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## Kim Jong-un's Byungjin Policy: Support or obstacle for economic convergence on the Korean peninsula?

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# Ordnungspolitische Diskurse

## Discourses in Social Market Economy



**Ralph M. Wrobel**

**Kim Jong-un's Byungjin Policy:  
Support or Obstacle for Economic Conver-  
gence on the Korean Peninsula?**

**Diskurs 2021 - 5**

# **Kim Jong-un's Byungjin Policy:**

## **Support or Obstacle for Economic Convergence on the Korean Peninsula?**

**Ralph M. Wrobel<sup>1</sup>**

### **Summary**

Transformation to some market approaches in North Korea is of highest importance for more economic cooperation on the Korean peninsula. Kim Jong-un's Byungjin policy, a new ideological approach announced in 2011, gave some hope for such reforms. At least, basic economic reforms like in China or Vietnam in the 1980s would be helpful. Both countries started with reforms in the agricultural sector and management reforms in the industry. Additionally, they opened up their countries to the capitalist world by Special Economic Zones (SEZs). Especially since introduction of Byungjin Policy by Kim Jong-un North Korea followed these reform steps obviously. But while reforms in agriculture and management of State-Owned Enterprises are quite similar to China or Vietnam a lack of institutionalization must be stated. As a result, only informal markets ("jangmadang") evolved in North Korea. Also, a new group of entrepreneurs ("donju") – people investing money without any legal security – came into existence. Additionally, even though SEZs have been established in North Korea a real opening to foreign investors and clients cannot be observed. There are two main reasons for this: First, ideology is much more crucial for the North Korean regime than for the communist parties in China or Vietnam. Ideological approaches like Juche or Songun still have a religious significance and thereby the function to stabilize the regime. Also, UN sanctions hinder more foreign trade and investment. Therefore, Kim Jong-un is trapped between short-term ideology-based regime stability and nuclear armament on the one hand and economic reforms bringing some regime stability in the long term.

### **Keywords**

North Korea, Economic Reforms, informal institutions, Juche ideology, Byungjin ideology

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# Kim Jong-un's Byungjin Policy:

## Support or Obstacle for Economic Convergence on the Korean Peninsula?

### 1 Introduction

While reunification remains a long-term goal for both governments on the Korean peninsula, economic convergence – in concrete a transformation of the North Korean centrally planned economy to some market economic approach – is a necessary precondition for more cooperation and a peaceful development. Already in the beginning of the new millennium a few economic reforms brought some changes of North Korea's economic system. At the same time "sunshine policy" – an explicit cooperation approach of the South Korean government to the North (1998 – 2008) – led to several economic cooperation projects. First, the Kaesong Industrial Complex must be mentioned as central project. (Wrobel 2014) But also, a Trans-Korean Railways Project allowing rail freight to travel between South Korea, North Korea, Russia and China is discussed continuously because it can be hoped to halve the time taken to transport freight from South Korea to Europe. Such a link of South Korea to the "Iron Silk Road" which already connects China and Europe would be a great support for South Korea's economic development. Additionally, it could be seen as symbol of "Peace in the Korean Peninsula". (Lee / Chung 2020, 1 – 2)

But cooperation with North Korea is difficult for the South. North Korea's leader Kim Jong-un is well known for his missile tests and his successful nuclear programme. After two summits with US president Trump in 2018 and 2019 as well as several inner-Korean summits with South Korea's president Moon Jae-in gave hope for a more peaceful development in Northeast Asia, relations between North Korea and the West world cooled down again since the US didn't support the abolishment of the UN sanctions on North Korea without a nuclear disarmament in the country. But simultaneously to nuclear armament Kim Jong-un adopted an increasing extent market economic approaches to improve the supply of goods in the country. As Lankov mentioned in 2017, Kim Jong-un's policy can be described as "*combination of quiet and largely unrecognizable market-economic oriented reforms, with an aggressive pursuit of a nuclear arsenal.*" (Lankov 2017, 26) Does that give hope for a further economic cooperation between both Koreas? The basic ideological approaches in North Korea, "*Juche*" (autarky) and "*Songun*" (military first), actually do not allow any marketization. But, when Kim Jong-un took power in 2011 he announced a political change in North Korea, a new ideology called

“*Byungjin*” (parallel development). On a plenary meeting of the Central Committee of the Workers Party of Korea in March 2013 Byungjin was described as “*a new strategic line on carrying out economic construction and building nuclear armed forces simultaneously.*” (Kwon 2019, 311) From 2018 on, Byungjin is even replaced by several successor ideologies respective policies basing upon it.

Therefore, this paper asks if North Korea’s ideological approaches, its economic reforms and its current economic institutions allow any economic cooperation with South Korea. It is assumed that North Korea must reform its ideology as well as its economy at least like the People’s Republic of China or Vietnam in the first years of transformation to do so. Can we observe a gradual transition from centrally planned economy to a market economy in North Korea, somehow? In concrete, is North Korea following the Chinese or the Vietnamese model? To answer these questions, first the ideological and economic transformation process in the East Asian Communist Party dictatorships China and Vietnam will be introduced briefly as a benchmark. Then, the development of North Korean basic ideologies – Juche, Songun and Byungjin – will be analysed. As can be shown ideology in North Korea is much more crucial for the stability of the North Korean regime than for China’s or Vietnam’s Communist Party. Then, the gradual transformation process and the in reality developed economic institutions in North Korea will be examined. At all, it is to be found out if Kim Jong-un’s ideological change and his economic policy is a hope for further economic reforms in North Korea towards a functioning market economy and a basis for further economic cooperation on the Korean peninsula.

## **2 China and Vietnam as Models for North Korea**

Market economies are able to attain a higher GDP per capita by functioning market incentives and freedom of entrepreneurs and consumers. Therefore, market institutions are necessary for economic growth. Which institutions in detail, was already developed as basic theoretical approach of “*Ordnungspolitik*” by the German economist Walter Eucken (1952/90). His ideas include a regulatory framework of constituting principles like a functioning price system, monetary stability, private property, open markets and others. (Wrobel 2011: 48 - 54) Such a regulatory framework is an example for what North (1990, 3) described broadly as institutions, “the rules of the game in a society” or more formally “the humanly devised constraints that shape human interaction”. When he focussed on the structure of property rights and the presence and perfection of markets he brought Eucken’s ideas into a completed theory. Building upon, Acemoglu / Robinson (2012) introduced the idea of “inclusive institutions” as fundamental basis for economic growth. As they pointed out when markets are missing or ignored gains from trade are unexploited and resources are misallocated. Additionally, they explain why

“inclusive political institutions” give rise to economic growth, or in other words, why democratic institutions are supporting economic growth in a society. This was inspired by North et al. (2009)’s “Open Access Order” characterised by inclusiveness, equality and diversity which enables societies to flourish and prosper. Also, Western “modernization theories” like Lerner (1958) and others agree that democracy and market institutions like property rights have to be combined to foster economic growth and establish a flourishing society. This approach is also manifested in the works of Eucken (1950/90), North et al. (2009) and Acemoglu / Robinson (2012). But it is questionable if it can be applied to East Asia, too.

