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Implications of Kim Jong-un's Field Guidance for North Pyongan Mills: Incapacitated Taeon Work System & Pursuit of Autonomous Modernization

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Recently, Kim Jong-un provided field guidance for three first-grade state-owned enterprises (SOEs) in North Pyongan Province in order to encourage “autonomous modernization” of SOEs that are directly controlled by the central government. Among the three factories, the Shinuiju cosmetics mill was praised as a best practice, giving a picture of North Korea's industrial policy today. During the visit to the cosmetics factory, Pyongyang indicated that it maintains its ideology-first approach; pursues modernization of production processes and worksites; pushes for informatization and scientification of business management and production; and promotes creativity in production. Subsequently, Kim suggested development strategies for North Korean enterprises. First, companies need to enhance product quality to secure competitive advantages in international markets and make products tailored to changing demand. Second, SOEs need to expand marketing and sales networks to increase the value and sales of their products. Third, with a view to create a self-sustained and strong economy with advanced science and technology, they should seek product standardization; production facility improvement; and technology and production localization. On the other hand, the Shinuiju textile and chemical fiber mills were criticized as reform-delaying models during the guidance tour. Several factors were pointed out: i) managerial inconsistency due to volatile national policy, ii) resource shortages and poor connectivity among producers and iii) incapacitated Taeon Work System and lack of motivation among company managers. Concerning those challenges, Kim instructed SOEs to foster abilities to generate their own revenue streams independent of the central control regime. He also urged to come up with practical solutions that suit the conditions of each factory.

From June 29 to July 1, 2018, North Korea leader Kim Jong-un provided field guidance, starting off on June 29 in Shindo-gun, a county in North Pyongan Province close to Dandong, China. It was followed by a tour to three factories in Shinuiju, which produce cosmetics (June 30), textile (July 1) and chemical fiber (July 1), respectively. Kim visited organizations and production sites of each factory and assessed their business management before giving tasks. This paper aims to look into the intention and purpose of Kim's latest field guidance in an attempt to analyze the current situation of North Korean SOEs and Pyongyang's response.

Economic Drive by Supreme Leader

Covering the on-the-spot guidance, international media highlighted two purposes of the visit. First, it was considered a preparatory step for DPRK-China economic cooperation, including an assessment of infrastructure crucial to market opening (i.e. ports). North Pyongan Province is home to many of Pyongyang's market-opening efforts such as Hwanggumpyong and Wiwha Island Economic Zones, the Shinuiju Special Economic Zone, the Yalu River Economic Development Zone and the Wiwon Industrial Development Zone. Given that its destinations were consumer product factories (cosmetics and textiles), the guidance tour was interpreted as Kim's attempt to inspect people's livelihood and tighten discipline of local leaders, after spending much of the first half of 2018 on diplomatic activities. Also, there was a telling contrast between Kim's excessive praise/encouragement toward cosmetics producer and reprimand/criticism to the fiber and textile mills.

The tour's most interesting aspect, however, is perhaps that it revealed the direction that the DPRK's industrial policy has taken. A custom born in the time of Kim Il-sung, field guidance in North Korea is more than a display of how much the leader cares for his people. It is also an example-setting, powerful drive designed to tackle pressing policy issues. A case in point is the Taeon Work System, which was suggested by Kim Il-sung during the on-the-spot inspection of Taeon Electric Power Plant in December 1961. The system, which established the party committee

as the highest management authority in governing SOEs, remains to be Pyongyang's official regime for industrial management.

Autonomous Modernization of Enterprises

Granted, this guidance tour was more than groundwork for North Korea's economic cooperation and opening with China. It was part of effort to promote "autonomous modernization" of SOEs directly controlled by Pyongyang. The Shinuiju cosmetics factory, Shinuiju textile mill and Shinuiju chemical fiber mill are all first-grade enterprises with around 3,500 workers. SOEs with 500 or more workers and under direct control are broken down to special-, first-, second-, and third-grade based on the size of employment. Enterprises with fourth or lower grades are classified as regional enterprises. These smaller firms are allowed to accept private investment and exert greater autonomy under the Our-style Economic Management Method by Kim Jong-un.

Recent economic turmoil and marketization in the DPRK have enabled central-controlled enterprises to gain greater independence and autonomous management. Special-grade state enterprises, which employ 5,000 workers or more, are mostly in the form of plant. This class is where planned economy has worked best, as they involve basic industries or are controlled by powerful institutions such as central party or the military. Meanwhile, second- to third-grade SOEs (500-1,000 workers) that are not a subsidiary of such institution or do not produce special products have received far-from-sufficient support from the central government. It turned them into de facto regional enterprises with self-supporting accounting system. In those SOEs, management independently decides production items and plans, and pays 20-30% of the profit to central authority as land and facility usage fees.

