

Outlook for North Korean Economic Reform and Marketization

Mimura Mitsuhiro

In North Korea, there are some sectors in which non-national or unplanned production prevails, but it can hardly be said that marketization is institutionalized. In that sense, the North Korean economy is neither a planned economy nor a market economy. Although real marketization has not started in full in North Korea, “marketization from the bottom” has brought centrifugal forces to the system of government in North Korea, which used to be unified under the supreme leader and the Korean Workers’ Party. Considering the industry structure of North Korea, the stable supply of consumer goods depends primarily on agricultural production, light industry production and growth in imports. Rehabilitation and growth of heavy industry require more investment by both domestic and foreign sources. In order for North Korea to foster sound economic development, market-oriented policies, not merely the introduction of some competitive aspects, are needed. This requires both spontaneous motivation in North Korea and support from the outside world at the same time. A healthier economic condition is one important factor in enabling North Korea to maintain a comparatively stable political administration in the post-Kim Jong-il era.

Key Words: North Korea, reform, transition, marketization, cooperation

Introduction

This paper analyzes the change in the economic situation in the Democratic People’s Republic of Korea (North Korea) and assesses whether that economic change signifies the emergence of a market economy in North Korea. Numerous studies show that marketization is growing at a rapid rate in North Korea over the last ten years.

In Japan, there are two main arguments in regards to the charac-

teristics of the North Korean economy. One is based on the notion that the North Korean economy is a planned socialist economy.¹ The other is based on the view that the North Korean economy looks like a planned socialist economy but actually is not.² A central controlled economy exists in Pyongyang and other major cities with centrally controlled industries; however, an aggregated self-sufficient economy operates in the rest of the country.³ Those who argue that North Korea has a planned socialist economy view change in the North Korean economy as the result of economic difficulties in 1990s and economic reform after 1998, while others sees it as a vain effort to maintain the regime.

In China, some scholars reference studies done in the Republic of Korea (South Korea) or Western countries.⁴ These scholars emphasize the importance of analyses on marketization and consideration of

-
1. Nakagawa, Masahiko, *Chosen Shakaishugi Keizai no Riso to Genjitsu: Chosen Minshushugi Jinminkyowakoku ni Okeru Sangyo – Kozo to Keizaikanri* [The Ideal and Reality of the Korean Socialist Economy: An Analysis of Industrial Structure and Economic Management in the DPRK] (Chiba, Japan: IDE-JETRO, 2011); Pak, Jaehun, “Kogyo Bumon no Kokka Yosan ni Miru Keizai Saiken no Ugoki” [Trends toward Economic Reconstruction in the National Budget for the Industrial Sector], in Nakagawa, Masahiko (ed.), *Kinshonichi no Keizai Kaikaku* [Kim Jong-il’s Economic Reform] (Chiba, Japan: IDE-JETRO, 2005), http://www.ide.go.jp/Japanese/Publish/Download/Report/2004_03_06.html, pp. 34-36; Mimura, Mitsuhiro, “Chosen ni Okeru Kokogyo no Hatten” [Development of Industrial Sectors in the DPRK], in Komaki, Teruo & Economic Research Institute for Northeast Asia (eds.), *Keizai kara Mita Kitachosen* [North Korea from the Economic Perspective] (Tokyo: Akashi Shoten, 2010), pp. 54-69.
 2. Imamura, Hiroko, *Kitachosen “Kyoko no keizai”* [North Korea: The Fabricated Economy] (Tokyo: Shueisha, 2005).
 3. Kimura, Mitsuhiro, *Kitachosen no Keizai: Kigen, Keisei, Hokai* [The North Korean Economy: Origins, Formation, and Collapse] (Tokyo: Sobunsha, 1999), pp. 157-159.
 4. Liu Ming, “North Korean Economic Reform: An Uncertain Future for a Third-Way Exploration,” *Joint U.S.-Korea Academic Studies 2007* (Washington, DC: Korea Economic Institute, 2007), pp. 83-109; Zhang Huizi, “Chaoxian Guojia zhanlue tiaozheng tanxi” [An Analysis on Adjustment of National Strategy in (North) Korea], *Xiandai Guoji Guangxi* [Contemporary International Relations], Vol. 2, 2010, pp. 30-35.

the micro impact of macro change in North Korea.⁵ Other studies deal with North Korean reform through the lens of research on contemporary or comparative socialism, using the examples of socialist countries such as Vietnam, Laos and Cuba.⁶ These do not provide in-depth consideration of the North Korean marketization process itself; however, elements of some studies may help clarify the transition process of the socialist economy.

In South Korea, a number of studies have been published on economic reform and marketization in North Korea which treat North Korean economic marketization as a transition process of the socialist economy.⁷ Other analyses use the methodology of complex system theory to assess the status and future of the North Korean economy, analyzing the influence of marketization on the overall