As the examples of China and Vietnam show also a communist party dictatorship can be combined with a market system, successfully. Of course, the result is not a “*Western Style*” market order – or a system of “*inclusive institutions*” as Acemoglu / Robinson (2012) called it – but a hybrid system of state capitalism with elements of both, market economy and socialism. As already Fukuyama (1995, 21) pointed out the main result of Western “*modernization theories*” is correct: “*Economic development tends to be followed by political liberalization.*” But if the East Asian style of democracy will be similar to the Western one is questionable. At all, it must be emphasised that these approaches are “*Eurocentric*” and may not fit to East Asia. In contrast, a “*paternalistic form of authoritarianism, which combined capitalism with an authoritarian political system*” should be more appropriate to Confucian based societies as former Singaporean prime minister Lee Kian Yee mentioned once. (Fukuyama 1995, 24) The results in China and Vietnam are impressive. While both countries remained politically as one-party-systems, they gradually transformed their economies to market economies with high growth rates in the last decades creating prosperity for a lot of their citizens.

For instance, China introduced market institutions like private property and some freedom of contract already in the late 1970s. The transformation process started with reforms of micro-management institutions like the replacement of collective farming with a household-based system and the introduction of enterprise autonomy. Later, resource allocation was reformed, too. Under the pressure of autonomous enterprises material supplies were delinked from the central plan and retail commerce was gradually deregulated. Already in 1980s Chinese enterprises were allowed to sell parts of their production at market prices. (Lin et al. 1996, 213 - 217) Step by step, markets were opened, mainly by the introduction of Special Economic Zones. Additionally, the Communist Party of China maintained fiscal and monetary stability in the country with an “*iron fist*”. On the other hand, in China a huge part of the economy remains in form of State-Owned Enterprises (SOEs) following a Central Plan and the political goals of the Communist Party. Therefore, the price system is not functioning everywhere because of several subsidies – especially to support the export industries. But at all, China shows that introduction of a few of Eucken’s principles are already pretty successful to support a gradual

transformation process while the final goal is not necessarily a functioning market order in Eucken's sense but may be a hybrid "*Socialist Market Economy*".

Also, in Vietnam the Communist Party decided in 1986 to introduce "*Doi Moi Reforms*", a set of basically gradual institutional changes quite similar to the Chinese one. First steps of reform took place in agriculture by replacing centralised management by cooperatives. Additionally, SOEs were allowed to carry on production on the market outside the limits of the plan. In 1989, subsidies were eliminated introducing a market price system. The Dong was devaluated and pegged to the USD. One year later, a legal framework for private entrepreneurs was introduced. Additional efforts to increase FDI served to introduce new technologies and skills. (Adams / Tran 2010, 178 – 179) At all, China and Vietnam introduced respective allowed at least three basic market institutions already emphasised by Eucken (1952/90) during their reforms: 1) markets and a functioning price system, 2) entrepreneurship and private property in means of production, and 3) open markets by establishment of Special Economic zones. They added macroeconomic stability, too.

In contrast to countries like South Korea, Singapore or Taiwan, both by communist parties dominated regimes had the problem to explain the obvious contradiction between well working capitalist reality and socialist ideology which is of highest relevance for the stability of the political regime. In China, the ideological basis for this transformation was given by Deng Xiaoping when he mentioned "It doesn't matter whether a cat is black or white, as long as it catches mice." This quota shows an enormous pragmatism of the Chinese economic reform policy. (Formica 2017, 19) Obviously, since the end of the 1970s China's communist party could keep the contradiction small between communist ideology and economic reality. The new economic system is officially called "Socialism with Chinese characteristics" (Zhōngguó tèshè shèhuìzhǔyì, 中国特色社会主义) or simply "Socialist Market Economy". Nowadays, the Communist Party describes the "Socialist Market Economy" in China as a "socialist economic system at the preliminary stage". (MOFCOM 2004) Therefore, "China, as a socialist country, should persist in public ownership as the base of the socialist economy" (ibid.) beside private enterprises. Additionally, social measures were supplied by the state. In this way, market incentives could be combined with state ownership and the leadership of the Communist Party. The ideological foundation of Doi Moi reforms in Vietnam is similar to China. Vietnam is "firmly holding on the socialist orientation". Therefore, the Communist Party in Vietnam calls this economic system a "socialist-oriented market economy" (Kinh tế thị trường theo định hướng xã hội chủ nghĩa) (Surhone et al. 2010) With one-party rule, strict censorship, minimal dissent and a strong top-down system of control beside its opening to the world markets especially Vietnam is a very attractive model for North Korea. What remains is the question if such a transformation

policy like in China or Vietnam is also possible in North Korea with its strong dogmatism in ideology.

### 3 North Korean Ideologies Over Time

#### 3.1 Juche – the Idea of Autarky

After World War II the Korean peninsula was divided into South and North Korea. While first was protected by the US the latter became a communist party dictatorship under the rule of the “*great leader*” Kim Il-sung. At all, the North Korean society and especially economy was organized along lines similar to all other socialist states. But Kim Il-sung further developed the basic ideas of Marxism-Leninism integrating his own ideas of Korean self-reliance, called Juche. Literally “*juche*” (주체) means “*subject*”, meaning the subject thinking and acting to master the world. (Seliger 2004, 78) For the first time Kim Il-sung used the term in 1955. Later it was translated into political practice as “*a state of mind and position of a person capable of carrying out policies by himself without outside influence*”. (Dobrzaniecki 2019, 119) Juche includes several different elements like “*jaju*” (자주), independence in politics, “*jarip*” (자립), self-sufficiency in the economy, and “*jawi*” (자위), self-reliance in national defence. Later also the principle of “*suryeong*” (수령), the leadership and the representation of the masses by a strong leader, was added. (ibid., 121)

