



# NORTH KOREAN ECONOMIC REFORM NEW CHANGES OR OLD, EMPTY PROMISES?

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*In June, North Korean authorities announced agricultural reforms called the “6.28 policy,” which promises to recalculate the ratio of distributed planned products (70 percent to the country, 30 percent to farm workers) and downsize basic farm units from 10-25 people to 4-6 people. The regime’s declared purpose is to ease the current economic crisis and improve the people’s standard of living. Details about reforms, however, remain unclear as well as the underlying motivations and, of course, their possible outcomes.*

North Korea has, in the last months, begun to show some signs of economic reform. When headed by Kim Jong Il, the dominant military establishment always preferred to adopt a “military first” approach, a position that brought international isolation. However, the country’s strategy of provocation has only produced limited shipments of humanitarian aid and has discouraged foreign investment in the country. The decision to pursue a military-oriented path, rather than that oriented toward the economy, was largely determined by Kim Jong Il’s leadership base and the internal power structure of the regime. The “military first” approach that has been followed so far, however, appears not to be sustainable anymore, which is why Pyongyang might now be considering a serious change in the country’s economic system. The downfall of Vice-Marshal Ri Yong Ho in July and the recent promotion of Jang Sung Taek (Kim Jong Un’s uncle in law) were seen by many as a hint of a concrete change to come.

## The “6.28 Policy”

With the death of Kim Jong Il in December 2011 and the ascendancy of the Western-educated Kim Jong Un, all eyes are on signs of reform. The “6.28 policy” promises just such a new wave of reforms. The policy, announced by North Korean authorities in June, promises to recalculate the ratio of distributed planned products. Currently, farmers are allowed to keep only a set amount of crops for themselves whereas the lion’s share of the production

is turned over to the state and then redistributed according to a rations system. According to the announced “6.28 policy,” in the near future farmers may instead keep 30 percent of their crops and sell it directly on the market. This measure is intended to incentive local production, stimulate entrepreneurial spirit, keep down inflation in the food market and reduce malnutrition. Additionally, cooperative farm units are expected to be reduced from 10–25 people to 4–6 people. So far, North Korea has been unable to grow enough food to feed its people and has repeatedly suffered from famines and food shortages. Whether these small-scale agricultural measures, with subtle capitalistic tones, could possibly improve the North’s situation remains to be seen.

The effectiveness of the announced measures seems doubtful as they apply, in their present form, only to three provinces near the border with China, in mountainous areas with little agricultural production.

Further speculations address possible industrial reforms, allowing individuals to engage in private investments, a full-scale cash-payment system for transactions among light-industry state firms, increased economic relationships with China and Russia and, potentially, a new currency reform. In order to develop a fully self-sufficient system at a time when international sanctions are blocking supplies of goods and farming products, Pyongyang may now eliminate part of its rationing system and improve its free market functions.



## Lessons Learned and Former Attempts

Talk of economic reform in North Korea is nothing new. In July 2002, in conjunction with the Kim Dae-jung government's "Sunshine Policy," Pyongyang proposed a series of economic reforms intended to improve the economic conditions of the country after the long-standing economic crisis in the 1990s. The goals behind these measures were to increase the country's official food supply, to regain state control over the economic sector, particularly in preventing further black market encroachment, to reduce the state's subsidization burden and to obtain a large amount of capital in order to kick-start the North Korean industrial sector. None of these measures succeeded. Despite including market-oriented measures, these reforms did not aim at restoring the economy through either liberalizing prices or decreasing Pyongyang's control over economic planning. The most radical measure was probably the monetization of the economy, but the hyperinflation derived from the artificial adjustment of prices and wages to the devaluation of the *won* complicated the economic situation, leading to a complete breakdown in the food distribution system. As a result, *Jamadang* (street markets), sprang up everywhere and developed an autonomous marketization. The authorities considered such marketization a threat to the regime and launched new reforms in 2009 intended to restore the pre-2002, Stalinist-like economic system and regain complete control over the market. The value of the *won* was subsequently fixed back to the pre-2002 value, causing a new acceleration of inflation, exceeding 100 percent per year. The attempt eventually resulted in a new failure: the currency revaluation was undermined by the inability of the state to provide sufficient goods to restore the public distribution system as a replacement to the open market. The reforms themselves caused the markets to clam up, robbing them of the exchange and supply needed, leading to a complete breakdown in the distribution of necessary goods and food stuffs.

## 2012: Failure or Success?

Keeping an eye on past failures, Pyongyang may now be taking steps in the right direction. Details about reforms, however, remain unclear, as are the motivations driving them. Rather than signaling pragmatism or caution, the

lack of details on the reforms may reveal them to be merely cosmetic, intended to raise international attention and expectations, and induce foreign investments, but without any concrete will for change.

Yet what remains clear is that in order to ensure its survival, Kim's regime has to counter both an economic crisis and a food crisis with some concrete measures. Too much reform, however, could also turn out to be a dangerous loosening of grip in a country that has been tightly controlled for decades. The government needs to carefully weigh the size and impact of such reforms before actually implementing them. The nuclear issue is seen as non-negotiable for the regime, an imperative for the survival of the current leadership in an international environment it perceives as hostile to its existence.

Foreign investment would certainly ease the transition, while unconditional, no-strings-attached economic aid appears to be fundamental for Pyongyang to continue any positive reforming process. Foreign countries with an interest in North Korea should provide a secure environment where economic reforms can be implemented effectively, possibly through some kind of economic cooperation and support. Economic and political interactive processes should be engaged by neighboring states, primarily China and South Korea, which are likely to provide much of the substance and influence in shaping the path North Korea will pursue.

The next South Korean government is expected to take more of a policy of engagement toward the North than the one currently held. Nonetheless, it must be remembered that the past South Korean "Sunshine Policy" was tarnished by the lack of conditionality in the dealings, particularly concerning the provision of economic aid. This has led many South Koreans to question the effectiveness of the next government's policy in bringing about change.

International economic aid, however, is unquestionably bonded to Pyongyang's nuclear program. The U.S. should focus more actively on solving this issue, possibly combining it with the distribution of humanitarian aid and financial investment. China seems to be more interested in the regional stability than in dismantling North Korea's nuclear weapons. Trilateral high-ranking talks should be considered between the Koreas and the U.S., which also holds a military presence on the Korean Peninsula, to discuss the issues of denuclearization, normalization and reunification.



Finally, it should also be said that the internal policy-making process in North Korea is very different from other countries. Changes in economic fundamentals and policies, particularly in the infancy of the new leadership, will continue to be influenced by a complex power tussle between interest groups. The introduction of a “new economic policy” may have an effect in disclosing various latent conflicts and contradictions in North Korean politics and economy. If a “new system” is officially implemented, conflicts between different groups with interests in profit making from economic reforms will increase.

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