

Online Series

2022. 02. 10. | CO 22-05

An Analysis of the 6th Session of the 14th Supreme People's Assembly of the Democratic People's Republic of Korea

Hong, Min

(Director, North Korean Research Division)

Hong, Jea Hwan

(Research Fellow, North Korean Research Division)

CHOI, Ji Young

(Deputy Director of Planning and Coordination Division)

The 6th Session of the 14th Supreme People's Assembly (SPA) of the Democratic People's Republic of Korea (DPRK) primarily stressed the following items of the agenda: promoting socialist rural construction, advancing emergency preventive measures, bolstering the cabinet-centered governing, and strengthening the state control on trade and commerce. Those items are generally in line with the policy direction of the last two years, which is composed of defensive and status quo measures. It is worth noticing, however, that specific changes occurred on trade management and emergency prevention which account for the potential phased normalization of North Korea-China and North Korea-Russia trade relations. With strategic trends of the last few years factoring in, this session appears to emphasize promoting internal solidarity with a slogan for rural construction, normalizing North Korea-China and North Korea-Russia trades, and fine-tuning the emergency prevention system under a goal of primarily developing strategic weapons (advancing nuclear weapons first) against the backdrop of the US-China and US-Russia confrontational structure. North Korea underscored building an internal response system that could withstand the international pressure that is likely to be imposed as a result of North Korea's various strategic weapons testing slated for this year.

What should be noted on the budget and accounts announced at the SPA is that although a majority of sectors had reportedly surpassed the set goals last year, statistics might not be accurate since there had not been many changes in internal and external circumstances. North Korea may have had political considerations that it would utilize the first-year achievement of the 5-year economic development plan as an impetus to meet the goals in the future. Second, North Korea faces a reality of worsening fiscal conditions precipitated by sanctions and COVID-19 with record low increases in incomes and expenses in the budget last year. This year's goal also seeks to maintain the status quo. Third, a significant increase was allocated to the budget of emergency prevention projects. This increase seems to account for increased emergency prevention expenses in preparation for phased normalization of North Korea-China and North Korea-Russia trades. Against this backdrop, state control on trade and commerce was emphasized. Major policies set forth through this meeting are about the state's direct control and management in the trade and commerce, which are the primary financial sources for North Korea, such as reverting to and restoring the 'state-led sole trade system' and restoring unified commerce management system. Such drastic measures appear to surface in response to uncertain international circumstances, the prolonged battle against the US, the prolonged outbreak of COVID-19, and international sanctions imposed as a consequence of North Korea's strategic weapons development.

North Korea held the 6th Session of the 14th Supreme People's Assembly (SPA) at the Mansudae Assembly Hall in Pyongyang on February 6~7, 2022. This session dealt with the budget and accounts and follow-up legislative measures that implement what was adopted at the 4th Plenary Meeting of the 8th Central Committee of the Workers' Party of Korea (WPK). This session set this year's goals as promoting socialist rural construction, advancing emergency preventive projects, bolstering the cabinet-centered governing in the economic sector, strengthening the state control on trade and commerce, and boosting the state defense power. Those goals can essentially be summed up as follows: changing goals to expand the range of investment and construction from urban areas, mainly a focus of construction up until now, to rural areas; fine-tuning the emergency prevention system with consideration for potentially phased normalization of North Korea-China and North Korea-Russia trades; strengthening the state control on trade and commerce in response to prolonged sanctions and emergency prevention; and maintaining the cabinet's role as an economic coordinator.

Most policies generally carry the defensive and status quo characteristics due to uncertainties looming large over the international situation, a prolonged battle against the US, and coronavirus reverberations. What differs from last year's measures is normalizing trade in phases, strengthening the state management of the economy, and fine-tuning the emergency prevention system. This session appears to emphasize maintaining internal solidarity with a series of policies designed to embrace the so-far neglected rural villages and by showing construction achievements under a goal of primarily developing strategic weapons (advancing nuclear weapons first). At the same time, North Korea seeks to normalize North Korea-China and North Korea-Russia trades in phases that could withstand the international pressure expected in the weapons-development process and fine-tune the emergency prevention system in preparation for possible trade expansion.

Scheduling Events in Sync with Kim Jong-il and Kim Il-sung's Birth Anniversary in the First Half of the Year

Last year, North Korea held the SPA in January, going against the tradition of holding the event every April. Hosting the SPA in January of the previous year could be interpreted as a measure to set the beginning of the session in sync with the start of the year. This year, North Korea held the SPA around early February, 20 days later than the usual date. One can conjecture that North Korea holds the events slated for the first half of this year according to the schedule given that last year the North already announced the date of the 2022 SPA and launched missiles seven times starting early January in leading up to the hosting of the SPA. As this year marks the 80th anniversary of Kim Jong-il's birth and the 110th anniversary of Kim Il-sung's birth, North Korea seems likely to set the schedule with the intention to highlight those two anniversaries as much as possible.

