



## New Signs of Unrest in North Korea?

*Marcus Noland says that recent reports of the execution of a top economic official indicate that North Korea's crackdown on capitalism has backfired, with potentially far-reaching consequences.*

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Steve Weisman: North Korea is again in the news. The government executed one of its top economic policymakers. This is Steve Weisman at the Peterson Institute for International Economics with Marc Noland, deputy director of the Institute, to talk about what is going on in North Korea as signified by that strange event. Welcome, Marc.

Marcus Noland: Thank you very much. My pleasure to be here.

Steve Weisman: I don't know if that was a warning to finance ministers everywhere, but North Korea does appear to have punished its top official, who may or may not have been finance minister. Why?

Marcus Noland: As we discussed in a previous conversation back on November 30th, the North Koreans sprang upon their public a surprise confiscatory currency reform that had the effect of wiping out some substantial share of the money supply, a large amount of household savings, and the working capital of private sector entrepreneurs, which had grown up in the last 10 or 15 years. This contributed to a literal disintegration of the economy. As the whole market system fell apart, prices for things like rice or corn or the black market value of the North Korean Won—prices for goods skyrocketed and the black market value of the Won plummeted.

So North Korea has been essentially in economic freefall since the beginning of December, and the unfortunate Mr. Pak [Nam Ki] has been identified as the architect of this mistake.

Steve Weisman: As you pointed out, this is one crisis in North Korea that is difficult for them to blame on foreigners. Why did they do this in the first place?

Marcus Noland: The economy marketized out of state failure, starting in the late 1980s and really accelerating with a famine in the 1990s that killed perhaps 3 percent to 5 percent of the population. The state has never been comfortable with the development of the market, which represents a kind of a sphere of social and perhaps even political communication beyond the state's reach. In 2005, Mr. Pak was appointed as the party's economics chief and at that time, he vowed to crush capitalism. Since 2005, the character of economic policy on the whole has been in that direction, of one of trying to crush the market and replace it with orthodox socialism.

I think that we will look back in, I don't know, 5 or 10 years and see what happened over the last few months as representing a real turning point. As you mentioned, the

regime explains away all ills as being the product of hostile foreign forces. This mistake is so obviously a catastrophic mistake, so obviously self-inflicted, that it's completely inconsistent with that narrative that blames everything on foreigners. In fact, Mr. Pak and his government sector counterpart, Mr. Kim, the Premier, were forced to issue an unprecedented apology communicated to the public through the state and party apparatus back in December.

In some ways that could be viewed as a healthy sign of new accountability. But I think, as I said, we're going to look back and see this as a turning point, where the government undertook policies that were really catastrophic. They were forced to apologize for it and it has created a lot of turmoil in the society, which is also facing a looming succession crisis associated with the aging and ailing leader, Kim Jong-il.

Steve Weisman: Do we think that the people who came up with this confiscatory scheme to crush the capitalists were acting on behalf of one faction or another in the family or in the military?

Marcus Noland: In the case of North Korea, all this has to be taken with large grains of salt. But one of the stories about why Pak was apparently dealt with so efficiently or brutally was precisely because the currency reform was supposed to be the political coming out party of Kim Jong-il's third son, Kim Jong-un, who was apparently designated as the successor.

So a grand move that was supposed to introduce the next leader to the public and show how wise and competent he is and how he's helping the public blew up in their faces. This may not only affect Mr. Pak's prospects but it may also affect Kim Jong-un's ability to succeed his father as well.

Steve Weisman: Your studies of refugees and others in Korea and China have suggested that there's a lot of unhappiness already. What do you think this indicates about the ability of the North Korean people to make their unhappiness known?

Marcus Noland: I think what our studies show is a population in which discontent is quite widespread but at the same time, it's a population that is atomized. It has been subjected to extreme degrees of political repression and, to a certain extent, that repression has been effective. But one of the things our studies show is that people have increasingly little inhibition about listening to foreign news. The information barrier appears to be increasingly permeable. It also appears that declining numbers of refugees that we've talked to believe the government's line about how their problems are due to foreigners. They see their problems as due to the behavior of the North Korean government.

And I think this currency reform, which has been such a disaster and cannot possibly be blamed on foreigners, is simply going to be an exclamation point to that effect—that increasingly the public just simply doesn't believe what they're being told. Now, it's one thing not to believe what you're being told, it's another thing to communicate that disbelief or to act on that disbelief. And we see less evidence of a willingness to talk and even less evidence of any kind of political organization to demand a simple accountability, much less any fundamental change in the government.

We find however, in our studies that the marketplace itself appears to be a zone of communication. In that sense the government is right to be distrustful of the

development of the market because in the end the market will, in fact, erode their ability to control information and ultimately may be a locus of political organizing as well.

Steve Weisman: What should Washington do in response to this kind of political turbulence within North Korea?

Marcus Noland: There's not a whole lot we can do directly. I think we should be continuing to support channels of information and news broadcasts into North Korea. And when [we] are faced with the specific manifestations of this economic chaos and upheaval, perhaps increase refugee flows, perhaps worsening food problems, we should be prepared to respond in a humanitarian way. But in terms of direct intervention in North Korea politics, I don't think we have either the knowledge, or really the instruments to take on that responsibility.

Steve Weisman: The Chinese have always helped in the Six Party Talks but their help has been tempered by their own fear of instability in North Korea. They don't want to see turmoil, right?

Marcus Noland: Yes. And, in fact, today China is in effect running its own Shenzhen policy. They're trying to engage with the North Koreans, trying to coax the North Koreans into more constructive economic policies. What the North Koreans are pursuing now literally takes the China model and stands it on its head. It's the glorification of the state and central planning over the market. So, they're trying to encourage the North Koreans to be more reformist in the economy, trying to encourage them to be less bellicose with respect to their relations with South Korea, Japan, and other countries. But there are limits to Chinese influence as well.

I think that the recent North Korean signal that they might be willing to return to the Six Party Talks, albeit with some extraordinary preconditions attached, is probably a signal not so much that they're interested in nuclear weapons and arms control, but rather that this kind of unsound and possibly unstable internal situation has led them to start looking for avenues, through which they could access increased external support.

Steve Weisman: And the US position on returning to those talks?

Marcus Noland: The United States says that it stands ready to return to the talks. However, the North Koreans have put preconditions, namely the removal of UN sanctions and the signing of a peace treaty and normalization of relations with the United States, that are so extraordinary that it's hard to imagine the United States accepting those. But one assumes that's simply an opening negotiating ploy and if the North Koreans get sufficiently desperate, they may find some way to come back to the Six Party Talks. As I said, not so much because they're interested in arms control but rather because they're interested in trying to find avenues for increased external support, in what appears to be an increasingly dicey internal situation.

Steve Weisman: Marc, thanks very much.

Marcus Noland: My pleasure.