-
5. Liu (2007) also pointed out that “We should not simply apply the Chinese and Vietnamese model when we judge North Korea’s reform, which is regarded as an exploration of a third way or reform – a mixed experience from Chinese and Vietnamese reform and Eastern European economic transition, with no revolutionary changes to its system but an overall opening up.”
 6. Yang Shuang, “Guowai shehuijiuyi Gangede dongli: Jianlun Yuenan, Laowo, Chaoxian, Guba Shehuizhuyigaigede jiuyao chengju” [Motives of Reform in Socialist Countries Overseas: Main Fruits of Socialist Reforms in Vietnam, Laos, (North) Korea and Cuba], *Zhonggong Yunnanshengwei Dangxiaoxuebao* [The Journal of Yunnan Provincial Committee School of the CPC], Vol. 7, No. 4, 2006, pp. 38-42; Cui Gui Tian, “Yue, Lao, Chao, Gu Siguo Jingjigaige bijiao” [Comparison of Economic Reform in Vietnam, Laos, (North) Korea, Cuba], *Dangdai Shijie Shehuijiuyi Wenti* [Issues of Contemporary World Socialism], No. 2, 2004, pp. 71-79.
 7. There are a number of such works. The most representative are as follows; Yang, Munsoo, *Bughan gyeongje wi shijanghwa* [Marketization of the North Korean Economy] (Seoul: Hanul, 2010); Lee, Suk, Kim, Changuk, Yang, Munsoo, Lee, Seok-Ki, Kim, Eun Young, *Bughan Kyehoeg Gyeongje wi Byeonhwa wa Shijanghwa* [Transition of the North Korean Economy and Marketization] (Seoul: KINU, 2009); Lim, Kangtaeg, *Bughan gyeongje wi shijang hwa shiltae e kwanhan yongu* [Study of the Current Situation of Marketization of the North Korean Economy] (Seoul: KINU, 2009); Lim, Soo-Ho, *Gyehoeg gwa Shijang wi Gongjon* (Seoul: Samsung Economic Research Institute, 2008); Jeong, Eun-mee, “Bugghan wi Shijang gyeongje ro wi Ihaeng gwa Chejejeog eungryeog” [The Transition toward Market Economy and Systemic Adaptability in North Korea], *Tongil gwa Pyeonghwa* [Unification and Peace], No. 1 (2009), pp. 141-169.

economic system. There are also an increasing number of studies that examine the North Korean economic situation through the methodology of anthropological exploration of ex-North Korean residents. Many of these studies point out that in North Korea, especially since the 1990s, many unofficial transactions are based on prices not controlled by the government (i.e. market prices); in addition, they show how a large proportion of residents support their daily lives with resources derived from outside of the governmental sector.⁸

We should also understand the method of marketization; specifically, the issue of whether North Korea can marketize its economy without changing its present industrial structure. If so, the main focus of international interest will be on augmenting the non-national elements of the economy. If not, the international community should discuss ways to induce North Korea to reform its industrial structure to enable market competition.

This article first defines the concept of marketization and then reviews the changes in the North Korean economy after the collapse of the Eastern bloc, with a focus on the late 1990s. Based on these observations, the author then provides an assessment of prospects for marketization in the North Korean economy.

What Is Marketization?

Before discussing “marketization” in North Korea, we have to define the concept of marketization. The classic definition of marketization is

8. For example, see Lankov, Andrei and Kim, Seok-hyang, “North Korean Market Vendors: The Rise of Grassroots Capitalists in a Post-Stalinist Society,” *Pacific Affairs*, Vol. 81, No. 1, Spring 2008, pp. 53-72; Jeong, Eun-mee, “1990nyeondae jungban ihu bughan gondseol shijang wi we heongjeok baldal gwajeong e kwanhan bunseok” [An Analysis of External Changes and Development of the Public Market in North Korea], *Dongbuga Gyeongjae Yeongu*, Vol. 23, No. 1, April 2011, pp. 215-251; Jeong, Eun-mee, “Bugan e seo shijang wi yeogsajog hyeongseong kwajeong gwa gyeongje gujo wi byeonhwa” [History of Markets and Changes to the Economic Structure in North Korea], *Asea Yeongu* [Asian Studies], Vol. 54, No. 1 (2011a), pp. 220-267.

the transition to a market economy from a socialist planned economy. But what is a market economy, and what does it require? Yoshiaki Nishimura (2001)⁹ argues that the transition to a market economy means the shift to a market economy from a socialist planned economy.¹⁰ He also maintains that a proper transition requires the social division of labor, decentralized decision-making by economic entities,¹¹ free competition,¹² and a government capable of ensuring smooth market economic functions.¹³ According to Nishimura's definition, a market is a system in which a series of transactions are realized. In a proper market, information on prices flows horizontally among the participants and transactions are made without government intervention. Sheng (1992) identifies the characteristics of a market transaction as equality and self-motivation.¹⁴ In that case, the North Korean economy satisfies

-
9. Nishimura, Yoshiaki, "Shijo keizai e no iko ni okeru keizai seisaku soron" [Economic policy during the shift to a market economy], Economic and Social Research Institute, Cabinet Office, Government of Japan, <http://www.esri.go.jp/jp/tie/russia/russia1.pdf>.
 10. A market economy is an economy in which a market functions as the main coordination mechanism of production, consumption, demand and supply. Price mechanisms and the free movement of capital form the core of the market economy.
 11. Market interactions consist of special decentralized decision-making processes to reach agreement between economic entities; therefore, the right to economic decisions by economic units, such as companies or households, must be guaranteed. Market dealings include transactions of goods or services as well as capital. The right to private property is indispensable to guaranteeing free decision-making by individual economic entities; in addition, transparency and the free flow of information are needed. The principles of ownership and contract observance form the foundation of the market economy.
 12. Free competition and guaranteed freedom of entry are indispensable for a market to achieve production and consumption regulating functions.
 13. A government is needed to secure the smooth function of the market economy. This does not simply mean the function of a "nightwatchman state" that guarantees the establishment and observance of "the rules of the game" in the market. Other functions are also needed; for example, the ability to compensate for "market failures" and the establishment of social security. In some case, the promotion of development may be another important function. A suitable taxation system is also desired.
 14. Sheng, Hong, "Shichanghua de tiaojian, xiandu he xingshi" [Conditions,

the requirements of the market defined above.