At the same time, North Korea might have attempted to show off the achievements of strategic weapons development by test-launching missiles, starting with hypersonic missiles since early January while displaying the dramatic effects of ushering in the 'year of great revolutionary celebration.' Pyongyang also sent congratulatory messages to Chinese President Xi Jinping in leading up to the 2022 Winter Olympics in Beijing, wishing China peace and 'safe' hosting of the Olympics. In the meantime, the DPRK appears to take a step back by holding the SPA, emphasizing the economy and the people's livelihoods. North Korea is expected to put a temporary, diplomatic stop to strategic weapons testing during following periods: the 2022 Winter Olympics in Beijing (February 4~20), Paralympics (March 4~14), and China's Two Sessions (Chinese People's Political Consultative Conference on March 4 and the National People's Congress of the People's Republic of China on March 5). North Korea is likely to restrain from strategic weapons testing up until at least mid-March, given that it did not launch missiles when China held the Two Sessions.¹⁾ In that sense, the highlight of the 'year of great revolutionary celebration' in the first half of this year is likely to be the Day of the Sun (the birth

anniversary of Kim Il-sung) on April 15.

General Secretary Kim Jong-un's absence in the SPA could also be interpreted along this line. Since North Korea already presented the policy direction for this year through the 4th Plenary Meeting of the 8th Central Committee of the Workers' Party of Korea, the North may reckon that it is not necessary to make policy comments on an official stage a month later. In terms of dramatic effects around the Day of the Sun, North Korea garnered enough international attention, including from the US, with the presence of Kim Jong-un in the final test-launching of hypersonic missiles early this year and ushered in the year of great revolutionary celebration. After a temporary pause during the 2022 Winter Olympics in Beijing and China's Two Sessions, customary messages, intended to send out both to the outside world and within North Korea, are expected around the mid and late March through strategic weapons testing, the event of marking the Day of the Sun, and congratulatory speech of General Secretary Kim Jong-un. In that regard, General Secretary Kim Jong-un is expected to send out detailed messages toward the US and the Republic of Korea (ROK) in the form of policy speech at the SPA in September while continuing to test strategic weapons as announced. In the meantime, from the ROK presidential election period until the end of this year, the new ROK administration would establish new North Korea policy and the US faces the mid-term election.

North Korea's Announcement of Surpassing the Set Goals in 2021, Not Statistically Correct Though

The remarks of North Korea's Cabinet Prime Minister Kim Deok-hoon at the SPA should be noted that last year North Korea accomplished 148% of its set gross

-
- 1) There was no missile launch in March 2019 and there were missile launches four times in May 2020. China's Two Sessions in 2020 were delayed two months to May 21 due to COVID-19. North Korea launched cruise missiles 10 days after the end of the Two Sessions in 2021.

industrial output values. That production number increased by close to a half than the initially planned. However, this is in stark contrast to Chairman Kim Jong-un's no comment at the 8th Plenary Meeting of the 4th Central Committee of the WPK on whether the first-year goal of the five-year economic development plan has been met. This also sharply contrasted with North Korea's last year move where it encouraged to meet the production plan through Rodong Sinmun. Such comments could be politically intended considering that a failure in meeting the first-year goal could make the implementation momentum lost.

Gross industrial output values typically increase when the total output or price rises. Normally countries use real numbers to calculate the increase since the effects of price increases should be ruled out. However, the North Korean authorities appear to deduce the increase based on nominal value, not ruling out the impact of price rise. In addition, such numbers may have been deduced, not from real prices but nominal prices. This could be conjectured by Rodong Sinmun's coverage last June on the 3rd Plenary Meeting of the 8th Central Committee of the Workers' Party of Korea. The reporting went, "North Korea achieved 144% of the set gross industrial output values, in the first half of this year, and 125%, year-on-year," and "the current numbers continue to rise," hinting that gross industrial output values were deduced not from real prices but nominal prices. Numbers released this time must have been calculated in the same way.

Although Cabinet Prime Minister Kim announced that North Korea met 148% of the set gross industrial output values last year, this may be attributed to statistical misuses. As can be indicated by General Secretary Kim's no mentioning of whether the first-year goal of the five-year economic development plan has been met at the Plenary Meeting, economic achievements of last year seem to be lacking. Regardless of North Korea's intention, though, Pyongyang presented production numbers calculated based on nominal values. Doing so created the 'illusion effect' for North Korean residents who are not used to such economic concepts. It could serve the interests of North Korean authorities to assuage some complaints about not meeting economic goals to some extent.

