

North Korea's Economic Policy in 2010: Resolutely against the Insurmountable Tide of Market Expansion

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The new year's joint editorial for 2010 demonstrated the continuity of North Korea's domestic and foreign policy since August 2009. As for the economic policy, North Korea will reinforce the measures against the market expansion which have been gradually strengthened since 2005 and culminated in the money exchange measures at the end of 2009. North Korea would confront with daunting challenges in 2010, caused by its conservative orientation, which faces against insurmountable wave of societal and economic changes in the society and the world.

Though it began in 2005, the conservative economic orientation became a component of North Korea's new strategic posture since August 2009. After having finished offense against South Korea and the U.S. from October 2008 to July 2009, North Korea set out five policy objectives domestically and internationally: First, to be acknowledged as a nuclear weapon state; second, to negotiate Korean peninsula peace regime and to end hostile relations with the U.S.; third, to domestically construct 'economically strong state' through conservative policy and mobilization; fourth, to frame inter-Korean relations for exchange and cooperation while avoiding to discuss nuclear issues; and fifth, to endeavor strongly to attract foreign investment.

The content of new year's joint editorial was dictated by these five strategic objectives. In the new year's joint editorial, on the hidden diction of being a nuclear state, North Korea avoided hostile expressions against South Korea and the U.S. to induce and facilitate prospect for 'friendly' relations. As to South Korea, it took placatory expressions, such as 'improvement of North-South Korea relations' and 'active promotion of inter-Korean reconciliation.' As to the U.S., North Korea wanted to 'finish hostile relations between the DPRK and the U.S.' and 'to establish solid peace regime on the Korean peninsula through dialogue and negotiation.'

In truth, the joint editorial places its main emphasis not on deterring outside threat but on rearranging domestic conditions. Setting such emphasis signifies that after achieving allegedly a

nuclear state in the early 2009 and thereby having favorably rebalanced power relations with the neighboring countries, the North Korean authorities have prioritized to rearrange relations between the regime and society on behalf of the former since the late 2009 and in 2010. In this, two points could be mentioned: First, North Korea would see this year as a year of relative stability in its foreign relations so they can focus more on domestic power balance between the regime and society. Second, they would like to manage the consequences of monetary reform started in November of 2009 which meant a draconian attack on the economic activities outside of the state control, and to pressure the restoration of state sector predominance in the economy.

The keyword for domestic policy in the joint editorial is “revolutionary great surge (of production mobilization).” It was repeated 27 times. In addition, it is noteworthy that, in contrast to previous editorials, the phrases to encourage internal vigilance and those (phrases) related with ‘military first’ have significantly decreased. The frequency of the latter has reduced from 33 times in the 2009 editorial to 15 times in 2010. This implies that the regime would concentrate on the surge of production through mobilization methods, while restraining ideological and police attack on ‘anti-socialist phenomena.’ The economic management in 2010 will continue to derive from traditional communist mobilization methods. The section explaining economic management in the editorial was filled with expressions which were used during conservative economic policy: They emphasized strict central control, “total offensive,” and “the willpower,” etc.

The title of this year’s editorial, “Let’s powerfully promote light industry and agriculture and drastically enhance people’s living,” is important. In the past years, ‘light industry’ and ‘agriculture’ have never appeared in the title of the new year’s addresses of the late Kim Il Sung as well as new year’s joint editorials since 1995. In fact, the importance of the two industries and enhancement of people’s living standards has always been mentioned in the new year’s editorials, but the weight of the importance was less than that of defense industry and the four priority industry sectors including metallurgy, electricity, coal and transportation.

Considering the mobilization for agriculture is not new in North Korea, what has been newly focused is the emphasis on light industry. Though promoting light industry was considered as top priority, concrete and effective measures for implementation lacked. The real question is whether the momentary priority of light industry for 2010 can be pushed forward to cut back the established interests of ‘defense industry first’ strategy, which substituted the traditional strategic motto of ‘heavy industry first’ policy since 2002. The editorial states that “investments by the state in light industry would be drastically increased” and that “all sectors and all agencies should provide in time



raw materials and components foremost for production of light industry goods.” What follows these statements is that “foreign market should be expanded and foreign trade must be actively promoted, and thereby economic construction and enhancement of people’s living should be promoted.”