Another definition of marketization is an increased in the proportion of the economy that is market-oriented (or non-governmental). According to this definition, marketization may not necessarily connote a transition from a planned socialist economy to a market economy. What is most important is not pegging out the boundary between a socialist planned economy and a market economy, but clarifying the central aspects of citizens' economic lives and the way the national economy is organized.

Consumer Goods Market

In the consumer goods market, there is a tendency toward marketization. One of the best examples of this is the regional market. Some retail markets also act as wholesale markets, demonstrating that the marketization of the consumer goods market has already started.¹⁵ Even between state-owned shops there is competition similar to what existed in the former Soviet Union and Eastern European countries. North Korean consumers can choose where they buy goods. This competition is entirely legal.

The reluctance of the North Korean government to encourage the growth of the non-national sector prevents across-the-board market competition; however, partial marketization is underway in the consumer goods market.

Limitations and Forms of Marketization], *Jingji Yanjiu* [Economic Research Journal], Vol. 1992, No. 11, pp. 73.

15. Choi, Soo-young, "Bughan Gyeongje wi Shijanghwa: Shilmul, Yutong Bumun eul Jungshimeuro" [Marketization in the North Korean Economy: Focus on Commodities and Distribution], *Bukhan Shijang gyeongje wi Hyeonjuso wa Baljeon Jeonmang* [The State of North Korea's Market Economy and Future Developments], <http://www.kinu.or.kr>; Lim, Kangtaeg, *Bughan gyeongje wi shijanghwa shiltae e kwanhanyongu* [Study of the Current Situation of Marketization of the North Korean Economy] (Seoul: KINU, 2009), p. 118.

Production Goods Market

There are two categories of legal markets in North Korea for production goods. One is the socialist goods exchange market and the other is the imported goods exchange market. It is true that spot transactions are made in these markets. However, the basic condition of market competition does not exist in the production goods market. In North Korea (especially in heavy industry) there is no situation where two or more companies produce the same goods.¹⁶ Subsequently, there will be an oligopoly or oligopoly pricing even if other conditions meet marketization requirements.

Labor Market and Finance Market

The North Korean economic reforms did not go beyond labor market and finance market reform. There may be phenomena resembling labor or finance markets in the informal economy, but these phenomena are all illegal, and state-owned enterprises cannot use them as a principal source of labor or funds.

There are some areas in North Korea where the non-national sector or unplanned production prevails; however, it can hardly be said that there is institutional marketization. This is because of the collapse of the objective planned economy. In that sense, the North Korean economy is not a planned economy or a market economy. This special situation has been ongoing for the past two decades in North Korea.

16. For the structure of industry, see Nakagawa, Masahiko, *Chosen Shakaishugi Keizai no Riso to Genjitsu: Chosen Minshushugi Jiminkyowakoku ni Okeru Sangyo Kozo to Keizai Kanri* [The Ideal and the Reality of the Korean Socialist Economy: An Analysis of Industrial Structure and Economic Management in the DPRK] (Chiba, Japan: IDE-JETRO, 2011), pp. 59-62, 64, 66, 72-77, 84-90.

Economic Reform in North Korea

North Korea's economic reforms began with the constitutional amendment of 1998, which passively confirmed the existence of a private sector growing in power as the national sector weakened. Unlike China's policies of reform and opening or the *Doi Moi* reform program in Vietnam, North Korean economic reform does not aim to introduce an extensive market economy mechanism into the national economy. However, many changes have been introduced, such improved economic decision-making, expanded managerial autonomy for state-owned enterprises, and a more realistic agricultural policy.

Beginning of Economic Reform

North Korea's first economic reforms restructured state-owned enterprises and changed the method of economic planning; this was followed by changes to business management methods and the partial introduction of a market mechanism. The restructuring of state-owned enterprises took place from early 1999 to 2001.¹⁷ Nakagawa (2005) pointed out that this restructuring was "conducted to select and revitalize capable enterprises rather than to crush existing enterprises."¹⁸ According to Pak Jaehun (2005), the reform of the economic planning process transferred planning authority to subordinate agencies after simplifying the planning process. The central

17. A *Rodong Sinmun* article dated October 3, 2000 summarizing the "Arduous March" described the economic conditions of the most trying period as follows: "Factories shut down, the fertile earth was parched, insufficient electricity caused trains to stop, and light disappeared from streets of the capital."

18. Nakagawa, Masahiko, "Keizai Genjo to Keizai kaikaku" [Situation of Economy and Economic Reform] in Nakagawa, Masahiko (ed.), *Kinshonichi no keizai kaikaku* [Kim Jong-il's Economic Reform] (Chiba, Japan: IDE-JETRO, 2005), http://www.ide.go.jp/Japanese/Publish/Download/Report/2004_03_06.html, p. 10.

government continued to make independent plans for indices with strategic significance (electricity, coal, and automobiles); however, controls for other indices were abolished. Relevant organizations, enterprises, and local governments began to establish their own plans. Qualitative and monetary indices became important, in addition to the quantitative indices already in use.¹⁹ This was codified in the People's Economic Planning Act revision of 2001 (originally adopted in 1999).

