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A Comparison of NK Economic Measures Against Economic Reforms In China and Vietnam

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Agenda

I

Reform and Opening Process of NK, China and Vietnam

II

**A Sectoral Comparison of NK Economic Measures
Against Economic Reforms in China and Vietnam**

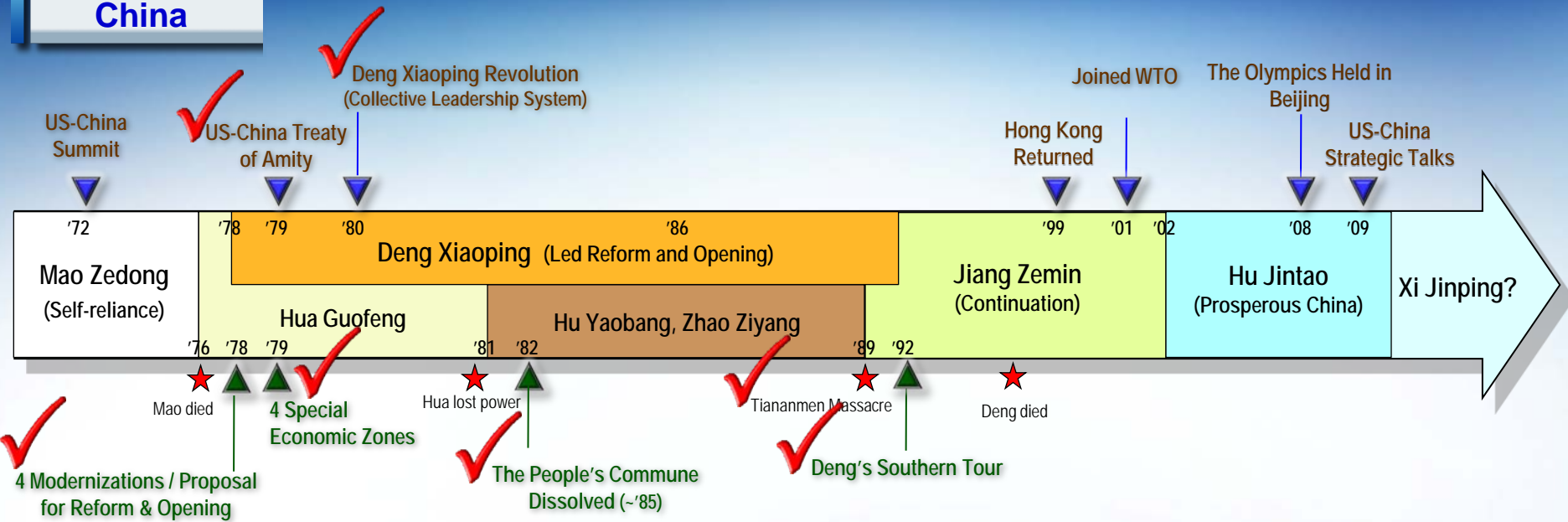
III

Overall Assessment

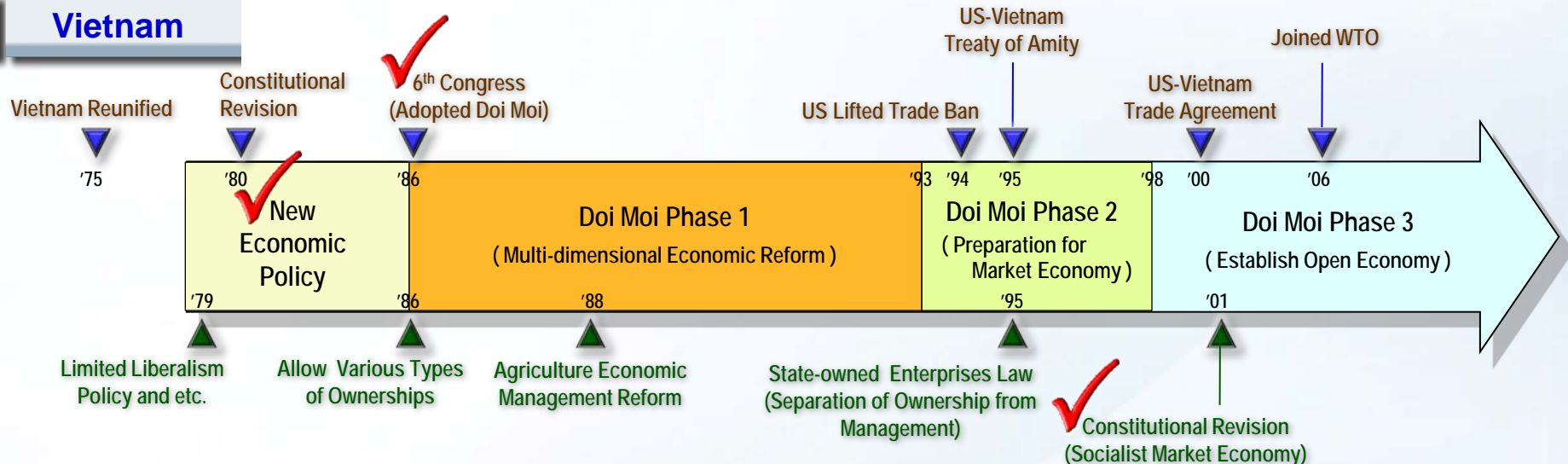