The North Korean authorities currently seem to be serious in executing their policy of promoting light industry. It is reported that after having bolstered defense power, the central party has decided on December 12, 2009 to invest 40% of defense budget in various sectors of the economy so that the ‘strong and prosperous state’ could be established and that production of consumer goods be promoted. In addition, from the reports provided by the Good Friends, a NGO, it is likely that the authorities are occupied in finding ways to increase the supply of consumer goods. The caveat is that these measures are implemented simultaneously with those to strengthen repression on market transactions, the hitherto most important and efficient supplier of consumer goods in North Korea. It is said that North Korea’s second largest Sunam market in Cheongjin, a Northeastern coastal city, will be closed soon, followed by the closure of the largest in Pyongseong city, South Pyongan province, in late June.

The effectiveness of the measures for promoting light industry is unknown. First, in reality, North Korea has never successfully implemented the policy of putting forward light industry more than the traditional four priority sectors of metallurgy, electricity, coal and machinery. In order to realize the primacy of light industry, the vested interests in distributing state resources must be broken, especially those of the defense and heavy industry. Whether it succeeds depends upon Kim Jong-il’s determination and/or the seriousness of political challenge from the society to increase supply of consumer goods. If a powerful member of the inner circle were to be named as the minister for light industry this year, it would be the concrete sign of the regime’s willingness to implement the primacy of light industry. If not, the policy will fail. Second, it is doubtful that the state’s execution of the four priority sectors to assist the light industry will be successful. Considering that North Korea has been plagued by rampant corruption, the raw materials, if they were to flow again through state industrial and consumer goods distribution network, will not be allocated according to the official plan orders, but be diverted according to the powerful smell of money from the black market.

The seriousness North Korean authorities promoting expansion of foreign trade is also questionable. It is true that they have been enthusiastic to attract foreign investment with the start of the conciliatory foreign policy since August 2009. From Lee Geun’s visit to the U.S. in late October and early November, and Council on Foreign Relations (CFR) task force’s visit to Pyongyang in



November 2009, the North Korean authorities passionately promoted their intention to encourage foreign investment. In addition, it is reported that more than 100 trade officials have been sent to Europe, Russia and China to attract investment in September 2009. The caveat is that North Korea would like to encourage foreign investment while insisting on conservative domestic policy and the status of nuclear weapon state. It seems that they don't see their posture contradictory. It remains to be seen whether they have to change their policy equation, and which component would change or not change.

This year's joint editorial demonstrated that the need for boosting light industry became politically serious. Though interconnected, we can predict two reasons: First, in addition to the traditional dire food situation, the supply and distribution of consumer goods were badly impaired by the money exchange measures in the late 2009. They dealt a blow to the production by private entrepreneurs and market transactions, which have been the major supplier and distributor of consumer goods. If the state firms for production and distribution could not succeed in drastically increasing supply of consumer goods soon, private production and market transactions will surely revive and intense inflation will ensue; second, if the predominance of state sector over private sector were to be guaranteed, the core task is to put more consumer goods and food under control of the state through promotion of light industry and agriculture. The overall objectives of economic policy, including repression of market transactions and private sectors, return of workers to the state firms, increase in operational rate of state firms and production through 'revolutionary surge' of mobilization, and strengthening state's control over economy, could not be guaranteed if the plan system would not revive and could not succeed in increasing supply of consumer goods and food.

In conclusion, while continuing conciliatory foreign policy, North Korea will concentrate itself internally on rearranging power relations between the regime and society in 2010. The joint editorial avoided tension provoking aggressive phrases both internally and externally. The economic policy would continue to focus on 'revolutionary great surge' of mobilization, thereby bolstering state sectors and repressing private activities.

From the very start of the new year, the North Korean authorities are already confronting daunting challenges. They must have rather simplistic conceptions about the money exchange measures and should have been taken by surprise with the unexpected level of economic chaos and social discontent. Since late December, the North Korean authorities have taken a policy of massive 'free' distribution of new money to state sector employees and farmers to deter political discontent to be openly manifested. It signifies that they are very serious to avert political crisis while nurturing



seeds for more grave problems for the future. The imminent challenge would be to tame exorbitant inflation which has already been accelerating. North Korean authorities are currently somewhat serious to attempt to increase supply of consumer goods. Whether they succeed in the longer term remains to be seen. It is doubtful, however, whether the state sectors could rapidly and effectively revive that the economic loss caused by crushing measures against private economic activities would be sufficiently compensated. The current policy endangers future health of the economy and possibly political stability. In addition, they are passionate to attract foreign investment while persisting on conservative domestic policy and the alleged status of a nuclear power. Whether this posture would change remains to be seen.