Expansion of Economic Reforms and the Partial Implementation of a Market Mechanism

Starting from around 2002, the target of economic reform moved to issues in the administration of state-owned enterprises, such as the reorganization of agencies and the drafting of economic plans. With a focus on the manufacturing industry, a "socialist goods exchange market" began to operate as a channel through which state-owned enterprises could trade unused materials to other enterprises that were running short. In a state-owned enterprise, property as the means of production belongs to the state. This means that state-owned enterprises have the authority to utilize their means of production in their own enterprises but do not have the authority to dispose of them. In the socialist goods exchange market, such transactions have become possible.²⁰ The reforms also re-examined the self-supporting accounting system, emphasizing qualitative indices and increasing management autonomy.

The price employed was not a state controlled price but at an

19. Pak, Jaehun, "Kogyo Bumon no Kokka Yosan ni Miru Keizai Saiken no Ugoki" [Trends toward Economic Reconstruction in the National Budget for the Industrial Sector], in Nakagawa, Masahiko (ed.), *Kinshonichi no keizai kaikaku* [Kim Jong-il's Economic Reform] (Chiba, Japan: IDE-JETRO, 2005), http://www.ide.go.jp/Japanese/Publish/Download/Report/2004_03_06.html, pp. 34-36.

20. This intensified shortages by motivating state-owned enterprises to accumulate surplus materials.

“agreed price” (market price) which both sellers and buyers agreed upon. Settlements were performed through non-cash payments via account transfers between parties through the central bank. In addition, as of 2005, imported materials were handled via the “imported goods exchange market.”²¹

In the new self-supporting accounting system, a new index was introduced to measure the profits of enterprises. This new index was called the *beonsuib jibpyo* (earnings index). “Earnings” refers to newly created income or the amount that left after deducting sales performance costs (excluding wages) from the total circulation income of an enterprise.

In July of 2002 North Korea enacted large-scale reform measures affecting prices and wages, called the Economic Management Improvement Measures. The main contents of these measures were (1) adjustment of the prices of grains (such as rice and maize) by abolishing cost loss margins, (2) reduction of free privileges, and (3) renewal of wage increases benchmarked according to prices. Although free education and free medical treatment remained unchanged, the false egalitarianism that prevailed since the late 1980s was abolished and the socialist principle of distribution (distribution according to work) was implemented.

The “farmer’s markets” (the North Korean version of a Kolkhoz Market²²) were reorganized into “comprehensive markets” (later renamed “regional markets”) in June 2003. Industrial product distribution channels (independent from state-owned commercial networks) were legalized. As a model of a regional market, the Tongil-Keori Market was built in Rakrang District, Pyongyang. Similar municipal markets were systematically built in other districts in Pyongyang as well as every city and county in North Korea. Individuals could get permission to open stalls in the regional markets by paying market

21. *Choson Sinbo*, October 19, 2005, <http://sinbo.korea-np.co.jp/news/ArticlePrint.aspx?ArticleID=19204>.

22. Whitman, John T., “The Kolkhoz Market,” *Soviet Studies*, Vol. 7, No. 4 (April 1956), p. 384.

usage fees. State-owned enterprises and cooperative organs were also allowed to open outlet shops in the regional markets.

Profit Seeking by State-owned Enterprises and Increased Circulation of Cash

The increased management autonomy of state-owned enterprises, introduction of financial indices, and official recognition of the regional market induced state-owned enterprise to act based on economic rationality. The relationship between the national and non-national sectors grew closer than ever. State-owned enterprises were no longer primarily occupied with the execution of state plans and were now evaluated according to profits.²³ State-owned enterprises rapidly deepened their connections with non-national elements, such as the regional markets for consumer goods distribution. This created a gap between industrial sectors; light industries, which focused on producing consumer goods that could be sold in the markets, were better off than heavy industries, which focused on producing capital goods and had little opportunity for market transactions. This spawned a widening income gap among the employees of state-owned enterprises based on differences in industry classification.

When a state-owned enterprise's pursuit of profit disturbs the execution of state economic plans, it is denounced as "gigwan bon-wijuwi" (organizational selfishness).²⁴ However, unprofitable state-

23. Chong, Kwangyong, "Gugga yesan suibeulneurineun geoseunsahoejuwi kyeongjae geonseol wijaejeongjeok dambo" [Increasing government revenue is a financial guarantee for construction of the socialist economy], *Kim Il Sung Jonghab daehaghaqbo (Gyeongje Ryoksa)* [Kim Il Sung University Bulletin (Economics and History)], Vol. 54, No. 4, 2008, pp. 81-82; Choe, Gwangil, "Wonga reuljurineun geoseunshilli bojang wijungyohan dambo" [Reducing costs is important for the realization of actual benefits], *Kyongje Yeongu* [Economic Research], No. 4, 2008, p. 42.

24. Ri, Gwangnam, "Hyeonshi gigugga wi gyeongje jorigjajeog gineung eul ganghwa haneun geoseun gyongjae ganggug geonseol wi jungyohan yogu" [Improving the state's economic organization function is the duty of a major economic power], *Kyongje Yeongu* [Economic Research], No. 2, 2009, p. 11.

owned enterprises cannot pay their employees sufficient salaries or offer economic incentives²⁵ and cannot pursue investment projects.²⁶ The emergence of the socialist goods exchange market enabled companies to procure raw materials at market prices. The need for national control of companies is frequently cited;²⁷ however, times have changed and the fate of an enterprise is now determined based on financial indicators.²⁸ This link between state-owned enterprises and the non-national sector has affected the settlement method between state-owned enterprises; non-cash settlements have increasingly been replaced by cash settlements. This has caused the volume of cash to increase rapidly, even with the same amount of money supply. This was one of the causes of the November 2009 Currency Reform.²⁹

Retreat from Reform

Social changes resulting from the progress of economic reforms and related measures began to influence economic policy from 2006, in the form of heightened emphasis on collectivism and socialist planned economic principles. The “Earnings Quantity Index” (a valuation basis for state-owned enterprises) changed to the “Net Income Index” in 2006 and living expenses (wages) were included in the calculations. State-owned enterprises lost some of their management autonomy, and planning discipline was stressed.

