

Opening the Pandora's Box? The Introduction of a New Economic Management System in North Korea

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North Korea will reportedly introduce a “new economic management system.” If this is to be consolidated and to produce positive results, a set of political conflicts, organizational reconstruction and economic difficulties should be addressed. Its success would require a high level of statecraft and strategic vision by the North Korean authorities. This new measure would be either a success or a failure. Anyhow this new system will become a new reality and will usher a new phase of political and economic dynamics in North Korea.

Features and Significance of the New Economic Management System

Then, what is the “New Economic Management System?” According to a report by Radio Free Asia, the core of the system is for the State to give up the prerogatives of determining what the state firm produces and to allow the latter to decide independently what to produce, by which price and how to sell.¹⁾ In the agricultural sector, it is reported that “regardless of the State’s production plans, 70 percents of the total production will be apportioned to the North Korean authorities, while the remaining 30 percents will be provided to the farmers.”

The system that North Korea is reportedly attempting to establish can be classified as a type of economic management systems during the phased

1) Moon Seong-hui, “North Korea announced that it will abandon the socialist planned economy,” *Radio Free Asia*, August 8, 2012.

process of reform in the socialist economy. China had implemented the same type of system from 1984 to 1992; Vietnam from 1986 to 1993; Russia from 1987 to 1991; Hungary from 1968 to 1987; and Poland from 1982 to 1989. Even in North Korea, this economic system had been previously introduced in the Rajin-Sonbong region in June 1997. The basic concept of the additional economic reform, which was prepared by Pak Pong-ju in 2004, is equivalent to that of the current “new economic management system.” This “new system” could be arranged in such a short period of time due to its preparation process in the year 2004. However, Pak Pong-ju came under criticism as a result of the additional reform proposal and was deposed in 2005.

Simplified, there are four types of socialist economic system: the first one is “Communist rule + centralized plan + state ownership of productive means”; the second is “Communist rule + decentralized plan + state ownership of productive means”; the third is “Communist rule + co-existence of plan and market + state ownership of productive means”; and the fourth is “Communist rule + market economy + privatization of productive means.” In the case of North Korea, the first one lasted until the late 1980s. The July 1st Economic Management System in 2002 can be categorized as the second type, while the upcoming “new economic management system” in 2012 can be categorized as the third type.

Changes from the aforementioned second to third categories can be perceived as an extremely important step. The general idea is that the state will relinquish control over the management of the enterprises through central planning. In the second phase, the state and enterprises can be viewed as an all-in-one management system, and from this perspective, the enterprises will be managed directly by the State. In the third phase, the state and the enterprises are separated in the matters regarding management; although the state still owns the enterprises (as a state ownership of productive means), the enterprises will operate independently without plan directives as well as commercially. It is a market economy composed of state-owned enterprises (SOEs). Thus, in the third phase, the market is expanded and utilized as a core apparatus for resource distribution. Of course, this does not mean an immediate eradication of the state’s central plan, since the state’s direct management (management by the state plan) to key industries will continue to exist for considerable periods of time.

The Necessity for a Significant Restructure

The transition from the second to the third type of socialist economic systems should be accompanied by a comprehensive restructuring of the economy. First, the state’s bureaucracy for plan management should be downsized and its functions should be changed. The economy should be mainly controlled by indirect methods of macroeconomics instead of a comprehensive plan or forceful interference. To this end, bureaucratic agencies from the Cabinet, the Central Party’s economic apparatus and the related departments of local governments and parties should also be downsized and restructured.

Second, although the manager of state firm will be appointed by the State, he or she should create an environment in which the company is responsible for its own outcomes through an independent and commercial management. In order to accomplish this, abolition of state price, free disposition of enterprises’ assets as well as a surplus of workforce by managers, and the downsizing of the political

apparatus within the enterprises should be provided. For example, the National Defense Committee delegates' intervention in the management of enterprises and the imposition of various extra tax burdens for enterprises under the supervision of the Party should also be abolished.