Reform and Opening of China & Vietnam

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China

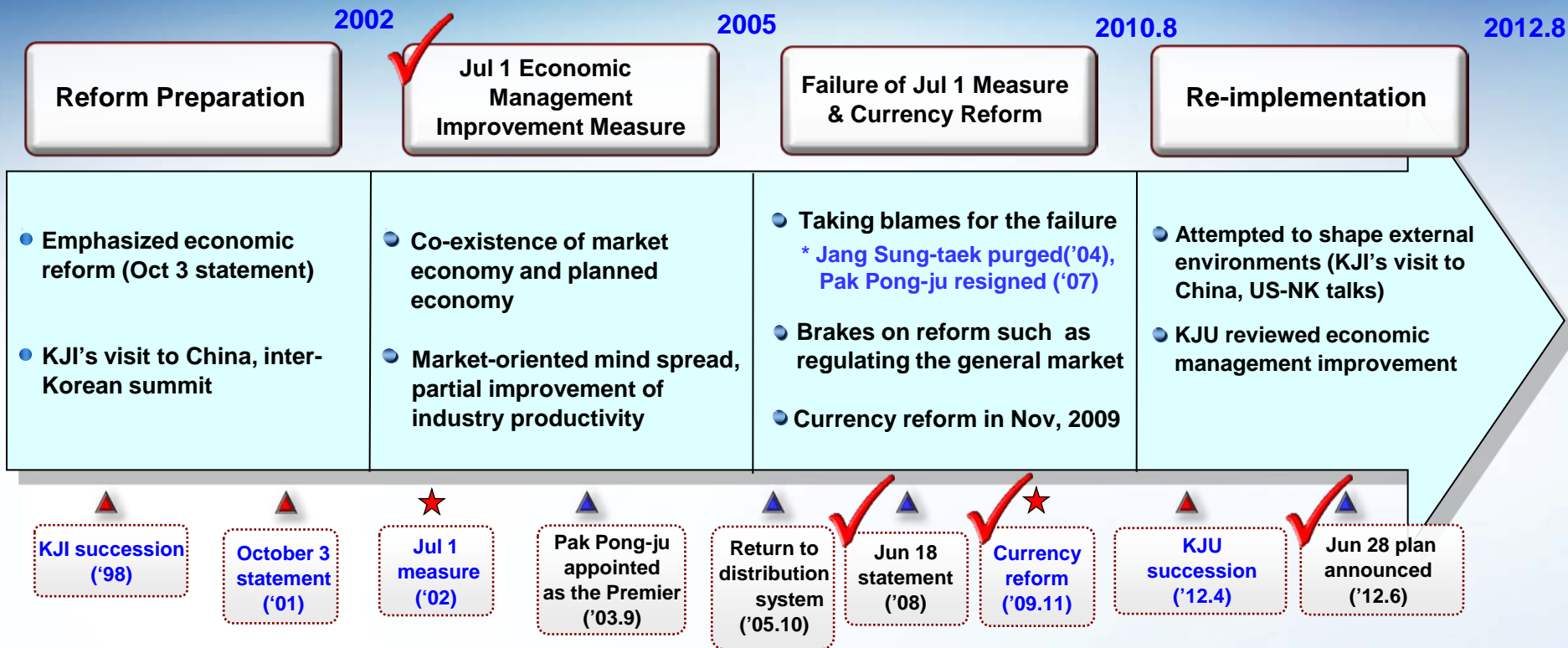


Vietnam



NK Economic Reform

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Economic improvement measures taken by NK are **similar to the initial phase** of the Chinese reform, but not yet up to the mark

Agriculture

China

Massive
Work
group

Production by
sub-work teams
and
contract labor
(`79)

