

## Kim Jong Il's China Trip and Crisis for the "2005–Vintage" Regime Survival Strategy

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It appears that the economic gains from Kim Jong Il's trip to China in May were not very satisfactory. This reaffirms the reality that North Korea has hit a wall in the regime survival effort it has been pursuing since 2005. The signs were already apparent in the regime's response to the aftermath of the failure of the November 2009 currency reform measure. What exactly was this "2005–vintage" regime survival strategy? What will emerge in the wake of the crisis facing this survival strategy? And in the meantime what conflicts will arise and what problems must be resolved? This paper addresses these questions.

The year 2005 saw major changes in both North Korea's economic policy course and its leadership group. The economic reforms led by the Cabinet during the period 2000~2004 came under attack by the Central Party and were gradually reversed. The new economic policy that has gradually taken shape since 2005 can be summarized as <market repression + suppression of economic activities by military units + boosting the "state planning" mechanism + more foreign exchange–earning projects in restricted special zones and more foreign aid>. In a word, this is an "anti–reformist opening" policy.

The objectives behind this policy course are briefly explained as follows. First, the leading group was replaced along with the policy direction. The main idea was to prevent both the military and the markets from acquiring an excessive amount of economic and political influence. In the military-first era the military has gained superior economic rights and privileges (especially relative to the Party) and has played a central role in operating the economy. In addition, the markets expanded rapidly after the military-first system began in 1995. The group that benefited the most during this period is the military, which dominated the state politically at the time. On the surface of things the Cabinet, which had risen in status since 2000, was in charge of managing the policies accompanying the market's expansion. Thus in the military-first era since 1995, the Cabinet, the military, and merchants and trading companies with military backing formed three pillars of a core power confederation. But after 2005 the Cabinet-managed policies accompanying the market expansion came under attack by the conservative wing of the Central Party and gradually were pushed back. The Central Party reasserted control over the Cabinet. In addition, the Party Administrative Department and various internal security agencies took charge of enforcing suppression of the markets and military trading activities. Thus since 2005 the conservative wing of the Party, the Cabinet, and the various internal security agencies in control of the markets have formed the dominant power confederation.

Second, the conservatives in the Party who have emerged as the core faction in power, have taken this policy course in order to maximize the economic surplus under their control, minimize the surpluses that exist outside of their control, and maximize the core power group's control over the state and society. Since 2005 Party conservatives have restrained the markets and the military's economic activities while strengthening the state-managed sectors that fall under the control of the Central Party and the Cabinet. They have also been trying to expand the foreign exchange reserves and commodity import which the state and the Central Party manage directly. The representative examples of this are the establishment of new restricted economic zones such as those operated by South Korea (and China since 2009) where the North Korean authorities can raise a stable fixed income without taking on any of the business risks and maintain monopoly control of the checkpoints and pathways through which foreign aid flows. In terms of bolstering the state-managed sector, since 2005 the "planned economy" has again begun to be emphasized, but the term now differs from its classical meaning. Already the state planning system has deteriorated or lost its control over operation of state-run industries, and those industries are unable to operate without being connected to the market in various ways. There appear to be three main objectives behind the emphasis on the "planned economy": first, tightening the state-controlled net over the circulation of consumer

goods and intermediary goods and repressing the market; second, increasing regulations on payment of surpluses from state-run industries to the center; third, diverting surpluses from the centralized economy to government-prioritized industries and taking stronger steps to ensure that those orders are actually carried out. Since 2005, as these market-repressing policies have been in force, members of organizations such as the People's Security Ministry, the judicial organizations, various Party agencies, and the State Security Department have begun showing conspicuous signs of "living well," revealing the political consequences of these policies.

However, from the beginning the success or failure of this policy course has depended on how much South Korea is willing to cooperate. In fact, the golden age of this policy peaked in October 2007. At that time North Korea had a very favorable strategic environment, and it appears to have designed its long-term strategy for regime survival on that basis. First there was the second inter-Korean summit. Following that meeting the North anticipated an expansion of aid-based "cooperation," centered on newly established special economic zones. This reassured the North that it would have a stable means of earning foreign exchange and acquiring aid in the long term. Meanwhile, internally, the anti-market measures and public security mechanisms were advanced to a higher level. The Party Administrative Department was newly established and Jang Sung Taek became its director, and the anti-market policies increased dramatically. One thing of particular note is that by this time in 2007 Kim Jong Eun had already been internally promoted as the successor,<sup>1)</sup> and from around December the authorities began announcing their plan to build a "strong and prosperous nation" by 2012. Putting the anti-market measures and strengthened public security together with the push for new special zones and more foreign aid, this configuration suggests that the regime built its succession system and decided its policy for building a "strong and prosperous nation" around an expectation of long-term stability.