In 2008 this author interviewed a North Korean economist who said that North Korea’s principles forbade state-owned enterprises such as light-industry factories from selling their products in the

25. Hwang, Myeongsuk, “Geonjaegongeob gieobso wi jaejeong gwanri gaeseon wi jungyoseong” [The importance of improving financial management in the architectural material industry], *Kyongje Yeongu* [Economic Research], No. 1, 2009, p. 38.

26. Choe, Gwangi, *ibid.*, p. 42; Yu, Yunmi, *ibid.*, p. 43.

27. Ri, Gwangnam, *ibid.*, p. 8.

28. Chong, Kwangyon, *ibid.*, pp. 81-82; Choe, Gwangi, *ibid.*, p. 42.

29. Yoo, Seunggyung, “Bukhan wi hwapye gaehyeog” [North Korea’s Currency Reform], *LG Business Insight*, March 31, 2010, pp. 29-30.

market. The distribution of the goods produced by North Korean state-owned enterprises was limited to the national commercial network.³⁰ This principle seems to be aimed at controlling individual trade and bringing more state control to the economy. The sale of goods at market prices is common even in the national commercial network. This means that it is difficult for many ordinary people to earn enough income to support their living solely from the national sector. Repression of individual trade can be easily connected to the struggle to survive and is a main reason for public dissatisfaction, as it deprives the people of their means of livelihood. In consolidating its control over the economy, the state needs to guarantee an adequate supply of food and daily necessities. In fact, commodity supplies were inadequate and in a state of confusion at the time of the November 2009 Currency Reform.

Monetary Exchange

In 2009, the North Korean government announced the successful completion of its 100-day and 150-day public mobilization campaigns for production.³¹ This was true of some of the most successful enterprises.³² At the end of November 2009, new currency was issued for the first time since 1992. North Koreans could exchange their old money for new at a rate of 100 to 1. The North Korean government considered this monetary exchange as a means of controlling inflation and strengthening the economic management of the socialist planned

30. At the time of this interview, the prices of goods at shops in the national commercial network were not necessarily state-controlled. In some shops, state-controlled prices and market prices coexisted.

31. "WPK C.C. Issues Report on Successful Conclusion of 150-Day Campaign," *Korean Central News Agency*, <http://www.kcna.co.jp/item/2009/200909/news21/20090921-01ee.html>.

32. "Soko ga shiritai Q and A 150 nichi sento no igiha?" [That is what I want to know Q and A: What is the significance of 150-day battle?], *Choson Sinbo*, September 30, 2009, <http://www1.korea-np.co.jp/sinboj/j-2009/04/0904j0930-00002.htm>.

economy.³³

The intention of the North Korean government was to strengthen economic management according to socialist principles and order. They wanted to collect the currency accumulated in the non-national sector and give dominance to the state-owned economy. The market's role was to be reduced by strengthening national distribution channels.³⁴ Alongside the monetary exchange, other measures were enacted to weaken the farmer's markets and prohibit foreign currency transactions. The general supply shortages continued at state-owned stores which supplied food and daily necessities, although some reports indicated that certain items were available at state-run shops.³⁵ However, workers living on wages only (those who presumably would benefit most from the reform) suffered from the chaotic conditions. Subsequently, the measures to weaken the farmer's markets and ban foreign currency transactions were lifted within a very short period.

Industrial Organization in North Korea

Industrial organization (especially in heavy industry where massive investment is needed) is an important element to consider in predicting the success or failure of marketization. In China, usually more than one enterprise produces the same product in an industrial sector because of the regional economic policy of "Third Front Con-

33. "Chosen deno tsuka kokan sochi: Shakaishugi keizai kanri no chitsujo kyoka" [Monetary exchange measures in (North) Korea: Enhancement of order in socialist economic management], *Choson Sinbo*, December 12, 2009, <http://www1.korea-np.co.jp/sinboj/j-2009/04/0904j1211-00005.htm>.

34. "Chosen de shin tsuka hako: Seijitsuni hataraku shimin o yugu" [Introducing new currency in (North) Korea: Preferential treatment for decent workers], *Choson Sinbo*, December 7, 2009, <http://www1.korea-np.co.jp/sinboj/j-2009/04/0904j1207-00001.htm>.

35. "Shinnen, kakki afureru heijyo: Jinmin seikatsu kojohe ichigan" [Bustling New Year in Pyongyang], *Choson Sinbo*, January 11, 2010, <http://www1.korea-np.co.jp/sinboj/j-2010/04/1004j0112-00001.htm>.

struction.”³⁶ This made it possible to gradually marketize the economy through instrumentalism and a dual tracking system; however, many of the major industrial sectors in North Korea have only one major producer. The situational difference between China and North Korea is one of the reasons why the Chinese reform model is not always suitable to North Korea.

