

# North Korean Economy in the Kim Jong-un Regime

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# 1. Introduction



It is well-known that North Korea has experienced economic difficulties for a long time since the Arduous March in the 1990s, during which the North Korean economy was set back and its socialist planned economy system resulted in a virtual failure. Despite a modest recovery that followed, the real GDP of North Korea has still not caught up with that of the 1990s until recently according to recent estimates of the Bank of Korea.

Looking from the big perspective, such economic difficulties of North Korea stem from two main reasons: 1) inefficiency of centralized planned economic system (fundamental reason); and 2) the severe economic crisis in the 1990s due to accumulated inefficient practices and the actual collapse of the state finance. Such reasons led to a malfunction in the state-run production system, which should have been backed by national finance. In addition, the rationing system has long lost its function.

Kim Jong-un inherited harsh economic situation from the start and now faces yet another economic threat—sanctions imposed on North Korea. Sanctions, which were only a slight burden at the initial period of the Kim Jong-un regime, have been intensified in their level. The Kim Jong-un regime has no choice but to seriously consider how to minimize their impact on North Korean economy.

In the midst of challenging situation, however, the North Korean economy for the past five years under the Kim regime has relatively stayed afloat compared to the previous era. Then, there must be reasons that North Korea has maintained somewhat modest economic growth despite such difficult environment at home and abroad. To that end, this paper will: 1) first look back on North

Korean economy for the past five years of the Kim Jong-un regime to identify and evaluate its characteristics, and 2) make a projection on the future direction that it would take going forward.

The structure of this paper is as follows: Chapter 2 outlines the economic performance for the past five years under the Kim Jong-un regime; Chapter 3, 4, and 5 (state-run economy, marketization, external economy, respectively) review North Korea's economic policy, identify the characteristics of North Korean economy, and analyze certain elements that had enabled such modest economic growth. Chapter 6, based on the findings revealed in previous chapters, lays out and assesses the characteristics of North Korean economy under the Kim regime and makes a projection on the future economic direction. The final Chapter 7, sums up all the discussions covered in this paper.

## **2. Overview of Economic Performance for the Past Five Years under the Kim Jong-un Regime**



This chapter first looks at North Korea's economic performance of the past five years under the Kim Jong-un regime. However, due to the limited relevant data available, the paper only covers three aspects in reviewing North Korea's economic situation—economic growth, price, and foreign trade.

## **A. Moderate Economic Growth**

According to estimates of the Bank of Korea, since Kim Jong-un came to power, North Korea's economic growth has marked a gradual growth except for 2015 that recorded a negative growth. In particular, the year 2016 was estimated to show the highest growth rate in 17 years (3.9%) thanks to good weather conditions together with previous year's negative growth, which in turn created a positive base effect. An estimated 1.2% annual growth rate for five years (2012-2016) under the Kim Jong-un regime is nowhere near a bad result, especially when taking into account the serious economic situations that North Korea had gone through since the late 1990s.

Besides, there is a possibility that the Bank of Korea underestimates the actual level of economic growth in North Korea. The main rationale behind such argument is that: 1) the Bank of Korea seems to have failed to properly reflect non-official economic sector, which has shown rapid growths,<sup>1)</sup> and 2) it is highly likely that the

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1) Moon-Soo Yang, "Economic Reform Measures under the Kim Jong-un Regime and Evaluation of North Korean Economy," (A Collection of Academic Papers by the Korean Association of North Korean Studies, Autumn, 2017), p. 35.

growth rate in the mining industry has been underestimated around 2010.<sup>2)</sup> When factoring in such possibilities, annual growths of North Korean economy under the Kim regime are evaluated to hover slightly above 2%.

## **B. Price Stabilization**

Since Kim Jong-un took power, economic stabilization is analyzed to have been more highlighted than growth and been accordingly regarded as economic achievement. North Korea had to experience high price all throughout the 2000s because of the aspects of gross demand and supply: 1) as for gross demand—expanded liquidity caused by increased issue of currency and rising expectation on inflation due to uncertainty of market trade; and 2) for gross supply—shortage in food supply, rise in international crop price, and soaring currency due to worsening supply and demand of foreign currency.<sup>3)</sup> Moreover, the situation got worse when the currency reform, initiated at the end of 2009, ended up in a failure. The price growth, which was maintained at a very high level for even in the 2010s, has stabilized since 2013.

The price of rice—one of the most important trading items in North Korea—had shown a rapid increase up until 2012, after which the price has remained still or decreased. The same applied

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2) Un-Chul Yang and Hyungsoo Zang, “Evaluating the Bank of Korea’s Estimation of North Korean Economic Growth Rate,” (Sejong Policy Briefing No. 2017-21, The Sejong Institute, Gyeonggi, 2017), pp. 10-12.

3) Ji Young Choi, “Price and Currency Trend in North Korea under the Kim Jong-un Regime,” *Focus on Korean Peninsula*, no. 41 (2017), p. 49.

to other grocery items whose prices have shown stable or decreasing tendency in general after 2013. The currency had also shown a rapid growth up until 2012 but has become stable with a range of around 8,000 won/USD after 2013. The currency still remains stable in the face of increasingly volatile situation that could easily influence currency, caused by North Korea's continued nuclear/missile tests since 2016, followed by the toughening of international sanctions.

### **C. Expansion of Foreign Trade**

Until 2010, North Korea's foreign trade amounted to around 3 to 4 billion dollars (USD). In 2011, however, thanks to favorable trade conditions including coal exports, the export increased by about 85% year-on-year while the import volume increased by around 35%. As a result, the volume of foreign trade was expanded to 6.36 billion dollars, up by 52.3% compared to the year before.

The situation has continued since Kim Jong-un took office and in 2014 its foreign trade volume recorded the highest at 7.61 billion dollars. Although there was a slight decrease by 18% year-on-year in 2015, both export and import increased in the following year despite ever toughening of sanctions. Overall, although the growth rate of foreign trade has slowed down since 2015, foreign trades under the Kim Jong-un regime are analyzed to have remained active. The foreign trade will be further discussed in Chapter 5.

According to a review of basic indicators—economic growth, price, and foreign trade, the North Korean economy under the Kim Jong-un regime has managed somewhat sound conditions. As mentioned in the introduction, this paper sets out to raise a question of how the Kim Jong-un regime, which started off in an unfavorable economic condition, has been able to maintain such sound economic performance in the last five years. Chapter 3 to 5 review the overall North Korean economy to find the answers.

### **3. State-run Economy under the Kim Jong-un Regime for the Last Five Years**



North Korea's centralized planned economy has already become in-name-only system to a large extent. Consequently it seems apparent that now the state economy has reduced to take up a relatively smaller part of the entire economy. However, the state-run economy still holds significance in North Korean economy because of its allegiance to socialism. Therefore, the state-run economy should be the first area to be reviewed in order to understand the North Korean economy under the Kim Jong-un regime. Therefore, this chapter focuses on specific aspects in the operation of state-run economy under the Kim regime.

