

Study Series 15-02



The Growth of the Informal Economy in North Korea

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The Growth of the Informal Economy in North Korea

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**The Growth of
the Informal Economy
in North Korea**

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1

Introduction

1. Introduction

In the early 1990s, North Korea was in the midst of a severe economic crisis and the dominant view was that the collapse of the North Korean regime would happen in the foreseeable future. However, the same regime has remained in power for more than two decades, and to some extent, the economy has been improving for the last 15 years.

Two key drivers have contributed to the relative recovery of the North Korean economy. One is the expansion of foreign economic relations such as aid, trade, and investment, and the other is the growth of the informal economy. Between these two, the latter is especially remarkable in that it implies a fundamental change in the North Korean economic system.

Officially, North Korea runs a socialist planned economy, and in this sense, the informal economy here refers to the parts that fall outside of it, such as markets or private economic activities. Despite the expansion of the informal economy, it is still difficult to refer to North Korea's economy as a capitalist market economy. Only when laws and institutions that guarantee private property, the freedom of economic activity, and the fulfillment of contracts are established,

capitalist market economy will be embedded in North Korea. Present-day North Korea still lacks such legal and administrative frameworks. Therefore North Korea's markets and private economic activities are merely informal in character.

How did the informal economy—markets and the private sector—develop in the absence of legal and administrative frameworks to support it? Despite the fact that the informal economy has been the most actively researched and discussed topic in the field of North Korean economic studies for the past twenty years, previous studies have not yet provided any satisfactory answer to this question.

This study describes the growth of the informal economy in North Korea and explores the main factors that enabled such growth. Here, the paper focuses on the fact that the North Korean informal economy is similar to that of the other low-income developing countries. The basic driving forces that led growth of the North Korean informal economy were service-led growth and entrepreneurship. Additionally, the growth of the informal food sector, the expansion of foreign trade, and the development of transportation and communication all are thought to have been important factors as well.

This study focuses on theoretical arguments based on re-interpretation of existing data and information, rather than analysis of new ones. A persistent problem in the study of the North Korean economy is the shortage of substantive evidences. This study is no different, and thus cannot offer a precise and detailed analysis due to the lack of data. It

merely gives a rough explanation based on circumstantial evidences. The data and information used in the analysis are: the results of surveys done on North Korean defectors and interviews with them in previous studies; information from sources within North Korea, including information domestically reported through various forms of media; research by UN organizations and the North Korean authorities; and information published by the official North Korean media.

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2

Informal Economy: Concept and Trends

2. Informal Economy: Concept and Trends

A. The Concept of Informal Economy

In the studies on the North Korean economy, it is a common practice to refer to the non-socialist elements widely spread after the 1990s as the “market (sector),” and the systemic change in the North Korean economy as “marketization.” However, this study chose “informal economy” as the main concept instead of “market” for two reasons.

First, changes in the North Korean economic system appear not only in the resource allocation mechanism but also in the ownership and economic agents. Over the last twenty years, market transactions as well as private economic activities such as private businesses and private farming have increased. Since the major portion of market activities counts as private economic activities, the domain of the market and the private economy may overlap, but not necessarily identical. For example, market transactions of state-owned enterprises are not private economic activities; on the other hand, the production for self-consumption is a private economic activity but not a market

activity. The concept of informal economy focuses on the ownership and economic units rather than the resource allocation mechanism, and thus it is fundamentally deemed to pertain to the private economy. Economists in the field of comparative economics referred to the non-socialist parts of the old socialist economy as the “second economy” or the “informal economy,” which was a term for “activities for private gain”—namely the “private sector.”¹⁾ This is also a concept which emphasizes the change in the ownership and the economic agents (from a state-run economy to a private one) over the change in the resource allocation mechanism (from planned allocation to market allocation). By such wording, activities of state-owned enterprises are part of the formal economy even if they utilize market transactions. Some private entrepreneurs exploit the name, assets, or organization of a state-owned enterprise or a state organ to pursue private gains. This can be regarded as being part of the informal economy.

Secondly, the informal economy refers to the economy outside of the formal legal and administrative framework. In the case of North Korea, private economic activities can be considered informal since they deviate from the official socialist system and ideology and are not generally under the direct control of the bureaucratic organization. In addition, the informal economy is informal in the sense that it cannot be protected by laws and institutions necessary to support the operations

1) Gregory Grossman, “The ‘Second Economy’ of the USSR,” *Problems of Communism*, vol. 26, no. 5 (1977), pp. 25-40; János Kornai, *The Socialist System: The Political Economy of Communism* (Princeton, NJ: Princeton University Press, 1992), pp. 85-86.

of a capitalist market economy, such as property rights, the freedom of economic activity, and the fulfillment of contracts. In short, North Korea's informal economy is informal in a dual sense - it has departed from the socialist planned economy but has not yet reached the criteria of a capitalist market one.

North Korea's informal economy shares similar traits with the informal economy or informal sector in many developing countries. According to the definition used by international organizations such as the ILO or the OECD, enterprises that are part of the "informal sector" are usually those that are "unincorporated enterprises owned by households."²⁾ Here, an enterprise is defined in the broadest sense of the word, namely as producers (of goods and services) and includes one-man businesses ("own-account workers"). Thus, informal enterprises are comprised of own-account workers, family-sized private businesses, and small private businesses that hire at least one employee on a continuous basis. Informal enterprises are either themselves or their employees non-registered, and thus fall outside of the various legal and administrative frameworks that regulate economic activities. Thus, being "outside of the legal and institutional framework" is a fundamental nature of economic informality.

The informal economy can either be used as a term synonymous with the informal sector, or as a more widely defined term encompassing

2) ILO, *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment* (Geneva: International Labour Organization, 2013), p. 22.

informal employment within the formal sector. In addition, although the often-used concept “informal sector” only includes the urban informal sector and excludes agriculture, it can be defined to include private farming in lands where the property rights are unclear, depending on the research objective. This study adopts the broader definition of the informal economy, which also includes private farming.

B. Trends of the Informal Economy Worldwide

According to previous studies on the informal economy of developing and former socialist countries, the informal economy does not contribute much to the economic growth.³⁾ The general assessment is that growth potential of the informal sector is low due to insufficient investment and innovation resulting from the institutional problems, i.e. lack of economic freedom, property rights, and no assurance of contracts. Therefore, the share of the informal economy was expected to gradually decrease in the process of economic growth.

Contrary to such expectations, the share of the informal economy has remained steady or actually increased in many developing countries whose overall economic situation significantly improved for thirty years.⁴⁾

3) Rafael La Porta and Andrei Shleifer, “The Unofficial Economy and Economic Development,” *Brookings Papers on Economic Activity* (Fall 2008).

