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Markets in North Korea I: Development, structure, and changes

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Dialogue on the North Korean Economy

May 2022



Markets in North Korea I :
Development, Structure, and Changes

—

Moon-Soo Yang

Dialogue on the North Korean Economy

Markets in North Korea I : Development, Structure, and Changes

Over the past three decades, North Korea has experienced a period of economic change, most notably in the development of the market. North Korea maintains that it operates a tightly controlled planned economy, the elements of which are poorly understood by the international community. Currently, the economic system is supported by informal market activities that are the main source of income for the majority of ordinary economic players. Accordingly, economic researchers around the world have pivoted their focus toward the market activities in North Korea.

In this issue of Dialogue, the KDI Office of North Korean Economic Studies invited Professor Moon-Soo Yang to share his knowledge on the basic elements of the North Korean market, directing particular attention to its unique development, structure, and recent changes. Professor Moon-Soo Yang is a leading researcher at the University of North Korean Studies, whose career has consistently dedicated focus to rigorous investigation and understanding of the North Korean market.

With this discussion, we endeavor to provide the readers with the unique opportunity to expand their primary understanding of the markets in North Korea.

Dialogue on the North Korea Economy

 Date and Venue

The Plaza Hotel, Friday, October 15, 2020

 Interviewer

Lee, Suk (Senior Fellow at KDI)

—

Interviewee

Yang, Moon-Soo
(Professor at the University of North
Korean Studies)

KDI's *Dialogue on the North Korean Economy* is a monthly series that features interviews with the foremost experts on North Korea. The first publication was released in March 2021 in connection with the *KDI Review of the North Korean Economy*. Each edition tackles a different facet of the North Korean economy, and offers valuable insight into prominent issues and aspects.

The views and opinions expressed by the contributors are their own, and do not reflect the official views and position of KDI.

— KDI Review of the North Korean Economy Board of Editors

Markets in North Korea I : Development, Structure, and Changes

In today's Dialogue, we will discuss one of the most compelling elements of the North Korean economy—its markets. Prior to the 1990s, the North Korean economy was a clear example of a centrally planned system, with a rigid command structure in full operation within government. While North Korea argues that it has officially maintained this economic system, it is apparent to experts worldwide that the regime has failed to maintain the characteristics of a planned system as a whole. The inconsistencies between the government position and functioning of the economy are clearly demonstrated by the fact that the majority of North Korean people are supporting themselves not via the centrally planned system; instead depending on the informal market system, with the authorities increasingly adopting the same dependence. Consequently, understanding the markets has become a major topic for researchers investigating the North Korean economy.

In this article, Professor Moon-Soo Yang of the University of North Korean Studies joins us as the pre-eminent expert on North Korean markets. Our discussion will take place in two parts—first, the development, basic structure and existing knowledge on the current functioning of North Korean markets will be discussed. In the second part, attention will be devoted to more specific characteristics, such as the size, composition and value of the market. Together, these discussions will provide an overview of the creation and development of North Korea's markets, from its basic structure and functions to its effects on the overall North Korean economy.



Development of Markets in North Korea before the 1990s

Lee, Suk Q.

We will begin with a discussion of the development of the markets in North Korea prior to the 1990s. In the international community today, it is generally believed that North Korean markets have undergone a significant period of development since the 1990s. Informal economic sectors appear to have thrived in other socialist countries before the 1990s while in North Korea, it appears to have had almost no informal economic sector during this time, with the exception of farmers markets. To your knowledge was this the case? And if yes, can you elaborate on why this situation occurred. Are you aware of any form of “informal economic activity” in North Korea before the 1990s?

Yang, Moon-Soo

Before diving into the topic, I would like to make clear the concept of the “market,” as it is used in economics, political science and sociology. The definition of the market varies not only across disciplines but also across different fields of research within the same discipline. Such variety is fine. For the purposes of this discussion, however, it should be made clear that the market exists as a physical place in one sense, while in another sense, it is a system, and the latter is significantly more important. From the perspective of the market as a system, marketization means the introduction and expansion of the market mechanism. As a researcher who studies the North Korean economy, it is useful to define the market or market economy in terms of how it differs from the planned economy.

Consequently, the most useful definition of marketization comes from classical economics. The mechanism of marketization is one in which price is determined by supply and demand, and price influences the manner in which households, businesses, and other economic units make decisions on activities such as spending and investment. This process subsequently controls the distribution of resources on the macroeconomic level. At the center of this mechanism is the price, with market price being of particular importance.

The term marketization is often used to explain what has occurred in the North Korean economy from the 1990s. In contrast, it is not generally used when discussing the economies of other socialist countries. When discussing shifts from classical socialism to reformist socialism and then to regime transformation within other socialist economies, other terms are used, such as reform and opening, regime transformation, or regime transition. In addition, the term marketization is sometimes used to describe what is essentially reform or regime transition either fully or in part. Yet, when it comes to North Korea, marketization and economic reform are treated as if they are two separate concepts.

Why would they be treated so? One plausible answer is that the term *marketization* conjures an image of a bottom-up process that is unrelated or opposed

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The term marketization is often used to explain what has occurred in the North Korean economy from the 1990s.

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to government policy, while the term *reform* is usually taken as a policy implemented by the government itself. Another explanation is that when the phenomenon of marketization began in North Korea, it mostly referred to the real-world changes driven by the behaviors of individual economic players, irrespective of policy.

Regardless of these definitions, I believe government policy has played a critical role in the expansion of marketization following the initial stage, especially the introduction of the July 1st Economic Management Improvement Measures in the Kim Jong-Il era and the Our Style Economic Management System in the Kim Jong-Un era. In other words, marketization in North Korea has been driven from the bottom up and the top down in parallel. This is why the two phenomena, marketization and economic reform, increasingly share more features in the Kim Jong-Un era. A key element of the reform was the introduction of the market mechanism and as such, marketization and reform are two sides of the same coin. From a broader perspective, therefore, marketization in North Korea constitutes a North Korean style economic reform.

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Marketization in North Korea has been driven from the bottom up and the top down in parallel.

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Based on this premise, marketization in North Korea before the 1990s was mostly the unofficial or illegal exchange of goods at prices that deviated from state-set prices. For example, when travelling in North Korea, ethnic Koreans living in Japan or China would sell goods to North Korean people. Transactions of this kind were not part of the official economic system, and thus, were conducted at effective market prices rather than state-set prices.

One main exception exists; North Korea has officially maintained farmers markets since the late 1950s. These markets were created for farmers to sell produce



grown in kitchen gardens allowing them to supplement their income. The markets are operational every ten days, and trade is conducted using market prices. Farmers markets are a government-authorized legal market.

In addition to government authorized market activities, unofficial economic activities were conducted in North Korea by enterprises before the 1990s. Despite the lack of necessary resources due to the economic difficulties from the late 1970s, enterprises were obliged to meet goals set by the planning authorities. Thus began a period in which enterprises would secure necessary resources through unofficial methods, such as the exchange of goods with other enterprises. These informal activities conducted by individuals and enterprises demonstrate that marketization was indeed a practice in North Korea prior to the economic crisis of the 1990s. It was, however, minor in scale, and its share and status in the total economy was limited.

A policy related to marketization was introduced in 1984. The policy, named the “August 3rd People’s Consumer Goods Production Campaign,” was arguably the first reform policy in North Korea related to the market. The policy was intended to allow factories to sell goods they produced at market prices, under the condition that no raw materials and labor intended for use in the planned system were used in the production of these goods.

Although the term *market* was not used anywhere in this policy, the creation of a market system was effectively authorized with some limitations. Interestingly, the term “market price,” was replaced with “agreed” or “negotiated” price, while the concept of “market transaction” was referred to as “out-of-plan production and distribution.” Out-of-plan production refers to the production of goods with resources and labor not intended for use in

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state-planned activities and out-of-plan distribution describes the distribution of these goods via channels external to those used for goods produced within the state plan. Resources and labor external to the state plan thus refer to those obtained at market prices, and channels external to the state plan are those subject to market prices. With the introduction of this policy, North Korea essentially used a primitive measure of reform to legalize entrepreneurial activities based on market principles, albeit with limitations.

Thank you for the detailed explanation. In summary, you first explained the significance of markets in North Korea, and the possibility that, prior to 1990, North Korea experienced marketization or a move toward a market economy to some degree. You also pointed to the possibility that the initial move led to the introduction or institutionalization of the price mechanism, also referred to as an “economic reform of the North Korean style.” Markets appeared prior to the economic crisis in the 1990s, but the scope was very limited.

