

Will North Korea's "6.28 Directives" Be a Prelude toward "Reform and Opening"?

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Since the inauguration of the Kim Jong-un regime in 2012, there have been several media reports that North Korea is in preparation for a new economic policy that involves reform and opening. More precisely, even while supplying contradictory information on the direction of the regime's economic policy, the media has focused mainly on the apparent "preparation for reform and opening." When Ri Yong-ho, the influential Chief of the General Staff of the Korean People's Army (KPA) and member of the Politburo Standing Committee, was dismissed from all his party-state duties on July 15, North Korea's seriousness for preparation of reform and opening looked quite certain, at least from the interpretations of the major Korean media reports.

To clarify the North Korea's intent, the primary focus should be the "June 28 Directives" by the North Korean authorities. Its full title is called reportedly "On Establishing Our Style of a New Economic Management System." Based on the media reports from mid-July, the core contents of the Directives can be construed as follows: downsizing the number of elementary production groups at collective farm from 10-25 to 4-6 people (essentially family sized?), distributing planned products based on the ratio of the country (7) to the farm workers (3), residual products being accrued to the farmers,¹⁾ and legalizing private investments in service and trade if they are done under the nametag of state agencies and cooperative

1) Jeong Jae Sung, "North to Try Weak Agricultural Reform," Daily NK, July 11, 2012.; Kim Kwang Jin, "6.28 Policy Goes Live in 3 Yangkang Counties," Daily NK, July 20, 2012.

institutions.²⁾

This article raises two main questions. First, for what reasons do the South Korean public, North Korean residents, and North Korean authorities have contradictory stances toward the 6.28 Directives? Second, what is the purpose of the 6.28 Directives and what results the Directives can bring about?

Three Contradictory Repercussions and Stances

First, most media reports in South Korea and other countries have expressed an implicit anticipation and welcome, while accepting the North's reform and opening as a fact. In reality, the majority of the international press outside North Korea has demonstrated a perpetual tendency to overemphasize and construe North Korean events as "Signs of Reform and Opening" and "Proof of the North's Positive Changes," whenever the North Korean authorities try seemingly something new and announce new economic measures.

Second, in contrast to friendly expectations by foreign media, people inside North Korea seemed rather concerned and vigilant about the introduction of 6.28 Directives. Coincided with the announcement of introducing 6.28 Directives, rice prices and exchange rates started to rise rapidly. There have been deep mistrusts among population on the quality of any "new" economic policy by the North Korean authorities since the money exchange measures in November 2009. They were concerned about a new round of economic chaos and rising inflation as a result of 6.28 Directives. Consequently, merchants have not provided rice to the markets and the demand for foreign currency, including the Chinese Reminbi, has risen sharply, boosting the exchange rate.³⁾

Third, the North Korean authorities have strongly denied of introducing "reform and opening," assumed and expected by foreign media reports. The former insisted that "we won't introduce any change that our enemy countries are expecting for us to do." According to the *Choson Sinbo*,⁴⁾ a North Korea friendly newspaper published in Japan, on July 11, North Korea strongly refuted about the interpretation by foreign media, which links North Korea's "policy guideline on catching up with and even leading the global trend in every aspect of nation-building, including the economy and culture," with introduction of reform and opening by the new leader Kim Jong-un.

This article essentially agrees with the North Korean stance that "its latest diverse remarks and moves by the young Kim should not be deliberately correlated with the possibility of reform and opening in the Kim Jong-un era." This article agrees with North Korea's official stance given the following explanation that

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- 2) NKIS, "North Korea Approaching New Economic Management System," NK Intellectual Solidarity, July 11, 2012.
 - 3) Noh Jae Wan, "North Korea's marketplace (or Jangmadang) blocked by soaring rice prices," *Radio Free Asia*, July 13, 2012; Moon Sung Hui, "In North Korea, the marketplace was startled by 'economic reform'," *Radio Free Asia*, July 11, 2012; NKIS, "Before introducing the economic management system, North Korea reinforces its overall control," North Korea Intellectual Solidarity, July 23, 2012.
 - 4) Kim Ji Young, "The First Chairman's development strategy to accomplish Kim Jong-il's own proposition," *Choson Sinbo*, July 11, 2012.

contradicts North Korea's official explanation and other interpretations from the foreign media. Thereupon, it will be understood why North Koreans have responded to the 6.28 Directives with "concerns and vigilance" (contrary to the majority of media reports' tone of "expectation and welcome").

The Hierarchical and Predatory Structure of Economy and Market

There have been tendencies in South Korea to underestimate North Korean regime's strength, while overestimating regime threatening potentials of various societal changes. What has been underestimated is the significance of North Korean regime's intentions, which sound uncomfortable to South Koreans, and its capacity for implementation including market manipulation. What has been overestimated is the regime threatening potentials of market expansion, information influx and public discontent. Two misjudgments have been derived from these two tendencies. First, it looks compelling that the North Korean regime is constantly on the verge of collapse. Second, it also appears that it has no alternative but to implement reform to improve the people's living conditions in order to survive, and the sooner the better.