4) Jacques Charnes, “The Informal Economy Worldwide: Trends and Characteristics.” *Margin - The Journal of Applied Economic Research*, vol. 6, no. 2 (2012).

Thus, it is speculated that in major developing countries, the informal economy is growing at a rate similar to or higher than that of the formal economy. Moreover, the share of the informal economy is much higher when measured in terms of the number of employees rather than GDP figures. According to the International Labour Organization's (ILO) latest statistics, out of those employed in non-agricultural sectors in major developing countries, the informal economy employs 20-50 percent of workforce in middle income countries and 50-85 percent of workforce in low income countries.⁵⁾ In other words, the majority of the urban working class in low-income developing countries are dependent upon the informal economy for its livelihood. The share and importance of the informal economy become even greater if it includes the agricultural sector. In sum, the North Korean informal economy is quite similar to that of low-income developing countries in the following: its share in the whole economy is quite high; ordinary people sustain their livelihoods within it; and it is growing rather than stagnating.

5) ILO, "Statistical Update on Employment in Informal Economy" (Geneva: International Labour Organization, June 2012), Figure 1.

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3

**The Rise of the Informal
Economy in North Korea**

3. The Rise of the Informal Economy in North Korea

A. Development of Markets

The North Korean informal economy has shown an overall growing trend over the past twenty years. Led by the consumer goods market, the markets for producer goods, labor, and money have all developed. By engaging in private economic activities within these markets, many people have succeeded in increasing their income and improving their living standards.

The first market that appeared in North Korea—also currently the most developed one—is the consumer goods market. Legal small-scale farmers’ markets developed into large-scale black markets after the so-called “Arduous March” in the mid-1990s. In 2002, after the July 1 Economic Management Improvement Measure, the North Korean regime’s attitude towards the market changed from tolerance to utilization, and it acknowledged markets as a place for trading consumer goods. Under the label of “unplanned production and distribution,” a market activity by state-owned enterprises was *de facto* permitted, to a degree. In addition, the producer goods market was authorized via

the implementation of the “Socialist Market for Goods Exchange.” In March 2003, by the introduction of the “General Markets” system, the black markets (commonly called the “*Jangmadang*”) were legalized. Through these measures, North Korea’s main markets turned from black markets into white or gray ones.

Labor markets have also begun to take shape. As private business activities take place in the market, employment relationships have emerged: shipowners and workers in the fishing industry; private mine operators and workers in the mining industry; store and restaurant owners and clerks in the service industry; and illegal land owners and tenant farmers in the agricultural industry. Employment relationships are mostly informal in character, and it is often difficult to determine whether they are legal or not. Labor markets have spontaneously developed since many factories closed, *de facto* leaving a large number of people unemployed.

As markets grow and the private sector becomes more active, the need for credit and finance has naturally increased. Obviously, an official financial market does not exist in North Korea, and hence, everything is informal trading, namely, private financing. The need to start a business to make a living fueled the demand for startup funds. For state-owned enterprises (factories, farms, and trading companies), they also needed to outsource funds. The state demanded of them to achieve the planned objectives without providing the proper equipment or sufficient raw materials. On the other hand, as public

banking lost its ability to perform its functions due to the shortage of the state revenue and inflation, it was replaced by “*Donju*” (money owner in North Korean parlance)—those who had accumulated capital in the private sector thanks to the progress of marketization—who became the main suppliers of funds.

In sum, the four main markets - the consumer goods market, the producer goods market, the financial market, and the labor market - help each other expand as they become interconnected and interact with each other.⁶⁾

B. The Rise of the Private Sector

As markets develop, an important change in the system of ownership—namely *de facto* privatization—has taken place. Although privatization and private economic activities stemmed from the service sector, they now have spread to the agriculture, fishing, construction, mining and even manufacturing industries.⁷⁾

The privatization and private economic activity in North Korea can

6) For more details on the formation and development of the four major markets, see Yang Moon-Soo, *The Marketization in North Korean Economy* (in Korean) (Paju: Hanul Academy, 2010); Lim Kang-Taeg, *A Study on the Marketization of the North Korean Economy* (in Korean) (Seoul: Korea Institute for National Unification, 2009).

7) For more details on how state-owned enterprises in the manufacturing sector are operated by the input of private capital, see Lee Seogki et al, *North Korea's Industry and Firms in the 2000s: their Operating Methods and Recovery Situation* (in Korean) (Seoul: Korea Institute for Industrial Economics & Trade, 2010), pp.202-229.

be divided into three categories.⁸⁾ The first is the private business, of which the most common is private commerce, although private handcrafting and private farming also fall under this category. The vast majority of North Koreans in the informal economy engage in the first category of private economic activity and can be called necessity-driven entrepreneurs.

The second is the partnership contract (loan investment), in which private capital provides investment loans to state-owned enterprises and later collects the profits from its investment. Individuals commissioning factories or processing plants also fall under this category.

The third is the leasing of public assets (or name lending), in which private capital essentially performs all management activities—such as leasing assets, investing its own funds and hiring employees—under the borrowed name of the state-owned enterprise.

Those who engage in the second and third categories fall under the definition of opportunity-driven entrepreneurs, and those in the third category are thought to be the most advanced form of entrepreneurs.

It is extremely difficult to obtain accurate data that shows how much privatization has progressed. According to a survey of North Korean defectors, privatization has considerably burgeoned in the service sector such as commerce, restaurant, and transportation, whereas it is less so for mining and manufacturing, and somewhere in between

8) For the most informative source on the privatization in North Korea, see Yoon In Joo, *A Study on the Privatization in North Korea: Current Status and Its Implications* (in Korean) (PhD diss., Korea University, 2013).

these two ends for fishing.⁹⁾ Still, private economic activities are very active in food processing, within the manufacturing industry. Within the agricultural sector, the reality is that collective and private farming coexist, as many farmers who work on collective farms also farm privately on informal private plots.

How does the North Korean regime respond to such private economic activities? On the one hand, the regime tolerates it and on the other hand, it exerts control over it. In fact, since 2007, the regime has repeated this pattern of regulation and crackdown on such activities. For example, in March 2008, the Ministry of State Security, the Military Security Command, and the Ministry of People's Security conducted a joint investigation of privately invested companies and the integrated service businesses.¹⁰⁾ In December 2009, the economic inspectors affiliated with the Ministry of State Security received orders to investigate the operations of factories and businesses and to shut down private commercial enterprises. There were reports of mass shutdowns of foreign currency trading businesses, fisheries, and food processing plants operated with private capital.¹¹⁾

However, the North Korean regime also implemented measures that *de facto* permitted privatization and the growth of private companies, examples of which include the “8.3 workers” and “*Duhbuhri*.” The “8.3

9) Ibid., pp.139-162. The survey was done in 2012 on 153 defectors. 8.0% defected in 1996-2002. 17.7% in 2003-2006, and 74.3% after 2007, or around 15% each year.