You briefly mentioned the August 3rd campaign, the introduction of which is an important event in the development of North Korean markets, especially considering there has been no effort to introduce similar campaigns in other socialist countries. Can you please elaborate on this campaign?

The campaign was launched on August 3rd, 1984, by directive from the former leader Kim Jong-Il. At that time, North Korea began to suffer from a shortage of daily necessities, and the regime required a solution that would allow for the production of more consumer goods to meet demand. However, it was hesitant to modify the traditional policy, which prioritized heavy industry. Finally it was decided that North Korean people or “individual economic units” would be allowed to conduct economic activities outside of state planned activities, thus exercising the self-sufficiency principle.

The campaign was based on the idea that factories would be permitted to utilize by-products and waste materials from their state-plan production processes, along with extra resources and materials gathered at the local level, to produce daily necessities.

Thus, production units could be established within factories or groups of families to produce basic necessities. To comply with the regulations of the campaign, the units were required to produce consumer goods without any assistance from the government, this included raw materials, equipment, and labor. This emphasis on self-sufficiency or self-support, which encourages out-of-plan economic activities by enterprises and local authorities, characterizes the campaign.

The campaign required the creation of a new space, separate from state-run stores, to directly sell goods produced outside the state plan to consumers. Direct-

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The introduction of the market mechanism in the so-called “out-of-plan” sectors is one of the most prominent characteristics of the North Korean style of economic reform.

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to-consumer stores were introduced, where goods produced by enterprises and local authorities were sold at so-called “agreed” or “negotiated” prices, which were in effect the market price. Hy-Sang Lee (1992) noted the novelty of the August 3rd campaign, describing the creation of these stores as the introduction of the marketplace, and the subsequent use of the agreed price as the introduction of the market price. The campaign was the beginning of North Korea’s economic reform, given that the use of marketplaces and market prices were first approved for goods produced under the campaign, and separate to those sold in farmers markets. The introduction of the market mechanism in the so-called “out-of-plan” sectors is one of the most prominent characteristics of the North Korean style of economic reform.

Thank you for the insight into the August 3rd production campaign. Due to this campaign, markets were operating to a limited degree prior to the economic crisis in the 1990s. The campaign was an attempt to introduce the concept of market prices, without going so far as to introduce the liberalization of prices.

Changes in North Korea's Markets after the Economic Crisis

As you mentioned, opinions are divided over whether marketization in North Korea was from the top down or bottom up. Most believe that under the economic difficulties of the crisis, North Koreans increased their out-of-plan economic activities, resulting in the development of markets. Can you describe this process?

It is generally believed that market activities began in close association with the economic crisis in the 1990s. Is it known who led the formation and development of markets after the early 1990s; and if so, how was this achieved and by what motivations? Can you also provide insight into the response of the authorities to the development of the market?

In the early 1990s, socialist states fell one by one, sending shockwaves throughout the North Korean economy. According to estimates by the Bank of Korea, North Korea subsequently recorded negative growth for nine consecutive years. The centrally planned economy almost came to a halt, state-owned stores ran out of stock, and the population suffered a severe shortage of basic necessities. Most devastating to the people was the shortage of food. From the early 1990s, food rations were drastically reduced or delayed, before becoming almost totally depleted in 1994. In response, North Koreans began selling their clothing, furniture and household items in order to purchase food, with some also selling agricultural produce or livestock. Those with nothing to sell resorted to stealing items to sell. Theft was widespread in the formal sector of the economy. Raw materials and products were stolen from factories, mines, and farms; imported goods were

stolen from trading companies; and foreign goods stolen from aid programs funded by international organizations.

Following the gradual collapse of the rationing system in the early 1990s, the North Korean government enforced a principle of self-sufficiency whereby institutions, enterprises, and local authorities were required to secure food, daily necessities and raw materials necessary to support their dependents. Prior to the economic crisis, this was the responsibility of the central government under the planned system, however due to severe financial constraints and lack of resources, the responsibility was transferred to individual agencies, enterprises, and local organizations.

The monopolization of external trade by government is a common feature of socialist states, and North



Korea was no exception. At the end of 1991, however, there was a notable institutional change: the introduction of the so-called “new trading system.” The government had loosened its monopolistic control on trade and sought decentralization in the 1970s-1980s to a limited degree. In 1991, it began to implement large-scale decentralization in response to the economic crisis, granting government ministries, committees, and local authorities the responsible for production with foreign trade mandates. From this point forward, there were two forms of external trade in North Korea: state-level trade and local-level trade. Following the provision of mandates, the central government increased pressure on institutions and local authorities to exercise the self-sufficiency principle, and expected them to import food, daily necessities and raw materials necessary for production using foreign currency earned through exports. The self-sufficiency principle in combination with the foreign trade mandate provided a boost to economic activities in the market.

Trading companies played a critical role in the expansion of marketization in North Korea. This was mainly due to their designation as *ssalsiri* or “rice carrier,” a move that triggered an acceleration of marketization while at the same time elevating the status of trading companies. With the collapse of the rationing system and introduction of the self-sufficiency principle, trading companies associated

with an institution or local authority were vital for the import of food and resources. It is known that around this time, trading companies began selling imported rice in markets known as *jangmadangs*, with implicit approval from the central government.

This practice appears to have begun in 1994/1995 when the period of mass starvation and economic crisis known as the Arduous March was still underway. Therefore, it occurred before trading companies were given the right to sell imported goods to ordinary citizens, in line with the July 1st measures of 2002. It should be emphasized that, according to the new trading system established in 1991, trading companies were permitted to import food, daily necessities, and resources solely to support their own activities. For example, a trading company with ties to the ministry associated with machine-building was permitted to export goods in exchange for foreign currency, which could then be used solely to import resources for the ministry and food for those dependent on the ministry. Once allowed to engage in trading for domestic consumption, however, companies began to import goods not only for official purposes, but also to sell at *jangmadangs*. Against the backdrop of severe shortages of food and daily necessities, the sale of imported goods was highly lucrative for trading companies. Thus, *jangmadangs* became flooded with rice and other goods, primarily imported from China.

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Trading companies played a critical role in the expansion of marketization in North Korea.

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The import and sale of Chinese goods was primarily a benefit for *donjus* or “money lords.” In the early days of marketization, these individuals accumulated their wealth through illegal external trade. In North Korea, trade is conducted under a license system, whereby trading companies are solely eligible for the license to trade. *Donjus* took part in trading through unofficial channels including smuggling or borrowing the names of licensed trading companies.

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The majority of discussions on marketization in North Korea tend focus on one of two perspectives: the first describes marketization as a bottom-up process while the second describes it as a top-down process.

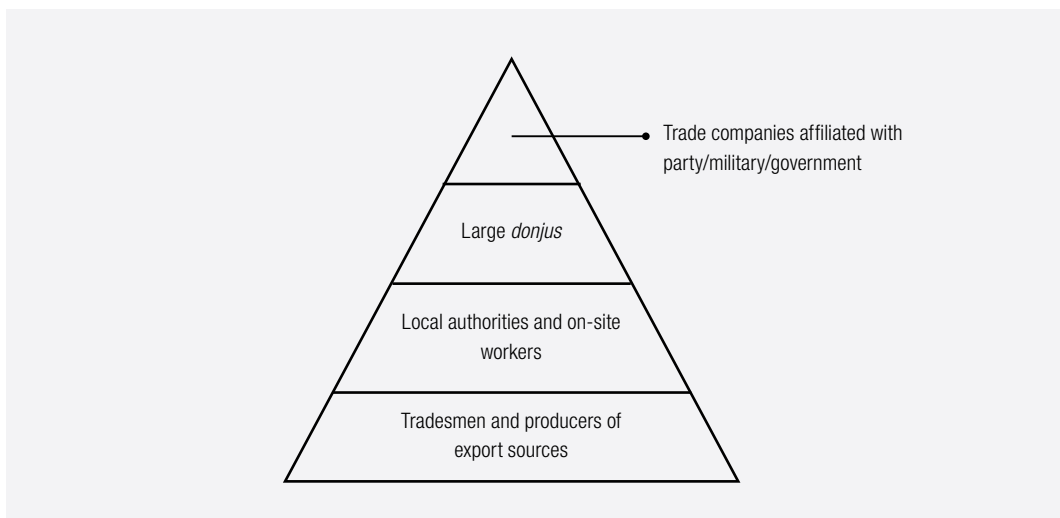
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The majority of discussions on marketization in North Korea tend focus on one of two perspectives: the first describes marketization as a bottom-up process while the second describes it as a top-down process. To gain a deeper understanding of

the phenomenon, we first need to understand the role of trading companies. Usually, marketization is accompanied by a growth in production capacity. In the case of North Korea, it was primarily driven by an increase in distribution capacity, particularly in relation to trade with China. This was partially due to the fact that the domestic production base was crippled at this time—a unique feature of marketization in North Korea.