Since I cannot elaborate on other subjects, I will focus solely on the North Korean economy and its market structure. If the North Korean policy strategists are not fools, then they would have paid full attention to structure and manipulate the economy and market expansion, while taking advantage of their overwhelming political power, in such a way as to make them maximally contribute to regime survival and provision of privileges for regime supporters. If this is not the case, then the North Korean regime must have already collapsed. This is one of general conclusions derived from theories of comparative politics (economics) on dictatorships. This situation can be altered only when there are changes to the North's internal power structure.

Let's take it more concretely. In North Korea, the political power is highly concentrated on to an individual, supported by mono-hierarchical party-state bureaucracy. These two facts are reflected in the structure of economy and market, which provides the dictator and privileged party-state agencies with opportunities to predate the population with no difficulty. In North Korea, the supreme leader (e.g. Kim Jong-il/Kim Jong-un) takes exclusive possession of various rights to monopolies and distributes them to privileged party-state agencies depending on their contribution to regime survival. This type of economic structure is fully reflected in the North's market structure. The supreme leader distributes various exclusive rights in foreign trade to regime agencies, which, in turn, dominate the hierarchical domestic chains of production and distribution of export and import goods in the economy. Invested with exclusive rights in foreign trade, the regime agencies are guaranteed with profits from the monopolies at the expense of producers of export goods and consumers of import goods. In return, they should submit part of the excessive profits to the supreme leader.

Of course this structure cannot be automatically maintained. Especially under the progress of market expansion, the regime should constantly reorganize the market through both coercive and administrative intervention. This must occur so that Kim Jong-il/Kim Jong-un and the privileged party-state organization's exclusive rights and opportunities for predation are assured in tandem with the market

expansion, i.e. the market expansion is in the end to be manipulated in such a way to guarantee friendly conditions for regime survival. Based on the mentioned mechanism, the great part of revenues, produced during the period of market expansion, spanning from July 1 measures in 2002 to the peak in 2004-2005, must have been snatched by party-state agencies essential for regime survival. The increased revenues in favor of the regime agencies must have been used as expenditure for “military-first economic policy” during the time and for rewarding the core supporters of the regime.

Due to these circumstances, the market (expansion) in North Korea is endlessly restructured in favor of the regime and party-state agencies. In a nutshell, as in other countries, in North Korea, the market reflects the reality of the power and economic structure, and does not exist independently. Under these circumstances, market expansion would not improve people’s living conditions, while contributing to the survival of the regime through production of extra revenues, including maintaining capacities for weapons of mass destruction and guaranteeing the loyalties of core groups.

The Fiscal Crisis and the Intensification of Predatory Intervention in the Market

Since 2009, the regime’s predatory intervention in the market and the economy has noticeably intensified. There are several reasons for this change. First, the sources for predation have been contracted because of the reduction in foreign aid since 2008 and decline of productivity in the domestic economy due to intensified predation since 2005. Second, the regime is confronted with the need to significantly expand its fiscal spending. The list for increased spending includes the expenditure for the defense industry and development of weapons of mass destruction, and for consolidating the internal security after the currency exchange reform in November 2009, 100th anniversary of Kim Il Sung’s birthday in 2012, and the expenses for the guaranteed establishment of the Kim Jong-un succession.

The regime has dealt with these situations in two different ways. First, it made efforts toward finding new sources for external rents. This effort includes: radical increase in the mineral export, promotion of tourism, increased dispatch of workers to foreign countries, and attempt to increase numbers of export enclaves. These measures can be seen as efforts to secure the amount of foreign currency needed to regime survival, while avoiding to take measures to increase productivity of domestic economy. Second, North Korea has significantly strengthened its internal predation. The currency exchange measures taken in November 2009 were the focal point of such attempt. The currency exchange rates were very advantageous for the regime; foreign currency was virtually confiscated through the ban of its usage in the market; massive purchase of foreign currency by regime agencies with newly printed money in the black market currency; and the massive increase in paper money supply, which caused the price increase of 150 to 200 times in two and half years after the currency reform. Besides, confiscation of rice from cooperative farms to supply food to the military and the capital, Pyongyang, has also strengthened.

Why did the “6.28 Directives” become an issue in 2012? As North Korea reached the limits of its efforts, the regime faced a situation in which it needed to find additional ways of revenue increase. In other words, first, the economic measures for securing fiscal funds for regime survival, mentioned earlier, have not produced sufficient results; second, due to a long period of anti-reform policy, the domestic economy was

severely desolated; and third, the money necessary for the regime survival has dramatically increased and the hitherto financial sources could not cope with extended demands. Thus, in order to retain a sufficient amount of funds to secure the regime survival, on the one hand, the regime intensified traditional endeavors to increase foreign currency earnings through mineral export, etc., and on the other hand, it had to take measures to increase the productivity of the domestic economy despite the possible adverse effects on the internal stability.