From the first beginning, the concept of Juche was used to justify extremely high levels of central command and autarky in the economic system. As the historical experience of the Soviet Union – especially in the Stalin era – has shown in this way the use of central determined economic targets and the ideological mobilization of the labour force were possible. Also, a high level of collectivization of agriculture was a result of the Juche approach in North Korea. Later Juche ideology allowed Kim Il-sung to move away from the Soviet model in some important respects. For instance, he could defend his essentially Stalinist methods of command in the economy at a time when Khrushchev was moving in new directions within the Soviet Union itself. (McKay, 2005, p. 88) Later, in the 1960s, Juche has been interpreted as the guiding through for military self-defence and as the principle of political independence. In 1970, Juche ideology was introduced as the guiding principle of the Worker’s Party along with Marxism-Leninism, and two years later it became the leading guideline in the new communist constitution of the Democratic People’s Republic of Korea (DPRK). (Seliger 2004, 78-79) In 1992, the remaining connections to Marxism-Leninism were completely removed from the North Korean constitution and Juche became the status of a moral or religious system providing the ideological justification for the hereditary succession of power of the Kim dynasty. Therefore,



until now Juche is much more for North Korea than Maoism has ever been for the Chinese Communist Party. (Dobrzaniecki 2019, 121)

In economic terms, Juche ideology is responsible for the seclusion and autarky of the North Korean economy. North Korea tries to produce a little bit of everything it needs until nowadays. Factories and farms in the country are producing everything feasible, but nothing efficiently. Therefore, the quality of commodities is suspect and the quantity insufficient. (Brown 2018a) Additionally, North Korea maintains its “*closed door*” policy to protect the country against outside mass media as well as interaction with the outside world as extension of its information control policy. This is of highest importance for the stability of the regime. (Hong / Cho 2018, 499) According to a survey in 2016, more than the half of North Koreans are estimated to support Kim Jong-un and have pride for the Juche ideology. (Kim 2018, 25) Therefore, Juche is still basis of the North Korean regime’s policy and basis for the people’s attitude. But that makes economic reforms in north Korea already quite complicated.

### **3.2 Songun – Military First**

When Kim Jong-il took power after the dead of his charismatic father Kim Il-sung in 1994 he had to fear a coup d’état although his succession has been planned for twenty years. Therefore, so secure his position as leader of the country, Kim Jong-il prioritized the new Songun policy (actually: seongun, 선군), which means “military first”. By this way, he secured the loyalty of the military leaders while the military became the main pillar of his power. Hence, in North Korea the armed forces were even more influential than in any other socialist state in recent history. (Armstrong 2013, 115) In contrast, during Kim Jong-il’s rule the North Korean Workers’ Party became step by step less important. The last party congress before 2016 took place in 1980. Instead, the National Defence Commission and other military decision-making bodies were given priorities under Kim jong-il. (Seliger 2020, 9)

As a result, the military could establish an own economic sector within North Korea, especially in the monopoly area of foreign trade (including trade in arms and illegal goods as drugs). This economic sector existed outside the central plan. Until now, it is a completely integrated economic system, including farms and mines up to facilities to manufacture uniforms and weapons. The administrative structures, including foreign trade firms, are separated from the rest of the economy. Additionally, it has privileged access to technology and imports. (Wrobel 2007, 485) To this day, many North Korean export companies, e.g. in the fishery and seafood sector, are under the control of the military. Therefore, the foreign trade sector is highly monopolized and far away from market structures. (Seliger 2020, 8)

While in 1998 Kim Jong-il emphasized again – for a short period – the economic development as fundamental to achieve a “*strong and prosperous great nation*” (gangseong daeguk, 강성대국) (Hong / Cho 2018, 498), Songun became more important for the North Korean regime in the new millennium, again. After the Iraq War (2003 - 2011) and the US intervention in Libya (2011) the regime felt its security threatened by the US and other Western states. Therefore, it worked towards a nuclear arsenal to defend the country against US military attacks. (Hong / Cho 2018, 501) In 2003, Songun was even put on the level of Juche. The military replaced the Worker’s Party as vanguard of the revolution. (Armstrong 2013, 116) Formally, Songun was never abolished in North Korea but as official ideology it became less important. Nevertheless, the military in North Korea is still economically active in several sectors. This is quite similar to China and may be no basic hindrance of economic reforms.

### 3.3 Byungjin – the Two Pillar Policy – and its Successors

In contrast to his grandfather Kim Il-sung also Kim Jong-un cannot maintain his legitimacy only through Juche policies which were based on Kim Il-sung’s charisma. Like his father, Kim Jong-un had to find other forms of legitimation for his regime. This desperately requires a foundation as strong socialist country by a good economic development to secure the stability of the regime. (Hong / Cho 2018, 502) Therefore, in his New Year’s Address 2013 Kim Jong-un repeated his father’s idea of strong and prosperous great nation. (Han / Joo 2014, 134) Then, he announced a move to “Byungjin” Policy (actually: byeongjin, 병진) meaning “*parallel development*” or “*parallel advancement*” in March 2013. This refers to the approach of his grandfather Kim Il-sung and focusses on nuclear armament and economic development. While the nuclear armament shall defend the regime against attacks from abroad – mainly the US – economic development is of highest importance for the regime to ensure support of the local population. (Lankov 2017, 26) Officially, Byungjin was described as “*the manifestation [...] and will to complete the revolutionary cause of Juche through a path of self-reliance, military-first and socialism*”. (Han / Joo 2014, 135) That way, Kim Jong-un could integrate Juche and Songun into his Byungjin policy as predecessors. Already this shows the path dependency of all ideologies respective resulting policies in North Korea.

After stabilising his power in North Korea and the successes in the development of nuclear weapons Kim Jong-un started to focus more on the economy. As response to UN sanctions and China’s economic power the regime added also “*Chagangryeok*” (jangagryeok, 장악력) principle, the power to survive through its own efforts, to the Byungjin line, in the end of 2015. (Kim 2016, 2) When Kim Jong-un attained his goal to establish North Korea as nuclear power he could shift to start negotiations on the abolition of the UN sanctions in early 2018. (Shin /

Moon 2019, 38) Therefore, in April 2018 Kim Jong-un officially ended the Byungjin line and declared the “*final victory*” (choehu seoungni, 최후 승리) of his policy approach. Instead he emphasized his commitment to economic and scientific development. (Global Security 2018) This new ideological reversal is known as “Economy First” (gyeongje useon, 경제 우선) strategy. This can be seen as a 100 percent ideological turnaround from “Military First” to “Economy First” (Seliger 2020, 9-10), or as change of strategy within Byungjin line. However, after having achieved one pillar of the Byungjin line, the development of a nuclear programme, Kim Jong-un emphasized to accomplish the other pillar, the economic development. (Kwon 2019, 324) That gave hope that North Korea is maintaining its marketization and is following the Chinese or Vietnamese model of gradual transformation.