Thank you for providing a vivid illustration of the development of marketization in North Korea around the time of the economic crisis in the 1990s. As many have pointed out, the weaknesses in the planned economic system resulted in the suspension of rationing, disruption to supply chains, and food shortages that threatened the livelihood of ordinary people. In turn, these events cleared the way for marketization.

Figure 1 | Hierarchy of Marketization in North Korea



Source: Yang, Moon-Soo (2018) and Hong, Min *et al.* (2018).

You have described two mechanisms of marketization that occurred during this time. The first was driven by the self-rescue or “bottom-up” efforts of the North Korean people, who raised livestock and grew plants to sell, or sold furniture and goods they owned or had stolen from the workplace. The second mechanism was driven by the self-reliance principle that was introduced as part of a new trading system designed to overcome the rationing issues in the early 1990s. By this mechanism, local authorities and enterprises were allowed to conduct economic activities and use the profits from these activities for the provision of food and basic necessities. You have explained that it is unclear whether trading companies or *donjuls* contributed most significantly to the establishment of these mechanisms, and thus, more research needs to be done.



Despite speculations of the imminent fall of North Korea following the Arduous March, Pyongyang remained relatively silent for several years. However, in 2002, the North Korean government surprised the world by introducing the July 1st Economic Management Improvement Measures. The introduction triggered a series of major changes in the North Korean market. The launch of the July 1st Measures is considered a vital step in the development of the market in North Korea. Can you elaborate on the July 1st Measures? What drove North Korea to introduce them? And finally, what were the consequences of these measures, especially for the North Korean market?

Following the inauguration of Kim Jong-Il in 1998, North Korea began overhauling its economy. From the end of December 2001, there were a series of major reform measures introduced, including those announced on July 1st 2002. Measures included the establishment of a socialist goods exchange market—a type of producers market—and the increase of state-set prices and exchange rates to closely reflect those at the market level. In addition, enterprises were given increased autonomy and the tax system was reformed. In March 2003, North Korea officially launched the general market—a type of consumer market.

Unfortunately, the measures failed to achieve the intended goals. In addition to the July 1st measures and reform efforts, North Korea attempted to attract foreign capital from a number of countries by hosting a summit meeting with Japan in the latter half of 2002, pursuing nuclear talks with the US, and enacting laws on Mt. Geumgang and the Gaeseong Industrial Complex in a bid to attract capital inflows from South Korea, the US, and Japan. During this time, the government also established the Sinuiju Special Administrative

Region. While the sequence in which the measures were introduced made little economic sense, the steps themselves were a clear sign of the North's intention to pursue reform and the re-opening of the economy simultaneously. Attempts, however, to build economic relations with the US and Japan did not proceed as planned, and the expected investments failed to materialize; leaving only a set of aimless reform measures in place. In particular, the marked increase in prices to match market prices (reform measure) was not supported by an expansion in supply which, in turn, triggered inflation and did little to improve productivity.

North Korea's market policy following the July 1st measures is slightly confusing. Some researchers refer to it as a containment policy, while others view it as tacit tolerance of market activities. Some experts argue that the measures were meaningful in that they narrowed the gap between state-set prices and market prices, while also defining the term "market activity" for North Korea. Conversely, some also believe the measures were not to promote the market, but to regulate it. What is your opinion of these conflicting views? Why is there such a division among experts? What effects do you think these policies had on the North Korean market?

North Korea's market policy following the July 1st measures reflected its bipartite attitude toward the market. In many ways, the market was recognized but in other ways rejected by a government who was at times willing to move forward economically, but at others determined to stay the same. While the launch of the socialist goods exchange market by the leadership was considered a meaningful step in the process of marketization, researchers who study the North Korean market emphasize the significance

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of the official approval of general markets, the first consumer market for the country. This landmark decision was effective in officially regulating the farmers market which had grown into an extensive black market, facilitating the trade of food, an activity that had been previously forbidden.

The official approval of the general market prompted much change, including a significant rise in the number of participants engaging in market activities. A common misunderstanding about North Korean markets is that they were active even before the official approval. Once approved, however, market activities evolved to level that would have been otherwise unattainable. The policy cleared the way for both individuals and enterprises to actively participate in the market. Trading companies were now officially permitted to serve the domestic market, and following the approval, focus was directed towards the fate of state-run stores which were hit hard by production shortages during the crisis and showed no sign of recovery. Many completely lacked stock to sell, and their use was declining since the rise of *jangmadangs*. Contrary to expectations, North Korea directed trading companies to acquire and run state-run stores, which would now serve the domestic market.



Trading companies are involved in the import of goods from overseas at market prices, therefore, they cannot generate profits by serving the domestic market unless they sell goods at market prices. If they were to sell goods at state-set prices, they would risk huge deficits, a significant disincentive to operate state-run stores. To incentivize trading companies to take on state-run stores, the North Korean government allowed the sale of goods at market prices. This directive was a green light for trading companies to officially sell goods imported from China in domestic markets. KOTRA's Dalian office depicted this momentous occasion perfectly, stating that the trading companies in North Korea cried out in joy in response to the reform.

Following the Arduous March in the mid-1990s, the presence of Chinese goods in North Korean markets grew rapidly. Both North Korean defectors and Chinese nationals who travelled to North Korea have attested that, shortly following the July 1st measures, Chinese products accounted for about 90% of industrial goods sold in the general markets. In addition, bilateral trade began to soar in the late-

1990s-early-2000s. Trading companies specifically authorized to trade monopolized both exports and imports, thus increasing their influence.

A notable change during this period of reform was the introduction of the 'earned income indicator,' a measure for evaluating the performance of enterprises. The indicator incorporated the prevailing liquid indicator (cash plan) as well as production. The creation of the indicator signaled official recognition of the production and distribution allowances (i.e. beside the amount planned by the

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government) granted to enterprises that essentially represented their market activities. It should be noted that there were still limitations, with some activities remaining prohibited. Nonetheless, from the perspective of the enterprises, the indicator provided the minimum legal permissions for their market activities, and a pathway to further expansion. For example, after purchasing 5% of the required raw materials from the socialist goods exchange market, an enterprise could officially report that it had sold 3% of the produced goods at the general market, but actually sell more. This provided enterprises with additional room to maneuver which, in turn, enabled them to expand their market activities depending on their capacity and conditions.

Additional measures followed the initial reforms and included the approval of private investments in small businesses, recognition of August 3rd workers, and the approval of 'extra earning activities' for enterprises. 'Extra earning activities' refer to market activities that were permitted in order to complement income within institutions and enterprises, including lending the official enterprise name to private companies for a fee, thus providing them with the legal grounds to operate their businesses. This practice established the foundation for individuals to legally participate in the market.

At the same time, the North Korean government began officially collecting taxes on market activities, however as taxes were abolished in 1974, they were referred by various other names, for example "contributions" or "fees," etc. The new tax system appears to have taken effect sometime in the mid-2000s after the July 1st measures. Within the general market, municipal authorities began collecting taxes from stall vendors in return for the provision of the space and legal right to conduct business. For inter-city bus services, taxes were collected in exchange for permission to use empty fields as bus terminals.

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Within the general market, municipal authorities began collecting taxes from stall vendors in return for the provision of the space and legal right to conduct business.

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By this system, a trade-off was made between legal permission and taxes. The market management staff under the municipal people's committee's commerce division were responsible for the collection of taxes from stall vendors on a daily basis while the staff of the transportation division of bus operators fulfilled this role for inter-city bus services.

Around this time, North Korea also legalized the cultivation of small patches of land and began collecting taxes on them. This was referred to by the North Korean people as 'land tax,' distinguishing it from tax paid to operate in the market, known as 'market tax.' Land tax was often paid in cash and in-kind while market tax was primarily paid in cash.

