

## The changes in the DPRK's economic policy and current status of its economy

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### 1. Collapse of the socialist regimes of the former USSR and East Europe and the DPRK

From the perspective of diplomacy and security, the collapse of the socialist regimes of the former Soviet Union and Eastern Europe and the resulting loss of the socialist world market is the Korean that represents the Western faction in the form of representing the Eastern faction at the forefront of the East-West faction. The end of the Cold War brought a very difficult situation for the Democratic People's Republic of Korea (DPRK), which had been in conflict with the United States, Japan and the Republic of Korea (ROK). The DPRK was forced to confront those countries on their own, in the era of single hegemony of the United States. The DPRK altered its diplomatic principle from proletarian internationalism to "independence, peace and friendship" in the constitutional amendment on April 9, 1992 to have better relations with the countries in former Western bloc but it was not successful. The ROK normalized diplomatic relations with the Soviet Union, Eastern European countries and China between 1989 and 1992, maintaining alliances with the United States. It means that the ROK successfully adapted to the new international order after the end of the Cold War. However, the DPRK has not normalized diplomatic relations with the United States and Japan yet. The DPRK decided to secure its "nuclear umbrella," which used to be given by the former Soviet Union during the Cold War, on its own. This is the reason why the DPRK started to develop nuclear weapons and missiles suddenly in full swing after the end of the East-West Cold War.

### 2. Severe economic condition after losing socialist world market

On December 8, 1993, in the summary report of the Third Seven-Year Plan at the 21st Plenum of the 6th Central Committee of the Workers' Party of Korea (WPK) the next two to three years were designated as the "buffer period for socialist construction." It presented the "strategic policy of the party" of "agricultural first, light industry first, trade first". In the aftermath of economic difficulties, this buffer period was eventually extended until 1997. The DPRK had maintained a policy of economic construction that prioritizes heavy industry, especially military industry, since the Korean War.

Agriculture-first and light-industry-first principles was to raise the priority of agriculture and light industry over heavy industry in order to promote the production of the food and the daily necessities necessary for people's lives which were sacrificed due to the economic policy that prioritizes heavy industry. So, that change was a historical shift in economic policy of the DPRK.

The DPRK, which was forced to undergo fundamental changes in economic policy due to the collapse of the socialist regimes of former Soviet Union and Eastern Europe, tried to respond with the “Strategic Policy” of the WPK. However, the DPRK, which had already begun to lose its economical strength due to the loss of the socialist world market, showed a vulnerability that was unthinkable before. The natural disasters that occurred one after another in 1995-97 reflected the current situation where the weak economy was not able to cope with the problem. Even in the industrial sector, coal mines and mines were submerged, resulting in power shortages, steel production stagnation, and disruption of the normal operation of the railway, hindering the implementation of new policies.

The DPRK, which has fallen into a historic economic struggle, proposed the slogan "Let's live and fight in the Arduous March spirit created in the Bald Forest of Mt. Paektu" in the New Year's editorial in 1996. Until the end of October 2000, a political campaign entitled “the Arduous March” continued.

In a joint editorial published in September 1998 by the Korean Labor Party newspaper “Rodong Shinmun” and the party gazette “Kulloja”, titled “Let's keep the line of self-reliance of the national economy construction to the end”, a policy to put more priority on heavy industry was proposed. In order to normalize production, it claimed that it was necessary to “put more emphasis on the core sectors of the people's economy, including the coal industry, electric power industry, metal industry, and railway transportation.” This meant the DPRK started to put an emphasis on the heavy industry. That marked the end of the "new economic strategy".

### 3. The Arduous March and rise of “bazaar economy”

Due to political and economic turmoil, the DPRK lost its ability to actively control the economy. Despite advocating socialism, the supply of food and daily necessities by the state was limited. In the late 1990s, the Arduous March period, the public distribution system became in name only. Many people died, waiting for the state to

re-start distribution of food and daily necessities.

It can be said that the people in the DPRK are differentiated into the elite groups who had been supplied with food and daily necessities by the state and the strong people who have survived by believing in themselves. A lot of people began to engage in economic activities outside of the state sector for their living. An example of this was the “farmers market” which was legally established but dealt with items that was not allowed or price formation without obeying the upper and the lower price limits set by the state.