But after the failure of summits with US president Trump in 2018 and 2019 Kim Jong-un had to change his ideological programme, again. While North Korea – obviously – was able to build nuclear weapons, which can threaten the Western world, Kim failed in negotiating a compromise on nuclear disarmament and abolition of economic sanctions. At all, the North Korean regime is caught in a bind: Either they will abandon protection of the regime by the nuclear missiles or they have to accept the long-term maintenance of UN sanctions. Kim Jong-un reacted by announcing a “*frontal breakthrough*” (jeongmyeon dolpa, 정면돌파) in the beginning of 2020. On 1 January - instead of a New Year’s address from the leader – North Korea’s state-run “*Rodong Sinmun*” reported that Kim called upon the party to “*turn out in the offensive for [a] frontal breakthrough to foil the enemies’ sanctions and blockade by dint of self-reliance.*” Thereby, he focussed on the economic “*front*” which he described as a “*battle between self-reliance and sanctions*”. (Lee et al. 2020) This indicates that Kim Jong-un intends to maintain “*Byungjin*” policy focussing on economic and nuclear development at the same time while a recourse to Juche and Chagangryeok is also obvious. Ideologically, Kim Jong-un’s “*frontal breakthrough*” borrows from his father’s “*Defensive March of Suffering*” against the devastating famine in the 1990s. But Kim Jong-un’s approach is more future oriented and must be understood as an “*Offensive March of self-reliance based on the confidence of nuclear deterrence.*” (Koh 2020) Obviously, UN sanctions have hurt North Korea’s economy hard but the regime decided to return to Juche finding an own way out of the bind. Therefore, Kim Jong-un’s possibilities to copy the transformation path of China or Vietnam is reduced while it still leaves a window open for additional economic reforms.

## 4 The Hybrid Reality of Economic Development in North Korea

### 4.1 Economic Reform Approaches

#### Reforms on the Microeconomic Level

In the early 1990s North Korea's Public Distribution System (PDS) began to break down at the onset of famine. Several years later, the government shifted responsibility for cooperative farms to local governments. This measure induced already a modest rise in production. Therefore, the July 2002 reforms explicitly called for a continuation of the PDS and did not change anything in the agricultural sector. (Hale 2005, 836) But at the same time, the government reduced the size of work-units and granted cooperative farms the authority to establish detailed production plans. Additionally, farmers were leased land of 400 pyong (1,320 square meters) per family and given independence in production. Also, they were permitted to sell their production on private markets. The success of this measure was limited because of the small area of privately used land. (Wrobel 2007, 492) First reforms in the industrial sector were already done in 2001 by Kim Jong-il, too. Most important was the alteration of the economic management system, including the alteration of the wage structure for factory employees. Additionally, a new responsibility was placed on factory managers for paying such wages. Also, unprofitable enterprises were shut down and the number of Party officials in the factories was reduced drastically. (Wrobel 2007, 491) The North Korean government emphasized "*autonomy under central control*", while continuing the setting of production quotas and refusing to give managers the ability to hire and fire workers. On the other hand, formerly government-run restaurants and stores were transformed into in fact private entities. (Hale, 2005, p. 834)

Only, under the Byungjin line further reforms were done. On 28 June 2012, Kim jong-un announced a set of instructions for the agricultural and industrial sector (so-called "*6.28 measures*"), followed by the "*5.30 measures*" on 30 May 2014. Already the "*6.28 measures*" implied that farmers should – from now on – work in small teams of 3 to 6 persons instead of larger ones (10 – 25 members). (Hong 2018, 29) These changes enabled families to register as work team. Additionally, under the new system farmers did not receive fixed grain rations anymore but had to deliver 70 percent of their last harvest to the state while they could keep 30 percent for themselves. From 2014 on that changed to 60 respective 40 percent. These measures can be seen as a reintroduction of a traditional household-based agriculture combined with taxes. The parallels to China and Vietnam in its first reform steps are obvious. As a result, North Korean farmers can sell a huge amount of their harvest themselves on "*farmers markets*" for market prices, nowadays. But on the other hand, it must be emphasized that the collective farm units themselves were not dismantled, in contrast to China where collective

farms were abolished in 1984. (Gray / Lee 2015, 11 – 12) The real changes were not accompanied by formal rules. A private property of land was explicitly not established what is in line with the ideological approaches in North Korea and similar to the situation in China, too.

The “6.28 measures” and “5.30 measures” were also giving really great autonomy to industrial managers. Among others, they were allowed to attract private investments. (Park et al. 2018, 25) Additionally, they were given permission to buy raw material and spare parts from the market paying market prices. This is also quite similar to the first reform steps in China and Vietnam. Additionally, North Korean managers are allowed to pay their workers as much as they consider as appropriate. These “bonuses” may be far larger than basic wages. (Lankov 2017, 29) At least, compared to the token salaries of the past they are setting incentives and are opening consumption possibilities. In the commerce and service sector business participation through personal investment in the fields of transportation, stores, convenience services and restaurants were allowed. Additionally, the private investors got the autonomy to hire workers and the duty to pay 10 to 20 percent of profits to the state. (Hong 2018, 29) But these reforms actually represent acceptance of an already established practice because factories were already working outside the plan. (Gray / Lee 2015, 14) Also, these reforms in the industrial sector are quite similar to that in China or Vietnam during their early stages of gradual economic reforms, but the scope may be quite limited in comparison to those. (Ward et al. 2019, 543)