Table 1 | Taxes and Quasi-taxes from North Korean Markets

		Direct Payers	Links between Taxes and Quasi-taxes and Market	Note
Taxes	Transaction income and state-owned enterprise profit income	Factories, enterprises	Liquid indicator (cash plan), production and distribution allowances, extra earnings, August 3 work unit	
	Market use fees and state contributions (aka 'market tax')	Stall vendors in general markets	Sale of goods in the general market	
	Profit income of services institutions and enterprises	(Procurement) stores, (negotiation) restaurants, public baths, swimming pools, billiard rooms, karaokes, transportation service, and other service providers	Sale of services for ordinary citizens	
	State contributions	Trading companies and their subsidiaries	Domestic purchase of goods for export, domestic sale of import goods, etc.	
	Land use fees ('land tax')	Farmers who cultivate small patches of land	Small patches of land	
	Property use fees	Institutions and enterprises; cooperative organizations; individual persons	All types of market-related economic activities conducted on national land, incl. land, houses, buildings, etc.	
Quasi-taxes	Revolutionary funds	Institutions of all levels and their trading companies	All types of market-related economic activities associated with domestic markets and foreign trade	Received by the supreme leader with some directed to public economic programs
	Policy tasks, social tasks	Institutions and enterprises; trading companies	All types of market-related economic activities	Directed to public economic programs
	Donations, in-kind payments, patriotism rice, etc.	Individual persons, <i>donju</i>	All types of market-related economic activities	Half voluntary, half involuntary
	non-tax burden	Institutions and enterprises; individual persons	All types of market-related economic activities	Involuntary in effect

Source: Partially modified from Cho, Han-Bum *et al.*, *The Effects of Private Economic Activities on Public Economic Sectors in North Korea*, Seoul: Korea Institute for National Unification, 2016. pp.152-153.

Thank you for that detailed and interesting description. You briefly mentioned the August 3rd workers. Does this relate to the August 3rd People's Consumer Goods Production Campaign? Your use seems to have different connotations; can you explain the meaning behind the phrase?

North Korean people often put *August 3rd* in front of the name of someone or something to imply that it is fake. For instance, an 'August 3rd couple' means the couple is not real. The August 3rd campaign was initially launched to encourage enterprises to produce daily necessities by utilizing resources that were not part of the plan, such as by-products or waste materials from production processes. However,

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The term “August 3rd workers” refers to those who paid their companies to record them as present in the workplace so they would be eligible for food rationing.

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as production pressure on enterprises increased, operators had to use creative methods to enhance their “non-planned” activities and conceal this from authorities. For example, goods purchased on the black market were reported as goods produced for the purpose of the August 3rd production campaign. In addition, forged documents were submitted to resource management allowing the resources allocated for planned production to be used for non-planned production activities. As practices of this kind became widespread, the term, ‘August 3rd’ became synonymous with something fake or forged.

The term “August 3rd workers” refers to those who paid their companies to record them as present in the workplace so they would be eligible for food rationing. Workers who paid the amount demanded by their employers were exempt from going to work either in part or in whole, and the enterprises used this money to supplement their income. It is not clear how they addressed accounting issues. The practice, which had first emerged in the 1990s, began spreading following the launch of the July 1st measures. Workers benefitted from this arrangement in a second way as any worker employed by an enterprise cannot participate in market activities as

long as they are obliged to go to work. Therefore, they were essentially buying free time. August 3rd workers refer to those who appear to work and earn a salary, but in reality pay a fee to buy free time to participate in market activities. Amid the economic crisis and financial difficulties, this practice emerged as a result of the conflict among the state, enterprises, and workers and was facilitated through the medium of the market.

The July 1st measures are most widely noted for their adjustment of prices, wages, and exchange rates in North Korea. However, according to your explanation, they seem to have caused a wide range of changes to the North Korean society from late 2011, when the socialist goods exchange market was established, to 2013, when the general market was created. Moreover, markets were expanded and institutionalized; the self-supporting accounting system was adopted; the scope of activities of trading companies was expanded to include products for domestic consumption; and the earned income indicator was created to evaluate the performance of enterprises.

I would like to ask you to provide more information on what we know about taxes, in particular, the land tax. Collecting a tax on small patches of land or kitchen gardens cultivated by ordinary individuals indicates that the government officially approved the practice. The same is true for taxes on transportation services and other forms of market activities. The introduction of these taxes seems to imply that the North Korean government approved market activities in a wide range of sectors, and this may have facilitated the development of the market.

There is significant interest in how market policy has changed under the reign of Kim Jong-Un. Experts

argue that markets in North Korea have developed exponentially since 2013. Does your research support this argument? How is the market policy of the Kim Jong-Un regime different from that of Kim Jong-Il? What kinds of changes or developments have been made to the North Korean market in the Kim Jong-Un era?

Many North Korean defectors, most of whom had cultivated small land plots themselves in the North, have confirmed the existence of a land tax, and have given detailed accounts about the amount of tax that had to be paid and the modality. Most informed me that they began paying taxes from around the mid-2000s, coinciding with the time when North Korea began to legalize and tax activities in the general market, transportation services, and other sectors.

In the Kim Jong-Il era, North Korea achieved some degree of development in its markets in terms of both quantity and quality, but there was still much room for improvement. In the Kim Jong-Un era, the market experienced rapid development. Perhaps most significant was the change in the governments perception of and policy toward markets. Such a change had occurred in the previous era, but it was

limited and inconsistent. Under Kim Jong-Un, the North Korean government went from tacit approval to aggressive utilization of the market. The enduring debate over whether or not to ban the market appeared to have ended. The regime adopted the market as part of its economy.

Let me explain the development from a different perspective. In general, socialist reform takes place in two stages. At the first stage, often referred to as the ‘improvement’ stage, there is still confidence in socialism and there is rarely any modifications to the theories. Meanwhile, at the second stage, referred to as the ‘reform’ stage, socialist theories can clash with reality. In particular, theories must be modified to state that the existence of markets does not contradict the essence of socialism. Historically, socialist states have eventually modified their theories, and North Korea was no exception.

North Korea needed to justify the creation of the market. The government utilized *Kyongje Yongu* (Study of the Economy), a journal and forum for North Korean economists and economic officials, instead of official newspapers like the *Rodong Sinmun*. First, the concept of money has been redefined. Until this time, money was considered a means of exploitation and often, the root cause of all evils. However, in 2010, a new definition came into force: “Workers are the owners of money, which is an economic space where individuals can actively pursue economic activities.” From this point onwards, North Korea strongly urged basic economic players such as households and enterprises to make money not for individual gain, but for the benefit of the community and state. In another theoretical shift, the labor theory of value was overturned. This theory states that price is determined by the amount of labor required. However, following the shift, it was established that price is also determined by supply and demand and the ‘value of currency.’ It was

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emphasized that prices would be adjusted based on supply and demand, which translated in practice to an increase in state-set prices to reflect market prices.

It appears that by 2010, following the implementation of the currency reform, the North Korean government accepted that the abolishment of the market was no

longer a possibility, and that efforts to dismantle them would only enhance the severity of economic hardship. State approval of the market was no longer relevant, and focus was redirected towards the utilization and control of the market. As a consequence, the North Korean government held the belief that state stores run by elite economic players and based on the principles of a market economy were superior to a general market led by the private sector. This perception was partially responsible for the launch of the “Our Style Economic Management Measures,” which began with reforms in the commercial sector, primarily the adoption of the principles of a market economy in state-run stores. Of course, the launch was mainly driven by the fact that the effects of reform materialize in the commercial sector more rapidly than in the manufacturing or agriculture sectors.

Structure and Function of Markets in the Kim Jong-Un Era

To summarize, after 2012 when Kim Jong-Un took office, markets became an indispensable part of the North Korean economy with tacit approval of the government. Following this, the most important question for the government was who controls them: the private sector or the state.

At this time, the elite economic players, who led national governance, also held control over the market, which is a clear distinction from the past. To gain a deeper understanding of the North Korean economy, it is important to understand these developments. In addition, the North Korean government needed to theoretically justify the expansion of marketization many times throughout this period.

Thank you for your comprehensive explanation of the development of markets in North Korea from their inception to where they are today. Let's move on to the characteristics of today's market. To begin, can you please explain the structure of the general market; how it works, the size, who participates in transactions, what kinds of transactions there are, and where goods come from. Does an unofficial market still exist? If so, can you elaborate on this? You briefly mentioned the market tax. Please explain how the market tax system works, in particular, commenting on price ceilings that are applied to state-run stores, and set by the market management office.

At present, the general market is a representative final consumer goods market in North Korea. Hong, Min *et al.* (2016) provides a detailed explanation of the current status of the general market in

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At present, the general market is a representative final consumer goods market in North Korea.