At the 1st meeting of the Korea Taepung International Investment Group Executive Board in Pyongyang on January 20, 2010, a series of NDC decisions were announced: “On Guaranteeing the Activities of the Taepung Group” (chairman’s statement), “On Establishing the National Investment Bank,” and “On Establishing the Taepung Group Coordination Committee.” This National Investment Bank was intended to help realize the national development plan by leveraging international financial markets in addition to the national budget. According to Pak Chol Su, the deputy director general of the NIB, this bank is completely independent from the national budget and handles investments in food, railroads, roads, ports, electric power, and energy. This is an experiment in infrastructure investment using overseas investment capital.³⁷

The Cabinet adopted a “Strategic 10-Year Plan for National Economic Development” in January 2011. The core strategic goals of this plan target aspects of basic industrial development, such as infrastructure, agriculture, electricity, coal, fuel, metals, and regional development. The Cabinet delegated responsibility for implementation of the main projects of this plan to the Korea Taepung International Investment Group.³⁸

36. Sylvie Demurger, Jeffrey D. Sachs, Wing Thye Woo, Shuming Bao, Gene Chang, and Andrew Mellinger, *Geography, Economic Policy and Regional Development in China*, pp. 13-14, <http://post.economics.harvard.edu/hier/2002papers/2002list.html>.

37. “1st Meeting of Korea Taepung IIG Held,” *Korean Central News Agency*, January 20, 2010, <http://www.kcna.co.jp/item/2010/201001/news20/20100120-17ee.html>; “State General Bureau for Economic Development to be Established,” *Korean Central News Agency*, January 15, 2011, <http://www.kcna.co.jp/item/2011/201101/news15/20110115-13ee.html>.

38. “‘Gugga gyeongje gaebal 10 gaenyeon jeonryag gyehoek’ Chaetaeg”

The significance of foreign investment lies in the possibility of building an official (but unplanned) sector in North Korea. It is important to set up a structure that produces competition between the production units of North Korea's major industries, separate from the intentions of the North Korean government. To bring true marketization to the North Korean economy, regional players including South Korea, Japan, China, Russia and the United States need to induce North Korea to move in this direction. The projects being jointly developed by China and North Korea in the Rason Economic and Trade Zone and the Hwanggumpyong and Wihwa Islands Economic Zone³⁹ are examples of how the North Korean economy can develop.

The North Korean Economy in the Post-Kim Jong-il Era

The non-national sector in North Korea grew up as a result of the ailing economy after the collapse of the socialist market and the economic reforms implemented to overcome the situation. Business connections in the market blossomed from simple transactions to the unpremeditated rise of rudimentary transportation, logistics and financial businesses, effectively driving "marketization from the bottom."

Although real marketization has not yet started in earnest in North Korea, this process of "marketization from the bottom" has introduced a centrifugal force to the North Korean system of government which used to be unified under the Leader and the Korean Workers' Party. The key to affluence now is bribery; the establishment of social relations based on individual profit and greed has altered the nature of North Korean society, where collectivism and "honorable poverty"

[“Strategic 10-year Plan for National Economic Development” adopted], *Korean Central News Agency*, January 15, 2011, <http://www.kcna.co.jp/calendar/2011/01/01-15/2011-0115-013.html>.

39. “Ceremonies for Projects for Zones to be Jointly Developed by DPRK-China Held,” *Korean Central News Agency*, June 9, 2011, <http://www.kcna.co.jp/item/2011/201106/news09/20110609-27ee.html>.

were once official virtues. The North Korean ruling circle has taken this change seriously, regarding it as a development that could undermine its power base.

The state of confusion after the November 2009 Monetary Exchange revealed the present condition of the North Korean economy, in which the economic conditions of everyday life are being supported considerably by the non-national sector. Regional markets have resumed, along with trade in cereal grains which had long been restricted. Markets persist in North Korea despite the political demand to abolish them and support public life through a socialist planned economy. In the present situation, the non-national sector cannot be excluded, while the government controls the institutional framework of finance and taxation.⁴⁰

On December 17, 2011, General Secretary Kim Jong-il suddenly passed away. Soon after his demise, the process of passing the baton of leadership was accelerated. This process is proceeding according to the monolithic leadership system of the Korean Workers' Party. The successor, Kim Jong-un, was named supreme commander of the Korean People's Army according to the behest of the late leader Kim Jong-il on Oct. 8, 2011.⁴¹ The younger Kim will take charge of the leading positions of the Party and the government by the end of 2012. This does not mean, however, that he will take the same level of control of the Party, the military and the government as his predecessor did. The public support base may become a more important factor for the somewhat brittle new leadership.

In North Korea, the year of *Juche* 101 (2012) is heralded as the centennial of Chairman Kim Il Sung and the year in which the door of the powerful and prosperous nation will be opened through

40. Yoon Deok Ryong, "Bugghan wi shijang gyeongje doib gwa Geoshigyeongje Gwanri" [North Korea's introduction of market economy and macroeconomic management], *Sueun bughangyeongje* [Eximbank North Korean Economy], Fall 2004, pp. 20-23.

41. "Kim Jong-un Assumes Supreme Commander," *Korean Central News Agency*, December 31, 2011, <http://www.kcna.co.jp/item/2011/201112/news31/20111231-01ee.html>.

economic construction and enhanced quality of life. The official plan for growth is the revival of the socialist planned economy and self-reliance. Considering the industrial structure of North Korea, a stable supply of consumer goods depends primarily on agricultural production, light-industry production, and growth in imports. The rehabilitation and growth of heavy industry will require more domestic and foreign investment. Public mobilization may be employed as a means to increase production; however, this method is not versatile. To succeed, North Korea must become an attractive destination for foreign investment. To win public support, the new government must improve the economic situation. In this regard, it is clear that the economy will be much more important to the regime in the post-Kim Jong-il era, at least in the earlier stages of power consolidation.