10) Good Friends, “Today’s North Korea News” (in Korean), no. 119, April 9, 2008.

11) North Korea Intellectuals Solidarity, “Exclusive News” (in Korean), January 14, 2010.

workers” refer to employees in state-owned enterprises or state organs who are allowed to work elsewhere instead of attending to the designated workplace by bribing with a certain amount of money. “*Duhbuhri*” is a private business activity that uses state-owned enterprises/organizations’ assets paying a certain amount of money in return.

In the mid-2000s, the North Korean regime implemented additional, more specific measures that in fact, allowed the growth of *de facto* private enterprises. For example, in 2006, the regime adopted and promulgated “Regulations for the Development and Operation of Small-and Medium-sized Mines,” which legally guaranteed the right to autonomously develop and operate mines for any agency, business, or organization, regardless of the size or type of business, under the condition of obtaining permission from the state.¹²⁾

Regarding the privatization of enterprises, there is an article to note in the “Democratic People’s Republic of Korea Enterprise Act” (hereinafter, Enterprise Act) adopted and promulgated in November 2010 as Decree No. 1194 by the Presidium of the Supreme People’s Assembly. Article 12 of the Enterprise Act (Basis for the organization of an enterprise) states that “The organization of an enterprise shall be done according to that of the state. An enterprise may be organized at the request of an agency, enterprise, or organization.” Article 13 of the same act (Applying for the organization of an enterprise) states that “An agency, enterprise, or organization organizing an enterprise must

12) Yonhap News, December 11, 2006 (in Korean).

write up and submit a written application to the organizing agency of the said enterprise. The application must specify the name, rank, number of employees, type of business and index, size, and other similar details of the enterprise.”¹³⁾ These articles can be interpreted as an attempt to officially accommodate and legally reflect the reality in which agencies and enterprises at every level are operating restaurants, stores, integrated service businesses, trading companies, and factories by attracting private capital.

13) Democratic People's Republic of Korea Enterprise Act (2010).



4

**Driving Forces of the Informal Economy
in North Korea**

4. Driving Forces of the Informal Economy in North Korea

A. Service-Led Growth

The ground for recent performance of low-income developing countries' informal economy is the new phenomenon called “service-led growth.” Since informal economic activities take up an especially large portion in the service sector, development of the service sector results in the growth of the informal economy.

Over the past twenty to thirty years, the service sector grew more rapidly than the manufacturing industry in low-income developing countries in the South Asia such as India, and in sub-Saharan Africa (hereinafter referred to as “Africa”).¹⁴⁾ Over the past several decades, the overall level of education and health has improved in low-income developing countries, and the resulting human capital increase contributed to the growth of the service sector. Whereas manufacturing

14) Ejaz Ghani, “Is Service-led Growth a Miracle for South Asia?,” in Ejaz Ghani ed., *The Service Revolution in South Asia* (Oxford: Oxford University Press, 2010); Ejaz Ghani and Homi Kharas, “The Service Revolution in South Asia: An Overview,” in Ejaz Ghani ed., *The Service Revolution in South Asia* (Oxford: Oxford University Press, 2010); Margaret S. McMillan and Kenneth Harttgen, “What is Driving the ‘African Growth Miracle’?,” *NBER Working Paper 20077* (National Bureau of Economic Research, 2014).

has a relatively high entry barrier because of the need for considerable capital, technology, and organization, service sector businesses do not require much capital or technology, leading many people to engage in a private economic activity in the service sector. In addition, many people moved from agriculture to the service sector because productivity (value added per worker) is lower in the agricultural sector than in the service sector; this led to the improvement of average productivity in the entire economy - in other words, economic growth. The growth of the service sector indirectly promotes the growth of the entire economy, since it helps the development of the agricultural and industrial sectors.

After the early 1990s, the service-led growth appeared during the transition processes of the former Soviet Union and Eastern European countries as well.¹⁵⁾ In the classical socialist economy, the share of the service sector was relatively small due to the distorted industrial policy. Within the service sector, the development of wholesale and retail trade, food vendors, restaurants, lodging, personal service, and transportation was heavily suppressed. When the socialist system collapsed and free private economic activity became possible, diverse economic activities within the previously suppressed service sector flourished.

15) William Easterly, Martha de Melo, and Gur Ofer, "Services as a Major Source of Growth in Russia and Other Former Soviet States," *Policy Research Working Paper* (World Bank, 1994).

Likewise, in North Korea, many people who actually became unemployed due to the collapse of the formal economy started to engage in private economic activities, beginning in the service sector with wholesale and retail sales, food service, personal service, and transportation, which led the way into other sectors such as agriculture, fishing, mining, manufacturing, and construction.

Many previous studies on the informal economy of North Korea show that it is most active in the service sector, especially in the distribution (wholesale and retail) industry. For example, according to a study done on North Korean defectors from 1997 to 2004, the defectors responded that they made their living while in the North through informal farming and stock breeding (farming of private plots and raising cattle) and other activities.¹⁶⁾ Distribution (wholesale and retail) and food vending make up the largest portion of the other activities category. According to a study done on more recent defectors (two-thirds of whom defected after 2006), informal activities appear to be slightly more diverse in type of businesses. This study also showed the proportion of commerce (wholesale and retail) was be the largest in informal income, although that in the transportation, personal financing and domestic handcrafting were also considerable.¹⁷⁾

16) Kim Byung-Yeon and Song Dongho, "The Participation of North Korean Households in the Informal Economy: Size, Determinants and Effect," *Seoul Journal of Economics*, vol. 21, no. 2 (2008), p. 371; Kim Byung-Yeon, "The Marketization of the North Korean Economy: Analysis of the Hypothesis of Informalization" in *Economic and Social Change in North Korea after the July 1st Economic Improvement Measures* (in Korean) eds. Yoon Young-Kwan and Yang Un Chul, (Paju: Hanul Academy, 2009), p. 80.

Although conventional wisdom suggests that the North Korean informal economy is unproductive since it is concentrated in the distribution, this is a misunderstanding of the service sector. The service industry, including distribution, is a productive activity that contributes to economic welfare and the increase of GDP, and an essential one that supports other agricultural or industrial activities. After the North Korean economic crisis in the 1990s, the formal sector partially collapsed and many urban workers became idle and they began to engage in informal activities. The case of low-income developing countries showed that the migration of surplus workers in agriculture to the service sector increased their GDP, and likewise, North Korea is likely to experience similar phenomenon. In addition, as the distribution network becomes efficient and the markets for goods grow, production increases and productivity improves in the production of material goods. In North Korea, as markets develop, there are increased opportunities to sell goods and people naturally intend to raise their incomes through producing goods.