Therefore, first-grade SOEs may be the most suitable class to prove the success of "Socialist Corporate Responsibility Management System," which was announced by Kim Jong-un at the 7th Party Congress of the Korean Workers' Party

in 2016. In this context, Kim's guidance tour to the three Shinuiju factories has great implications for the autonomous modernization drive. Shindo-gun, once dubbed "silk island" by Kim Il-sung, is a key production area of reeds, a base material for chemical fiber production in North Korea. In other words, it is where the DPRK's drive for the production localization of raw materials can succeed. During the tour, Kim commanded county officials to produce "reeds in a scientific and modern manner" so that Shindo-gun rises to "a base of autonomous resource supply for chemical fibers." He also demanded the county to become "a model unit" in achieving self-sustainment in the North Korean chemical industry.

Best Practices in Industrial Policy and Production Management in Kim Jong-un Era

During the June visit, Kim Jong-un "highly regarded" the Shinuiju cosmetics mill as "satisfying, the most satisfying." The factory, known for its "Bomhyanggi (Scent of Spring)" cosmetics line, manufactures daily necessities including soap, toothpaste, and beauty products. In North Korea, the role of a factory stretches beyond manufacturing; it serves as a venue for administrative activities and ideological education and reproduction. Other than production facilities, a typical North Korean factory has an "education room for revolutionary historical records," daycare center and kindergarten, hospital, and cultural center for workers. Kim Jong-un's actions and remarks at the beauty product mill indicate some key characteristics of the DPRK's current business and manufacturing management policy.

First, ideology still came first. Kim started the tour by visiting the education room for revolutionary history records, and admired Kim Il-sung's on-the-spot guidance on manufacturing. Then, he ordered workers to produce "world-class beauty products" bearing his predecessors' achievement in mind. Such remarks signal that reinforcing ideology lies at the heart of guidance tours.

Second, great interest was shown in modernizing production processes and worksites. Kim Jong-un lauded the factory's automated production along with

sterilization and dust elimination efforts for workplace hygiene. He also stressed the importance of facility modernization in manufacturing products fit for global competition. It was a statement of Pyongyang's new commitment to "improving product quality" to the international level. It also revealed the will to make production and work environment better for the development of chemical industry.

Third, informatization and scientification of business management and production was emphasized. Kim complimented the mill for its "building of integrated production system." He claimed, under the so-called "cutting-edge breakthrough warfare" initiative, the cosmetics mill successfully set up an integrated production system that "informatized production command, technological process control and management control that enabled to execute production and management in a scientific manner." According to Kim, the factory adopted autonomous and unmanned process in every step of manufacturing from ingredient mixing to product finishing. His compliment revealed Pyongyang's intention to introduce informatized business management and advanced technology, and also to develop and improve production facilities for rational use of human resources.

Fourth, creativity was promoted. Kim acclaimed factory's creative ideas that led to diversification of product containers. It can be interpreted as a sales strategy to meet the consumer's needs. Kim also stressed "numerous equipment was designed and assembled by engineers and technicians themselves, or manufactured at machinery factories in Doan." It was an emphasis of creative ideas by factory engineers and collaboration between local enterprises in achieving corporate independence.

Industrial Strategy for Resource Localization

Along with the evaluation, Kim provided goals for the cosmetics factory. He demanded to enhance product quality to the level of advanced economies in connection with science and technological progress and achieve localization of material supply with a view to achieve a self-sustained economy. In specific, Kim

tasked the factory with three challenges.

The first challenge is to boost international competitiveness with improved product quality and make products that are tailored to changing demand. To that end, Kim commanded quality enhancement, specifically, a comparative analysis between the factory's products and North Korea's top beauty goods made in Pyongyang as well as the world's leading products. Next, he ordered to beef up R&D to diversify product lines by age, preference, and body type. In addition, he put an emphasis on product safety and quality management system compliance.

The second challenge is to expand marketing and distribution networks to increase the value and sales of products. Asserting that the value of cosmetic goods is determined also by its container, Kim focused on marketing strategy, a vital element in market economy. He instructed to launch new package types such as gifts or souvenirs while keeping committed to uniqueness and convenience. In addition, the North Korean leader demanded active sales strategy and network expansion, and suggested that the factory open a store dedicated to its products in Pyongyang.

