northeast Asia Security Forum, a Northeast Asian Defense Ministers' Meeting or a Young Researchers' Meeting of the Northeast Asian Countries by exploring its advantage of having diplomatic relations with all the participating states of the Six-Party Talks. In particular, if we have the DPRK participating in these meetings it will increase both Mongolia's reputation and the importance of these meetings. Next September we are planning to exchange views on this issue with the DPRK's International Affairs Institute, with which our institute is cooperating.

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<sup>8</sup> An interview with the North Korean delegation, 2010, Ulaanbaatar