Household
contract
production
(`80~`82)

Household
contract
management
(`80~`84)

Extended
lease
period
for land
(`84)

Dissolved
the
People's
Commune
(`85)

Vietnam

State farm/Co-op
(Early 80's)

End-product
contract system
(`81)

Separated land
ownership from
land use right
(`87 New Land
Law)

Allowed
sales/inheritance/
mortgage/lease of land
(`93 Land Use Law)

NK

- Similar to Household Contract Production (China) and End-product Contract System (Vietnam), but not yet up to the mark
- **Household Contract Management, segregation of the right of land use** means de-facto transition to privatization of land
- ※ In order to sustain productivity in the long run, necessary to **grant long-term land use rights**

Industry

China

Decentralization and improvement of incentive system ('78)

Introduced tax system (利改税, '83~'84)

Separated ownership from management rights (Law of Industrial Enterprises, '88)

Enterprise property rights, stock system (Law of Industrial Enterprises, '93~'99)

Vietnam

Introduced self-supporting accounting system ('79~'85)

Promoted independence and responsibility in corporate management ('87~'89)

Separated ownership of state-owned enterprise from management ('95, State-owned Enterprise Law)

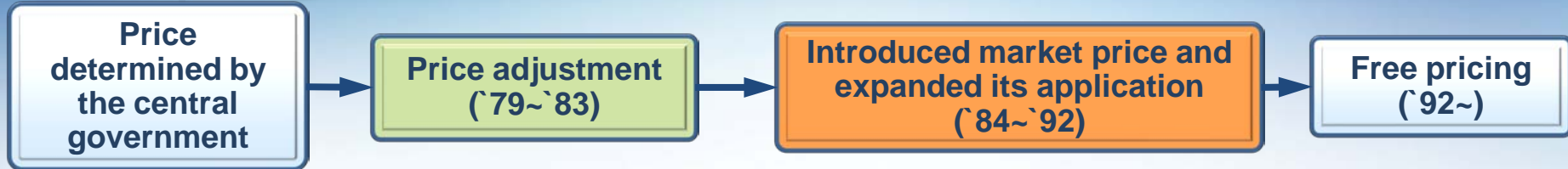
Equitization of state-owned enterprise ('96~)

NK

- Attempts to give greater autonomy within the framework of planned economy in order to improve efficiency of corporate management
- For economic reform, necessary to allow full autonomy in management and to review the property rights

Market Price

China



Vietnam



NK

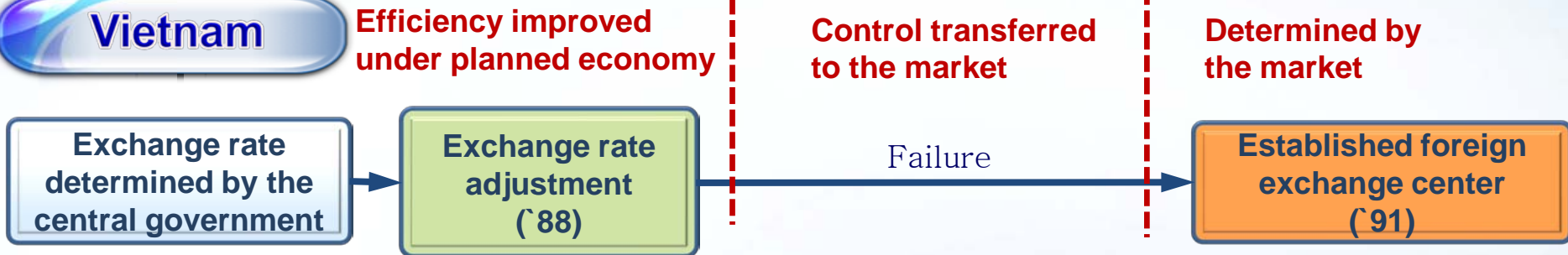
- Remaining at the phase of Price Adjustment in the Chinese case, significantly different from the radical free-pricing of Vietnam
- Free-pricing means **surrendering direct control of economy**, may result in rapid inflation
- This is of concern, but necessary to **decentralize the rights to determine price** and **expand applications of market price**

Exchange Rate

China



Vietnam



NK

- Undergoing the price adjustment phase while maintaining the fixed exchange rate system (official/market dual exchange rate)
- In the future, important to take notice of possible transfer of control to the market through **free foreign exchange trading**

Financial System

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China

Single banking
system by PBC
(1979~1984)

Diversification of
financial institutions
(1979)