However from 2008 South Korea refused to cooperate, and the North's 2005 economic strategy began to run into serious trouble. Without cooperation from South Korea (and a certain other country) in supporting a foreign-currency earning plan based mainly on large-scale aid and special economic zones (without reforms), the North Korean domestic economy was effectively sterilized by the anti-market policies, inevitably inviting an economic crisis. This caused warning lights to blink on

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1) Uhm Ha Na, "Kim Jong Eun Is Not a 'Purse-Snatching' Successor, He Was Approved Internally in 2007," *Open Radio for North Korea*, April 10, 2010.

regarding the long-term plans for the succession system and the creation of a “strong and prosperous nation” by 2012, both of which were built on the presumed success of the 2005 economic strategy. Blinded by its excessive optimism, the North lost sight of the need for a wise political strategy toward the South in order to prevent the destruction of the favorable environment. For the North this can be considered a fatal error of political judgment and a policy failure. Taking the blame, many officials were purged from the organizations responsible for South Korea policy, such as the Party’s United Front Department, on the charge of optimistically misjudging South Korea’s political situation. Seeking to overcome the disastrous situation created by this political miscalculation, since 2008 North Korea has taken a series of reckless and irrational policies. As a result the North has had to pay a heavy cost and has been resigned to encountering many obstacles in the way of its planned course.

North Korea responded to South Korea’s change of heart in three ways. First, in 2009 and 2010 it retaliated with a series of strong provocations. Second, from 2007 onward it took its crackdown on the market and on economic activities by the military to the next level. As this crackdown steadily intensified, in November 2009 it executed a dramatic currency reform measure. Third and most significant, in October 2009 on the occasion of Wen Jiabao’s visit to Pyongyang, it launched concerted effort to make China replace South Korea as the North’s major partner in providing large-scale aid and operating restricted special zones for earning hard currency. Just after the November 2009 currency reform took effect, in early 2010 the Daepoong International Investment Group of Korea and the State Development Bank were created, followed by the Joint Investment Commission in July. In addition Kim Jong Il made trips to China in May and August of 2010 and again in May of 2011. The major objective behind these trips was to convince China to take over for South Korea as the major buttress of the North Korean economy through massive aid and investment in special economic zones. Following Kim’s trips to China in May and August of last year, a series of memorandums and accords were signed between North Korea and China in late 2010 and early 2011 regarding development of the Rason Economic Zone, the island of Hwanggeumpyeong, and joint development of underground resources. A key objective of Kim Jong Il’s May 2011 China visit was to finalize the resolution of various issues that had cropped up in regard to these joint projects and confer with the Chinese side.

But despite Kim Jong Il’s personal intervention three times over the past year, the North’s efforts toward China do not appear to have been very successful. China has made a very cautious assessment of the dangers and expenses inherent in doing business with the capricious and unpredictable regime. China has refused to join up with other countries and leave North Korea out in the cold, but that does not mean

it condones the North's bad behavior. The Chinese government's moves regarding North Korea have been very cautious and strategic, and it seems they have rejected the North's more unreasonable or impertinent requests. Since China has not proven as cooperative a partner as South Korea was in the past, it has become more difficult for the North to carry out its 2005 economic strategy as planned.

In fact since the failure of the currency reform became assured in mid-2010, the basis of the 2005 strategy has begun to fall apart. Here we will take another close look at the 2005 strategy and examine how its various components have begun falling apart. The 2005 policy line consisted of <market repression + suppression of economic activities by military units + boosting the "state planning" mechanism + more foreign exchange-earning projects in restricted special zones and more foreign aid>. First, the market repression policies were effectively nullified by the so-called "5.26 Directives"<sup>2)</sup> of 2010, adopted to ease the adverse effects of the currency reform failure. Second, regarding the policy to suppress economic activities by military units, this has predictably not produced the hoped-for results. As the military and the Central Party compete for special rights to foreign exchange-earning opportunities, since 2005 the Central Party has enforced policies aimed at curtailing the activities of military trading companies. Representative examples include the various mergers and reductions of military trading companies and the 2007 measure prohibiting mineral exports. But the military seems to have successfully parried this attack by the Central Party. In fact, the military's trading privileges appear to have actually expanded recently. In particular, mineral exports have been sharply rising since July 2010, and measures put in place since December for expanded trade with China have effectively canceled out the measures to suppress the activities of military trading companies. This is because the military trading companies have control of important rights in this area. Next is the policy of boosting the "state planning" mechanism. The problem here is that this mechanism does not have enough power to resurrect itself, and only after applying coercive measures to weaken the market and artificially create opportunities can it be resurrected through the investment of foreign exchange gained through external aid materials or foreign exchange earning ventures. Furthermore, some have suggested that the "state planning" mechanism is parasitically dependent on the market and thus if the market is weakened then state planning (and the capacity to collect tax income) will also atrophy. The converse argument could also be made. Thus the regime's success in boosting the "state planning" mechanism ultimately depends