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Nationwide Market Information in North Korea; a piece of research that has benefited from recent progress in methods of conducting empirical studies based on satellite data. According to the study, as of late 2016, there are 404 general markets in the North. Participants include suppliers, consumers, vendors, and intermediaries, and the number of stall vendors, excluding the market management staff, is estimated at 1.1 million nationwide. Women aged between 20 and 65 are expected to participate in market activities in North Korea. It is estimated that 15% of the total female population of North Korea participate.

In terms of physical size, the largest is Sunam Market in Chongjin, which occupies an area of approximately 7,000 pyeong (23,000 square meters); and the smallest is Hwaragoo Market in Cheonnae-gun, Gangwon province, which occupies approximately 100 pyeong (330 square meters). The national average size is around 1,000-2,000 pyeong with the largest markets 70-fold larger than the smallest. The development of the general market occurred in line with the development of the transportation network. However, North Korean defectors who lived in mountain villages reported journeys of more than an hour on foot from their home to the nearest general market. In smaller villages with no administrative office, markets are

small, with only a few dozen stalls. In fact, general markets have developed mainly in urban areas while the growth of markets in rural areas, especially mountain regions, lags considerably in comparison.

As markets develop, they are divided into wholesale and retail markets. The biggest wholesale market is Pyongsong Market. Although many believe it is in Pyongyang, which has the largest consumer base, it is in fact located in Pyongsong, north of Pyongyang. This is because the capital is not open to everyone. The market was originally located in front of the train station, but was shut down in 2008. It was then moved to Okjon in Pyongsong and renamed Okjon Market. Since then, it has grown into the largest wholesale market in North Korea. This is followed by Sunam Market in Chongjin, and Chaeha Market, which was moved from its original location in front of the bridge linking Sinuiju and China to its current location in South Jungdong. These constitute the three largest wholesale markets in North Korea.

In North Korea, most large-scale general markets are located in the capital cities of provinces (道) which have large populations and are easy to access by both

land and water. In addition, general markets tend to flourish in border regions because most products sold in these areas are Chinese imports. According to reports by North Korean defectors, border regions refer not only to cities near the border but also port cities along the coasts of the East and West Seas as many of these have direct routes to and from China. Based on this definition, cities such as Nampo are considered border cities. General markets are more concentrated in the West coast in comparison to the East coast due to larger populations. Of course, general markets develop in areas with a large permanent population, but also flourish in those with a large floating population.

To summarize, the locations of general markets, which distribute consumer goods in North Korea, are determined primarily by demand-side factors. Supply-side factors may have played a major role in the early development, however, demand-side factors have grown in importance over time. With the exception of intermediate goods such as batteries and raw materials, most products traded in general markets are consumer goods, and the base price is the market price. Thus, the directives announced by the North Korean government last year, that attempt to strengthen its regulatory control over markets, are unlikely to have had any substantial effect.

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Satellite images have increased our understanding of the development of the general market in North Korea. Consecutive images taken over time often show the repurposing of paddy fields and empty yards into general markets. I identified one interesting example; a reservoir in a port district in Nampo was gradually reclaimed and turned into a general market. Such a project would not be possible if attempted by vendors alone indicating they were likely assisted by the local authorities. The rapid growth in the number of general markets in the Kim Jong-Un era is the result of aggressive efforts

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The rapid growth in the number of general markets in the Kim Jong-Un era is the result of aggressive efforts by the local authorities.

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by the local authorities. According to reports, the market tax is mainly paid to these authorities, the city and local people's committees. This structure brought the interests of these committees in line with those of stall vendors in general markets. The more the vendors earn, the more the city and committees receive in tax revenue. Committees have realized that increasing the number of general markets and making it easier for vendors to do business and enabling them to generate more profits will increase their own revenue. Thus, committees have a personal interest in the success of the markets. When a new general market is built, the prices of homes in the neighborhood increase, therefore homes have effectively become a valuable possession for trade. This phenomenon occasionally prompts the authorities to relocate markets without notice. It has been observed that local bureaucrats or party officials often make a profit by buying houses in certain areas before relocating a market to that area.

It is clear that general markets in North Korea are not the kind of markets we are familiar with. The authorities' engagement is significant. Is it true that under the market commerce division of the city

and local people's committees, the highest-ranking authority in terms of market management, is the market management office? And do I understand correctly that a major role of the office is to manage stalls? Is market tax typically charged based on the volume of transaction or the size of the stall?

The market management office is the official agency under the market commerce division of the city and local people's committees. It is the duty of the office to manage the general markets and collect the tax. There are three types of market tax imposed on vendors. First, when starting a business, vendors have to pay a lump sum to purchase a lot. Second, as they operate their regular businesses, vendors have to pay a daily lot use fees, which vary depending on the size and location of the lot. Finally, they have to pay extra fees tied to their daily turnover, with the frequency and amount determined by the kind of items they sell and the volume of sales.

If an individual wants to buy a stall to start a business, they pay the required amount to buy the license from the market management office. As far as I am aware, there are no such things as vendor's associations.

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The market management office is the official agency under the market commerce division of the city and local people's committees.

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You have described the market in North Korea as consisting of the market management office, vendors who do regular business, and consumers. Is it the case that state-run stores are involved in the general market by operating stalls themselves? Can you explain this? And, what is the main currency of transaction used in markets?

I have no particular information on state-run stores operating their own stalls in general markets. If there are any, I estimate the number would be small. As for the currency used, a variety of currencies are acceptable in principle, including the North Korean won, US dollar, Chinese yuan and Japanese yen. In reality, one currency is usually preferred over the others, and which currency is preferred will differ based on the region. For example, in North Korea-China border regions, Chinese yuan is preferred, but in areas far from borders, the yuan is less popular. In Pyongyang, both the dollar and yuan are used, but in general the dollar is preferred. At the same time, the North Korean won is used as widely as the dollar.

Another important factor is regulation. Are there penalties for vendors who engage in illegal trading? What kinds of penalties are imposed if they are caught selling rice at a price above the government-set ceiling?

A common example of such a penalty is the confiscation of goods from vendors caught selling prohibited items. The list of prohibited items, which includes South Korean products, is publicly disclosed. Sometimes, vendors bribe officials to get back their confiscated goods. Last year, the government strengthened this regulation, and now, vendors

caught selling goods at prices above the ceiling are subject to a confiscation penalty.

Can you describe the nature of the transaction that allows vendors to operate their stalls? Is it correct that the transaction of stalls in the general market is in the form of rent, and therefore, the owner of the stalls is the government? It has been reported that poorer municipalities of small cities sometimes obtain capital from *donjus* to construct markets, and these *donjus* then exercise rights over the market. However as you mentioned earlier, market tax is collected by city and local people's committees, not the *donjus*. Then, to whom does the market belong and what is the relationship between the government and private sector?

The nature of the transaction that allows vendors to operate a stall is rent, and of course, the owner is the government. The government owns all stalls, essentially they are state property. Building equipment and facilities in the general market requires money, which comes from the purse of the city or local people's committees or merchants. In most cases, it

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is the merchants, or both, who pay for the general market upkeep. However, the equipment and facilities remain state property regardless of who paid for them. North Korea does not approve private ownership of the means of production, therefore, the state owns all properties, from stalls to apartments, even if the property was paid for by the private sector.

In reality, however, those who have the right to use a rented property are allowed to exercise the right to dispose of it, even if the state is still the legal owner. Stalls in particular are subject to transaction. When I asked North Korean defectors if stalls were traded between existing vendors and newcomers, more than 50% said yes. This indicates that vendors do not hesitate when exercising their effective right to the stalls. While the state is the nominal owner, vendors can exercise their effective right of ownership since they paid for it. The same is true for apartments. The cost to build them is paid not by the government but the private sector. Those who paid for the building consider that they have the effective right of ownership, and the government turns a blind eye to this tendency.

Under Kim Jong-Un, this practice has gone beyond stalls and apartments to other possessions such as automobiles. Automobiles were not subject to transaction in the past. According to the testimonies of defectors, people in North Korea now consider themselves as the effective owner of the cars they buy. This change in perception suggests that there is a conflict between nominal ownership and effective ownership, which is not a problem as long as the authorities show tolerance. Still, it is hard to deny that this is a source of instability.

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In the pre-economic crisis era, when the planned economy was dominant, the primary measure of success for enterprises was volume-based.

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Let us move onto economic activities in the market. Could you please explain how state-run enterprises do business in the market? You explained that in the process of marketization, the government provides enterprises a certain degree of autonomy, allowing them to actively participate in market activities. It seems that they are doing so according to the plans they set themselves. Please elaborate on how state-run enterprises run their businesses in the market, not by socialist economic principles, but by market principles.