### **A. National Development Strategy: *Byungjin* Policy of Nuclear and Economic Development**

*Byungjin* (dual) policy of nuclear and economic development is “a strategic line to build a powerful nation.”<sup>4)</sup> In other words, such policy—the national development strategy of the Kim Jong-un era—is essential to understand a big frame of how the North Korean authorities operate the economy. This chapter discusses the characteristics of dual policy. The analysis centers on the remarks that Kim Jong-un made on March 31, 2013 at the Plenary Meeting of the Central Committee of the Workers' Party of Korea (WPK), during which he first proclaimed the dual policy.

First characteristic of dual policy of nuclear and economic

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4) “Leader Kim Jong-un’s Concluding Speech at the March 2013 Plenary Meeting of the Central Committee of the Workers’ Party of Korea,” *Rodong Sinmun* (Pyongyang), April 2, 2013.

development is that the military economy and civil economy have quite different basic principal and direction from the start. Unlike the dual policy of the past with a rationale that the military economy should drive the civil economy, the premise of *Byungjin* policy is that the military expenditures are burdensome to the economy and that the nuclear development could reduce military cost, thereby contributing to the overall economic growth. By acknowledging the limitations of existing dual policy and differentiating his *Byungjin* policy from previous one, Kim Jong-un seemed to be determined to justify the necessity of nuclear development and to establish a firm leadership by highlighting the image of a leader of putting people first.

Second, the Kim Jong-un regime, together with the implementation of *Byungjin* policy, appears to pro-actively put forward its economic reform and opening-up policies. With the announcement of *Byungjin* policy, Kim Jong-un officially mentioned ‘Our Style Economic Management Methods’ for the first time, which have been in operation since 2012. He also emphasized the necessity for foreign trade diversification and implied the government’s will to carry out a policy to promote the existing economic development zone and the new special economic zone.

Third, the Kim regime presented a rationale that the nuclear development needs to come first in order to develop the economy. Kim emphasized that “our struggle for economic development and improved livelihood of our people can be successfully materialized only when strong military and nuclear power are guaranteed” and “with the solid nuclear deterrence at hand (.....) only then can we

have a single focus on the economic development and improvement of people's livelihood."<sup>5)</sup> His argument follows "if peace is guaranteed by nuclear deterrence, North Korea can put more efforts into economic construction."<sup>6)</sup> Such statement clearly implies that North Korea's priority is nuclear development.

Considering those characteristics, North Korea is analyzed to maintain the position that it needs to focus on nuclear development first in pursuit of *Byungjin* policy. Reform and open policies are expected to be carried out in earnest after North Korea has successfully secured nuclear power. However, such initiative is not only difficult to be trusted but is also seriously unlikely to proceed as planned at a time when the international community expresses solemn concerns over North Korea's nuclear development and imposes ever stronger sanctions.

## **B. Industrial Policy under the Kim Jong-un Regime**

This chapter reviews its industrial policy under the Kim Jong-un regime. Due to the limited space in the paper, the discussion mainly focuses on specific aspects encompassing overall industrial policies.

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5) "Report on the March 2013 Plenary Meeting of the Central Committee of the Workers' Party of Korea," *Rodong Sinmun(Pyongyang)*, April 1, 2013.

6) "Nuclear Power Lifts Burden – Condition to Push forward Economic Construction," *Choson Sinbo(Tokyo)*, June 3, 2013.

### *1) Improvement of People's Livelihood*

On the surface, the Kim Jong-un regime seems to maintain the industrial policy set by Kim Jong-il—normalization of four areas of priority (electricity, coal, metal, and rail transportation) and vitalization of light industry and agriculture. Such basic direction of industrial policy under the Kim Jong-il era has also been highlighted in the Kim Jong-un regime.

When looking at the actual resource distribution, however, it is quite different from that of the Kim Jong-il era. First difference is that more attention has been given to the livelihood of its people. This seems to be especially true in the area of light industry, which is directly related to the improvement of people's livelihood. In addition, there has been an increased supply of agricultural materials such as fertilizers and pesticides as well as more high quality seeds imported from China when compared to last year. It means that a larger portion of resources has been distributed to the agriculture industry.<sup>7)</sup> Thanks to such trends, crop supplies in North Korea have been on the gradual rise.

On the other hand, North Korea tends not to put at the front large-scale investment in new facilities and equipment in those four areas of priority. The North Korean authorities have continuously worked on the construction project of hydroelectric power plants in order to resolve the most urgent issue of power shortages. Except for this one exceptional case, the authorities have refrain

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7) Tae-Jin Kwon, "Agriculture in North Korea in the Kim Jong-un Era: Evaluation and Prospect," *Focus on Korean Peninsula*, no. 41 (2017), pp. 9-19.

themselves from expanding new large-scale investment. Rather, they have focused on finishing up the large-scale capital investment projects launched under the Kim Jong-il era, and promoting stability, efficiency, and modernization of the production.

## 2) *Strengthening Localization Policy*

Another characteristic of Kim Jong-un's industrial policy is a strong emphasis on localization just as stressed in the Kim Jong-il era. Along with the localization of raw materials, commodity, and facility, the authorities have considered to replace light industry products imported from China with domestic ones. Such efforts have come to fruition in some areas including the food processing industry.

Localization has been more emphasized since 2016 when North Korea proclaimed the '*Changangryeok*(self-reliance)-first principle,' which was defined as "revolutionary spirit aimed to enhance self-reliance capability and pioneer its own path based on its own power, technology, and resource."<sup>8)</sup> The essence of such principle is that factory and business in North Korea should "localize their raw materials, commodities, and facilities for production based on their own power, technology, and resource."<sup>9)</sup>

As such, it is believed that North Korea has put more emphasis on

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8) "Report on Work of WPK Central Committee at the 7<sup>th</sup> Congress," *Rodong Sinmun*(Pyongyang), May 8, 2016.

9) "Localization, We Can Do It on Our Own," *Choson Sinbo*(Tokyo), March 7, 2016.

localization since 2016 to mobilize more resources at home. By doing so, Pyongyang attempted to make up for the possible damage in foreign trade in response to the toughening of international sanctions and pressure caused by its 4th nuclear test in January, 2016. Contrast to this logic, however, *Changryeok*-first principle is analyzed to be not realistic considering the current status of North Korean economy. Rather, it seems likely to bring more negative results to its economy. This will be further elaborated in later chapters of the paper.

### ***3) Promotion of Policy Focused on Science and Technology***

Just as the Kim Jong-il regime, Kim Jong-un also prioritizes science and technology in his policy. The regime not only continues to pursue some of the policies of the Kim Jong-il era to develop and distribute Computerized Numerically Controlled (CNC) machine tools but also pays attention to the high-tech and lucrative industries such as IT and BT.<sup>10)</sup> In fact, recently the North Korean authorities also seem to promote science, technology, and informatization policy<sup>11)</sup> and try to boost scientists' morale by providing various benefits such as improving their housing environment.