Expectations after “6.28 Directives”

The results of “6.28 Directives” in 2012 would fall short of the advocates’ expectations especially in comparison with the similar measures in 2002. Why is this the case? First, North Korea’s current isolation from the international community and hostile relations with neighboring countries are worse than they were in 2002. Reform in any country demands considerable costs to address the concomitant challenges. With external support and investment, it would be significantly easier to raise funds for resolving challenges. Let’s take an example. With regard to food provision for the army, the key supplier has been collective farms. The military has virtually coercively confiscated food products, while starving the farmers. In early 2012, Hwanghae Province’s food shortage was a result of the forced requisition for supply to the military. As a part of reform, if the regime would impose a family responsibility system within the agriculture sector, reduce obligatory state procurement and raise prices, then the North Korean fiscal system would encounter severe chaos. In particular, the issue of obtaining next year’s army food supplies will become contentious among stake holders. If North Korea receives aid from neighboring countries by pursuing denuclearization and détente, and if it could divert aid in favor of supplies to the military in an implicit and visible way, then the problem would be easier to solve. Let us look at another example. Even if North Korea approves legality of the semi-state and semi-private business activities, the effect of production increase is very limited. Without the active enforcement from external technology and investment and/or a secure export market, and only with limited and non-joyful allowance for market expansion by the authorities, it would be difficult to induce a successful and visible improvement of productivity.

Second, the public’s distrust of the North Korean regime has increased. The North Koreans still remember the suddenly intensified persecution of the “anti-socialist effects of markets” through pan-national inspections and public executions during the second half of 2007 and 2008. They also remember that the regime confiscated a great part of their wealth earned through market activities by legal methods, taking advantage of state authorities, by means of money exchange measures in November 2009. Reflecting these and other past experiences, how should a prudent North Korean assess the risks and dangers in the “6.28 Directives”? He or she might worry about the possibility that even the Directives may appear very appealing in the beginning since one can profit by actively abiding by the policy; in the end, however, he or she could someday be branded as an enemy of the regime and/or be the target of property confiscation. The drastic rise in the price of rice and exchange rate since early and mid-July provides an indication of how North Koreans perceive the policy. Because they have strong doubts about the quality and ability of their government’s policy, they might prioritize to think about how to deal with

rapid inflation and possible ban of foreign currency in the aftermath of “6.28 Directives.”

Third, there have been no signs of relaxation in the internal politics. In order to properly establish the “6.28 Directives,” the regime should take a more tolerant stance on market expansion and other changes that accompany it. Is North Korea ready for change? Based on the circumstances thus far, it is doubtful. Since 2009, the North Korean administration strengthened its internal control, and particularly in 2010, it significantly reinforced the border control. Though the regime had not actively strengthened repression on the market, at least it had not tried to promote the market activities. In addition, following the death of Kim Jong-il, the basis of North Korea’s official ideology has not changed in the slightest bit. Some messages in the Kim Jong-un’s speeches were obviously exaggerated in a positive manner by foreign media, but they did not exhibit any signs toward a transitioning of the external and internal policies. This implies that the regime can, at anytime, behave erratically on internal political situations.

Conclusion

In conclusion, this paper agrees with the regime’s stance that the remarks and actions by the regime in the recent past should not be linked with “the possibility of reform and opening in Kim Jong-un era,” though with different standpoint from the official one.

Under current conditions, mentioned above, the regime should change its economic methods for securing funds for regime survival. The “6.28 Directives” may include provision of incentives for North Koreans to increase investments and efforts as well as a temporary restraint from exploiting the people. However, this policy will not be effective due to the monopolistic structure of the economy and no reduction of tension internally and with neighboring countries. The provision of a more congenial environment for production increase might be no more than a temporary concession by the regime to take more revenue for the regime. The North Koreans, who are directly involved, are better informed than anyone else, and as a result, they maintain a defensive position and have expressed uncertainty about the “6.28 Directives.”

In order for the “6.28 Directives” to be effective, North Korea should promote tension reduction with neighboring countries so as to be able to receive humanitarian aid, foreign investments, and technology, and to have export market. In addition, it should significantly increase supply of the public goods as a means to trigger domestic investments and efforts. It will be very important for the regime to convincingly promise not to arbitrarily confiscate people’s property in the future. However, it is impossible to guarantee property rights convincingly in general when the political power is too much concentrated on to a whimsical person. The property rights can be guaranteed only when the power monopoly weakens, and a system of checks and balances for infringement of property rights is to be established. (First posted in Korean on July 24) © KINU 2012

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