Third, in order for the market mechanism to prevail in North Korea, an array of monopolistic rights as well as other privileges for a variety of party-state special agencies should be abolished. For example, if the military forcefully seizes rice from collective farms, then the state official's pledge to distribute agricultural production between the state and farmers at a ratio of 7:3 cannot be implemented. The military and Party-affiliated enterprises should not arbitrarily utilize the state-owned enterprises' assets and labor, but rather, they should buy other state-owned enterprises under the basis of a market price instead of the flimsy document (the so-called *Haengpyo*), which is no better than a scrap of paper. State-owned commercial networks should compete with private markets on equal terms.

Fourth, it is necessary to establish a political condition, which allows the markets to dramatically expand. It should be politically feasible that materialistic incentives instead of political-moral incentives will prevail in the society, and that the gaps between rich and poor will originate from business-savvy management instead of political connections. It should be prohibited for a variety of security organizations, including those affiliated with the Party, to arbitrarily crackdown on market activities under the pretext of repressing "anti-socialist phenomena." The real purpose of such interventions has been to extract bribery rather than promote socialist principles.

Fifth, a state should protect property rights and abide by contracts. In fact, North Korea has a number of preceding records for unilaterally violating the property rights of various domestic and foreign economic agents and breaching contracts.

Sixth, the key purpose for adopting the new economic management system is to increase revenues for national treasury. However, the new system may put already vulnerable state revenue in jeopardy. This is due to the fact that it will take a considerable amount of time for the new system to increase productivity and to enable the state to harvest bigger tax income. During this period, it is possible that the state will constantly have the incentive to embezzle the people's property and wealth.

Seventh, the party-state's diverse unproductive expenses should be reduced, restructuring of economic sectors should follow, and productive investments should increase. To this end, the reduction of various political expenses (such as construction of facilities for the cult of personality, excessive expenditure for political events, expenses for the governing elites' extravagant lifestyle, etc.), reduction of arms and investment in the military industry as well as the downsizing of inefficient mega-state enterprises should take place.

Eighth, the state should be able to manage the inevitable mid- and short-term macroeconomic disturbances, which will be instigated by introducing the "new economic management system." If the financial systems of the state and of each sub-organization, connections among the economic sectors, and prices and wages are to be adjusted to the new economic system, then it is likely that macroeconomic

disturbances, including a rapid inflation, will occur.

Ninth, North Korea should reduce tensions with its neighboring countries and strongly endeavor to import capital and technology. The aforementioned transitional conflicts and economic confusions caused by reforms can be handled successfully if external aid is guaranteed.

Conclusion: Like Unlocking the Pandora's Box

In short, the introduction of a “new economic management system” will have an effect in disclosing various latent conflicts and contradictions in North Korean politics and economy. In reality, the “new economic management system” is nothing more than large-scale attacks toward long-lasting established privileges for party-state agencies as well as the elites. In comparison with the latest economic management system thus far, the implementation of the “new system” is akin to prompting drastic changes in the North. In other words, it is questionable that this so-called “system” was prepared in consideration of conflicting political and economic ramifications.

It should be noted that Pak Pong-ju was attacked and had to resign his premiership after he proposed a similar reform plan in late 2004. It is very likely that, even if North Korean authorities were serious, the new system had to be introduced gradually to manage interest conflicts among and resistance from privileged agencies and elites.

Ultimately, the bottom line is that implementation of the “new economic management system” is akin to the “opening the Pandora’s box.” In the classical Greek mythology, Pandora was given a beautiful container as her birthright by Zeus, who warned her not to open the box under any circumstances. Compelled by her curiosity, Pandora opened it. All evil, including greed, jealousy and disaster, that had been contained immediately escaped and spread over the Earth with the exception of one entity that lay at the bottom of the box, the Spirit of Hope.

If the “new system” is officially implemented, then North Korea’s political and economic dynamics will be significantly different in comparison to that of the past. Although it is likely that confusion and conflicts will increase in the short-term, it will ultimately provide an opportunity as well as risk to those who anticipate a new era of change. (First posted in Korean on August 13) © KINU 2012

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