North Korean currency reform fuels social tensions

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Social unrest has emerged in North Korea since the Stalinist regime's currency reform on November 30 turned into an economic disaster. Pyongyang's initial intention was to control rising inflation—produced by a deepening shortage of basic necessities and ongoing US sanctions—by issuing a new currency to replace the old one at a rate of 100:1.

Ordinary people were given just one week to exchange their old money for new, and each household could exchange only 100,000 old won for 1,000 new won, a measure designed to wipe out savings. The policy led to widespread panic. The black market exchange rate soared from 30 won to one US dollar in early December to 530 at the end of January.

Skyrocketing prices then drastically worsened the already impoverished living standards of workers, farmers and soldiers, leading to a wave of protests. Pyongyang was reportedly forced to re-open the closed black markets, according to the South Korean National Intelligence Service on February 4. "To quell public discontent, controls and the crack down on market places have been eased," the agency told Reuters, adding that "discontent is high".

In an apparent attempt to strengthen North Korean leader Kim Jong-il's control over the state and prepare for a transition to one of his sons, a number of senior economic and military figures were purged. *Chosun Ilbo*, a South Korean newspaper, reported that the head of North Korean finance and planning, Pak Nam-gi, was sacked over the reform's failure.

The South Korean ruling elite is concerned that a collapse of the Pyongyang regime could unleash a flood of refugees. A *Chosun Ilbo* editorial on February 4 called on Seoul to prepare for "contingency plans in case of an emergency in North Korea". It recalled the flood of East Germans into West Germany and the eventual collapse of the Berlin Wall in 1989.

The editorial warned that while the official rice price was 20 won per kilogram, a month after the currency reform, it jumped 20-30 times. "In some areas, prices are said to have soared 50 times to 1,000 won. As a result, frustrated North Koreans have no qualms about making insulting comments about their leaders now, even in front of state security agents." Citing sources inside North Korea, the newspaper said Pyongyang had issued live ammunition to security agents and ordered them to shoot protestors.

Chosun Ilbo reported that during a riot in the Hambung region on December 5-6, which drew widespread support, the regime had to "summarily execute" 12 leaders, "with authorities on heightened alert for mass defections, suspending issuance of border passes and reinforcing border guards".

Good Friend, a South Korea-based aid organisation, told Associated Press that a group of Korean War veterans staged a protest last month in front of an office of the ruling Workers Party at Danchon on the eastern coast after people died of hunger. Good Friend warned: "As the food situation worsens in the North, there is talk there that if the government does not come up with drastic measures to improve the situation by the end of February, it could trigger an uprising."

In an unprecedented move, North Korean Prime Minister Kim Yong-il issued a public apology during a meeting of government officials earlier this month: "I sincerely apologise, as we pushed ahead … without sufficient preparation, causing pain among the people." As quoted in the official *Rodong Simun* newspaper, he promised to provide sufficient and decent food to the population, indicating the deep fear in the Stalinist regime over social unrest.

The currency reform was a bureaucratic attempt to lower

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prices and halt rampant black market activities, without dealing with the real cause of the crisis—severe shortages of food and other necessities. The underlying economic backwardness is rooted in the regime's nationalist and anti-Marxist perspective of "socialism in a single country" (officially called "Juche" or "self-sufficiency").

During the Cold War, North Korea was a Soviet buffer state in the Far East following the 1950-53 Korean War. It was dependent on aid from Moscow. The collapse of the Soviet Union in 1991 left North Korea in an irreversible economic decline. China's limited aid is only aimed at propping up Pyongyang as a convenient cushion against the US, South Korea and Japan.

Illegal markets have mushroomed in North Korea since the devastating famine in the mid-1990s that may have killed up to one million people. As the state rationing system failed to provide sufficient food and other necessities to the population, the regime allowed private traders to operate, often importing cheap goods from China. These capitalist elements have established corrupt ties with Workers Party bureaucrats. With the encouragement of their Chinese Stalinist allies, these social layers are pushing for Chinese-style "market reform".

In 2004, South Korea established the Kaesong free trade zone on the border with the north, in order to exploit cheap labour under the North Korean police-state regime.

A *Financial Times* article on February 3, entitled "North Korea is open for business", noted that foreign investors are planning to invest in the country because of its cheap, skilled workers. Last month, Kim Jong-il ordered the establishment of a State Development Bank to encourage foreign investment, and set up the Korea Taepung International Investment Group to attract funding to the bank, especially from China. Beijing and Pyongyang are repairing a railway from northern China to the North Korean port of Chongjin in order to provide access for China's foreign trade.

North Korea is welcoming Western investors, especially from Europe, into its resource sector. It invited Irish oil company Aminex to visit Pyongyang in November to discuss restarting its exploration in the country. European companies have long used North Korea's IT outsourcing sector in web design and software for administration, mobile phones and computer games.

However, Pyongyang's perspective of integrating into global capitalism is running into opposition from the US. Washington is determined to block its rivals, especially China, from benefiting from any end of hostilities between the two Koreas, which would undermine the rationale for maintaining US forces in South Korea, Japan and elsewhere in East Asia.

The unresolved issue of North Korea's nuclear weapons, which Pyongyang has used to try and extract concessions from the US and its regional allies, has been exploited by Washington to continually de-stabilise the Korean peninsula. Six-party talks over North Korea's nuclear programs stalled last April, just before Pyongyang carried out its second nuclear test. Since then, the Obama administration has largely ignored North Korea, while leaving all sanctions intact.

South Korea's conservative Grand National Party government headed by President Lee Myung-bak is seeking to take advantage of Pyongyang's economic crisis. Lee reportedly told a cabinet meeting this month that while a summit between two Koreas may be held this year, he would pay "no price" for the meeting, unlike President Kim Dae-jung who reportedly paid $500 million for the first summit with Kim Jung-il in 2000.

South Korea's Yonhap news agency reported this week that Chinese state banks and a number of international investors will sign a deal with Pyongyang's State Development Bank next month to invest $10 billion in North Korea's infrastructure—equal to 70 percent of its gross domestic product. The deal is an incentive for Pyongyang to return to the six-party talks, reflecting Beijing's fear that a collapse of the North Korean regime will benefit the US and also trigger social unrest within China.

The global economic crisis and sharpening rivalry in North East Asia, especially between the US and China, only compound the explosive social and economic tensions developing in North Korea as well as the danger of it becoming the flashpoint for a wider confrontation.

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