Additionally, to these reforms, a symbol of the centrally planned system was reformed, too. The “5-year National Development Strategy” substituted the regular “5-year plan” in 2016. As a result, central planning authorities in North Korea lost some importance. But market reforms remain ambiguous. At the same time a strong emphasis on localization is characterizing the Kim Jong-un era. Following “*Chagangryeok*”-first principle factories and businesses in North Korea should “*localize their raw materials, commodities, and facilities for production based on their own power, technology, and resource.*” (Hong 2018, 23 - 25) At all, already a few years ago North Korea was not more a Stalinist Central Planned economy but became a poorly developed market economy characterised by extensive government intervention and a heavy but inconsistent regulation. (Lankov 2016, 3) Therefore, Kim Jong-un was described as the “*most pro-market leader in North Korean history*” (Lankov 2017, 26). But the reform process on the microeconomic level stopped in 2016. No further reforms were done since then. Until today, North Korea developed only an economic system of informal market institutions as it usually develops during a transitional period of gradual transformation. No introduction of a legal framework for private entrepreneurs can be observed in North Korea. Therefore, in current North Korea there are growing discrepancies of the official centrally planned economy and

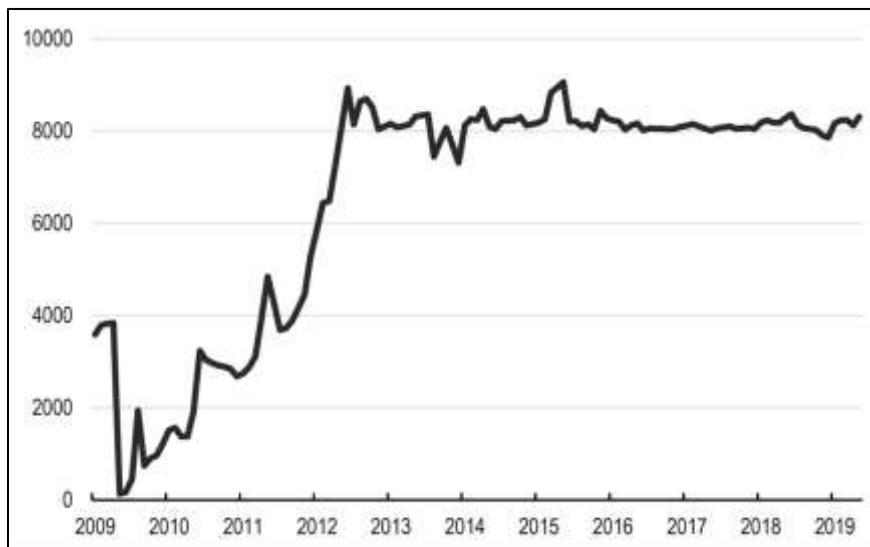
spontaneous markets. Only the first steps of Chinese and Vietnamese microeconomic reforms were copied but without further continuation and formalization.

### **Reforms on the Macroeconomic Level**

Macroeconomic reforms in North Korea show the constantly changing leadership's view of the developing private sector. Under Kim Jong-il, from the 1990s to 2001, the existence of free markets was simply ignored. The private economy was tolerated as a necessary evil. Then, in 2002 and 2003, the government's policy underwent a fundamental change starting to conduct economic reforms to stimulate the private economy. (Lankov 2016, 10) On July 1, 2002, the North Korean government raised the official price of goods it provided, including food, transportation, and electricity, to better reflect the actual cost of their production. By this way, all elements of government subsidization were eliminated. (Hale 2005, 825) But these price reforms were a case of state introduced inflation. (Wrobel 2007, 493) Therefore, these reforms were rolled back in 2004. Between 2005 and 2009 the government even took steps to undermine the private economy. This anti-market campaign culminated in the 2009 currency reform.

In December 2009 a currency reform was officially introduced to stop inflation and eliminate illegal black markets in the country. North Korean citizens were allowed to convert their old currency to the new currency during seven days at variable rates and in limited quantities. This reform caused unrest which forced the government to relax the strict limits and to offer subsidies as compensation. On the one hand, this reform can be seen as a trial to stop inflation, but on the other hand it was an attempt to reassert control over the evolving private economy, again. (Beauchamp-Mustafaga 2012, 70) Obviously, the economic processes were seen as threats to the regime stability by questioning the basic ideologies in the country. In fact, the main result of the currency reform was a rising "*dollarization*" or actually "*yuanization*", a rapid spread of the use of foreign currency – mainly Chinese RMB – in North Korea. (Kim 2020, 2) From the first beginning, the use of foreign currency was tolerated by the regime but under Kim Jong-un it was even accelerated. To stabilize the monetary system the North Korean regime decided in 2013 to peg the Won in fact at 8,000 Won to the USD. Since then, the black market exchange rate was no longer deemed illegal and became the basis for mainly all transactions in the North Korean economy. (Koen / Beom 2020, 14) This is quite similar to the Vietnamese case in the 1980s. As long as the public has the confidence that the Central Bank can support this rate with reserves in USD and RMB inflation can be kept small. (Brown 2018b, 330) To absorb this circulating currency several measures were introduced, e.g. inducing savings in foreign currency or activating the use of foreign currency-based cards. (Hong 2018, 27) At all, monetary stability could be achieved by this policy. (see fig. 1)

**Fig. 1: Market Exchange Rate, North Korean Won per USD**



Source: Koen /Beom (2020), 15.

For decades, North Korea had a single-bank system completed in 1976 with the integration of the Commercial Bank into the Central Bank of the DPRK. But in 2014, Kim Jong-un decided to separate the functions of a commercial bank from the Central Bank, again. But it is dubious if this reform is working in reality. After all experiences with monetary reforms North Koreans fear to deposit money at banks. Because most of the North Korean's incomes are officially illegal they are reluctant to disclose their property to any state agency. (Park et al. 2018, 35 - 36) On the other hand, the regime under Kim Jong-un adopted some capitalist measures to attract the private-owned funds of its citizens. First, the regime released an announcement that no one will be asked where the money is from North Korean citizens are paying in a bank account. Also, interests are paid for cash deposits. Second, electronic payment cards are increasingly common, mainly the "*Jonsong Card*" (jeonseong kadeu, 전성 카드), launched by the Central Bank itself. (Park et al. 2018, 40) The introduction of payment cards shows a further transformation of the North Korean economic system to a market-oriented consumerism.

But it is questionable if all these macro-level reforms are "*sophisticated enough to constitute a complete policy package*". (Hong 2018, 28) Although, these reforms are in line with Kim Jong-un's Byungjin policy because they offer more consumption possibilities to the growing middle class in North Korea, especially Pyongyang. But they keep still ideas like Juche in consideration. So, the whole banking sector is still under state control, the payment system is national, only. First is quite similar to China while an only national payment system does not support economic exchange with abroad. Therefore, an opening-up of the North Korean financial sector cannot be observed.