In order to live, people obtained food and daily necessities using interpersonal transactions and such places. The so-called “marketization” of the DPRK was gradually formed in the process of people's response to the economy that had been deteriorating since the 1980s. It became widespread at the time when the public distribution system was suspended for a major public. The diffusion of marketization cannot be stopped unless the state revives the public distribution system that takes responsible for people's lives.

#### 4. Improvement of economic management in the Kim Jong Il Era

By the death of Kim Il Sung, the era of Kim Jong Il started. The Central Committee and the Central Military Commission of WPK declared that Kim Jong Il was proposed to become the general secretary of WPK on October 8, 1997. After that, efforts to improve economic management in DPRK started. From a perspective of the system and government organization, the starting point was the constitutional revision on September 5, 1998.

Efforts to improve economic management began with the restructuring of state-owned enterprises and altering economic planning methods, and then progressed to changes in corporate management methods, revisions to prices and salaries, expansion of farmers' markets to regional markets, etc.

The restructuring of state-owned enterprises progressed from early 1999 to 2001. Masahiko Nakagawa [2005: 10] analyzes that in this restructuring they put more emphasis on selecting and working companies that are capable rather than crushing operationing companies. According to Pak Jaehun [2005: 36], the goal of restructuring was production specialization. According to this principle, even an joint enterprise, which was a Korean-style business alliance, restructured.

According to Pak Jaehun [2005: 35-36], changes in the economic planning process began with the simplification of the planning process. Specifically, the previous “Preliminary Figure Stage” and “Control Figures Stage” had been abolished, and the “plan” had come straight from the company. Therefore, a “planning method” was introduced as a standard for achieving national economic goals. This is communicated to the enterprise from the national planning agency, which is similar to the traditional “Control Figures”, but its nature is fundamentally different.

According to Pak Jaehun [2005: 35], the power to set up a plan was transferred to the subordinate organization at the same time. Traditionally, planning had been concentrated in the central organization. Based on the reflection that the creativity of local areas and companies had been restrained, the central organization only planned directly on indicators with strategic significance (electric power, coal, automobiles, etc.) and other indicators would be largely shared as relevant institutions, companies, or became local indicators.

In addition, according to Pak Jaehun [2005: 35] they started to put more emphasis on the planning of qualitative and monetary indicators in addition to the conventional quantitative indicators. According to the previous planning method, while the emphasis was on quantitative indicators such as tens of thousands of tons of steel and kilowatts of electricity, qualitative indicators were neglected. As a result, the plan was virtually lacking in efficiency. Therefore, in addition to conventional quantitative indicators, qualitative indicators such as labor productivity and equipment utilization rate, which indicate the effective use of production resources, and monetary indicators such as costs and profits that represent plans in monetary values are also incorporated into planning.

In other words, due to the simplification of the planning process, the actual situation in the production field become more important than the intention of the central government. This change in the planning process can be confirmed legally through the revision of the People's Economic Planning Act in 2001, which had been originally legislated in 1999.

On October 3, 2001, Kim Jong Il gave a lecture on “Improving and strengthening socialist economic management in line with the demands of building a strong power” [Kim Jong Il 2004]. The main points of this lecture were (1) to realize the maximization of practical interest while adhering to the principle of socialism, (2) to make the planned economy more realistic and scientific, and (3) to decentralize discretion, improve

productivity of the economy in general and promote motivation of economic entities, (4) to give the economy system flexibility, (5) introduce not only positive motivation, but also negative ones.

#### 5. Economic Reform in the late 1990s

After that, the target of economic reform changed from the change in the part related to the outline of the management activities of state-owned enterprises to the inside of corporate management. For example, the operation of the “Socialist exchange market” as a way for the state-owned enterprises to accommodate the shortage of supplies, the review of the independent profit system, especially the emphasis on quality indicators and the increase in relative management autonomy.

According to Pak Jaehun [2005: 37], there was a situation in which production could not be carried out normally due to the coexistence of excess and deficiency under the economic crisis. Under such condition that the state was not able to normally supply capital goods and raw materials. Therefore, they decided to establish a material exchange market to make use of the surplus raw materials and materials generated in each company interchangeably and use them efficiently. However, enterprises utilizing the exchange market must comply with the principle of making payments using a bank account at the central bank.

In the socialist goods exchange market, the price was not the nationally controlled price, but the “agreed price” (market price) agreed by both the seller and the buyer. In addition to changes in the mechanism of price formation, this kind of horizontal collaboration between state-owned companies changed the behavior of companies that have been managed in a vertically divided manner within centralized organizational principles.