In the pre-economic crisis era, when the planned economy was dominant, the primary measure of success for enterprises was volume-based. At the same time, a value-based measure was adopted as the secondary indicator because profitability and productivity were also considered important. Following the economic crisis, the government supply of raw materials was often disrupted, making it difficult to implement the volume-based plan. Enterprises frequently failed to meet the goals of volume-based plans, which naturally increased the importance of value-based plans.

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The implementation of the July 1st measures partially approved market transactions for enterprises, making accounting more complicated.

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The volume- and value-based plans both operated based on quotas assigned to enterprises expressed in numerical terms. For example, if a higher authority assigned a quota to a lower authority to ‘produce 100 bottles with detailed specifications,’ the quota was part of the volume-based plan, or ‘item-specific’ plan in North Korean terms. If the quota was to ‘produce goods worth 10,000 won,’ multiplying the number of bottles (i.e. 100 units) by the state-set price (e.g. 100 won) represents the value-based plan, or ‘amount-based’ plan in North Korean terms.



During the hardship of the economic crisis, it was difficult to meet volume-based quotas. Still, enterprises could avoid penalties if they satisfied the value-based quotas at a minimum. To do so, they chose to use August 3rd consumer goods, which they were allowed to sell at market prices. In addition, in 2002, the earned income indicator was introduced to evaluate the performance of enterprises based on their sales revenue minus production costs. The new indicator, however, was not a complete replacement of the volume-based plan. Both are used in tandem at most enterprises.

For enterprises, this system had a major problem, i.e. the gap between the official plan and reality. For example, the authorities could assign a quota to produce 100 units of a product, while providing raw materials to produce only 50 units. Enterprises then had to choose whether to produce less than assigned or to acquire extra resources to reach the quota. They often chose to either 1) unofficially sell a proportion of the raw materials and products for cash, which was then used to purchase extra resources needed to produce more goods, 2) keep double accounting, or 3) use other manipulative methods. These practices increased the probability of tax evasion. The implementation of the July 1st measures partially approved market transactions for enterprises, making accounting more complicated. This increased the already-widespread practice of tax evasion.

When enterprises produce goods, especially consumer goods, for both the planned sector and market sector, a quality problem often occurs. For example, a shoe factory may use high quality materials to produce shoes for sale in the market as otherwise its products will not sell. However, the shoe factory does not need to care about the quality of the shoes supplied to state-run stores. This kind of distortion is likely to occur when the planned and market systems are mixed.

Thank you, I have a couple of further questions related to this topic. Has the change in performance evaluation indicators been applied to all enterprises serving the planned sector? I also wonder how enterprises are controlled in the current system. Is the extra profit from products not related to the quota taken by the head of the enterprise? How does the government control these enterprises and how does the profit sharing work?

Technically speaking, the change in performance indicators had already begun before the inauguration of Kim Jong-Un, and was only established into policy afterward. Although the July 1st measures were intended to reflect such changes, the gap between the institutions and reality widened again, producing many side effects. To address the gap, North Korea implemented the “Our Style Economic Management System.”

Consider the example of the quota to produce 100 bottles with the government provision of enough raw materials (plastic) to produce only 50. Before Kim Jong-Un took office, enterprises would have been expected to produce 100 bottles to meet their goal. In the Kim Jong-Un era, however, enterprises are deemed satisfactory if they produce the amount

of goods that they are given raw materials for, in this example that would be 50. It was a remarkable change that aligned the evaluation criteria for performance with the volume of raw materials provided.

Another indicator introduced to evaluate the performance of enterprises was the enterprise indicator. This new indicator was for enterprises that were not provided raw materials but procured the materials themselves. They were granted autonomy in the decision-making for product planning, production, sale, and other operations in order to make a profit. In North Korean terms, they were granted the *de-facto* right to business management. In addition to the volume-based plan set by the central authorities, the enterprise indicator was approved as another major criteria to determine whether enterprises met their goals and performed satisfactorily.

This change in performance evaluation was accompanied by actions to strengthen monitoring. Before, enterprises were allowed to have only one bank account (*donjari*) under the one-enterprise-one-account principle. Now, they were directed to maintain three accounts: the base account, evaluated

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This change in performance evaluation was accompanied by actions to strengthen monitoring.

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by the central indicator (volume-based plan); the cash account, evaluated by the enterprise indicator (value-based plan); and the foreign currency account for foreign exchange transactions. The use of different bank accounts for different financial activities made

it easier for the authorities to monitor the flow of capital within enterprises.

Financing activities of enterprises underwent another significant change. Previously it was illegal for enterprises to borrow money from individuals. When introducing the new economic management system, the regime revised its Enterprise and Farm Acts, thereby opening the way for enterprises to borrow unused funds from individuals. Officially, the change allowed enterprises to borrow these unused funds, but in reality, it allowed the borrowing from *donjus*. The action, therefore, was equivalent to an approval of private financing.

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The measures to strengthen the autonomy of enterprises were motivated by the expectation that increased production would increase revenue, which would, in turn, boost the government’s tax revenue.
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The measures to strengthen the autonomy of enterprises were motivated by the expectation that increased production would increase revenue, which would, in turn, boost the government’s tax revenue. From 2012, the North Korean government tightened tax-related laws and regulations, especially the penalty provisions for not paying taxes, indicating that tax evasion remained prevalent.

Thank you for that detailed explanation on the volume- and value-based plans. I would like to wrap up the discussion on state-run enterprises, and move on to the changes in business activities in the private sector. Business activities in the private sector appeared to undergo somewhat unusual changes as part of the transition of the socialist economy. In North Korea, state-run enterprises were becoming increasingly affected by the private sector and many were effectively privatized. State-owned factories that ran into trouble running their businesses could lease a part of their property to third parties who would repurpose it or lend their name. For example, even if a state-run shipping enterprise appeared to be functioning, the official president may be the head in name only, and the vice president may act as the real head of the enterprise. This is a common phenomenon of the transition from a socialist economy to a market economy.

Some experts compare such a phenomenon to what happened in the former Soviet Union, where the private sector (individuals) effectively controlled and privatized state-owned enterprises. What is your opinion of this view? Are there any cases where enterprises have been created and nurtured by individuals, even on a small scale? If they exist, do they play a meaningful role in the economy of North Korea?

It is strictly prohibited by law in North Korea for an individual to run a private business, even if it is operated by that individual using his or her own funds (private sector). Individuals' personal economic activities are often conducted indirectly, sometimes via manipulative methods. For example, *donjus* provide funds or raw materials for state-run factories under commission agreements that specify the production and sale of the goods for profit. By this method, state-run enterprises are turned into commissioned factories by the *donju*. They also offer enterprises investment in the form of a loan and take a certain proportion of the enterprises' profit as interest.

In addition, *donjus* often lease public property to run a business. This occurs by one of three scenarios: *donjus* lease the name of state-run enterprises only; they lease both the name and production means such as the building and machinery and; they lease the production means only. In the case of the first or second scenario, the *donjus* lease or acquire a portion of an existing enterprise or create a new one, which is then registered as a subsidiary of a specific institution or enterprise. They are often referred to as enterprises that wear a 'socialist hat' or a 'red hat.'

These interactions between *donjus* and state-run enterprises resulted in economic chaos during the currency reform. The currency reform in the late 2009 was a confiscatory measure intended to halt the

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activities of *donjus* and to weaken the financial basis of the market. State-run enterprises, however, were hit unexpectedly hard by these measures and their use fell sharply as a result. This collateral damage occurred because state-run stores had in fact been relying on the investments of *donjus* made in the form of loans or via commission agreements. The currency reform blocked that flow of investment, halting the operation of state-run factories. This was a great embarrassment to the North Korean government and one of the major causes of its eventual revocation of market control measures. Thus, factories lend a portion of their property or their names to *donjus* for a fee, and the extra income is used to buy materials to operate the facilities or pay workers' salaries, in a practice known as 'extra earning' that I mentioned earlier.

On June 1st, 2020, the *Rodong Sinmun* newspaper published an interesting article on its front page that read, "The Dear Respected Leader Kim Jong-Un expresses his gratitude to those who did their best for the construction project at Samjiyon" with a list of the names of 18 people. The list included their name, occupation, position and the action for which they were credited. They were mostly lower-level workers and office clerks, and are believed to be so-called *donjus*. Three years earlier on May 7th 2017, the same newspaper had published a similar article on the front page, reporting that the supreme leader thanked 25 people who played a major role in the construction of Ryomyong Street, also disclosing their names together with their occupation and position. With the government suffering severe fiscal constraints, it is hard to imagine that they were in a position to pursue massive construction projects such as Ryogmyong Street and Samjiyon without the investments of *donjus*.