Another common notion regarding the North Korean market—that most products sold there are made in China—overlooks this effect. Are most of the products traded in North Korean markets actually Chinese

17) Kwak In-ok, "A Study Analyzing the Situation of the North Korean Market and its Process of Transformation" (in Korean) in *2013 Collection of New Studies on North Korea and Unification*, ed. Ministry of Unification (Seoul: Ministry of Unification, 2013), p. 100. The questions of this study differ in nature from that of previous studies. In previous studies, the questions asked were about the kinds of informal activities done, while in this study they were about the income gained from such types of informal activities.

origin? According to a recent study by Kwak In-ok, which investigated the local markets in Pyongyang, Haeju, and Hoeryong, although the proportion of Chinese manufactured goods sold in North Korean markets is much larger than that of North Korean ones. However, the proportion of North Korean goods is much larger for foodstuffs such as agricultural, livestock, and marine products, and processed foods. As a result, in terms of the entire market, including both industrial products and foodstuffs, the proportion of North Korean goods is larger than that of Chinese ones.¹⁸⁾

In addition, upon review of interviews with North Korean defectors and other information, it is easy to find information which shows that informal economic activity is not limited to the service sector such as distribution, but has spread to other industries, such as fishing, manufacturing, mining, and construction. The majority of informal activities in various industries are linked to the informal service sector, which includes distribution, transportation, and private finance; those activities are only possible when such linkages are available. In short, there are enough reasons to believe that the informal economy, which first developed in the service sector, triggered the emergence of the informal economy in other industries.

18) Ibid, p. 117.

B. Emerging Entrepreneurship

It has become widely accepted as common sense that entrepreneurship is one of the main driving forces of modern economic growth, and that creating a business-friendly environment is considered to be an important policy task of governments.¹⁹⁾ As we mentioned earlier, the informal economies of many low-income developing countries, including North Korea, have shown considerable vigor; can it be said in these cases as well that entrepreneurship was a major growth engine?

Among the informally employed in low-income developing countries, many are people managing their own private businesses. Most of these businesspeople can be considered a kind of entrepreneur since they started their own businesses. In general, the proportion of entrepreneurs among the employed is much greater in the informal sector than in the formal. In addition, in low-income developing countries, the proportion of entrepreneurs in the total employed population is greater since the proportion of those informally employed is larger as well.

How much does informal entrepreneurship contribute to economic growth? One way to shed light on this is to divide entrepreneurs into two types. One is the “opportunity-driven entrepreneur,” and the other is the “necessity-driven entrepreneur.”²⁰⁾ While the former actively

19) William J. Baumol, Robert E. Litan, Carl J. Schramm, *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity* (New Haven: Yale University Press, 2007).

founded companies in pursuit of opportunities to make money and socially succeed, the latter had little choice but to start such businesses in order to make a living as they could not obtain adequate jobs. Businesses founded by those of the latter are usually trivial and too small to be called as such, and in many cases, the minimum level of income was only enough to make ends meet. It is surmised that, due to the nature of the informal sector, informal entrepreneurs fall under the latter much more often than the former. Because of this, the prevailing view was that informal entrepreneurship did not contribute much to economic growth.

However, these two types of entrepreneurs are not necessarily mutually exclusive but rather their characteristics can be mixed, and some opportunity-driven entrepreneurs do exist among the informal entrepreneurs of developing countries, although they are not many. For example, according to Gurtoo and Williams, India's informal entrepreneurs, or private entrepreneurs in the informal sector, have on average much higher incomes than waged and daily workers in the same sector.²¹⁾ In addition, there is the possibility of necessity-driven entrepreneurs becoming opportunity-driven entrepreneurs in the course of doing business.

20) Collin Williams, "Entrepreneurs Operating in the Informal Economy: Necessity or Opportunity Driven?," *Journal of Small Business & Entrepreneurship*, vol. 20, no. 3 (2012); Collin Williams and Sara Nadin, "Entrepreneurship and the Informal Economy: An Overview," *Journal of Developmental Entrepreneurship*, vol. 15, no. 4 (2010).

21) Anjula Gurtoo and Colin C. Williams, "Entrepreneurship and the Informal Sector: Some Lessons from India," *Entrepreneurship and Innovation*, vol. 10, no. 1 (2009).

Entrepreneurship was the main engine of economic growth in transition countries as well. China, which has achieved the largest growth performance among transition countries, is of best practice that shows how important entrepreneurship is and how complex in character it can be. In the early-and mid-1980s during the early stages of economic reform, China's economic growth was led by small- and medium-sized rural businesses called TVEs (Township and Village Enterprises). Most TVEs were newly founded businesses after the economic reforms and although they were commonly thought to be collectively owned, many of them were in fact private.²²⁾ In the early stages of reform the socialist ideology was still adhered to and private entrepreneurs were politically in danger of being labeled as "capitalists." Hence, many of them registered their companies as "collectively owned" rather than privately owned when founding them. In China, this practice was commonly referred to as "wearing the red hat."

Then, is active entrepreneurship driving economic growth in North Korea as well? If we define the word entrepreneur in a broad sense—in other words, if we say that all people who found and operate a business, regardless of size and including one-man operations, are entrepreneurs—it appears certain that countless entrepreneurs emerged in North Korea after the mid-1990s.

22) Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (New York: Cambridge University Press, 2008), pp. 50-108.

According to the results of various studies done on North Korean defectors, both the proportion of North Korean population that participates in informal economic activities and the proportion of informal income compared to total income reaches 60-80 percent.²³⁾ In addition, they say that the main form of informal economic activity is not being employed by someone else but running one's own business. In other words, North Korea's main form of informal employment is not the wage worker (including daily workers) but the private businessperson. Since private businesspeople fall within the broad definition of entrepreneur, the proportion of entrepreneurs among North Koreans is presumed to be quite high, similar to that in other low-income developing countries.