#### 6. Economic Management Improvement Measures in 2002

On July 1, 2002, North Korea took a drastic reform of prices and wages called “economic management improvement measures”. The main contents of this measure were (1) the abolition of cost loss margin in the supply of grains such as rice and corn, (2) reduction of national benefits (provided free of charge), and (3) adjustment of living expenses (salary) in response to price hike. Thus, the system was designed with thorough socialism distribution principles (working according to ability and receiving

distribution according to labor). This measure was initially reported as suddenly performed, but as mentioned above, it was actually positioned within the series of economic reforms that began to appear around 1998.

In June 2003, the farmer's market (a market that sells agricultural products that were produced in self-sustained areas similar to the former Soviet Kolkhoz market or that exceeded the plan) became "General Market" (then renamed to "Regional Market"). The reorganization of the farmers market into a regional market is significant in that it has expanded its functions by recognizing the regional market as one of the main routes for merchandise distribution. As a model of the regional market, the "Unification Street Market" was built in Rakrang District of Pyongyang, and thereafter such a market was built in each districts in Pyongyang, and in every city and county nationwide.

#### 7. Rise of Non-state-owned sector

As a result of above mentioned economic reform measures, the non-state-owned sector had deepened its relationship with the state-owned sector and expanded its scale, and has expanded from retail in the market to wholesale, logistics and warehousing, and financial services. In the state-owned sector, unplanned production increased, and changes such as the introduction of external capital, increased management activities outside of the main business, and increased links with non-state-owned sectors.

However, institutional design for the economic reform only confirmed the movement of the non-state sector and made minimal changes to the existing system. Many of the activities in the non-state sector, including privately owning production means, were not legally recognized. Social systems did not respond to market mechanisms, and many economic activities generated by economic reform, such as the non-state sector and unplanned production in the state sector, were based on a tacit acknowledgment.

From around 2005 to 2006, a "tightening" policy was implemented to identify the side effects of the reform. For example, the "earnings index", which is the evaluation standard for state-owned enterprises, was changed to the "net income" index in 2006. The reason for this is that, according to several economists in Korea, there was a bias that led to excessive increases in living costs (wages) in order for business establishments to motivate workers.

In 2008, when the author interviewed economists in the DPRK, the state prohibited

the sale of products produced at state-owned enterprises (such as light industrial products) in the market and started to sell them through the national commercial network in principle. Prime Minister Pak Pong Ju, who led the economic reform, was dismissed on April 11, 2007 at the 5th meeting of the 11th Supreme People's Assembly.

The direction of economic policy of the DPRK put an emphasis on state controls since 2006, from the stage of aiming for normalization of the general economy, allowing some growth in the non-state sector. The DPRK became to put more investment in the heavy industry of the priority sector, especially the defense industry.

## 8. Currency Exchange

Under these circumstances, a mass mobilization campaign was held between April 20th and September 17th, 2009, called the “150-day battle”, and from September 23 to December 31, the same year as the “100-day battle”. On November 30, 2009, during the 100-day battle, a currency exchange was conducted in which the old currency of 100 won was exchanged for the new currency of 1 won.

According to Mun Hoil [2011: 51-74], the currency exchange took place over a week from November 30 to December 6, 2009. This is the fifth currency exchange after the leveralization of the Korean peninsula from Japan, and the fourth currency exchange after the establishment of the DPRK. All of the means of currency exchange, exchange ratios, change in the types of currency, exchange limits, and price revisions that characterize the currency exchange were used. For the first time, the exchange ratio was different between cash (100: 1) and bank deposit (10: 1). The currency exchange was carried out with measures to close the market (bazzar) and prohibited the use of foreign currency with the aim of restoring the socialist planned economic order and resulted in great disruption to people's life

The title of the New Year joint editorial on January 1, 2010, “Rodong Shinmun”, “Choson Inmingun”, and “Chongnyon Jyonwi” was “Let's make a decisive change this year, by once again spurring light industry to improve people's lives and build a strong and rising great power.” Although there was no change in the major policy of revitalizing the heavy industry, the light industry and agricultural production that are closely related to the people's life got priority. Considering that during the Kim Jong Il era, the New Year joint editorial summarized the previous year and occupied an extremely important social position in clarifying the policy of the party and the government that year. The

fact that “light industry” and “agriculture” have been emphasized as important issues suggested that the improvement of people's lives become an important issue in national management.