What is at issue here is that the science and technology-focused

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10) Choon Geun Lee and Jong Seon Kim, "Science Technology Policy under the Kim Jong-un Regime: Changes and Implication," *STEPI Insight*, no. 173 (2015), p. 19.

11) Choon Geun Lee and Jong Seon Kim, "North Korea's Science Technology Informatization Policy and Cooperation for Economic Reconstruction," *Trend and Issue*, no. 32 (2017), p. 9.

policy is being promoted in a close connection with the localization policy and *Chagangryeok*-first principle. Such trend is, however, not new because as early as late 2000s, the Kim Jong-il regime also pursued a similar policy, the so-called “*Juche*(self-reliance) industrial policy.” Although Kim Jong-il was confronted with a failure in pursuing *Juche* industries,<sup>12)</sup> Kim Jong-un is now making a similar effort.

However, what Kim Jong-un does has far deviated from the general growth patterns of many countries. Usually countries fully utilize the advantage of low labor costs in their initial stage of economic development, focusing on exports in the light industry. They then later consider expanding the investments in science and technology upon becoming a middle-income country. Therefore, it is questionable whether such deviated economic direction can create successful results in the North Korean economy.

#### ***4) Decreasing Role of Planned Economy and Increasing Role of Market***

Another characteristic of industrial policy of the Kim era is that the regime shows tendency to reduce the traditional role and scope of the planned economy in the industrial production process and replace it with the market economy. A prime example is the 5-year National Development Strategy (hereinafter referred to as “the 5-year Strategy”) announced at the 7th Congress of the Central Committee of the Workers’ Party of Korea (WPK) in May, 2016.

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12) Moon-Soo Yang et al., *North Korean Economy in the 2000s* (Seoul: Korea Institute for Industrial Economics and Trade, 2012), pp. 284-286.

What is notable is a change in name as it was announced as the National Development “Strategy,” not “Plan.” This is a reflection of reality where the planned economic system has practically become a system in name only and marketization has expanded instead. As a result, the central planning authorities now have just a limited role of drawing up “broad outlines.”<sup>13)</sup> In addition, unlike the past, the authorities did not provide detailed numbers as specified target goals. It can be interpreted that the authorities are not capable of establishing and managing such systemic goals.

In summary, with the planned economy in name only and expansion of marketization, the Kim Jong-un regime seems to have no other choice but to reduce the role and responsibility of the planned economy in proceeding with its industrial policies. Such aspect was explicitly suggested in the 5-year Strategy proposed at the 7th Congress of the Central Committee of the WPK.

### **C. Currency and Financial Policy under the Kim Jong-un Regime**

North Korea carried out a currency reform in December 2009, the essence of which: 1) was a re-denomination of the North Korean won that 100 old won equals 1 new won; and 2) required residents to exchange old won for new won within a limit of 1,000 new won per household. It was part of the market controlling policy implemented in the late 2000s but eventually ended up in a

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13) Moon-Soo Yang, “Economic Operation Strategy in the Kim Jong-un Era,” *Focus on Korean Peninsula*, no. 36 (2016), p. 31.

failure. Far from the initially set goal, the authorities had to experience severe inflation and dollarization, which practically means a rapid spread of the use of foreign currency.

Then, how has the Kim Jong-un regime dealt with such issues? As for inflation, it is possible for the regime to control the flow of currency by restricting massive capital investment since 2013. Foreign currency could not simply be banned as it is analyzed to contribute to resolving the inflation issue.<sup>14)</sup> Therefore, rather than rolling up the sleeves to limit the circulation of foreign currency, the authorities opted to tolerate its use and carry out various measures to absorb the circulating currency through markets by inducing savings in foreign currency or activating the use of foreign currency-based cards or stores.

#### **D. Reform of Economy Management System under the Kim Jong-un Regime: “Our Style Economic Management Methods”**

It should be noted that the Kim Jong-un regime has continuously carried out an economic management system reform in the operation of state-run economy. The core of economic reform of the Kim Jong-un era can be explained by “Our Style Economic Management Methods.” As illustrated in the Table 3-1, it mainly aims to give more autonomy to companies without harming the basic framework of socialist economic system—the state-owned production methods and the planned economic system.

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14) Young Hoon Lee, “Review of Financial Issues and Recent Financial Measures in North Korea,” *North Korean Studies Review*, vol. 19, no. 2 (2015), p. 116.

Compared to the Kim Jong-il era, reformist measures promoted by the Kim Jong-un regime can be seen as more progressive in their level and depth.<sup>15)</sup> However, they have limitations in many aspects as well. First, the scope of reform is quite limited compared to the reform promoted in China at its initial stage of reform and opening-up. Moreover, there exists a wide gap between the institution and reality. For example, the authorities implemented a measure to increase incentives for workers but it seems skeptical how effective such incentive measures would be considering the reality where most of the state-run companies could not even afford to give basic wage to their workers. In addition, there are some concerns that macro-level reformist measures such as price, wage, finance, and banking are not sophisticated enough to constitute a complete policy package.

It is anticipated that there should be certain complementary measures to be taken in the future. But what is at issue here is that to what extent the authorities would tolerate and expand individual investments. Our Style Economic Management Methods allow, albeit limited, individual investments. The possibility cannot be ruled out that such measures could lead to permitting the establishment of private company—de facto legalization of “privatization of production means.” If realized, this will be an undeniably significant change in North Korea’s economic system.

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15) Young Kyong Kwon, “North Korean Economic Policy in the Kim Jong-un Era: Changes and Prospect,” *EXIM North Korea Economic Review*, Spring (2014), p. 20; Moon-Soo Yang et al., “North Korean Economy for the Five Years under the Kim Jong-un Regime: Comprehensive Evaluation and Prospect,” p. 33.