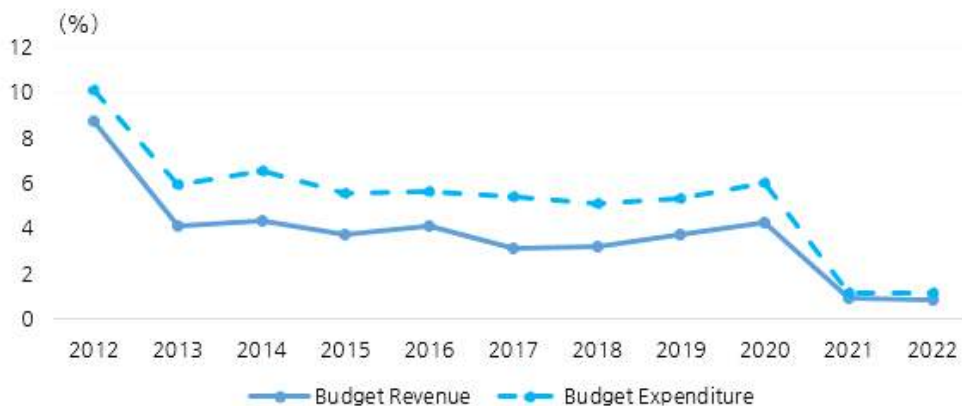
The Increase in Budget Revenue and Expenditure for 2021 at Around 1%, Similar to Last Year

Announcements of this year's state budget are similar to last year in terms of accounts of the budget execution and rises in the revenue and expenditure of the planned budget. Last year's increase in the income and expense of the budget was at 0.9% and 1.1%, respectively, hitting a record low since Kim Jong-un took power, demonstrating that sanctions and the COVID-19-induced health crisis took a toll on the fiscal situation. North Korea this year announced the increase of the revenue and expenditures in the budget by 0.8% and 1.1%, respectively. This is the repetition of the previous fiscal volume for two consecutive years. In addition, no distinct change was found in the increase of the budget revenue and expenditures, except for a rise in the budget expenditure by 33.3% in emergency prevention projects. Last year's Plenary Meeting already emphasized the emergency prevention projects as a priority of state projects to stem the inflow of coronavirus. Moreover, a facility has been placed in North Korea along the borders with China and Russia, designed for overland transportation. This year, a noticeable increase in expenditure on emergency prevention could be interpreted as a measure to operate a prevention-related facility, if needed, once trade resumes.

Although there was a mention that the budget item was newly created for agricultural sectors for the rural development and that the related budget expenditure increases, no figure was suggested to corroborate such comments. The total budget expenditure increase stays the same as last year at 1.1%. The expenditure for developing the people's economy slightly increases by 2% (previous year, 0.6%), hinting that this could be related to the investments in the agricultural sectors. The Plenary Meeting held late last year already stressed the need to expand the investment in the agricultural sector and improve the living conditions in rural villages. The meeting also announced measures to write off the unpaid debt for collective farms. This could be viewed as a measure to utilize fiscal means (expansion of budget expenditure) and financial means (canceling the unpaid loans) to boost

productivity in the agricultural sector amid sanctions and health crises. Debt relief given to the collective farms may be intended to provide economic incentives but could also be a preemptive measure to create a new loan. Utilizing loans through banks may lay bare the difficulties of extensively increasing fiscal expenditures facing North Korea.

<Figure 1> Rise in the Revenue and Expenditures of the State Budget Plan (2012~2021)



Source: Rodong Sinmun (Release of Yearly State Budget at SPA)

Efforts to Secure Budget Revenues amidst Worsening Fiscal Conditions

Along with institutional changes related to the state budget, one can conjecture that North Korea faces challenges of securing revenue sources in the budget when examining its announcement of items for this year's budget incomes. The names of income taxes levied on businesses and cooperatives had been changed. The name of corporate income tax was changed from "deductions from enterprise profits" to "deductions from enterprise earnings." The name of income tax for cooperatives was also changed from "deductions from cooperative profits" to "deductions from cooperative earnings." It is not clear, however, what the name change actually indicates. In 2002, North Korea incorporated turnover tax and deductions from enterprise profits and named it "deductions from enterprise earnings." At that time,