The private businesses of *donjus* are to this day concentrated in services, rather than in manufacturing.

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From a broader perspective, investments from the private sector are required to operate state-run enterprises, and in this way, the planned economy depends on the market economy.

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A survey of North Korean defectors estimates that private businesses represent about 40-50% within the service sector in comparison to about 20% of business in manufacturing. Of services, restaurants and grocery stores represent more than half. The share of private businesses increased in the mining sector also, as North Korea's coal exports to China rose sharply from 2010.

From a broader perspective, investments from the private sector are required to operate state-run enterprises, and in this way, the planned economy depends on the market economy. This relationship is a type of institutional trade-off between partial provisions of legitimacy afforded to private sector enterprises who put on a "socialist hat" in exchange for the payment of taxes. While some businesses run by *donjus* hire more people to increase the size of their business, most remain small. The government are wary of the growth of these businesses.

In the meantime, state-run enterprises became major players in the market. In this case, state-run enterprises refer to those owned by trading companies, as opposed

to independent enterprises. With ample financial resources, trading companies can either acquire related businesses or establish new ones, thereby growing in size. They are a North Korean version of a corporate group. The subsidiaries are usually export-related, such as coalmines, fish factories, and garment factories, as well as those serving the domestic market, such as gas stations, department stores, grocery stores, restaurants, and leisure facilities. There are many unknowns in this area and further research is needed to improve our understanding of their role in the development of the North Korean market. While these groups are considered state-run enterprises, they are subject to the principles of a market economy in most part because they are trading companies and their subsidiaries. The principles of a socialist economy are effective in specific circumstances only. For example, fishery stores belonging to a trading company will sell their products at market prices for average citizens, but at state-set prices for veterans. Pubs usually sell beer at market prices, but distribute discount coupons for beer sold at state-set prices, allowing them to continue to advertise that they “abide by socialist principles.” Apart from these exceptions, market prices are dominant.

In terms of financial capacity, grocery stores and restaurants run by *donjus* are no rival for those run by trading companies and their subsidiaries. As a result, the former often cannot compete and are acquired by the latter. These “corporate groups” led by state-run enterprises have never been fully investigated and thus require additional research.

North Korea maintains that its economy is guided by the theories of the socialist economy. However, in reality, the economy appears to be driven by the principles of a market economy. This conflict

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These “corporate groups” led by state-run enterprises have never been fully investigated and thus require additional research.

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is critical to both the academic discussion and practical situations within the country. When the former Soviet Union and other Eastern European countries walked away from socialism, controversies arose over who would gain control of privatized property and to what extent privatization should be accepted. In North Korea, privatization led by state-run enterprises seems to have been occurring for quite some time. In this situation, how has it been possible for ordinary people and families to take part in economic activities, for example, in agriculture, commerce, and other areas?

According to North Korean defectors, the economic activities at *jangmadangs*, or simple commerce, was a source of living for the majority of North Korean people in the past. Its importance, however, has been on the decline, as the scope of market activities has gradually expanded from just for-profit distribution centering around the *jangmadang* to now including transportation, accommodation, independent handicraft manufacturing, private services, and day labor.

Table 2 | Means of Living in North Korea: Side-job Activities

	Means		Note
Agriculture, forestry, fishery	Cultivating patches of land, terraced fields	Corn, soybean, potato, and other cereal crops	Individuals, families
		Vegetables and fruit	Individuals, families
	Raising livestock	Pigs, rabbits, chickens, etc.	Animal husbandry farmers or urban/rural residents with a side job
	Collection of agricultural/forestry/fishery products (for domestic use, export)	Medicinal herbs, pine mushroom, wild mountain plants, timber, firewood	
	Fishery business (personal)	Collection and farming of fishery products	<i>Donju</i>
	Temporary labor or day work		Hired by owners of tiny patches of land or ships
Mining/manufacturing	(Coal) Mining (personal)		<i>Donju</i>
	Manufacturing (personal)		<i>Donju</i> /owners of processing lines
	Independent handicraft manufacturing	Clothing, shoes, toothbrushes, soaps, liquor, tobacco, tofu, bread, etc.	
	Temporary labor or day work		Hired by private businesses
Services	Commerce for the domestic market (<i>jangmadang</i>)	Wholesaling	<i>Donju</i> , etc.
		Intermediation	Resellers, intermediaries, etc.
		Retailing	Stall vendors, etc.
	Domestic stores (operation)		
	Trade	Unofficial trade (smuggling)	
	Food	Operation of restaurants	
	Accommodation	Operation of accommodation facilities	
	Transportation	Operation of inter-city buses and taxis	
		Drivers	
		Provision of transportation services with freight vehicles	
	Construction	Construction and maintenance of apartments/houses	<i>Donju</i>
	Private services	Hairdressing, sewing, repair of watches and other small electronic goods, electrical repair, etc.	Unofficial activities of the employees of private service providers, substations, etc.
	Other private services	Repair of electronic appliances and bicycles	Private businesses
	Services related to education and healthcare	Private healthcare and education	Mostly side jobs
	Financial services	Foreign exchange and private financing	
	<i>Temporary labor or day work</i>		Hired by owners of stores, restaurants, construction projects, etc.
Others	Bribery	Illegal acceptance of value using the position of influence	

Source: Compiled by the author.

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The growth of private services has also been identified in primary and secondary industries.

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Historically, the state has provided services such as education, healthcare, and national defense. With the exception of national defense, these services are now increasingly offered by the private sector, as the public sector is unable to meet demand. There has been considerable growth in private education and healthcare.

The growth of private services has also been identified in primary and secondary industries. In agriculture, workers in cooperative farms are increasingly engaging in other types of economic activities such as the cultivation of small patches of land for others, raising livestock at home, and working for private businesses in the manufacturing or mining sectors. As private services have developed, private employment has risen in parallel, creating more opportunities for employer-employee relationships. It is no longer unusual for private businesses such as handicraft manufacturers or grocery stores to employ non-family members.

Despite these developments in the market, the North Korean government is consistent in their attempts to regulate and prevent private employment and private businesses from expanding further.

Trends and Prospects of Change in North Korean Markets

Finally, could you provide a general description of the markets in North Korea as they currently operate? It is widely accepted that efforts to verify the status of the North Korean market are limited due to difficulties in conducting research within the country. However, your study of the market over the last three decades is likely to provide us with the most reliable picture of how these markets function in reality. I would also like to ask you about the current trends within the market. What changes have occurred over the last three decades, particularly in terms of quality and quantity? Please comment specifically on the trends affecting distribution, production, and consumption.

Over the past three decades, markets in North Korea have developed considerably both in terms quantity and quality. The growth has occurred gradually, and has been subject to both positive and negative influences. Moderate changes have occurred since the strengthening of sanctions by the UN in 2017. The marketization process still has been limited in many ways. Markets are generally categorized into four types: consumer, producer, labor, and capital and finance. The consumer market, which includes the service market, has been at the forefront in terms of development. The labor and financial markets lag behind considerably, and are in fact still technically illegal, providing evidence of limitations on marketization in North Korea.

By analyzing satellite images, we know that there were approximately 200 general markets in the early 2010s, which is roughly the same as the number of cities/counties that exist in North Korea. That number doubled to about 400 markets by the mid-

2010s, a period of just four to five years. When transportation services emerged, freight vehicles were the predominant carrier. This later developed to include inter-city buses and taxis, and motorbikes increasingly replaced bicycles. In addition, the government took steps to create and expand both the cellular phone and real estate markets.

The growth of one market encourages the growth of another. In North Korea, the development of the consumer market led to the emergence of the producer market, which, in turn, promoted the development of the labor and financial markets. In this process, markets also experience qualitative growth. *jangmadangs* are the equivalent to the traditional market in South Korea, meaning that they are not modern facilities and become unpopular as income levels rise. As modern consumer facilities emerge, and state-run stores enter the race, the presence and status of *jangmadangs* has been steadily declining.

During their development, North Korean markets have become increasingly connected, which has

facilitated further expansion, a factor that has affected their quality. In the beginning, markets were small and designed to serve the local area. Over time, they have become linked with one another, growing into national networks. In the past, the distribution of products was limited to within the local area. In contrast, distribution now goes beyond the borders to nearby regions, which has helped to narrow the gap in prices and exchange rates, and establish North Korea's domestic market. There was no such thing as a domestic market in the past, there was only the overseas market. The expansion of marketization has promoted the accumulation of currency assets, supporting the development of the domestic market. However, markets in North Korea are generally specific to certain goods, mainly food and electronic goods (production and sale), and do not cater to all products.