Thus far, it appears that most North Korean businesspeople remain small private entrepreneurs, that is, necessity-driven entrepreneurs. However, based on in-depth interviews with North Korean defectors and various pieces of information leaked from within the North, it is easy to find evidences suggesting the gradual improvement of entrepreneurship. First, a considerably high-income upper class is appearing in North Korea, and they engage in productive economic

23) Kim Byung-Yeon and Yang Moon-Soo, *Markets and the State in North Korea* (in Korean), pp. 29-38; Lee Seok, *The North Korean Market: An Estimate of its Size and Analysis of its Structure* (in Korean) (Seoul: Korea Development Institute, 2009), pp. 47-62; Stephen Haggard and Marcus Noland, *Witness to Transformation: Refugee Insights into North Korea* (Washington D.C.: Peterson Institute for International Economics, 2011), pp. 58-62; Park Myoung-Kyu et al., *Changes in North Korean Society in 2012-2013* (Seoul: Seoul National University Institute for Peace and Unification Studies, 2014), pp. 90-117.

activity.²⁴⁾ Often reported cases are about merchants who operate across the entire country, especially among them, large-scale wholesale traders, who in many cases also operate foreign trading and transportation enterprises. The wholesale, retail, foreign trade, and transportation industries are all core economic activities in the service sector, all of which are productive activities that contribute much to the GDP. Also, it appears that large-scale opportunity-driven entrepreneurships are emerging in the material production sector, which includes the agricultural, marine, manufacturing, mining, and construction industries.

However, it is presumed that the current opportunity-driven entrepreneurship in North Korea will be weaker than that in China during its period of reform, because there undoubtedly exist major obstacles which deter the development of such entrepreneurship. Above all, due to North Korea's socialist ideology, entrepreneurs who engage in private business can always be the target of political repression. In addition, even if entrepreneurs profit handsomely from their

24) Choi Bong-Dae, "The Marketization of Urban Private Sector and Economic Stratification in North Korea after Late 1990s." (in Korean); Philo Kim, "An Impact of Marketization on Social Stratification in North Korea" (in Korean), *Review of North Korean Studies*, vol. 16, no. 1 (2013); Lee Seung-Hoon and Hong Doo-Seung, *Emergent Informal Economic Sector and Re-stratification in North Korea* (in Korean) (Seoul: Seoul National University Press, 2007), pp. 126-132; Kim Bogeun, "The North Korean Merchant Class and the Formation of Capital" (in Korean) in *The Korean Peninsula, Contemplations in an Era of Transition* (Journal Issue of Joint Seminar by the Korean Association of North Korean Studies, Korea Institute for National Unification, and the Korea University Institute of North Korean Studies, 2008); Yoon In Joo, "A Study on the Entrepreneurial Phenomenon in North Korea from Private Capital" (in Korean) in *2012 Collection of New Studies on Unification and North Korea*, ed. General Analysis Division, Ministry of Unification (Seoul: Ministry of Unification, 2012). pp. 513-532.

businesses, they are likely to hide a significant portion of their profits in foreign currency assets or other forms rather than re-investing it, since private ownership is not adequately protected due to the illegality of private business activity. In addition, if the size of the business grows too large as a result of re-investment, it could draw the authorities' attention.

Thus, in order to engage in large-scale entrepreneurship in North Korea, it is likely that some sort of relationship with the formal sector—namely state-owned enterprises or agencies—will be required. During the early stages of reform in China, there was a practice of wearing “red hats” - disguising actual private enterprises as formal ones (either collectively- or state-owned)—which will probably be much more necessary in North Korea.

Informal entrepreneurs, by wearing red hats, bear the burden of having to share profits with the formal sector. Re-investment of profits is needed in order to rapidly develop entrepreneurship, but it will be limited as long as the profits are shared with the formal sector, which will in turn impede growth. Despite these problems, the fact that operating a private enterprise is possible - as long as one wears a red hat - in a society like North Korea, which adheres to a strict socialist ideology, is a significant sign of progress. If such forms of entrepreneurship are increasing, then it is likely that the economy continues to grow slowly but steadily.

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5

Some Sector Studies

5. Some Sector Studies

A. Informal Food Sector

Since food is essential to human survival, the food economy is the basis of all economic activity. In socialist economies, the food economy consists of collective farming, governmental purchases of agricultural products, and distribution through state-operated networks. However, even in classical socialist societies, the formal food economy did not constitute the entire food economy; the informal food economy, in the form of private or family-sized private farming and farmers' markets survived. For example, there is an estimate that out of all working hours spent on agriculture in the Soviet Union in 1974, a third of it (a tenth of the total working hours spent on the entire economy) was on private farming. In addition, it is estimated that although private plots made up only 3 percent of total arable land of the Soviet Union, they accounted for over a quarter of total agricultural production.²⁵⁾

The informal food sector is important in low-income developing

25) Gregory Grossman, "The 'Second Economy' of the USSR," pp. 25-26; Alec Nove, *The Soviet Economic System* (London: George Allen and Unwin, 1977), pp. 122-126.

countries as well.²⁶⁾ The informal food sector in low-income developing countries refers to food production, processing, and distribution activities by informal economic entities such as unregistered enterprises and self-employed people. According to a study from Food and Agricultural Organization, 30 percent of the major cities in the developing countries depend on the informal sector for 30-50 percent of their food supply and distribution, and more than 20 percent of the cities in the developing countries depend on the informal sector for 50-80 percent of their food supply and distribution.²⁷⁾ The informal food sector is where the poor people of developing countries, who lack the ability to obtain decent jobs in the formal sector, can most easily obtain jobs and income. In addition, thanks to the informal economy, urban residents can obtain a variety of foods at relatively cheap prices.

It appears that after the famine, economic activity that can be called the informal food sector has become more active in the North Korean society. Although food aid from the South and the international community all but ceased after the late 2000s, according to joint surveys done by UN organizations and the North Korean Central Bureau of Statistics, North Korea's food situation has actually improved, albeit slowly, which also conforms well to the information

26) See also FAO, *Promises and Challenges of the Informal Food Sector in Developing Countries* (Rome: FAO, 2007); Argenti, O., Francois, S. & Mouawad, H. "The Informal Food Sector: Municipal Policies for Operators," *Food into Cities* Collection, DT/43-99E (Rome: FAO, 2003).