In the first public address by Kim Jong Un on April 15, 2012<sup>1</sup>, "The best people in the world, our people who have overcome the trials of all difficulties and followed the party faithfully, do not have to tighten the belt again." "We are determined to make the most of the socialist wealth and prosperity." "We must make the seed, which our great leader Comrade Kim Jong Il casted for the construction of economically strong country and for the betterment of the people's life, a great flower of reality. It was also clarified that it is not easy to change.

#### 9. Aftermath of currency exchange and cooperation with China

In 2009, the economic development program of two Chinese provinces adjacent to North Korea was approved by the State Council (Central Government) and adopted as a national project. On July 1 of the same year, the “Liaoning Coastal Economic Belt Area Development Plan” in Liaoning Province was approved in principle. This project is a long-term economic development plan for the period 2009-2020

On August 30, the State Council approved Jilin Province's “Summary of Regional Cooperation and Development Plan for the Tumen River in China”. This plan is also a long-term project for the period 2009-2020. This is a project that incorporates various projects planned in the “Greater Tumen Initiative” (GTI), which has been advocated by the United Nations Development Program (UNDP) since the early 1990s, into the domestic economic plan. Its purpose is to play a pilot role for development.

Kim Jong Il from 2010 to 2011 made three visits to China (four times in total when returning to Russia). In all these three visits to China, summit meetings were set. China, in the words of the Supreme Leadership, urged the DPRK to further open up its economy. During his visit in May 2010, Prime Minister Wen Jiabao said, “I would like to introduce the experience of China's reform and opening,” and at the summit meeting in Changchun in August, President Hu Jintao, looking back on history, he stressed that not only self-reliance models but also external economic cooperation is necessary for economic development, and that is the trend of the times.

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<sup>1</sup> <http://www.kcna.co.jp/calendar/2012/04/04-15/2012-0415-050.html>



In January 2011, a project was started to transport coal (lignite) produced in Hunchun City, Jilin Province, China to Shanghai Port via Rajin Port in the DPRK. Rajin Port is clearly positioned as an exit from Jilin Province to the sea. The plan that China actively uses Rajin Port is regarded as one of the important projects in the development plan of Jilin Province.

In June 2011, the Hwanggumpyong and Wihua Island adjacent to Dandong City, Liaoning Province were designated as the “Hwanggumpyong and Wihuado Economic Zone”. A start ceremony for joint development and joint management projects was also held there and at the Rason Economic and Trade Zone next to Hunchun, City, Jilin Province.

#### 10. Economic Policy in Kim Jong Un Era

Kim Jong Un was appointed as the first secretary at the 4th Korean Labor Party Representatives meeting held on April 11, 2012. He was also appointed as a political commissioner and a chairman of the Central Military Commission. He was appointed as the 1st Chairman of the Defense Committee, which was established in place of the Chairman of the Defense Committee at the 5th meeting of the 12th Supreme People's Assembly held on April 13.

According to a joint editorial published on January 1, 2012 by the "Rodong Shinmun", "Choson Inmingun", and "Chongnyon jyonwi", the economy of the DPRK was reported to have "entered the path of building a knowledge-based economy." In addition, the concept of “a socialist civilization” was raised as the direction of national construction. The policy to promote modernization of factories through computer numerical control (CNC) and factory automation (FA), focusing on advanced industries such as information technology (IT), nanotechnology, space technology, etc. It was finally summarized with the word “knowledge economy”.

The "socialist civilized nations", "all the people is high cultural knowledge and healthy physical strength, the socialist cultural life in the most cultural conditions and the environment wearing a lofty moral character heartily enjoyed, to the whole society A country full of beautiful and healthy life styles ”and“ Rodong Shinmin ”editorial. The specific contents are: “General free compulsory education system and free treatment system are implemented, and all cultural fields, including literature, art and sports, bring people independent voluntary thoughts and high cultural knowledge, healthy physical

fitness and high It is envisaged that it will be fostered by a fully developed person with a special moral character.

On March 31, 2013, a general meeting of the WPK Central Committee in March 2013 was held in Pyongyang. “A new strategic line for translating economic and nuclear construction” or *byunjin line* was presented. The first secretary Kim Jong Un said in his report “The true superiority of the new translational route will decisively increase the effectiveness of war deterrence and defense without additional defense costs. ”Is where we can focus our efforts on economic construction and improving people's lives.” Park Pongju was selected as a member of the Party Central Committee Political Bureau and returned to the Prime Minister at the Supreme People's Assembly meeting the following day.

