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Analysis and Implications of the 10th Session of the 14th Supreme People's Assembly: based on Policy Shift toward South Korea and Budgetary and Economic Policies

Choi, Ji-young (Research Fellow, North Korean Research Division)

Kim, Kap-sik (Senior Research Fellow, North Korean Research Division)

Policies toward South Korea

Kim, Jong-un seems determined to remove unification and ethnic identity from North Korea's policies in order to dissuade North Korean residents from considering reconciliation, unification, or even kinship. He declared that "the Supreme People's Assembly newly legalized the policy of our Republic toward the South on the basis of putting an end to nearly 80 years-long history of inter-Korean relations and recognizing that two states both exist on the Korean peninsula," which is a reiteration of 'two belligerent states on the Korean peninsula.'

Specification of ROK as the 'Primary Foe' and 'Invariable Principal Enemy' in North Korea's Constitution

Above all, Kim, Jong-un mentioned The Constitution of the Republic of Korea, which stipulates that the territories of the ROK consist of the 'Korean peninsula,' and instructed to create a new territories clause that currently doesn't exist in North Korea's Constitution to 'accurately and legitimately define the sovereign jurisdiction

of the independent socialist Democratic People's Republic of Korea.' Furthermore, in order to intensify tensions on the Korean peninsula, he highlighted that "the issue of completely occupying, subjugating and reclaiming the ROK and annex it as part of the territory of our Republic in case a war breaks out" should be written in the Constitution.

Additionally, Kim, Jong-un demanded to revise the Constitution to specify the ROK as 'primary foe,' and 'invariable principal enemy.' He ordered the prohibition of use of words related to unification and ethnicity in the everyday life of North Korean residents. Therefore, North Korean residents will not be able to employ kinship-related terminology such as 'river and mountain, streams flowing clear,' and '80 million Korean people' in the political, ideological, psychological, and cultural domains of their daily life. Expressions including 'the northern hemisphere,' 'independence, peaceful unification, and great national unity' in the Constitution were ordered to be removed. This is in line with Kim, Jong-un's instructions to expunge the notion of 'unification,' 'reconciliation,' and 'kinship' while at the same time, dismantling pertinent monuments including the Monument to the Three-Point Charter for National Reunification, which was promoted as an achievement of Kim, Il-sung. North Korea's notion of ethnicity evolved from Stalin's view, which emphasized the economic structure, to one that prioritized lineage and language, coinciding with the introduction of the federal system in the 1980s. It remains to be seen whether there will be a return to the former notion in the future.

National Budget and Economic Policies

This year, North Korea's plans for the national budget revenue and expenditure showed an increase of 2.7% and 3.4% respectively compared to the previous year, rebounding from around 1% levels seen during 2021-2023. With the resumption of trade gaining momentum, the recovery of the North Korean economy in 2023 is becoming relatively evident, and these changes have also been reflected in the national budget plans.

However, despite the increase in the overall size of the budget, it is difficult to confirm in the specific figures of individual budgets a policy commitment to improving people's livelihoods or achieving balanced industrial development. While the overall planned

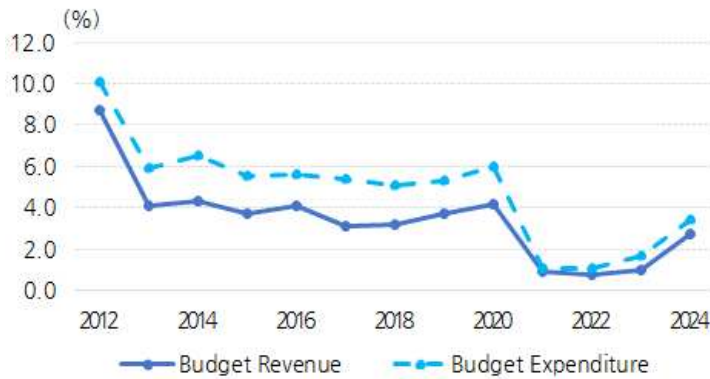
budget spending has increased, the planned growth rate of expenses for the development of the national economy increased by a mere 0.4%. Furthermore, there are concerns regarding the significant increase (+9.5%) in spending related to scientific and technological development projects, which appears to be directly associated with the military industry. If these changes represent an inclination to allocate additional financial resources secured from economic recovery for the military industry, it is difficult to expect improvements in the people's standard of living. The geopolitical risks on the Korean Peninsula could also intensify.

2024 Plans for National Budget Revenue and Expenditure Increase Anticipated to Rebound to Around 3% Levels

This year, North Korea's plans for budget revenue and expenditure showed an increase of 2.7% and 3.4% respectively compared to the previous year, rebounding from around 1% levels seen during 2021–2023. North Korea's fiscal conditions began to deteriorate due to the prolonged sanctions and the COVID-19 pandemic in 2020, as the increase rate of turnover tax and deductions from enterprise earnings¹⁾ remained sluggish at around 1%. This trend continued in 2021–2023. However, as trade resumed in the previous year, North Korean economy experienced a partial rebound and this resulted in a slight increase in the overall size of the budget, with a planned increase of 0.5% and 3.2% in turnover tax and deductions from enterprise earnings respectively.