27) Ph. Hugon and F. Kervarec, "Municipal support policies for the informal food trade," *Food into Cities* Collection, DT/45-01E. (Rome: FAO, 2001), quoted in FAO, *Promises and Challenges of the Informal Food Sector in Developing Countries* (Rome: FAO, 2007), p. 5.

provided by the defectors.²⁸⁾

The growth of the informal food sector appears to have significantly contributed to improving North Korea's food situation. It is said that after the famine, most farmers substantially expanded the scale of private farming. Although the size of kitchen gardens was limited to 100-165m² by law, there was testimony that "most defectors from rural areas farmed 330-990m² on average, in addition to the legally permitted gardens, and sometimes paddies of up to 3,300m²."²⁹⁾ Defectors, who were urban workers and thus resided in workers' districts close to small cities or rural areas, also testified that they generally tilled informal private plots.³⁰⁾

It is well-known that agricultural products, livestock, and marine goods as well as processed foods are widely traded in the urban markets of the North. For example, according to Kwak In-ok's study on the urban markets of the three cities of Pyongyang, Haeju, and Hoeryeong, there are more traders who treat various foodstuffs than those who treat industrial products.³¹⁾ This signifies that the informal distribution and

28) Central Bureau of Statistics(DPRK), *National Nutrition Survey 2012* (in Korean) (Pyongyang: CBS, 2013), 72; Kim Soo-Am et al., *The Quality of Life of North Koreans: Perceptions and Reality* (in Korean) (Seoul: Korea Institute for National Unification, 2011), pp. 76-81; Park Myoung-Kyu et al., *Changes in North Korean Society in 2012-2013: Marketization, Stratification of Income, Inequality*, pp. 36-44.

29) Jeong Eun Mee, "Dual Track of Agricultural Policy in North Korea: Focusing on Interaction between Collective Agriculture and Farmers' Private Economy" (in Korean), *The Korean Journal of Unification Affairs*, vol. 19, no. 1, (2007), p. 263.

30) Joung Eun Lee, "A Study on the Food Procuring Mechanism of City Workers in North Korea: SOTOJI Cases of Musan Region in Hamgyeongbuk-do" (in Korean), *Journal of Northeast Asian Economic Studies*, vol. 26, no. 1 (2014), p. 271.

transportation industries, which provide urban markets with various foodstuffs including those produced on private plots, are developing.

Although the main components of the informal food sector is assumed to be sideline farming and small wholesale and retail, it is said that businesses, larger in scale and higher in productivity, have become more common as time goes by. There are also cases where food from the formal sector is distributed informally. It is said that some of the staple grains produced within the formal sector, such as on collective farms, are being siphoned off to the market, where food aid from the outside is also commonly distributed.³²⁾

As market trade becomes brisk, the food vending business has become prevalent. The most common form of the food service is selling simple dishes like noodles at the *Jangmadang*.³³⁾ Restaurant businesses of a much larger scale and higher quality have also started appearing, such as those that lease parts of state-owned enterprise or government agency buildings and operate *de facto* private restaurants there. Despite of low quality so far, the food processing industry is picking up.

In conclusion, the development of the informal food sector - such

31) Kwak In-ok, "A Study Analyzing the Situation of the North Korean Market and its Process of Transformation," p. 117.

32) Joo Hyung-min, "Visualizing the Invisible Hands: the Shadow Economy in North Korea," *Economy and Society*, vol. 39, no. 1 (2010), pp. 118-123.

33) For typical cases, see Baek Soon-Nam, "Don't Miss an Opportunity: My Merchant Experience 1" (in Korean), *Imjin River* no. 11 (Spring 2011); and Baek Soon-Nam, "Selling Noodles in Winter: My Merchant Experience 2" (in Korean), *Imjin River* no.12 (Summer 2011).

as private farming, wholesale, retail and transportation channel of the foodstuff, food processing and vending and restaurant businesses - allowed more efficient food production and distribution. Many positive effects are likely to have come up, such as reductions in the proportion of various agricultural and marine goods that become spoiled or lost in storage or during distribution, stabilization of food prices and narrowing of regional gaps, and improvement of the quality of foodstuffs.

B. Foreign Trade and Informal Economy

State-run foreign trade companies usually trade with foreign economies through formal trade. Their imports and exports go through customs, are recorded for statistics, are subject to trade-related regulations, and are levied tariffs. On the other hand, informal enterprises engage in informal trade. Their imports and exports do not go through customs, or even if they do, they are not recorded for statistics, are not subject to trade-related regulations, or are not levied tariffs.

However, there is a gray zone between formal and informal trade. Some trade by state-run enterprises become informal when they evade customs, or are underreported even if they do go through customs. On the other hand, there can be cases in which informal enterprises engage in foreign trade by going through formal procedures. Since the formal and informal sectors mutually transact with each other within the

domestic economy, foreign trade of one sector can significantly affect other sectors. Because such ties exist between the formal and informal sectors, if foreign trade continues to expand rapidly, it is likely that both the formal and informal economies will benefit.

After the early 2000s, North Korea's foreign trade especially with China grew rapidly. One critical factor was that North Korea was able to sharply increase its exports of minerals to China as China's demand for foreign natural resources grew, thanks to China's high growth; another important factor was that China was able to sufficiently supply North Korea with industrial products since the Chinese industrial capacity had expanded considerably.³⁴⁾ It seems likely that foreign trade contributed to the growth of both the formal and informal economies in North Korea as well.

First, as North Korea's foreign trade basically falls under the jurisdiction of the formal sector, its growth is likely to lead to the strengthening of the formal economy. In North Korea, only state-owned enterprises and agencies can operate trading companies, and among such companies, those affiliated with certain privileged organizations such as the Party and the military are known to be the most active.³⁵⁾

34) Kim Suk-Jin, "Factors for the Expansion of North Korea-China Economic Cooperation and its Effects on the North Korea Economy" (in Korean), *KDI North Korean Economy Review* (January 2013).

35) For the institutional characteristics of North Korea's foreign trade, see Yang Moon-Soo, *The Marketization in North Korean Economy* (in Korean), pp. 129-175; Joung Eun Lee, "A Study on North Korean Trading Companies," in *2012 Collection of New Studies Unification and North Korea* ed. General Analysis Division, Ministry of Unification (Seoul: Ministry of Unification, 2012), pp. 635-678; Park Hyeong-Jung, "Commercial Engagements of the Party-State Agencies and the

State-operated trading companies do not operate freely but rather act according to their trading licenses and quotas. In addition, a significant portion of the foreign currency earned through foreign trade must be paid to higher-level agencies, and the amount of foreign currency to be paid is assigned beforehand as planned targets.

However, North Korea's foreign trade also promotes the growth of the informal economy, since it either has informal characteristics or has ties to the informal economy. Put differently, the process of foreign trade has created a gray area in which the formal and informal economies overlap. State-run trading companies are known to utilize private traders in the process of supplying imported goods to the domestic market. These private traders are officially registered with a trading company they work for, but, in fact, they actually operate privately.

The process by which trading companies collect goods for export is commonly called "source mobilization" in North Korea; trading companies that do not have affiliated enterprises producing export goods entrust their source mobilization to private businesspeople.³⁶⁾ In addition, trading companies sell part of the goods they import in the domestic market. Markets for goods appear in the proximity of the

Expansion of Market in the 1990s in North Korea" (in Korean), *Unification Policy Studies*, vol. 20, no. 1 (2011), pp. 213-237.