**<Table 3-1> Main Contents of Our Style Economic Management Methods in the Kim Jong-un Era**

Sector	Main Content
Agriculture	<ul style="list-style-type: none"> <li>• Carry out a <i>pojeon</i> system (a <i>pojeon</i> is the smallest unit divided from <i>bunjo</i>, sub-units of cooperative farms)               <ul style="list-style-type: none"> <li>- Reduce the production unit of cooperative farm (10~25 people → 3~6)</li> <li>- Provide the management autonomy for a <i>pojeon</i></li> </ul> </li> <li>• Prepay production cost by the state</li> <li>• 70% of production going to the state and 30% going to a <i>pojeon</i></li> <li>• Apply market price to production elements and products</li> <li>• <i>Bunjo</i>'s autonomous management of the surplus of target amount (production plan)</li> </ul>
Industry	<ul style="list-style-type: none"> <li>• Provide the management autonomy to factory/company</li> <li>• Allow production, business activity, and market selling through the individual purchase of raw materials</li> <li>• Synchronously implement the state plan along with individual plan               <ul style="list-style-type: none"> <li>- Small- and medium-sized local companies are run by their own plan</li> </ul> </li> <li>• Evaluate managers according to their business performance</li> <li>• Allow personal investment in local factories</li> </ul>
Commerce and Service	<ul style="list-style-type: none"> <li>• Allow business participation through personal investment               <ul style="list-style-type: none"> <li>- Transportation, stores, convenience service, and restaurant</li> <li>- Pay 10-20% of profits to the state</li> <li>- Private investment institutes have the autonomy to hire workers</li> </ul> </li> </ul>
Labor	<ul style="list-style-type: none"> <li>• Expand the manager's authority over hiring/firing and payment of workers</li> <li>• Raise the income with a reflection of reality and inflation</li> <li>• Provide the payment in accordance with a principle of "workers will get paid in proportion to their workload"</li> <li>• Decide the ration and wage autonomously depending on profits of factory and company</li> </ul>
Foreign Economy	<ul style="list-style-type: none"> <li>• Provide the right to trade for local governments, factories/companies, and institutes</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>• Abolish a rationing system for the workers of self-supporting accounting system other than those operated by the state budget</li> </ul>

Source: Young-Ja Park et al., *North Koreans' Empowerment: Actor Dynamics* (Seoul: KINU, 2015), pp. 66-67; Young Kyong Kwon, "North Korean Economic Policy in the Kim Jong-un Era: Changes and Prospect," *EXIM North Korea Economic Review*, Spring (2014), p. 18; Young Kyong Kwon, "Can North Korea Become Next China? Comparison between Kim Jong-un's Economic Policy and China's Reform and Opening-up Policy in 1980s," in *Building Foundation for Peaceful Reunification on the Korean Peninsula and Direction for North Korea Policy* (paper presented at 2015 Special Seminar of the Korean Association of North Korean Studies, 2015), p. 41.



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## **4. Marketization and Policy Response**



## A. Marketization Trends under the Kim Jong-un Regime

### 1) *Expansion of Market Sector*

North Korea seems to have achieved a certain level of progress in marketization under the Kim Jong-un regime. Since taking office, Kim Jong-un has maintained policies that tolerate the market economy. Under such policies, the market has expanded in size and more resources have been distributed based on the market mechanism.

In North Korea, the market sector can be largely divided into two: 1) official market allowed and managed by the state such as general market (consumer goods market) and goods exchange market (production goods market); and 2) unofficial market economy activities that take place beyond the state supervision such as “Grasshopper Market (*meddugi jang*)” where consumer goods are sold, production goods market, labor market, private financial market, housing market, etc.

Expansion of markets has primarily been seen in official sectors. According to recent studies, as of 2016, there have been 404 general markets in North Korea based on data including satellite images of Google Earth.<sup>16)</sup> There has been a dramatic increase in the number of official markets since 2010, considering the fact that

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16) Min Hong et al., *Nationwide Market Information in North Korea: Centering on the Current Status of Official Market* (Seoul: Korea Institute for National Unification [KINU], 2016), p. 7.

there were only 200 general markets as of January 2010, right after the currency reform.<sup>17)</sup> In addition, as of 2016, the number of workers involved in official markets was estimated to reach 1.1 million, which accounts for around 4.5% of the total population.<sup>18)</sup> It is safe to say that quite a significant number of people are being engaged in market-related works when factoring in those involved in non-official markets.

After Kim Jong-un came to power, non-official markets seem to have also expanded in size. Goods from factories and business are flowing into and actively traded in non-official production goods market. The labor market has also expanded showing various forms of paid labor. As financial institutes have long lost their function and failed to carry out their original role, private financial sector has expanded and evolved into a systemized form to the extent that, for example, recently loan limits and interest rates are decided based on collateral and its values.<sup>19)</sup>

Another notable change related to the expansion of market sectors is a more systemized logistics system. Leveraging the logistics network with a hub of the largest wholesale markets in southern (Pyongsong Sijang) and northern (Soonam Sijang) areas, products from all over the state are being distributed and markets are

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17) “Jangmadang, More than 200 across North Korea,” *Radio Free Asia* (Seoul), January 26, 2010., <[http://www.rfa.org/korean/in\\_focus/street\\_market-01262010172340.html](http://www.rfa.org/korean/in_focus/street_market-01262010172340.html)> (date accessed June 14, 2017).

18) Min Hong et al., *Nationwide Market Information in North Korea: Centering on the Current Status of Official Market* (Seoul: KINU, 2016), p. 32.

19) Young-hee Kim, “The Current Situation of Marketization in North Korea by Reviewing the Formation and Mechanism of Five Representative Markets,” pp. 82-83.

specialized by specific functions nation-wide. Such systemized logistics system has been made possible thanks to the development of delivery and payment system. Unlike in the past where a seller was responsible for the safe delivery to a purchaser in return for payment, now there is an established system, through which a delivery person safely delivers products to the purchaser with certain amount of fees. In the process, the rapid distribution of cell phones played a significant role.

## **2) Progress in Privatization**

As North Korea officially opts for a socialist economic system, it does not allow possession of private property except for few durable consumer goods. Therefore, houses or production means cannot be owned by an individual. In reality, however, houses are privately owned and traded, production means are possessed by individuals, and private companies are operated.

There are largely three privatization types of production means in North Korea: 1) individuals make loan investment in state companies and take the corresponding returns—practices of which include individuals called “*donju*” (self-made bourgeois class) commissioning the toll processing of goods to state enterprises; 2) individuals rent a state-owned production facility such as state-run company’s name, its building, and machinery facility, invest their own capital, hire labor, and directly run the business; and 3) there are business activities without borrowing the name of state-owned company or production facilities, which mostly include small-scale personal

handcrafting industry and private mining industry. Such privatization trends of various types of production means are nothing new in North Korea. Rather, the trends have persisted for quite a long time together with the marketization. In fact, the pace of privatization has become faster after Kim Jong-un took power.

With the trend of privatization of housing, now house trading is common in North Korea. It is still not allowed to privately own a house and the trade of house is legally prohibited. However, not only the trade of existing houses but also the construction and trade of new apartment take place quite openly.<sup>20)</sup> It is known that there was Housing Exchange Office in Pyongyang, where with a certain amount of fees, one could officially trade houses.<sup>21)</sup> Some even argue that the property market was already legalized around 2014<sup>22)</sup> but this has not been verified yet.

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20) Moon-Soo Yang, "Marketization under the Kim Jong-un Regime: Evaluation and Prospect," *Focus on Korean Peninsula*, no. 41 (2017), p. 30.