¹⁾ Previously termed 'deductions from enterprise profits,' which is taxation on production units, changed to 'deductions from enterprise earnings' at the budget report during the 2022 Supreme People's Assembly.

<Figure 1> Increase Rate in the National Budget Revenue and Expenditure Plans (2012~2024)



Source: *Rodong Sinmun* (National budget plans presented during the Supreme People’s Assembly each year)

Establishment of a Budget Category for Science and Technology Development, Emphasis on the Military-Industrial Complex

While the budget size has increased for the first time in three years, there hasn’t been a noticeable expansion in investments specifically for economic growth. Despite the overall budget expenditure plan increasing by 3.4%, expense for the development of the national economy only saw a modest 0.4% increase. What’s noteworthy is the establishment of a separate category for ‘science and technology development projects’ in the national budget expenditure, starting from this year. The planned growth rate for this category is also relatively high at 9.5%. While the budget increase for science and technology was planned to be in the range of 7–9% from 2017 to 2020, suggesting a recovery to the previous levels, the increase in the overall expense for the development of the national economy slowed down due to the separation of the said category. In particular, the inclusion of ‘space science and technology development projects’ and ‘maintenance expenses for space science research institutions’ in the science and technology development budget implies that North Korean authorities are intent on increasing budget spending to invest significantly in the military-industrial complex.

Emphasis on Basic Industry and Agricultural Development

The budget report and policy speech at this year's Supreme People's Assembly indicate that North Korean authorities have placed emphasis on the recovery of the basic industry and the development of agricultural and rural sectors in the previous year. This is a trend expected to be maintained throughout this year. In terms of the basic industry, achievements in key sectors such as metals, chemicals, and machinery compared to 2020 were highlighted at last year's plenary meeting. Positive assessment of last year's industrial performance was also observed in this year's policy speech at the Supreme People's Assembly. Regardless of the actual achievements, it can be inferred that North Korean authorities are focusing on the recovery of the heavy and chemical industries. Particularly, Kim, Jong-un's speech underscored the development of the machinery industry centered on the Ryongsong Machine Complex. With industrial equipment imports halted due to UN Security Council sanctions against North Korea, and considering the ripple effects on the manufacturing sector as a whole, the machinery industry is one of the most urgent areas that need import substitution industrialization amidst prolonged sanctions.

There is also a continued emphasis on grain production and agricultural development. According to the budget report at this year's Supreme People's Assembly, spending in the agricultural sector increased by 15% last year. The planned increase rate for agricultural sector spending at last year's Supreme People's Assembly was 14.7%, slightly exceeding the initial target. This year, the planned increase rate for agricultural sector spending is 0.1%. This confirms the continued implementation of policies focusing on the agricultural sector, as the current scale of budget spending is guaranteed.

Stimulation of the Local Economy to Boost Domestic Consumption “20x10 Regional Development Policy”

One notable aspect from Kim, Jong-un's policy speech is the “20x10 Regional Development Policy,” which aims to develop the local economy to the level of Kimhwa County in Kangwon Province within 10 years by constructing local industrial factories in each of the 20 provinces. While economic policies since the 8th Party Congress

in 2021 focused on boosting domestic consumption, particularly in agriculture and construction, this year seems to mark a shift towards stimulating domestic consumption centered on local light industry. Of course, this change in direction appears possible as imports increased following trade resumption.

North Korea has maintained decentralized economic policies since the 1970s, where small-scale local industries are responsible for the production of consumer goods such as processed food, clothing, and daily necessities. Although the new strategy is not an entirely new approach, there has recently been a relatively stronger emphasis on the role of local economies, urging them to become ‘self-reliant’ due to the prolonged sanctions. This can be interpreted as an attempt to concentrate the national budget on policy priorities including agriculture and industries managed by the central government, and assign the production of consumer goods in general excluding grains to regional units while emphasizing self-reliance.

North Korean authorities have already stipulated regional development for the production of consumer goods including foods and daily necessities in the City and County Development Law (Articles 13 – 16), but the results fell short of expectations until last year. In this year’s policy speech, emphasis was placed on “utilizing the characteristics and resources of each region in a rational manner to provide for the living expenses of the people,” but there was criticism that the necessary follow-up measures have not been properly implemented. Therefore, a policy commitment was made by creating “Local Industry Construction Division under Organization and Guidance Department of the Central Committee” to prioritize the revitalization of the local economy. Nonetheless, the underperformance can be attributable to shortages of raw materials for the production of consumer goods, aging facilities due to prolonged sanctions, and poor financial conditions in local regions. Therefore, if imports recover to the levels of 2018–2019, followed by the partial recovery of the key industry, local industries may be able to contribute to a partial expansion of domestic consumption.

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