The third is scientific and technological progress toward self-sustained and strong economy. This includes product standardization and technological advancement in production and development and localization. To elaborate, Kim called for automation of mass production process, technical skill training for workers, and a shift to tech-intensive manufacturing by integrating scientific research and production in the factory. He also urged to reduce the use of imported materials and encourage localization along with product diversification.

Business Reform Delayed

In contrast to the cosmetics producer, most SOEs in North Korea have been struggling over production and management issues. Kim's harsh criticism on the Shinuiju textile and chemical fiber factories during the guidance tour provides a glimpse of the current situation. The two mills are closely connected. The textile

factory produces various textiles. One of its main source materials, rayon staple fiber, is supplied by the chemical fiber mill that produces pulp, paper, and chemical fibers. Reeds, a domestically supplied material for the fiber mill, come from Shindo-gun.

It is noteworthy that central-controlled SOEs in the DPRK have experienced ups and downs following changes in national economic policy. The Shinuiju chemical fiber mill was a special-grade plant in the 1980s. After COMECON's fall, it was downgraded to the first grade in 1994 due to material and electricity shortages. It regained its previous status in 1996 when Pyongyang prioritized light industry only to be relegated again in 2006. The fiber factory's production issues caused the Shinuiju textile mill's effective cessation. The mill's operation resumed in the mid-90s when the "shock troop of the technological revolutionary group" arrived. After the troop's departure, however, the factory struggled with material, technology, and power shortages. Later, a new procedure was introduced in 2006 (an automatic stopper that blocks thread supply when thread is cut); in 2010, a new workplace was constructed for knitting thread production. The results of neither of the two additions are unknown.

Secondly, North Korean mills have suffered from source material shortages and lack of connectivity. Kim condemned factory workers for "complaining about material, money, and willpower instead of dedicating themselves to production normalization by taking advantage of science and technology." He slashed their "lack of spirit and mental hibernation in the face of a crisis." Normalizing production, however, might be a daunting challenge for the textile mill whose supplier—the fiber mill—fails to normalize operation, and utility shortages continue because of unstable hydro and thermal power generation. On top of that, despite being a first-grade company, the Shinuiju textile mill was ordered "to set up an autonomous distribution plan reflecting the enterprise's capacity," which made it difficult to improve labor and living conditions for its workers.

Taeon Work System Incapacitated

On the other hand, enterprise control regime has become chaotic, but response was nominal. The Taeon Work System, the DPRK's control regime for SOEs, is based on check and balances among three parties. The party secretary leads ideological matters in the company; the manager is responsible for administrative tasks; and the chief engineer oversees technical issues. A precondition of this system's success is an effective welfare system for factory workers including food rationing. Unfortunately, over time, SOE-made products have lost competitiveness in the market. Company managers failed to guarantee workers' survival. These led to the Taeon system's gradual paralysis from the bottom. Nevertheless, first-grade enterprises controlled by the central government remain relatively less autonomous and more bureaucratic. Orders from the top often lead to "blind projects" and "lack of motivation" on workers' part.

The fourth issue is continued instability in production and company executives' lack of motivation. Since 1990s, SOE managers have experienced ups and downs as the central party's industrial policy has changed. They grew accustomed to bureaucracy and buck-passing as unstable resource supply led to unstable production. In this regard, Kim Jong-un reprimanded "manager, party secretary, and chief engineer all put the blame to one another and none of them is able to give accurate answers" at the chemical fiber mill. He also criticized the cabinet, the Ministry of Chemical Industry, and Provincial Committee for neglecting their duty of supervision and control. Insufficient supply of raw material and power are the biggest hindrance to the two factories at the moment. Unless those shortages are addressed, it is unlikely that they will return to normalcy and their executives renew motivation.

Kim's Practical Approach

Concerning those issues, Kim Jong-un proposed the following solutions:

Firstly, he scorned the leadership of factory party committees and urged them to bolster ideological enlightening campaigns for workers and technicians. Secondly, he demanded a shift toward an effort-saving and technology-intensive production process in connection with automation and production scale-up. Thirdly, he emphasized practical mind in business management, demanding endeavor and capacity-building to secure new revenue streams independent of governing regime.

Notably, other than the guidance, Kim proposed different solutions to each mill. To the textile mill, he ordered to improve working conditions by the time of the 60th anniversary of its establishment in 2019, and promised to send a labor force to assist the construction of a workers dormitory. To the chemical fiber mill, he directed to prioritize paper production, which is easier to supply with local raw materials—namely, reeds from Shindo-gun. His solutions can be understood as a practical approach in which each factory's different situation is taken into account.

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