36) Yang Moon-Soo, *The Marketization in North Korean Economy* (in Korean), pp. 149-153; Jung Eun Lee, "A Study on North Korean Trading Companies" (in Korean), pp. 655-661; Gong Yong-Chul, "Study on the Formation of the North Korean Labor Market" (in Korean), (Master's thesis, Kyungnam University, 2010), pp. 61-74.

warehouses of trading companies, where goods are sold wholesale and in bulk and then supplied to markets across the country. As a result, “as the trading companies enlarged, more foreign currency earnings and the influx of goods led to the increase in transaction and the expansion of the markets for consumer goods.”³⁷⁾

A significant part of the foreign currency earned through foreign trade is released into and distributed by the informal sector, rather than concentrated in state coffers. In present day North Korea, foreign currency, such as the U.S. dollar and the Chinese yuan, perform the important functions of currency (a store of value; medium of exchange in cases of transaction in large amounts) in place of the unstable North Korean won. Such popular use of foreign currency is basically informal in character, and performs the positive function of allowing the informal economy to function smoothly.³⁸⁾

In addition, informal trade is done apart from the formal trade on a substantial scale.³⁹⁾ As the scale of formal trade and the number of people crossing into and out of China sharply increased, the opportunity

37) Joung Eun Lee, “A Study on North Korean Trading Companies,” p. 662.

38) Lee Seogki, Kim Suk-jin and Yang Moon-soo, *Dollarization in North Korea* (in Korean) (Seoul: Korea Institute for Industrial Economics and Trade, 2012).

39) Lee Jong-Woon and Hong Yi Kyung, *Economic Cooperation and Practices of Economic Transactions in Border Areas of North Korea and China* (in Korean) (Seoul: Korea Institute for International Economic Policy, 2013); Lee Seok, Lee Jong-Kyu and Joung Eun Lee, “Analysis of the Process of Sino-North Korean Trade: Designing and Analyzing the Results of On-site Surveys” (in Korean), in *Determining Factors of Sino-North Korean Trade: Analysis of Trade Statistics and Survey Data* ed. Lee Seok (Seoul: Korea Development Institute, 2013); Sohn Soo-Yoon, *Future Prospects and Implications of Sino-North Korean Border Trading* (in Korean) (Seoul: Korea Trade-Investment Promotion Agency, 2007).

for informal trade greatly expanded as well. For example, there are many cases where trading companies that engage in formal trade either do not report some transactions, or underreport them. In addition, many people who legally go back and forth between North Korea and China—such as Chinese merchants, Chinese residents in North Korea, North Korean business parties, and those visiting family and relatives—bring in and out much more goods than the allowed limit, parts of which are not recorded in the official statistics.⁴⁰⁾ Informal trade is directly linked to the informal economy, so its expansion is expected to have the immediate effects of vitalizing the informal economy and improving standards of living of ordinary people.

C. Development in Transportation and Communications and the Informal Economy

In low-income developing countries, there are many cases where transportation and communication are not properly developed because of a dysfunctional government, which severely impedes economic growth. The informal economies of developing countries have the problem of not having sufficient access to transportation and communication services, which are operated by the formal sector.

40) Lee Jong-Woon and Hong Yi Kyung. *Economic Cooperation and Practices of Economic Transactions in Border Areas of North Korea and China*, pp. 73-74.

Despite such difficulties, the informal economies of low-income developing countries have made robust growth, in which informal transportation played a large part. Private transportation business owners usually fall within the informal sector in that they normally provide transportation services without formal registration, and regardless of the formal transportation system.⁴¹⁾ Informal transportation fulfills an important role in the informal economy, which lacks sufficient access to formal transportation, thereby acting as a lubricant for the entire economy.

In addition, communications technology, especially mobile phones, is accelerating the growth of the informal economy. It is much easier to construct communications networks for mobile phones, since all it requires is the base station equipment to cover a designated area, rendering wired networks unnecessary. In addition, communications services become much cheaper due to the large effect of economies of scale from increases in the number of users.

Mobile phones are used in very handy ways in informal economies.⁴²⁾ As seen in the previous chapter, low-income developing countries

41) Robert Cervero, *Informal Transport in the Developing World*, (Kenya Nairobi: United Nations Commission on Human Settlements, 2000); Robert Cervero and Aaron Golub, "Informal Transport: A Global Perspective," *Transport Policy*, vol. 14, no. 6 (2007); Laetitia Dablanc, *Freight Transport for Development Toolkit: Urban Transport* (Washington DC: World Bank, 2009).

42) Jenny C. Aker and Isaac M. Mbiti, "Mobile Phones and Economic Development in Africa," *Journal of Economic Perspectives*, vol. 24, no. 3 (2010); Deen-Swarray, Mariama, Alison Gillwald, and Ashleigh Morell, "Lifting the Gender Veil on ICT Indicators in Africa," *Policy Paper 13* (University of Cape Town: Research ICT Africa, 2012); Mariama Deen-Swarray, Mpho Moyo, and Christoph Stork, "ICT Access and Usage among Informal Business in Africa," *info*, vol. 15, no. 5 (2013).

have much larger proportions of private entrepreneurs than developed countries, and most of those people are informal entrepreneurs working in the informal sector. In the past, informal entrepreneurs could not benefit from communication services because they could not use wired phones. Nowadays, informal businesses are able to use mobile phones thanks to the rapid development of information and communications technology.

North Korea's main mode of transportation was based on the electric railway; however, after the 1990s, the transportation situation deteriorated rapidly as the railway began to suffer from power shortages. It seems that afterwards, informal transportation came to occupy a significant part of North Korea's transportation, like in other low-income developing countries. The typical informal modes of transportation are trucks and other vehicles commonly called the "*Servi-cha*."⁴³ *Servi-chas*, which started operating in the mid to late 1990s, informally transport people and cargo for a fee even though they are affiliated with state-owned enterprises or agencies. Many products distributed in the North Korean markets are transported by such vehicles.

The development of the intercity bus network over the past decade

43) See Hwang Jung-jin, "What are the *Servi-chas* of the North? The Artery of the Local Economy" (in Korean), *Daily NK*, Oct. 26, 2010; Kim Yong-hoon, "The Money Master of the New Upper Class Operates Transportation Company under Military Signboard" (in Korean), *Daily NK*, August 16, 2011; *Good Friends*, "Today's North Korea News" (in Korean) no. 1 (September 17, 2006), no. 3 (September 21, 2006), no. 261 (January. 13, 2009).

is also worthy of note. According to a recent report, “‘*Bhuri* (*money making*) buses’, operated by private businesspeople and more than three times faster than trains, are helping to alleviate traffic congestion... this network, [which connects the entire country], sprung up naturally as some money owners started bus businesses in the early 2000s.”⁴⁴⁾ North Korean defectors commonly attest that the traffic situation improved considerably as operations of *servi-chas* and intercity buses increased.