During the two-day meeting, North Korea made two very important decisions. Firstly, it was emphasized that nuclear and missile development “is not a temporary measure to deal with the rapidly changing situation, but a strategic route that must be pursued permanently”. Second, the day after the introduction of the *byunjin line* as a policy, Pak Pongju, who led economic reforms during the Kim Jong Il era, was again appointed Prime Minister.

According to the Japan External Trade Organization [2017: 6], Kim Jong-un met the executives on December 28, 2011 on the day of Kim Jong Il 's funeral. In the following year, in the following year, the executives of the cabinet and scholars were convened in the next year, saying, “The producers themselves will play the responsibility and role as masters in production and management. The research topic was presented to complete “Socialist Enterprise Management Method”. According to the Japan External Trade Organization [2017: 6], from the second half of 2012, some of the cooperative farms conducted a “field responsibility system” and physical distribution on a trial basis. In the industrial sector, trial introductions started in 2-3 companies according to the grades of the central, road, and local regions for each economic sector (electric power, coal, metal, machinery industries, etc.). More than 100 companies and trial installations at the end of the year at more than 200 companies.

The “New Year's Remarks” announced at the beginning of 2013 mentioned that economic guidance and management should be improved, and instructed that the experiences in each department should be disseminated widely. At the general meeting of the Korean Labor Party in March 2013, it was said that “we should complete research

on the economic management method”, and based on the results of the pilot introduction, it became more widespread. In the same year, the full introduction of the “field responsibility system” began on cooperative farms nationwide. From April, authority such as planning rights, production organization rights, distribution rights, trade and joint ventures were given to independently profitable companies. Measures were taken to give These measures were formulated in August as the “Socialist Corporate Responsibility Management System”.

#### 11. Current Status of local cities in the DPRK

The author visited Rason Economic and Trade Zone (the oldest special economic zone in the DPRK) and Chongjin, the capital of North Hamgyong Province and its vicinity between August 8 and 16, 2019. Compared to the last visit (five years ago), Chongjin had more public transport, i.e. trolley buses, tram cars and taxis.

**Photo 1 Trolley bus in Chongjin**



(Source) Photographed by the author

Photo 1 is a picture of a trolley bus in Chongjin. The fare is only 5 North Korean Won (KPW), around 0.06 cent. Chongjin Tram, which run between Ranam District and Songpyong District also costs KPW 5. It means gradual economic recovery in the DPRK made it possible for the city to resume operation of public transport that only receives national price. That means the fare is very cheap and is affordable even for those who receives national wage standards only.

Photo 2 is a photo of taxies in Pohang Square, the main square of Chongjin City. Taxi fare in the DPRK is calculated in hard currency, like US Dollar or Chinese Yuan. Even in a local city like Chongjin, with population approximately 600,000, there are much more taxies than five years ago.