"deductions from enterprise earnings" were referred to as "income tax based on net-profit before deducting labor costs." However, North Korea ended up separating turnover tax and deductions from enterprise profits in 2011. On the surface, the naming of new corporate income tax itself, announced at the 2022 SPA, is the same as deductions from enterprise earnings of 2002. However, it does not appear to be the same, contents wise, as 2002's institutional changes since North Korea this time mentioned the increase of turnover tax. It is hard to accurately assess changes as detailed information on institutional changes has not been revealed yet, including the revision of the Law on National Budget Revenue. The name change of corporate income tax could possibly be related to institutional changes on taxation source or taxation base. Moreover, it could be related to efforts to secure budget revenues. Such trends have been detected since 2020 already. The increase of turnover taxes and deductions from enterprise profits started to slow down year-on-year. North Korea began to utilize 'the depreciation expense for state investment-incurred fixed assets,' which used to be retained within the business, as budget revenue sources. The name changes mentioned above could be interpreted as an attempt to increase more budget revenues.

In the meantime, this year's budget revenue plan includes an increase of 'income from tax collection' by 6.8 times. It is unusual for North Korea to announce a plan for securing 'income from tax collection' at the SPA. Preceding studies suggest that 'tax collecting agency' was established in every city and county with the task of collecting rental fees or income taxes levied on profits earned through market activities of corporations, enterprises, groups, and residents.²⁾ It remains to be seen

2) North Korea has bolstered efforts to collect more taxes through deductions from enterprise profits after "7.1 measure of economic management system" in 2002 and by establishing a central tax collecting agency in cities and counties. Taxes include market rental fees (charged for display stand), and fees for storing bicycles and baggage levied by the Market Management Agency under the Office for the Commerce Management of Municipal, and County People's Committees. Park, Hyeong-Jung and Choi, Jin-wook, "An Analysis of the 3rd Session of the 11th Supreme People's Assembly (SPA) in North Korea." *Unification Conditions Analysis* (2005-10), p. 12; Hong, Min et al., *Information on Markets across North Korea: Focused on the Status of Official Markets* (Seoul: Korea Institute for National Unification, 2016), pp. 41-57.

whether North Korea's significant increase in incomes from tax collection intends to make up for last year's decrease in incomes or to secure more budget revenue sources by finding more tax revenues. Market activities have become strained since the coronavirus outbreak hit the country. And subsequently, tax collecting agencies have struggled to collect taxes.³⁾ What is clear, though, various attempts have been made to secure more budget revenues amidst worsening fiscal conditions caused by prolonged sanctions and health crises.

Indication of Tightening the State Management and Control on Trade

North Korea has put in place a series of measures to tighten the state's grip on the economy as the country's economy is hit hard by sanctions and COVID-19. Cabinet Prime Minister Kim Deok-hoon's reporting on this year's tasks affirms that such trends will continue this year. Cases in point are his remarks on "projects to revert to and restore the state's sole trade system" and "urgent need to restore unified commerce management system."

The state's tightened control and management on trade have not been emphasized enough, unlike the need to restore a unified commerce management system. It was only recently that detailed measures were taken on trade in official institutions, although some attempts of government intervention have been tried on trade as the state's management and control of the overall economy have strengthened. Among them, a comment on reverting to and restoring the state's sole trade system is particularly worth noticing.

North Korea revised the Trade Act at the Standing Committee of the SPA last year. No details have been released at that time. Still, the Korean Central News Agency (KCNA) reports went, "provisions were added to embolden centralized and

3) KITA North Korea's Trade, *Monthly Brief* vol. 2020, no. 12 (2020); "North Korea in Emergency by recession-induced taxes caused by corona virus," *RFA*, 2021.1.29., <https://www.rfa.org/korean/in_focus/ne-hm-01292021073850.html> (date accessed: 2022.2.8.).

unified guidance and control on trade projects." The comments at the SPA on "reverting to and restoring the state's sole trade system" probably have been made in line with the amendment to the Trade Act.

North Korea once attempted to promote liberalization and decentralization by revising the Trade Act in the early days of the Kim Jong-un regime. Why have measures to go against those efforts been taken recently then? As mentioned above, the trade sector is not immune to the state's tightened management and control of the overall economy with a worsening economic situation. Other factors include the increased need to tighten the state control on trade to block coronavirus inflow and to manage foreign reserves amidst aggravating trade deficits by toughened sanctions.

Therefore, North Korea is expected to increase the size of external trade this year compared to 2020~2021, given its dismal economic conditions. At the same time, North Korea seems likely to reinforce the state's control and management on trade, such as a limited and incremental increase in the import volume and items with the size of foreign reserves and COVID-19 conditions factoring in. ©KINU 2022

※ The views expressed in this paper are entirely those of the author and are not to be construed as representing those of the Korea Institute for National Unification (KINU).