It appears that the speed of improvement of the traffic situation accelerated especially after the late 2000s. During this period, imports of large vehicles such as trucks and buses greatly increased, from which it is presumed that North Korea’s ability to transport cargo and passengers improved dramatically.

Recently, mobile phones are also being disseminated rapidly.⁴⁵⁾ In 2008, the Egyptian communications company Orascom and the Chosun Post and Telecommunications Company (KPTC), an affiliate of the North Korean Ministry of Communications and Postal Services, established CHEO as a joint venture, of which they owned 75 percent and 25 percent, respectively. In December 2008, CHEO commenced mobile phone service under the name “Koryolink.” The mobile network equipment and mobile phones were mostly imported from China. As

44) “Privately Operated ‘Bhuri Buses’ Alleviate the North’s Chronic Traffic Congestion” (in Korean), *Radio Free Asia*, June 2, 2014.

45) Kim Yonho, “Cell Phones in North Korea: Has the North Korea Entered Telecommunications Revolution?”, US-Korea Institute at SAIS (2014).

of the end of June 2014, 2,400,000 people have subscribed. Since North Korea's total population is around 24,600,000 as of 2014, its mobile penetration (number of subscribers per 100 residents) is roughly 10 percent.

North Korea's mobile phone penetration is not a phenomenon limited to certain areas such as Pyongyang. Mobile networks have already been established across the country, around main roads in most cities, and even some rural areas. The use of mobile phones seems to have boosted North Korea's informal economy even more. Kim Yonho, who studied this issue through interviews with North Korean defectors, reports as follows:⁴⁶⁾

The wholesale and retail traders at the informal markets are now able to collect market information at an unprecedented speed and respond to changing market conditions promptly. Buyers and sellers often complete their bargaining over the phone, even before the goods are taken to market. ... Cell phones are also convenient tools for long distance trade. ... Consumers benefit from this new trend of informal economic activity as well. The new mobile network has enabled traders to respond promptly to price differences around the country, which ultimately has resulted in price stabilization and has played a role in suppressing sharp price increases.

46) Ibid., p. 32.

The reason why the mobile phone users increased so rapidly is probably because they are used in such handy ways in the informal economy, where the vast majority of the population makes its living. The use of mobile phones generally has the effect of increasing productivity, and it is assumed that a similar effect is appearing in North Korea. Many entrepreneurs, who operate within the informal economy including the distribution and transportation industries, would have been able to conduct economic activities more efficiently.

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6

Conclusion

6. Conclusion

The informal economy refers to economic activity that falls outside of North Korea's formal socialist system and ideology. This study adopts the ownership characteristics of economic entities as the primary criteria dividing the formal and informal economies, and regards the type of resource allocation mechanism to be a secondary one. In other words, the essential feature of the North Korean informal economy is private businesses.

Based on various data and previous studies, it appears that North Korea's informal economy has, for the most part, shown a growing trend over the past 15-20 years. Led by the consumer goods market, other markets - such as the producer goods market, the labor market, and the financial market—have developed in North Korea, and many people appear to have successfully increased their incomes and improved their quality of living by engaging in private economic activities in these markets. In the process, *de facto* privatization has progressed and an entrepreneurial class has appeared, many among which many were able to carry out businesses by either disguising themselves as part of state-owned enterprises or trading with them.

It can be said that North Korea's informal economy is faced with major limits, since it is not supported by laws and institutions that protect private property, the freedom of economic activity, and the fulfillment of contracts. How then was it able to grow to some extent, despite such limits? The basic answer to this question can be acquired by analyzing the various phenomena that appeared in North Korea via comparisons with foreign cases, such as those of low-income developing and transition countries.

The first is service-led growth. In many low-income developing countries, transition countries, and North Korea, the growth of the service sector preceded and led to the growth of the entire economy. This signified the growth of the informal economy, since informal activities are concentrated in the service sector. In addition, the growth of the informal service sector had a positive effect on other sectors of the economy, such as agriculture, fishing, mining, manufacturing, and construction.

The second is the power of entrepreneurship. Entrepreneurship, widely acknowledged as an important driving force behind economic growth, became quite prevalent in the informal economies of low-income developing countries, transition countries and North Korea. Informal entrepreneurs, most of whom were necessity-driven ones that had no choice but to start businesses in order to make a living, could take advantage of opportunities to raise more income. Some of them were able to proceed and become opportunity-driven

entrepreneurs.

The third is the growth of the informal food economy. As socialist collective farming and food distribution systems began to operate poorly, most farmers and a significant portion of the urban residents devoted themselves to private farming, by tilling informal private plots (such as kitchen gardens, other small plots, and sloping lands) and raising their own livestock. Agricultural products produced from private farming (including marine and livestock products) were supplied to urban residents by informal wholesale and retail traders and transport operators, and informal food processing, food vending, and restaurant businesses also developed.

The fourth is the expansion of foreign trade. Foreign trade can be divided into formal trade by state-run enterprises and informal trade by informal private enterprises. Although formal trade is basically within the formal economy, it can also have large effects on the informal economy since there are transactions between the two. Informal trade is an important component of the informal economy and appears to mutually expedite the domestic informal economy.

Fifth, the access to modern means of transportation and communications has increased in the North Korea's informal economy. Informal transportation businesses have naturally emerged to fill the gaps left by an inadequate formal transportation system. In addition, mobile phones that were invented and used in advanced countries have recently been spread even in the world's poorest countries and North

Korea, functioning as an especially useful means of communications for informal entrepreneurs.

However, the North Korean economy seems unable to reach a long-term high growth trajectory unlike China or Vietnam, due to institutional shortcomings such as the lack of private property rights and freedom of economic activity. It seems that high growth will be possible only when fundamental reforms are initiated from the top by the regime, and private economic activities become formalized.

The Growth of the Informal Economy in North Korea

In this study, the authors collect information indicating that the informal economy of North Korea has been growing, and examine main factors propelling this phenomenon. Informal economy means private economic activity which is at odds with formal socialist institutions and ideology. It seems that the main driving forces of informal economy are service-led growth and entrepreneurship. After the partial collapse of traditional socialist economic system, many North Koreans started private businesses in the service sector, and this growth of service allowed new entrepreneurial activities in the other sectors. The food situation has improved thanks to the development of informal food sector which is composed of private agriculture, informal food distribution, processing, and catering. Expanding foreign trade, informal transport and mobile communication have also had positive impact on the informal economy.