Another notable change occurred in the division of labor and specialized manufacturing. For example, clothing factories initially produced all kinds of clothing, but they now focus on specific categories such as men's, women's, children's, or sportswear. Subsequently, clothing markets have experienced a similar change. The markets have experienced a weak, but notable import substitution effect. In the early stages of development, finished goods were imported from China. It is now more common for raw and subsidiary materials to be imported and then processed by cheap labor in North Korea, as this is more profitable. North Koreans are becoming increasingly familiar with concepts such as advertising and competition, which did not exist under the planned economy.

The most noticeable change impacting consumption is the rise of income levels. Home renovations and repairs are now common, and individuals increasingly pursue new home constructions. At least 20-30% of North Korean defectors surveyed

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said they had conducted renovations or repairs of their homes. In North Korea, food takes the highest priority, and shelter takes the lowest among basic necessities such as food, clothing, and shelter. As such, reports that North Korean people are in the position to spend money on their homes indicates that their income has reached a level that allows them to do so, once their other needs have been met. The survey also showed that the number of meals and meat intake per day are increasing sharply. Most North Korean defectors are from middle or low socioeconomic classes and thus their experiences are not fully representative of the entire population. Nonetheless, the rise in the reported living standards is a clear sign of a trend towards the improvement North Korean people's nutritional status and standard of living.

There is a common belief in North Korea that the development of the market has not been accompanied by a change in the notion of ownership. In reality, this is not necessarily true. In principle, homes are owned by the state, and residents have the right to reside only. Yet individuals have sold 'their' houses even though they never purchased it in the first place. This is most common among those who bought their house with their own money from someone who had previously lived there. In this case, the legal ownership held by the state and the effective ownership held by the buyer are in direct conflict.

Private financing has not developed substantially, but does occur at a certain level and the primary means of collateral is definitely homes. Individuals provide their residential card as collateral for loans. If they fail to repay, the lender can seize 'their' house. This is a significant cause for conflict, for example, if a borrower fails to repay the loan obtained with their residential card, the lender can sell the house, and the lender and buyer can demand that the borrower vacate the house. The borrower can decline

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the request as long as their name is on the residential card. It is difficult to resolve this type of dispute through legal means because private financing and home transactions are both illegal. Such disputes are often resolved through negotiation or sometimes violence. It is reported that *donjus* often hire thugs to evict residents. The rise of both private financing with homes as collateral and home transactions is in direct conflict with current laws, and ultimately, the state.

This is very interesting. It is clear that we need to closely monitor future changes in the notion of ownership in North Korea. Let's direct our attention to the era of Kim Jong-Un. What changes were brought about by the UN sanctions imposed on North Korea, particularly changes to policies, institutions, and market trends, and how do you expect them to change in the future?

The main focus of the economic policy of the Kim Jong-Un regime is to maintain and expand North Korea-China trade and marketization, the so-



called two wheels of economic recovery. Another important goal is the partial recovery of the state-run manufacturing sector. The Our Style Economic Management System is aimed at maximizing the benefits of economic reform, and more importantly, creating an environment favorable for marketization and promoting enterprises to utilize markets thereby expanding production.

In the past, the role of enterprises was to produce goods commissioned by the state in the required quantity in order to meet the volume-based goals. As raw and auxiliary materials fell, however, in short supply after the economic crisis, meeting these goals became less significant. Instead, encouraging enterprises to participate in the market and collecting taxes from them became more important. Thus, the North Korean government legalized market activities. It launched the Our Style Economic Management System and Socialist Enterprise Responsibility Management System as a sub-system. In a notable move, North Korea revised its constitution in 2019, replacing the *Taean* Work System with the Socialist Enterprise Responsibility

Management System.

Such an aggressive approach to the market is in strong contrast to the stubborn rejection of the notion of ownership. The privatization that has taken place has yet to receive official approval. The North Korean government has approved the consumer market, which includes the service market, and the producer market in some sectors, but not the financial or labor markets.

When it comes to ownership, the North Korean government has allowed the operation of private businesses that “put on a socialist hat” for the sake of extra profit. Private businesses have effectively been given the minimum required level of legitimacy. Reportedly, the Kim Jong-Un regime partially institutionalized private financing offered by enterprises and individuals. It is, however, difficult to determine how this works in reality. As is evidenced by in the conflict of home transactions, the gap between government approval and reality has only been growing, which has likely increased the pressure for the next round of reform.

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Markets initially served the ordinary people as a means of living, contributing to their welfare. Today, however, markets represent a system whereby state-run institutions and enterprises, rather than ordinary people, are prioritized, and the elite reap the benefits. From the late 2000s until the inauguration of Kim Jong-Un, markets were the driving force of North Korea's economic recovery. Under the reign of Kim Jong-Un, economic conditions have improved considerably. This progress faced a major turnaround following the implementation of UN sanctions. The key to the success of the market in North Korea was the growth of marketization and foreign trade. Trade was all but blocked by sanctions, which dealt a heavy blow to both personal income and the operation of state-run factories by suspending the inflow of intermediate and capital goods. Unemployment subsequently increased. Although individuals did not abandon the markets, their income from them diminished, and so did their participation in them. The strengthening of sanctions and the Covid-19 pandemic exacerbated the situation. The quantitative decline in the market is likely to be accompanied by a qualitative change going forward. This is another area that should be researched in the future.

As you have explained, although the North Korean market made huge progress under Kim Jong-Un, the trend has reversed since stronger sanctions were imposed. Recent uncertainties, including the

pandemic as you mentioned, may have negatively affected the market. Can you elaborate on this?

Some argue so, however, a complete return to the previous state is very unlikely. The government may try to take control of the limited resources, but will never be able to remove the markets. The governments' policy to promote socialist-style commerce seems intended to raise tax revenue from state-run enterprises and stores and recover the money circulation system, by supplying more Chinese imports and products manufactured by state-run factories to the market through state-run stores. There will likely be a conflict between the policy to regulate the market and the movement toward decentralization. Economic players will find themselves in conflict wherein they are expected to achieve self-reliance, and at the same time, are deprived of resources by the central authorities.

At present, several external factors are putting the marketization mechanism that has evolved during this time at a risk. To find a solution, the North Korean government will unofficially ask for help from China or Russia or try to utilize currencies held by its citizens as much as possible. This could bring about some changes to the current economic system, ushering in another period of transition.

The North Korean economy appears to stand on the brink of the next round of change, perhaps another transition, or a crisis. Before we finish, can you briefly comment on the overall status of the North Korean economy, particularly the markets and their relationship with state-run enterprises and ordinary economic players?

On the surface, the North Korean economy looks similar to the economy under reformist socialism. A government that upholds reformist socialism sets goals for strategic resources or other key indicators and channels resources to them. It does not provide for the substructure, which are units ranked lower in the hierarchy of the national economy. The substructure is left to rely on markets and individual enterprises. The economy of North Korea has both similarities and differences with those of traditional reformist socialism. In the North Korean economy, the state and private sector work independently from each other in some areas, but also depend on each other in others, forging a relationship that is not hierarchical. Although consumer goods and labor are supposed to be controlled by the state, due to financial constraints, the state must utilize the market for certain functions. Conversely, the market is not completely independent from the formal sector. It requires resources either not required by or taken from the formal sector. A prime example is the private-sector energy market. Excess taken from the formal sector represents the vast majority of oil and coal in the private sector. A private-sector energy market completely independent of the public sector is not feasible.

In contrast to the consumer market, which has developed faster than any other market in the real economy, the producer market has seen little progress due to the ownership conflict. Without a solution, the producer market cannot grow beyond

a certain limit. To supply goods to other producers, enterprises need to receive new investments, however the ownership conflict hinders enterprises from doing so. An active financial market is critical for a vibrant real economy. But, North Korea's financial market is still in the nascent stage and is subject to significant restrictions. The regime's ability to totally control and distribute resources has weakened. Thus, due to its reliance on the market, it remains reluctant to remove restrictions, with the exception of the consumer market, highlighting its conflict. This confusion may someday be resolved. However, for now, North Korea appears to believe that the growth and development of markets beyond a certain level represents a political burden.

Our discussion today provides a unique insight into how markets in North Korea have developed and where they stand now. To enhance our understanding of additional topics regarding the North Korean market, a second discussion will follow.



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