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2) Good Friends, "Blanket Permission to Open Markets, 'Everyone Can Do Business,'" *North Korea Today*, No. 340, June 14, 2010.

on the success of efforts to increase foreign aid and foreign exchange projects controlled by the Central Party. The problem is that, as already mentioned, Kim Jong Il's endeavors in this regard have not made progress at the speed or scale desired.

Let us now consolidate the changes described above. Whereas the 2005 policy line was <market repression + suppression of economic activities by military units + boosting the "state planning" mechanism + more foreign exchange-earning projects in restricted special zones and more foreign aid>, as of mid-2011 the real policy can be characterized as <market expansion + expansion of economic activities by military units + weakening of the "state planning" mechanism + stagnation of foreign exchange-earning projects in restricted special zones and reduced foreign aid>. In other words, the core idea of the 2005 policy was to <establish an economy rooted in the Central Party, the Cabinet under its control, and the security agencies in charge of cracking down on the markets use the resources gained through the Central Party's foreign exchange earning projects based on aid and special zones to support a sterile anti-reform economy, thus maintaining internal political stability and control and build up the succession system and the "strong and prosperous nation" plan on that foundation>. But this political-economic project has hit a major setback.

Looking at developments since mid-2010, <expansion of market and military trading activities> are becoming the central pillars of the North Korean economy. These changes have major political significance. This means that Jang Sung Taek, the other civilian elites in the Central Party and the Cabinet – the political force behind the 2005 policy line and the one who sought to line up a supporting group through the September 2010 Party Delegates' Conference – have been unable to completely monopolize the economic base of the country. Under the direct supervision of Kim Jong Il, these groups have attempted to stifle the market in order to compete against the economic power of the market and the military, while creating new monopolies over sources of foreign exchange through expanded special economic zones (funded and operated first by South Korea and later by China). Due to the failure of the currency reform measure this group had no choice but to put up with the inevitable market expansion and renewed export activities by the military, and they failed to move forward with development of Hwanggeumbyeong and Rason in a sufficiently prompt and large-scale way. The military is expanding its projects to earn foreign currency through trade in mineral resources, but their restricted special zones for foreign currency earning are not being created as rapidly in the emerging situation.

This is also likely to impact the progress of the succession plan. It looks like that a competition for becoming the first vassal of merit in promoting the succession has

broken out among high-level officials in the military and the Party. If one faction can make the most valuable contribution to the success of succession, it will have a priority position in the post-succession regime. However in the view of Kim Jong Il and Kim Jong Eun, they do not want to be confronted with a too powerful vassal, whether the military or the Party; they want to see both organizations to remain secondary. If the dictator (or his successor) wishes to continue to enjoy transcendental status, he must avoid growing overly dependent on any one faction or allowing a faction to grow excessively strong or prosperous. Thus he must work to ensure a sufficient degree of competition and restraint to guarantee an appropriate balance of power among the organizations beneath him. The point of the 2005 economic policy line was to raise the status of the civilian officials within the Central Party in order to create a second pillar to restrain and balance the military, which had grown too strong under the military-first system. However despite the Party Delegates' Conference of 2010 there is no proof that the Central Party is functioning properly, and the civilian officials in the Central Party appear to have had only mixed success with their efforts to create new sources for acquiring foreign exchange from China. Thus Kim Jong Il and Kim Jong Eun have tried to create a framework of checks, balances and loyalty competition between the military and the Party organizations to create structural guarantees of the transcendental status of the successor, but this effort does not appear likely to proceed according to plan.

Of course, it is too soon to observe the results of the conflict described here. But this change will be an important factor in the rivalries around Kim Jong Il/Kim Jong Eun and the remaining two factions. The consequences will have a tremendous effect on North Korea's internal and external economic policies as well as its policies toward South Korea and other foreign powers and ultimately the attitudes toward the succession system and the North's future political course.