**Photo 2 Taxies in Chongjin**

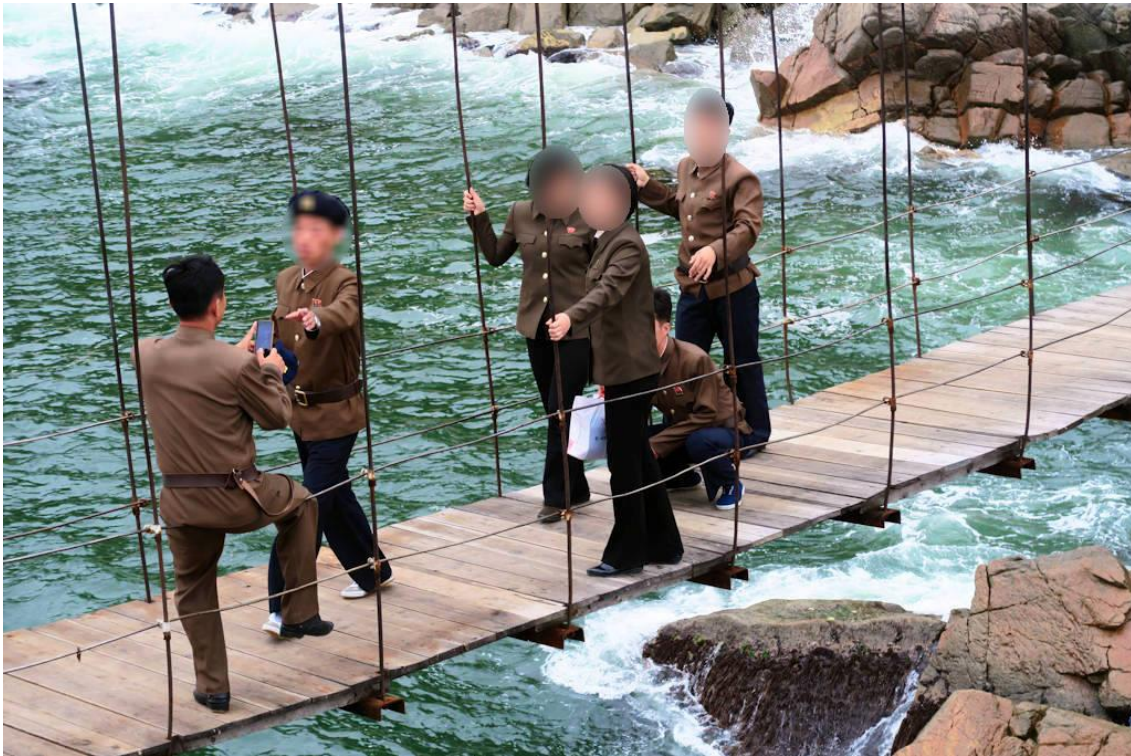


(Source) Photographed by the author

Photo 3 is a photo of university students taking a picture with a smartphone. These days, there are more than 3 million subscribers, which means more than ten per cent of the total population, using a mobile communication service in the DPRK. Even some students have their own smartphone. Although they wear a uniform of the

university they attend, they were enjoying their holiday like those students in Japan, South Korea or in China.

**Photo 3 Students taking a picture with a smart phone at a seashore**



(Source) Photographed by the author

## 12. Future Course of the economy of the DPRK

The debate over economic reforms in the DPRK seriously discusses how to solve the current state of society in a creative way. However, discussions about the ownership system, which is the basis of the socialist economy, such as the privatization of state-owned enterprises and the establishment of private enterprises, are still sealed up. As shown in the Japan External Trade Organization [2017: 44-49], the North Korean economy has been gaining considerable power from the non-state sector in addition to the public sector. It is not difficult to imagine.

On April 20, 2018, the 7th Third General Meeting of the WPK Central Committee was held in Pyongyang. Chairman Kim Jong Un reported, “In order to discuss and determine the critical issues to achieve the goal of the higher stage of socialist construction under the demands of the revolution and the current situation, The third

general meeting of the 7th term came to be held. " He also said, "Last year, after proclaiming the completion of the national nuclear force, our main actions and efforts have changed the overall situation in favor of our revolution, reducing tension and peace in the Korean Peninsula and the region. A new airflow toward the world has formed, and there has been a dramatic change in the international political composition." The two decisions were unanimously adopted on the nuclear development agenda.

In the first decision, "About proclaiming the great victory of the parallel path of economic construction and nuclear power construction", the government declared that the nuclear power was completed. The DPRK would discontinue nuclear tests and intercontinental ballistic rocket launches the next day and abandon the northern nuclear test site. Declaring that they would concentrate all our efforts on the struggle to mobilize the country's human and material resources and build a powerful socialist economy to dramatically improve people's lives. In the second decision, "Concentrating all efforts on socialist economic construction in line with the demands of a new and high level of revolutionary development", they would make all efforts by socializing the general activities of parties and nations toward socialist economic construction. I'm going to concentrate. The two decision means that the center of the policy of the DPRK and KWP became economic construction and making people's life better. That is a tremendous big change in the history of the DPRK. They put the economy on top of their policy for the first time in their history since 1948.

The DPRK undergoes considerable screening of information that is publicly disclosed. Speaking of this trend, it can be considered that there is a direct discussion in North Korea that is far more specific and based on the current situation than the contents of reforms that have been transmitted overseas. The author imagines that this includes the fundamental question of "what is socialism". It seems that it will still take some time before the direction of North Korea's economic policy is fully established. The fact that the open discussions described above are glimpsed from abroad can be thought of as concentrating on the economy more than in the Kim Jong Il era.

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