21) Seong-ha Joo, *Between Seoul and Pyongyang* (Seoul: Kiparang, 2017), pp. 141-144; Sejin Jung, *Reading Changes in North Korea by Reviewing Market and Network* (Paju: Idam, 2017), p. 97. Considering the rumor that Housing Exchange Office was abolished within a year from the execution of Jang Song Thaek, it is uncertain if the office is still in operation. "Price of luxury apartment in Pyongyang hits record high ..... around 200 million won," *Yonhap(Seoul)*, April 2, 2017, <<http://www.yonhapnews.co.kr/bulletin/2017/03/31/0200000000AKR20170331158100014.HTML?input=1195m>> (date accessed November 2, 2017). /2017/03/31/0200000000AKR20170331158100014.HTML?input=1195m> (As of: 2017.11.02.).

22) Eunlee Joung, "Changes in the Livelihood of People in North Korea: Centering on the Development of Consumption Goods, Transport Industry, and Real Estate Market," in *Changes in the Livelihood of People in North Korea* (paper presented at the 64th Policy Forum of Center for Peace and Sharing, Korean Sharing Movement, September 26, 2016), p. 7.

## **B. Policy Response of the Kim Jong-un Regime**

As such, marketization and privatization tend to have expanded in the Kim Jong-un regime. Now, this chapter reviews Kim Jong-un's policy response to such trends centering on several characteristics.

### *1) Increase of Authorities' Dependence on Market*

Among experts, there emerge opinions that the North Korean authorities seem to go beyond tolerating marketization to the point of leading and driving it.<sup>23)</sup> In other words, considering the current stage, it is no exaggeration to say that state policies are the driving force to promote marketization of North Korea.<sup>24)</sup>

Why do the North Korean authorities not only tolerate marketization but also lead or drive it in some cases? First possible reason is that the North Korean economy has become more dependent on the market to the point where economic operation itself becomes difficult without it. More relevant reason would be, however, that the regime tries to utilize the market and its power in various ways and earns a substantial amount of profits from it.<sup>25)</sup>

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23) Seogki Lee et al., *Comprehensive Evaluation of North Korean Economy in 2015 and Prospect for 2016* (Sejong: Korea Institute for Industrial Economics and Trade [KIET], 2016), p. 161; Moon-Soo Yang, "5 Years of the Kim Jong-un Regime Focusing on Marketization," in *Review of 5 Years under the Kim Jong-un Regime*, ed. Policy Committee of the Korean Council for Reconciliation and Cooperation, (Seoul: Neulpoom Plus, 2016), p. 121.

24) Moon-Soo Yang, "5 Years of the Kim Jong-un Regime Focusing on Marketization," p. 121.

25) For more information, refer to Cho Han-Bum et al., *The Effects of Private Economic Activities on Public Economic Sectors in North Korea*.

The North Korean authorities collect some of the surplus from official markets in the form of taxation or quasi-taxation, which has been very useful in resolving its financial difficulties. In addition, leveraging the capital accumulated in the private sector, especially represented by “*donju*” in the construction sector, has also reduced much of the financial burden. The authorities show off the construction of Future Scientist Street and *Ryomyong* Street as Kim Jong-un’s achievement. However, such construction is allegedly funded by *donju*.

## ***2) Attempt to Absorb Part of Market into Official Sector***

As illustrated above, the North Korean authorities not only depend on the market but also try to absorb some part of market into the official sector. Such phenomenon is prominently seen in consumer goods and finance market.

As for consumer goods market, the North Korean authorities enjoy enormous amount of profits by establishing modernized distribution facilities such as a large-scale shopping mall in Pyongyang, operating e-commerce system, and securing the monopolistic position as a supplier in the cell-phone market.

In the financial market, the authorities work on recovering a bank-oriented fund circulation system in order to strengthen their control over the economy and to normalize the economic system. With repeated difficulties in the economy and currency reform, distrust in banks has ever deepened in North Korea and more and

more people have chosen private financing over savings in banks. To resolve this situation, the authorities increased annual interest rates of bank to 12% in 2015.<sup>26)</sup> In addition, recent studies estimate that roughly 30 to 40 commercial banks in Pyongyang are operated as self-supporting accounting system,<sup>27)</sup> none of which, however, has succeeded so far. The use of electronic payment card is also promoted by the authorities, which is interpreted as part of efforts to recover the bank-oriented fund circulation system.<sup>28)</sup>

### 3) *Weakening Check on Market*

It is unlikely for the North Korean authorities under the Kim Jong-un regime to reinforce a check on market. In a situation where not only residents but also the state economy itself are increasingly dependent on markets, a hasty attempt to strengthen the market control or a check against the market power can only bring about a negative impact on the economy. In particular, since 2016, with significantly toughened sanctions on North Korea, it has become too burdensome for the North Korean authorities to control the market sector that has driven its economy along with a foreign trade sector. In terms of policy change, North Korea in late

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26) Yong-hee Kim, "The Current Situation of Marketization in North Korea by Reviewing the Formation and Mechanism of Five Representative Markets," p. 86.

27) Moon Choi, "Promotion of Domestic Finance and Modernization in Chosun," in *Business with North Korea: Modernization and New Consumption Culture* (Proceedings for International Conference by The Institute for Far Eastern Studies, June 14, 2017), p. 94.

28) To use card, residents need to deposit money into their bank accounts, which leads to some capital flows from market to bank.

2000s faced a strong public backlash over its policy on market control. Such policy also caused a damage on its official economic sector, which considerably relied on the market. Those experiences could have made the authorities reluctant to change policy.

Recently the authorities have earned a substantial amount of profits from the market, which makes a strong check on the market all the more difficult. Those with vested rights such as senior officials have secretly exploited the market sector through bribery and other illegal means. These practices seem to work as good incentives for the inner circle to incline to policies utilizing the market. Of course, the authorities appear to carry out measures to check market powers mostly represented by *donju* from time to time in order to prevent them from having excessive influence. However, the tendency to tolerate marketization is still obviously seen in North Korea.

## **5. Foreign Economy for the Past Five Years of the Kim Jong-un Regime**



Foreign economy is worth reviewing considering its importance in making a projection on the future economic outlook of North Korea. As sanctions imposed on North Korea focus on its foreign economy, an analysis on how sanctions have influenced North Korea's foreign economy is significantly meaningful in predicting economic and nuclear issues in the future. Considering this, this chapter focuses on foreign trade of North Korea, analyzes its characteristics, reviews sanctions imposed in the area of foreign trade, and looks at policy on the economic development zone—the main policy actively promoted by the authorities to attract foreign capitals.

### **A. Characteristics of Foreign Trade under the Kim Jong-un Regime**

Now, this section looks at characteristics of foreign trade under the Kim Jong-un regime. As Chapter 2 already discussed the expansion of trade scope, this section will mainly deal with other important aspects of characteristics.