In order for North Korea to foster sound economic development, it must introduce market-oriented policies beyond the mere introduction of competitive aspects. This will require both spontaneous North Korean initiative and extrinsic support from the outside world. It is essential to foster marketization and regime stability at the same time, since the goal of marketization is not regime collapse but the construction of a healthy economic system. In this sense, the future of the North Korean economy depends on both cooperation by the outside world (mainly the members of the Six-Party Talks) in engaging with North Korea and voluntary North Korean initiatives for opening and reform. The advent of a new administration lends momentum for both North Korea and the regional powers to build more constructive relations. The centennial celebration in 2012 can mark the dawn of a peaceful and stable Northeast Asia, if North Korea and its neighbors are truly committed to joint prosperity.

Bibliography

- Choe, Gwangil. "Wonga reul jurineun geoseun shilli bojang wi jungyohan dambo" [Reducing costs is important for the realization of actual benefits]. *Kyongje Yeongu* [Economic Research], No. 4, 2008.
- Choi, Soo-young. "Bughan Gyeongje wi Shijanghwa: Shilmul, Yutongbumuneul Jungshimeuro" [Marketization in the North Korean Economy: Focus on Commodities and Distribution]. *Bukhan Shijang gyeongje wi Hyeonjuso wa Baljeon Jeonmang* [The State of North Korea's Market Economy and Future Developments], <http://www.kinu.or.kr/>.
- Chong, Kwangyong. "Gugga yesan suibeul neurineun geoseun sahoejuwi kyeongjae geonseol wi jaejeongjeok dambo" [Increasing government revenue is a financial guarantee for construction of the socialist economy]. *Kim Il Sung Jonghab daehag hagbo* (Gyeongje Ryoksa) [Kim Il Sung University Bulletin (Economics and History)], Vol. 54, No. 4, 2008.
- "Chosen de shin tsuka hakko: Seijitsuni hataraku shimin o yugu" [Introducing new currency in (North) Korea: Preferential treatment for decent workers]. *Choson Sinbo*. December 7, 2009, <http://www1.korea-np.co.jp/sinboj/j-2009/04/0904j1207-00001.htm>.
- "Chosen deno tsuka kokan sochi: Shakaishugi keizai kanri no chitsujo kyoka" [Monetary exchange measures in (North) Korea: Enhancement of order in socialist economic management]. *Choson Sinbo*. December 12, 2009, <http://www1.korea-np.co.jp/sinboj/j-2009/04/0904j1211-00005.htm>.
- "Chosen Taigai keizai hatten e kankyo seibi" [(North) Korea: Improving (investment) environment for the development of external economic cooperation]. *Choson Sinbo*. January 25, 2010, <http://www1.korea-np.co.jp/sinboj/j-2010/04/1004j0125-00001.htm>.
- Cui, Gui Tian. "Yue, Lao, Chao, Gu Siguo Jingjigaige bijiao" [Comparison of Economic Reform in Vietnam, Laos, (North) Korea, Cuba]. *Dangdai Shijie Shehuijiuyi Wenti* [Issues of Contemporary World Socialism], No. 2, 2004.
- Demurger, Sylvie, Jeffrey D. Sachs, Wing Thye Woo, Shuming Bao, Gene Chang, and Andrew Mellinger. *Geography, Economic Policy and Regional Development in China*, <http://post.economics.harvard.edu/hier/2002papers/2002list.html>.
- Haggard, Stephan & Marcus Noland. *Kitachosen kigano seiji keizaigaku* [Famine in North Korea]. Tokyo: Chuo Koron Shinsha. 2009.

- Hwang, Myeongsuk. "Geonjaegongeob gieobso wi jaejeonggwanni gaeseonwi jungyoseong" [Importance of improvement of financial management at architectural material industry enterprises]. *Kyongje Yeongu* [Economic Research], No. 1, 2009.
- Imamura, Hiroko. *Kitachosen "Kyoko no keizai"* [North Korea, The Fabricated Economy]. Tokyo: Shueisha. 2005.
- Jeong, Eun-mee. "1990nyeondae jungban ihu bughan gondseol shijangwi weheongjeok baldal gwajeonge kwanhan bunseok" [An Analysis on the External Changes and Development of the Public Market in North Korea]. *Dongbuga Gyeongjae Yeongu* [Northeast Asian International Studies], Vol. 23, No. 1, April 2011, pp. 215-251.
- _____. "Bughaneseo shijangwi yeogsajog hyeongseongkwajeonggwa gyeongjegujowi byeonhwa" [History of Markets and Changes to the Economic Structure in North Korea]. *Asea Yeongu* [Asian Studies], Vol. 54, No. 1, 2011a, pp. 220-267.
- Kimura, Mitsuhiro. *Kitachosen no keizai: kigen, keisei, hokai* [The North Korean Economy: Origins, Formation and Collapse]. Tokyo: Sobunsha. 1999.
- Lankov, Andrei and Kim Seok-hyang. "North Korean Market Vendors: The Rise of Grassroots Capitalists in a Post-Stalinist Society." *Pacific Affairs*, Vol. 81, No. 1, Spring 2008, pp. 53-72.
- Lee, Suk, Kim Changuk, Yang Munsoo, Lee Seok-Ki, and Kim Eun Young. *Bughan Kyehoggyeongje wi Byeonhwa wa Shijanghwa* [Transition of North Korean Economy and Marketization]. Seoul: KINU. 2009.
- Li, Kisong. "21 seiki shoto no Chosen no Keizai kensetsu kankyo" [The environment of economic construction in (North) Korea in the early 21st century]. *ERINA REPORT*, Vol. 72, November 2006.
- Lim, Kangtaeg. *Bughan gyeongje wi shijanghwa shiltae e kwanhan yongu* [Study of the current situation of marketization of North Korean Economy]. Seoul: KINU. 2009.
- Lim, Soo-Ho. *Kyehoeg gwa Shizang wi Gongjon: Bukhan wi Gyeongje gaehyeog gwa Chejebyeonhwa Jeonmang* [Co-existence of Planning and Marketization: North Korean Economic Reform and Prospects of Regime Change]. Seoul: Samsung Economic Research Institute. 2008.
- Liu, Ming. "North Korean Economic Reform: An Uncertain Future for a Third-Way Exploration." *Joint U.S.-Korea Academic Studies 2007*. Washington, DC: Korea Economic Institute. 2007.