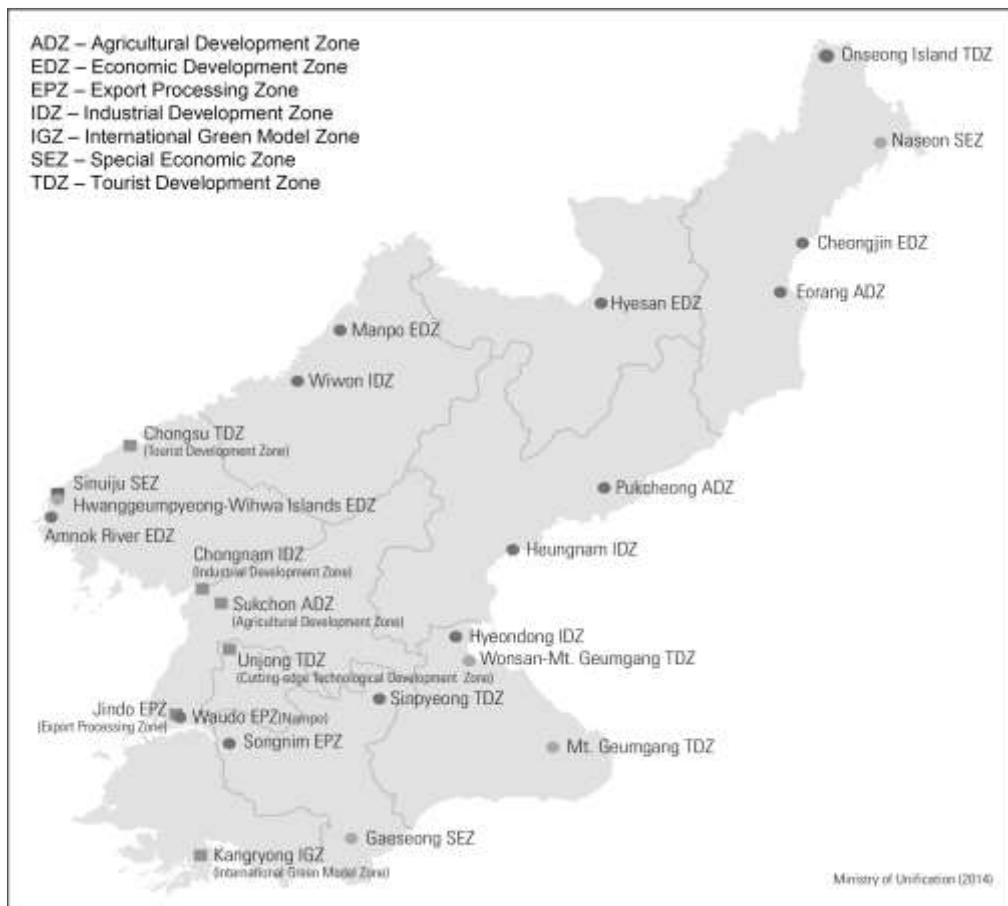
## Reforms of International Economic Relations

Like in China, the development of “*Special Economic Zones*” (SEZ) has been part of North Korea’s efforts to attract foreign capital since several decades. Already in 1984, after visits to China by Kim Il-sung, North Korea introduced a Joint Venture law apparently modelled on China’s to attract Western capital. And already in 1991, a first SEZ has been established in the Rajin-Sonbong (라진선봉) area – briefly called “*Rason*” – within the so called “*Golden Triangle*” between Korea, China and Russia. (Wrobel 2007, 488) That was North Korea’s first attempt to copy the Chinese reforms of foreign trade relations. (Gray / Lee 2015, 6) During “*Sunshine Policy*”, the political rapprochement between North and South Korea in the beginning of the new millennium, the focus shifted more to the by South Korea financed SEZs in Kaesong (개성) and in Kumgangsan (금강산). While South Korea established an Industrial Complex in Kaesong with several South Korean firms investing here and creating jobs for North Korean workers the SEZ in Kumgangsan remained a Tourism Zone for South Korean tourists, only. (Wrobel 2014, 128) After several quarrels between both Koreas both SEZs were closed in 2005 respective 2016. (Koen / Beom 2020, 23)

After Kim Jong-un took power in North Korea the development of new forms of SEZs was pushed forward. The new “*Economic Development Zones*” shall be small-sized specialized economic zones, promoted and constructed under the leadership of local governments with possibilities for North Korean enterprises to participate. As of the end of 2015 already 21 Economic Development Zones were established. (Hong 2018, 48) Main goal was to attract investments by Chinese entrepreneurs. But the development of these SEZs is very limited. A main handicap are UN sanctions since 2006 which were tightened with a resolution of the Security Council in 2017 for the last time. (Koen / Beom 2020, 21 - 28) These sanctions include all kinds of an arms embargo, a ban on certain financial transactions and technical training etc., a freeze of funds and other financial assets, a luxury good embargo, and an explicit textile, seafood and fuel ban. Additional sectoral sanctions forbid North Korea to sell coal, iron, other metals, food and agricultural products, machinery and electrical equipment etc. Also, North Koreans are not allowed to work abroad. According to SEZs the resolution prohibits explicitly “*the opening, maintenance, and operation of all joint ventures or cooperative entities, new and existing, with DPRK entities or individuals*”. (Security Council Committee 2018, 10) Therefore, with sanctions getting stronger, the North Korean authorities started to emphasize the “*Chagangryeok*”-first principle, again. As a result, the drive to develop the new established SEZs is declining. (Hong 2018, 48)



**Fig. 2: Economic Development Zones in North Korea (2014)**



Source: Ministry of Land, Infrastructure and Transport (2014) *The National Atlas of Korea*, 50.

But also without UN sanctions the progress of North Korea's SEZs would be limited because of a lack of willingness of foreign investors to spend money for projects in a country considered as instable political area. Additionally, the risk of re-nationalization of private investments in North Korea is still high. (Lankov 2017, 30) A very good example is the nationalization of the Kaesong Industrial Complex in 2016. A further example is Orascom, an Egyptian enterprise building up a network for mobile phones in North Korea. (Lankov 2017, 30) While sanctions can be seen as main reason for a lack of openness of the North Korean economy, also internal factors play an important role. The lack of international trust in North Korea's economic and military policy hinders an opening of the country like China or Vietnam decades before. But also Juche ideology or the "*Changangryeok*"-first principle are obstructing all attempts in the country to open its economy. At all, the North Korean reform attempts under the Byungjin line to open the country to foreign investors as well as clients are limited compared to the reforms in China or Vietnam decades ago.