Separation of central
and commercial
banks
(1983)

Building of financial
system / introduction
of market mechanism
(1992~1999)

* PBC: People's Bank of China

Vietnam

Single banking system by
Vietnam National Bank
(~1988)

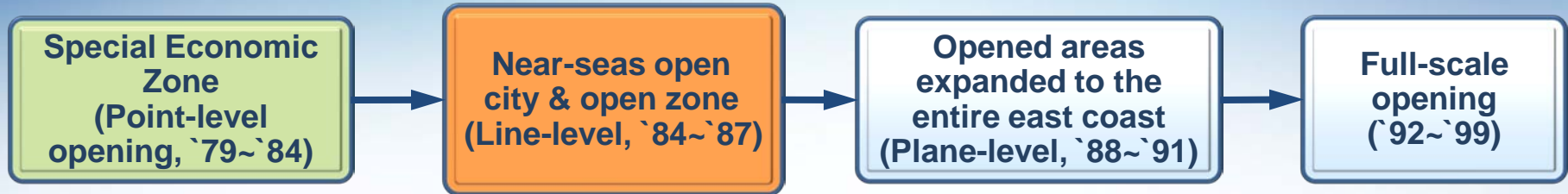
Separation of central and
commercial banks (1990)

NK

- Maintains single banking system by the Central Bank of DPRK
- **Establishment of dual banking system and financial market mechanism is key to financial reform**

External Opening

China



Vietnam



NK

- Despite the designation of Special Economic Zone since 1991, limited to minimizing the regime's risk and simply procuring foreign currency
- Decisions to **full-scale opening** are the core indicators measuring NK's will to reform

U.S. Relations

China

Soviet
supremacy
surfaced

US-China joint
response and relief
of
economic
sanctions

Nixon's visit
to China
(`72)

Normalization
of diplomatic
relations/
Trade
agreements
signed
(`79)

Joined
International
Financial
Institute
(`80~`86)

Vietnam

Unification
of Vietnam
(`75)

Relations
normalization
roadmap (`91)

Sanctions
relieved
(`94)

Established
diplomatic
relations (`95)

Trade
agreements
signed
(`00)

NK

- NK-US talks in stalemate since the missile launch (April)
- **Progress on the nuclear issue** must be made in order to improve NK-US relations

China / Vietnam / North Korea

Initial Conditions for Economic Reform

Conditions		China	Vietnam	North Korea
Economic	System	Socialist Planned Economy	Socialist Planned Economy	Socialist Planned Economy
	Size	Large Closed Economy	Small Closed Economy	Small Closed Economy
	Key Industry	Agriculture	Agriculture	Manufacturing
Non-economic	System	Communist Party System	Communist Party System	Dictatorship
	Leadership	Loose One-man Ruling System	Collective Leadership	Strong One-man Ruling System
	Foreign Environment	Few Regime-threatening Factors	Few Regime-threatening Factors	Multiple Regime-threatening Factors

➡ NK is faced with more adverse conditions than China and Vietnam

- Dilemma and Choice

**KJU's Dilemma: 'Economic Development' vs.
'Ideological Loosening'**

The essence of 'KJU's choice' is 『the depth of economic improvement』

➔ 'shallow measures to promote efficiency under planned economy' vs.
'deep measures towards substantial privatization and introduction of
market economy'

- The key variable is **the confidence in ideological and economic control**
- Factors such as KJU's statement of 'under the grip of socialism' (Jan. 28)
limit the prospects of a dramatic reform
- The future NK economic measures should be measured against **the key
indicators for each area**

(refer to next slide)

Key Indicators for Areas of Economic Reform

Area	Indicator
Agriculture	<ul style="list-style-type: none"> • Contract-based management (renunciation of state distribution) • Separation of ownership and management
Enterprise	<ul style="list-style-type: none"> • Introduction of tax system • Introduction of stocks system • Separation of ownership and management
Pricing	<ul style="list-style-type: none"> • Decentralization of pricing authorities concerning most products • Substantial increase in number of products subject to market pricing system
Foreign Exchange	<ul style="list-style-type: none"> • Establishment of foreign exchange market • Liberalization of foreign exchange trade
Financial System	<ul style="list-style-type: none"> • Establishment of dual banking system • Establishment of financial market mechanism
Opening	<ul style="list-style-type: none"> • Application of success cases of “Special Economic Zone” throughout the whole territory • Expansion of open trade areas and full-scale opening
U.S. Relations	<ul style="list-style-type: none"> • Progress in nuclear issues • Improvement of human rights