- Mimura, Mitsuhiro. "Chosen ni okeru kokogyo no hatten" [Development of industrial sectors in the DPRK]. In Komaki Teruo & Economic Research Institute for Northeast Asia, eds. *Keizaikara mita kitachosen* [North Korea from the economic perspective]. Tokyo: Akashi Shoten. 2010.
- _____. "Keizai kaikaku to keizai jittai no henka" [Economic reform and change in economic conditions]. In Okonogi Masao & Isozaki Atsuhito, eds. *Kitachosen to ningengo anzen hoshō* [North Korea and Human Security]. Tokyo: Keio University Press. 2009.
- Nakagawa, Masahiko. *Chosen shakaishugi keizai no genzai* [Current Status of (North) Korean Socialist Economy]. Chiba, Japan: IDE-JETRO. 2009.
- _____. *Chosen shakaishugi keizai no Riso to Genjitsu: Chosen minshushugi jinminkyowakoku ni okeru Sangyo kozo to Keizaikanri* [The Ideal and the Reality of the Korean Socialist Economy: An Analysis of Industrial Structure and Economic Management in the DPRK]. Chiba, Japan: IDE-JETRO. 2011.
- _____. "Keizai Genjo to Keiza kaikaku" [Situation of Economy and Economic Reform]. In Nakagawa Masahiko, ed. *Kinshonichi no keizai kaikaku* [Kim Jong-il's Economic Reform]. Chiba, Japan: IDE-JETRO. 2005, http://www.ide.go.jp/Japanese/Publish/Download/Report/2004_03_06.html.
- Nishimura, Yoshiaki. "Shijo keizai eno iko ni okeru keizai seisaku soron" [Economic policy during the shift to a market economy]. Economic and Social Research Institute, Cabinet Office, Government of Japan, <http://www.esri.go.jp/jp/tie/russia/russia1.pdf>.
- Pak, Jaehun. "Kogyo bumon no Kokka yosan ni miru Keizai saiken no ugoki" [Trends toward economic reconstruction in the national budget for the industrial sector]. In Nakagawa Masahiko, ed. *Kinshonichi no keizai kaikaku* [Kim Jong-il's Economic Reform]. Chiba, Japan: IDE-JETRO. 2005, http://www.ide.go.jp/Japanese/Publish/Download/Report/2004_03_06.html.
- Ri, Gwangnam. "Hyeonshigi guggawi gyeongje jojigajeog ginennng eul ganghwa haneun geoseun gyongjae gangguggeonseol wi jungyohan yogu" [Improving a state's function as an organizer in its economy is the requirement for building a country with economic power]. *Kyongje Yeongu* [Economic Research], No. 2, 2009.
- Suzuki, Masayuki. *Kitachosen-Shakaishugi to dento no kyomei* [North Korea – Resonance of Socialism and Heritage]. Tokyo: University of Tokyo Press. 1992.

- Whitman, John T. "The Kolkhoz Market." *Soviet Studies*, Vol. 7, No. 4, April 1956, pp. 384-408.
- Yang, Shuang. "Guowai shehuijiuyi Gangede dongli: Jianlun Yuenan, Laowo, Chaoxian, Guba Shehuizhuyigaigede jiuyao chengju" [Motives of Reform in Socialist Countries Overseas: Main Fruits of Socialist Reforms in Vietnam, Laos, (North) Korea and Cuba]. *Zhonggong Yunnanshengwei Dangxiaoxuebao* [The Journal of Yunnan Provincial Committee School of the CPC], Vol. 7, No. 4. 2006.
- Yoo, Seunggyung. "Bukhanwi hwapyegaehyeog" [North Korea's Currency Reform]. *LG Business Insight*. March 31. 2010.
- Yoon, Deok Ryong. "Bugnan wi shijanggyeongje doib gwa Geoshigyeongje Gwanri" [North Korea's Introduction of Market Economy and Macroeconomic Management]. *Sueun bughangyeongje* [Eximbank North Korean Economy]. Fall 2004.
- Yu, Yunmi. "Dogribchaesanje gieobso jache chungdanggeum wi habrijeok riyong bangdo" [Rational use of the internal reserves in enterprises with self-supporting accounting systems]. *Kyongje Yeongu* [Economic Research], No. 4, 2008.
- Zhang, Huizi. "Chaoxian Guojia zhanlue tiaozheng tanxi" [An Analysis on Adjustment of National Strategy in (North) Korea]. *Xiandai Guoji Guangxi* [Contemporary International Relations], Vol. 2, 2010.