## 4.2 Resulting private market institutions

### Marketization: private markets without legal framework

While Juche, Songun and Byungjin are still the basic official ideologies in North Korea and economic reforms are quite limited it must be stated clearly that the country's economy is already a hybrid system consisting of elements from the orthodox Soviet-style centrally planned economy with certain Asian characteristics on the one hand and market structures on the other hand. The development to this hybrid structure can be shown by the origin of the farmer's markets (jangmadang, 장마당), actually "*market grounds*".

When the public distribution system collapsed in the beginning 1990s and the people suffered from a huge famine local markets developed spontaneously to supply the majority of population with food. First, private markets were tolerated under Kim Jong-il until he decided for anti-market policies again, culminating in the 2009 currency reforms. (Lankov 2017, 29) But in 2010, the markets in North Korea had to be restored, again. (Kim 2018, 6) Later, these markets became more organized as "*general markets*". As a result, the number of markets has grown within the last years. While in 2010 only about 200 general markets operated in North Korea, after Kim Jong-un's takeover of power the number increased enormously. In 2016 about 400 markets were estimated to be active. And as of early 2019, some 500 general markets were in operation across the country. These general markets are housed in permanent buildings and can be identified by satellite images. (Koen / Beom 2020, 29 - 30) It is assumed that about 85 percent of consumer goods supplied on the markets have their origin in China. Because these markets are regulated and taxed, additionally, so called "*frog markets*" developed where traders carried their goods in suitcases disappearing immediately when police shows up. (Seliger 2020, 5) Here, shoppers are also able to purchase rice which is actually prohibited to be sold in the general markets. (Xiang 2019, 1764) Nowadays, all these markets are of highest importance for the supply of goods in North Korea. Kim Jong-un in particular changed the regulation of the jangmadang. While in the past a direct regulation was usual nowadays the focus is more on regulation on tax revenues through stall fees. (Kim 2018, 6) The results of reforms in the agricultural sector and the rise of private markets are obvious. The improvement of North Korean food supply was remarkable. This was not only benefitting privileged inhabitants but also the poorest farmers in the countryside. For several years, famine was not more a part of daily life in North Korea. (Lankow 2017, 31)

Also, an unofficial labour market developed in North Korea during the last years. Actually, every citizen with exception of students, soldiers and seniors is assigned to a workplace by the government and required to work there. (Park et al. 2018, 29) But the development of private markets and entrepreneurs who are running private businesses (see next chapter) led to a

rising demand for labour force in the North Korean private sector, too. On the other hand, in some SOEs fewer than 50 percent of employees have real work to do. Therefore, some employers exempt workers from going to work and social mobilization in exchange for a set monthly payment to the factories. These workers are known as “8.3 workers”. This name originated from Kim Il-sung’s announcement dated 3 August 1984. It encouraged the production of consumer goods “*using by-products and waste in a self-reliant way*”. (Kim 2010, 29) The absent workers earn money in the private sector, maintaining their factory employee status. The advantage for the public companies is a financial support for government contributions or social mobilization tasks. (Park et al. 2018, 27 – 28) In this way, a hybrid labour market developed in North Korea consisting of a centrally planned working schedule for every citizen on the one hand, and an absolute free “*hired and fired*” labour market in the private sector. Because of the macroeconomic reforms both labour markets are disintegrating more and more. The huge gap between official and market exchange rate of the North Korean Won destroys the last incentives to work in the official sector. There, wages are mostly paid in North Korean Won and only equivalent to a few USD a month at the market exchange rate, even if they give access to goods and services at state prices as well as social benefits. Instead, incentives are high to use the workplace property for private purposes or to undertake other jobs on the side, paid in hard currency. (Koen / Beom 2020, 15)

While the number of jangmadang is rising and an unofficial labour market is developing due to the nature of the North Korean ideology as self-reliant socialist state official markets are impossible to be formed. Additionally, markets are a place where North Koreans can learn about market economy and capitalism. Therefore, for the regime all markets are a potential threat which can change the consciousness and ideological framework of the people. (Kim 2018, 6) On the other hand, if Kim Jong-un is able to accompany the process of marketization by some successful reforms he can enhance his legitimacy and consolidate his power. (Hanssen / Song 2019, 4) But marketization did not yet lead to further systemic transformations because it was not accompanied by economic liberalization and opening to the world. (Kim 2018, 9) In contrast, marketization in North Korea remains in its first stage. A legal framework for private markets is still missing in the country.

### **Privatization: Entrepreneurs without private property**

Hybrid institutions can also be found in the North Korean service sector as well as in the consumer goods industry. The reason is a “*cold privatization*” of means of production which is also well known from the wild phase of privatization in other socialist countries. In North Korea the private use of military trucks for transportation services or the unofficial use of machines of SOEs for the production of consumer goods sold on the private markets are good examples.

(Seliger 2020, 6) While private ownership of cars is somehow allowed in North Korea, it is subject to many restrictions. Therefore, most North Koreans prefer to register their private cars as the property of government agencies. (Lankov 2016, 12)

Like in other transformation countries of the past also in North Korea the former nomenclature is in charge of the new market economy. In North Korea they are called donju (돈주), literally “*money masters*”, which means all people with capital to invest. Generally, they cannot be understood as opponents of the regime because they are rather identical or at least closed to them. Therefore, the new private sector is dominated by people from the worker’s party, the military, and the security services, either in form of personal identity or at least by bribery. Their activities are focussing mainly on the liberalized service sector like restaurants, transportation or private education, e.g. language teaching. (Seliger 2020, 6-7) Nowadays, about 200,000 private entrepreneurs are expected to conduct businesses in North Korea. (Lee 2019, 121)

Private money is also required by the state in the construction sector. For instance, Kim Jong-un is encouraging SOEs to search for private investors supplying private capital. Additionally, newly-build houses in Pyongyang are sold to the highest bidders, with money from the sales paying back to the private investors who supported the projects. The results are visible. Beside the new houses where apartments are sold for USD 100,000 and more expensive boutiques are opened in Pyongyang. (Lankov 2017, 30 – 31) But the lack of formal market institutions is obvious in this sector, too. Still, private home ownership is officially prohibited in North Korea, even though this prohibition has not been enforced during the last two decades. Additionally, because of the absence of a functioning banking system, real estate investments are a favourite way of private entrepreneurs to maintain their savings. (Hong 2018, 35)

Foreign trade is another business activity for the donju. Although the state has an official monopoly on foreign trade, already in the late 1990s several more or less private trade firms came into existence. First of all, fish and seafood became the most important export products in the last 30 years. Production and export of these goods can be described as “*private-public-partnership*”. While most fishing vessels have private owners (although they are registered as the property of a fishing cooperative) the export of pollock and squid is managed by a foreign trade firm established by a government agency. Because the last needs some hard currency to pay the fishermen they have to line up private investors, who are usually hired officially to work for the agency. (Lankov 2016, 9) Of course, these activities are made more difficult by the UN sanctions which are focussing on seafood in concrete, for instance.