First, what is notable in the foreign trade structure under the Kim Jong-un regime is the continuous structural trade deficit. The annual foreign trade of North Korea marks around 1 billion dollars (USD). Despite a prolonged trade deficit, North Korea does not seem to suffer from shortages in foreign reserves thanks to surplus in service areas backed by the tourism as well as the surplus by the remittance from overseas dispatched workers. In addition, the considerable amount of money it has earned through weapons

selling and illegal trades is estimated to be useful enough in making up for the trade deficit.

Second, its foreign trade destination has been seriously lopsided to China. Except for the inter-Korean trade, the proportion China takes up in North Korea's foreign trade has sharply increased to 88.6% in 2011 from 67.0% in 2007. Such pace has not budged a bit even after Kim Jong-un took office. Since 2014, its trade with China has recorded more than 90% of the total trade volume. Such trade concentration on China seems to be caused by changes in the foreign trade landscape in Northeast Asia.<sup>29)</sup> Japan, one of its major trade destinations of North Korea, decided to completely stop trading with North Korea after its first nuclear test in 2006 and South Korea followed suit in 2010 after the sinking of the South Korean Navy ship *Cheonan*.<sup>30)</sup> Accordingly, after the 2010s, North Korea has been left with only one trading partner, China, and has not been able to find other trade destinations other than China since.

Third, the export volume has significantly increased, the items of which, however, are still limited to those from the primary industry under a backward export structure. There are five main items that take up 80 to 85 percent of total exports of North Korea: coal, steel, iron ore, fishery product, and clothes—goods all either

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29) Suk-Jin Kim, "Trade Statistics of North Korea: Explanation and Evaluation," in *Understanding of North Korean Economy through Statistics*, ed. Economic Research Institute, The Bank of Korea (Seoul: The Bank of Korea, 2014), p. 185.

30) Suk-Jin Kim, "North Korea's Foreign Economy: Status and Prospect," in *Review on North Korea over 5 Years under the Kim Jong-un Regime*, ed. Policy Committee of the Korean Council for Reconciliation and Cooperation, (Seoul: Neulpoom Plus, 2016), p. 138.

from the primary industry or from labor-intensive manufactured process.

Lastly, the composition of importing items has much advanced compared to the past. It is known that under the Kim Jong-un regime, more advanced items have been imported centering on industrial materials and capital goods. This can be viewed as important evidence showing that North Korea's economic activities have been in active operation to some extent. It is evaluated that with imported industrial materials and capital goods rising in volume, an increasing portion of production facilities has been in operation, which would partially contribute to the recovery of North Korean economy.

## **B. Sanctions and Foreign Trade**

Regarding North Korea's nuclear and missile development, direct sanctions on foreign trade were initiated after its 4th nuclear test in 2016. UN Security Council Resolution 2270, adopted after the 4th nuclear test, prohibited the export of main items such as coal, steel, and iron ore but added exceptional clauses for civil use to prevent unintentional damage. Because of such exception, the Resolution does not have much of an impact on North Korea's export. Things, however, went different when Resolution 2321 was adopted after the 5th nuclear test. This time it imposed a cap on the amount of coal export in order to directly limit North Korea's exports, which became a main reason to significantly reduce exports to China during the first half of 2017.

Despite such two rounds of sanctions, North Korea continued to carry out a series of nuclear and missile tests in 2017. As counter measures, Resolutions 2371, 2375, and 2397 were adopted in August, September, and December of 2017, respectively. Those resolutions included measures more powerful than those in 2321 so their impact on North Korean economy is expected to be significant.

Among others, exports have become practically blocked through those resolutions. Resolution 2371 completely prohibits any export of coal, steel, iron ore, and fishery while Resolution 2375 bans exports of textile goods. With those two resolutions combined, five major export items were totally banned from being exported overseas. What is more, Resolution 2397 added more items to the banning list, such as grocery items, agriculture produce, machine, electronic goods, timbers, and ship. Consequently, North Korea's future export scope is estimated to be reduced to about 10% of that of the previous year.

What was notable in the UN Resolution adopted in the latter half of 2017 was that it also limits the dispatch of overseas North Korean workers. It is estimated that there are about 50,000 to 100,000 North Koreans working overseas and they have to come back to North Korea within 24 months according to Resolution 2397.

Meanwhile, limits on the crude oil supply, which are evaluated as one of the most significant impacts that could have on North Korean economy, are prescribed in Resolution 2397. In detail, the Resolution sets the upper limits of crude oil supply at 4 million

barrel and for refining oil, 0.5 million barrel per year. Among them, the latter is estimated to hit hard North Korea's domestic economy.

Lastly, Resolution 2397 bans the imports of machinery, transportation methods, and metals, which are all very essential for a smooth operation of North Korean economy. Therefore, the Resolution is expected to have a negative impact on the level of production in its economy.

### **C. Policy to Attract Foreign Capital: Centering on Policy of Economy Development Zone**

Development of special economic zone has been part of North Korea's effort to attract foreign capital. A then-ongoing project of developing massive complex economic zones, however, had taken a snail pace until 2013, after which the Kim Jong-un regime pushed forward the development of new forms of economic development zones, instead.

Compared to previously-planned economic zones, the new economic development zones have characteristics as follows: 1) first, the policy is promoted in a way to develop small-sized specialized economic zones in different regions—such change in development direction was decided based on lessons learned in the past that massive-sized complex economic zones in the Kim Jong-il era did not make any practical results; 2) second, unlike special economic zones, the economic development zones can be promoted and

constructed under the leadership of each local government. This seems to be related to ever-weakening capability of the central government and the subsequent tendency for diversification that started to surface across the North Korean economy; and 3) third, enterprises in North Korea are able to actively participate in such development, which is also in line with policy direction to expand the autonomy for enterprises.

The policy to establish economic development zones has been actively promoted. The North Korean authorities have established 21 economic development zones (as of the end of 2015) across the state and promoted the policy of attracting investment in such zones with strong drive until the first half of 2015. It is estimated that since the latter half of 2015, however, not much progress has been made. With sanctions on North Korea getting stronger, the authorities started to emphasize the principle of '*Chagangryeok* (self-reliance)-first principle and in return, the drive to develop the economic development zones seems to be in decline.

Why did the policy to establish economic development zones actively supported by the authorities fail to come to fruition? The biggest reason was ever-stronger sanctions and North Korea's deepening isolation from the international community. Other than that, failing to convince foreign investors that their capital was fully protected was also a reason making foreign investment more difficult. Therefore, foreign investors are inevitably left wondering how their investments will reap the rewards under such sanctions phase.

## **6. Evaluation and Prospect of Economic Operation under the Kim Jong-un Regime**



Up until now, this paper discussed the North Korean economy under the Kim Jong-un regime by looking at overviews: first with numeric figures and then with details by dividing its economy into state-run economy, marketization, and foreign economy. Such categorization, however, was only made for the purpose of convenience in analysis. In reality, those areas are closely inter-related. Therefore, this chapter will comprehensively review the analysis result and once again review the characteristics of North Korean economy. Based on the discussion, this chapter will make a projection on the future direction of its economy.