Nowadays, a fusion of the private and the state sector in North Korea is visible. State-run companies are interacting with the private sector frequently. While they sell their products to

semi-legal enterprises, they buy raw materials and spare parts from them. This includes benefits for both sides. For SOEs it is a way to raise funds and make profits, for the donju it provides a quite safe way to run their own businesses. (Lankov 2016, 11) But at the same time, the North Korean regime still prohibits all citizens from owning private property and means of production. (Koen / Beom 2020, 32) A conflict between real economic needs and the ideological fundament of the North Korean society must be seen as main reason. While banning individuals from owning means of production is a key element of the country's socialist planned economy and its basic ideologies, marketization in a necessary evil to survive. Here one can observe a fundamental difference to China and Vietnam which were much more pragmatic in this case.

Additionally, capital accumulation and transfer are growing problems for the evolving private as well as for the semi-private and liberalized state firms in North Korea. For instance, state-run firms borrow money from the private entrepreneurs because bank loans are almost impossible to obtain. (Lankov 2016, 11) But added to services in currency exchange and loans a private financial system has developed in North Korea – beside the Central Bank and its branches. A quite evenly-developed inter-regional network of local marketplaces allows money transfer anywhere in the country. Each region now has so-called “*mulju*” (물주), trade masters, who also offer banking services. The result is an unofficial inter-regional remittance system within the country as well as across the Chinese border. Actually, the system originated from an unofficial trade settlement system between North Korea and China. It allows businessmen to order products simply by phone call having their orders delivered – not only within North Korea but worldwide. In the last decades a three-way settlement system among North Korea, China and a third-party country developed. The transfer system is quite similar to other remittance systems through unofficial mediators, such as the Arabic “*hawala*” (حوالة). The only difference to the hawala system in Islamic countries is that the money passes through China and North Korean businessmen get the money in foreign currency instead of the local one. (Park et al. 2018, 37 – 38)

At all, donju's influence in the North Korean economy is rising since Kim Jong-un took power, at least since 2014 when he legalised some types of private investments. (Park et al. 2018, 29) Therefore, the donju's economic activities will continue. It may happen that the management reforms lead to permitting the establishment of private companies. That would be a legalization of the de facto privatization of means of production. If realized by the regime, it will be a significant change in North Korea's economic system. (Hong 2018, 28) But a further fundamental shift of ideology would be necessary to implement such reforms, indeed.

## 5 Conclusion

In fact, the private sector in North Korea could be estimated to account for 30 to 50 percent of the country's GDP several years ago. (Lankov 2016, 3) Basis are some microeconomic reforms in the agricultural sector and in the management of SOEs from the first years of Kim Jong-un's rule (2012 – 2014). But the resulting market institutions – *jangmadang* (markets) and *donju* (entrepreneurs) - are only the result of a spontaneous development, not of an active reform process initiated by the regime. Therefore, formal institutions like private property rights are not yet established in the country. Main obstacles for further reforms are the importance of strict ideologies like *Juche* for the regime stability, a lack of ideological pragmatism and the UN sanctions. Especially, as Kong (2014, 73) already pointed out; the risk aversion of the North Korean regime permits only an ultra-cautious reform strategy. The effects of the ideological underpinning of the system include an "*excessive restriction of the development of grassroots capitalism; entrenchment of the wasteful economics of militarization and the perpetuation of international isolation*". (ibid.) Following this interpretation, North Korea tries only a "*systemic adjustment*" by adopting partial reforms – mainly consisting of informal institutions – to fix immediate economic problems.

On the other hand, it can be argued that in North Korea evolved something like a "*mixed economy of an unusual sort*" (Ward et al. 2019, 533). The real existing informal institutions can be interpreted as first step of an evolving "*capitalism from below*" where capitalism grows out of the plan alongside the state sector in special industries opened up to start-ups run by private individuals. (Naughton 1995, 8 – 13) Some observers already stated that North Korea is implementing the same reforms like China in the late 1970s or early 1980s. For instance, Lankov (2017, 27) sees "*striking similarities*" between Kim Jong-un's *Byungjin* policy and the reform policy of the Deng Xiao-ping era from 1978 to 1989. But if in North Korea emerged a "*developmental dictatorship*" as he (2017, 26) proposed is questionable. While Kim Jong-un sees the success of reforming communist countries like China and Vietnam and knows that his regime cannot survive in the long run without economic success, he must be aware of ending like the sorry fates of Ceausescu and Ghaddafi.

Additionally, in North Korea ideology had – and still has – almost religious function. Since the outbreak of the corona virus pandemic in 2020 the ideological underpinning in North Korea changed again. North Korean peoples' economic activities are shrinking, even the size of smuggling through illegal markets are reduced. These changes hit hard the new class of *donju* as well as the political elite in Pyongyang. (Cho 2020, 4) As a result, Kim Jong-un's political position became more difficult. That seems to be the beginning of a huge backward step for economic reforms. For instance, during the annual session of the North Korean parliament,

the Supreme People's Assembly, on January 17, 2021, self-reliance, self-sufficiency and import substitution were mentioned again as key economic policies in the country. Additionally, the prime minister stressed "*the need to restore the state's control in the economy*". And a "*return to central planning*" instead of decentralization was announced. (Frank 2021) In other words, Juche seems to be back as key approach of North Korea's economic policy. Therefore, it must be expected that the reform process in North Korea under Kim Jong-un will remain moderate or – as these announcements show – will be even driven back. At all, Kim Jong-un is trapped between short-term regime stability and nuclear armament on the one hand and economic reforms bringing some regime stability in the long term. Economic cooperation on the Korean peninsula is therefore only a long-term prospect.

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