## **A. Characteristics and Evaluation of the Economic Operation for the Past Five Years under the Kim Jong-un Regime**

### *1) Characteristics of Economic Operation for the Past Five Years under the Kim Jong-un Regime*

#### **(1) Continued Growth in Marketization and Foreign Trade**

Entering the 2000s under the Kim Jong-il era, there were two elements that had played significant roles in economic recovery: marketization and foreign trade. They have continued to provide major drives for economic development under the Kim Jong-un regime with their importance remaining still strong.

Of course, there is a significant difference between the Kim Jong-il and Kim Jong-un era. Above all, under the Kim Jong-un regime,

the state-run economic sector started to more actively take advantage of the market sector. The North Korean authorities not only actively collect the surplus generated from the market sector in the form of taxation and quasi-taxation but also monopolize the profits by creating an exclusive market. As a result, financial situation under the Kim Jong-un regime seems to be improved compared to the past.

As for foreign trade, it has greatly expanded in size compared to the Kim Jong-il era, thereby contributing to the economic development. A significant increase in exports centering on mineral products such as coal has contributed to the economic growth. It seems that the production was facilitated by enhanced import volume mainly for industrial materials and capital goods, thereby leaving a positive impact on its economy. However, exports still center on primary industries so it can be evaluated that there has been little progress in trade in terms of trade quality.

## **(2) Policy Prioritizing Nuclear and Missile Development over Economic Development**

The Kim Jong-un regime had shown keen interest in the policy for economic development zones until 2015 and has diverted to the *Changryeok*-first principle since 2016. It was a sudden change of direction in the economic policy from opening-up to localization. The reason for such sudden transition of policy direction in 2016 can be found not in the economic aspect but in the political and military aspects. The regime decided to focus on localization policy—deemed unsuitable for the current status of its economy—in order to overcome the isolation with a consideration for sanctions

to be imposed following additional nuclear test.

This means that the Kim Jong-un regime chose to stick to the nuclear and missile development strategy over economic policy, which otherwise should have been actively promoted considering the current economic status. This can also be interpreted as a prime example showing that the regime puts first nuclear and missile development over economic development when choosing policy direction and that it maintains the stance to accept any disadvantage for the sake of nuclear and missile development.

### **(3) Lack of Progress on Reform and Opening-up Policy**

Our Style Economic Management Methods and policy on the economic development zones are the core of the reform and opening-up policy under the Kim Jong-un regime, both of which, however, do not seem to have made a tangible progress so far.

As for Our Style Economic Management Methods, its level and depth seem to have advanced to a larger extent compared to the reform policy in the Kim Jong-il regime. However, it is still doubtful how far it has been adopted in reality in North Korea and how effective it would have been, if adopted, in actual fields of production when it comes to productivity enhancement. In addition, the economic development zones were actively promoted for some time but have been drifted since 2016 without any tangible results. With sanctions getting stronger, it is unlikely for the policy to win additional driving force in the near future.

#### **(4) Sticking to the Industrial Policy Unsuitable to Its Current Economic Status**

At the 7th Congress of the Central Committee of the WPK, Kim Jong-un proposed the construction of a socialist independent economy in the form of a strong nation based on the independent and knowledge economy.<sup>31)</sup> This can be evaluated as vision that Kim Jong-un suggests for the North Korean economy. Industrial policies, therefore, at large have been crafted in a way compatible with such direction.

However, since the vision proposed by Kim Jong-un is not suitable under the current economic status in North Korea, its industrial policies, naturally, have formed not line with the current level of economic development and circumstances. As a result, it has reduced efficiency in resource assignment and sapped productivity, thereby damaging future economic growth of North Korea. What is at least optimistic is that the regime has refrained itself from reckless investment in the heavy chemical industry and tried to strengthen the light industry instead when compared to the past.

#### **(5) Intensified Market Dependency of Planned Sector**

Under the Kim Jong-un regime, the planned sector in North Korea has become more dependent on the market sector, which in turn serves positively in the state economy. In terms of the financial aspect, the North Korean authorities take some of the surplus generated in the official market in the form of taxation or

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31) Suk-Jin Kim, "North Korea's Foreign Economy: Status and Prospect," p. 149.

quasi-taxation and receive investment from *donju* in state-led projects to make up for some of the financial shortages.

Apart from financial factors, the authorities have sought the growth and stability of North Korean economy by utilizing the capital that *donju* has long accumulated. There are increased cases where the authorities who have secured investment money from *donju* tend to condone the practices of *donju* who directly invests in the state-companies and utilizes production facilities. In addition, the state has shown tendency of absorbing its market into the official sector. Such attempts are deemed to have considerably contributed to the North Korean economy which maintains somewhat stable condition in spite of strong sanctions.

## ***2) Evaluation on Economic Operation for Five Years under the Kim Jong-un Regime***

For the past five years under the Kim Jong-un regime, the North Korean economy has shown fairly good performance. Although still remained at a level of developing countries, North Korea has managed to maintain a gradual growth, resolve its prolonged inflation issue, and stabilize the price since 2013.

However, according to analysis results of this research, it is difficult to interpret such economic performance as a result of authorities' proper economic vision combined with effective economic policies. Industrial policies were not compatible with reality and rather degrade the efficiency of resource distribution, which resulted in

hampering the economic growth, not contributing to economic recovery. In addition, reform and opening-up policies actively promoted by the authorities did not seem to make a great difference. For instance, Our Style Economic Management Methods, a core policy of the reform, was composed of elements that surely led to positive changes in North Korean economy but failed to be materialized due to various limitations. Opening-up policies that the authorities promoted with strong motivation had to face intensified sanctions, resulting in a failure to attract foreign capital. Such policies now seem to peter out.

Despite such failures in policies, Kim Jong-un was able to show a fairly good economic performance for two main reasons: 1) official area's effective use of market sectors that grew as an unofficial area; and 2) expansion of its export to China, leading to good foreign trade results. The North Korean authorities under the Kim Jong-un era has aptly utilized market sectors to partially resolve financial difficulties and also to pursue economic growth and stabilization. In addition, following the favorable conditions in foreign trade, the authorities have enhanced productions for exports and imported more facilities and capital goods, which seem also helpful to improve its economic performance.<sup>32)</sup>

## **B. Economic Outlook under the Kim Jong-un Regime**

Up until now, this paper evaluated the North Korean economy for

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32) "Report on Work of WPK Central Committee at the 7th Congress," *Rodong Sinmun(Pyongyang)*, May 8, 2016.

the past five years under the Kim Jong-un regime. From now on, based on the aforementioned discussions, this chapter makes a projection on the outlook of future direction of North Korean economy under the Kim regime. Among others, regarding the biggest issue of nuclear pursuit, the outlook on economic operation under sanctions will be discussed, followed by mid- and long-term economic outlook.

### *1) Economic Operation Outlook under Sanctions*

There have been several sanctions imposed on North Korea related to its pursuit of nuclear and missile development. It is hard to say that such sanctions had no impact on North Korean economy. However, at the same time, it would be wrong to say that the North Korean economy have been significantly damaged by them. It was especially true in 2016 when the level of sanctions started to ratchet up, North Korea recorded the highest economic growth in 17 years, showing patterns of economic stability amid heightened sanctions. One of the reasons that it had achieved a stable economic growth under harsh sanctions had been attributed to lots of loopholes in sanctions such as the exceptional clause to protect the civilian livelihood.

From now on, however, sanctions are likely to have a bigger impact on North Korean economy. As mentioned earlier, as more Resolutions have been adopted (Resolution 2321, 2371, 2375, and 2397), the scope and depth of sanctions have been strengthened or renewed especially on foreign trade, oil import, and sending of its

workers overseas. It is projected that the import and export volume will be sharply reduced and so will the foreign currency earned from labors in other countries. Those effects are likely to hit the North Korean economy hard.

Under this situation, how are the North Korean authorities expected to operate its economy? After all, it is highly likely that they continue its existing direction of policy as planned, in most part, to cope with sanctions. For now, the *Changryeok*-first principle and emphasis on localized production will remain as they are. The implementation of such industrial policy seems inevitable under ever intensified international sanctions but appears to be of little help for a long-term economic growth.

Secondly, as the foreign trade sector has significantly contracted—a powerful drive for growth in North Korea, the market sector is projected to expand its role accordingly. Markets will continue to take up a significant portion of the livelihood of North Korean residents. The authorities are expected to minimize an impact of possible economic downturn caused by sanctions by turning a blind eye to private economic activities and also pro-actively utilizing the market sector. The trade volume is likely to be significantly reduced due to the contracted imports and exports.

Third, when sanctions become more intensified and prolonged into the future, the North Korean authorities can possibly add more reformative measures in order to resolve economic difficulties and enhance efficiency. However, based on previous experiences, there is a slim chance for the authorities to take the initiative to lead reformative measures. The authorities would rather assume a

limited role as officially recognizing changes of market to some extent.

Lastly, even if the authorities attempt to respond to economic issues with additional measures, intensified sanctions would make an economic slowdown inevitable.

## ***2) Mid- and Long-term Economic Outlook under the Kim Jong-un Regime***

At a current juncture, it is not easy to make a projection on mid- and long-term economic operation for the future of North Korea. With nuclear issues remaining unresolved and unpredictable, discussing mid- and long-term economic outlook can naturally be precarious. Therefore, this section will cautiously make a projection on the possible economic outlook in the mid- to long-term under the Kim regime with a premise that: 1) North Korea decides to denuclearize, 2) subsequently all the sanctions imposed on North Korea are lifted, bringing an end to nuclear issues, and 3) the authorities stick to the existing planned economic system.

First, the *Changryeok*-first principle and emphasis on localization and science technology that the Kim Jong-un regime strongly pursues are likely to lose much of momentum in the mid- to long-term. As such unfit basic direction tends to be excessively emphasized even in the midst of intensified sanctions, the authorities are expected to change their policy direction in a way

that promotes localization without putting it at the front.

Second, one of the main concerns at the moment is that if North Korea will speed up the pace of its reform and opening-up policy. Although it is always cautious to presume, North Korea is likely to prefer a passive and gradual way of reform by letting its people experience changes first and approving them later. However, as for opening-up policy, its pace can be much faster than that of reform. After sanctions are lifted, North Korea would not have to focus on economic efficiency as much as it does now and the authorities could lose much of its motivation to push forward the economic reform that can be a threat to maintaining the regime. In case of opening-up policy, however, the authorities are expected to actively promote it as it needs additional ways to secure investment funding sources to be used instead of state finance. In addition, after sanctions are lifted, there could emerge an environment favorable to North Korea's opening-up policy as the international community including South Korea can roll up its sleeves to invest in North Korea.

Third, when it comes to marketization, the North Korean authorities could attempt to adjust its pace. The Kim Jong-un regime has consistently promoted the policy that condones marketization as it recognizes an increased dependency on the market. However, when sanctions are completely lifted, more investments can come from overseas and the North Korean authorities are likely to reduce its dependency on the market and toughen the market management. Of course, this assumption is on the premise that enough capital could flow in from overseas to the

extent that is practically helpful in resolving North Korea's finance issues. Therefore, if the scope of capital flow is somewhat limited, the North Korean authorities would continue to use the market sector and the influence and power of *donju* would only increase in tandem.

Fourth, regarding exports, it is expected that the North Korean authorities would try to change the existing export structure centering on commodities products such as mineral and fishery products. Although it is true that the exports volume has substantially increased under the Kim Jong-un era, whether such trends would continue after the removal of sanctions is questionable. Considering the trends of reduced import from China, a main importer of North Korea's coal,<sup>33)</sup> its current export structure does not seem to be sustained in a mid- to long-term. Therefore, it appears urgent for the authorities to secure alternative export products, the highly likely examples of which include textile products whose export volume is the second biggest next to coal and light industrial products, including daily supplies with an improved quality. To this end, more active investment is expected in light industrial products for the purpose of their quality enhancement.

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33) For more information, refer to Suk-Jin Kim, "Trend and Prospect for North Korea's Foreign Currency Earnings," (KINU Unification Compass No. 15-04, KINU, Seoul, 2015).



## **7. Conclusion**



This paper looked back on North Korean economy for the past five years under the Kim Jong-un regime to identify and evaluate its characteristics and to cautiously make a projection on the mid- to long-term direction for the economy.

First, according to an analysis of five years of economic operation under the Kim Jong-un regime, the North Korean economy has five characteristics: 1) continued growth in marketization and foreign trade, 2) a priority on nuclear and missile development over economic development, 3) a lack of success in reform and opening-up policy, 4) sticking to the industrial policy not in line with reality, and 5) planned sector's intensified dependency on the market. Such characteristics imply that the economic performance for the past five years was not a result of North Korean authorities' effective implementation of economic policies. Rather, those factors have been attributed to its sound economic performance: 1) the use of market sector in official economic area, and 2) growth in foreign trade with China.

Based on such analysis, several scenarios are likely to follow: 1) North Korea, under intensified sanctions, continue to maintain current economic policies and direction, 2) with little anticipation of foreign capital flowed in, the authorities are expected to utilize the capital and the market of the domestic market force, and 3) if the economy faces a downturn, additional, albeit limited, reform measures could be expected.

Lastly, under the premise that North Korea opts for denuclearization and nuclear issues are resolved with the complete lifting of sanctions, the Kim Jong-un regime is expected to weaken the mid-

and long-term localization and marketization policy, which has been reinforced in the face of sanctions. Instead, the regime is likely to strengthen opening-up policies such as attracting more foreign capital centering on economic development zones and also invest more money to advance its export structure.



