

# Economic Life in North Korea Today (2018)

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# Consequences of Economic Collapse of the 1990s

- 70% of factories shut down
  - Many workers sold off machinery to survive
  - Most exports raw materials (coal, iron ore, magnetite)
- Transport in dire straits
- A “second economy” based on small-scale marketing and service industries (mostly run by women) developed
- Those who had access to hard currency invested and prospered with small-scale enterprises
  - Small number of Chinese in North Korea who could cross international borders freely
  - North Koreans who have ethnic Korean relatives living in China (where there are about 2 million ethnic Korean residents)
  - Koreans who repatriated to North Korea from Japan in the 1960s and can get remittances of relatives still in Japan
- Rapid growth in trade between two Koreas since 2000

# July 2002 Economic Measures

- 경제관리 개선조치 (Measures to Improve Economic Management)
  - Firm autonomy with independent accounting system
    - Firms can sell surpluses
  - Legalization of trade between firms and of consumer markets
  - Adjustment of state-set prices to more closely approximate market prices
    - People asked to pay rent on houses, and for garden plots
  - Opening of General Marketplaces 종합시장 in cities
  - Moving ahead on special economic zones

# Scenes from 2004-5



# Initial Effects of Reform

- June 2002 Measures to Improve Socialist Economic Management
  - Virtual end to provisioning system and reliance on market for distribution we
  - End of provisioning seriously weakens the power of local party organization
  - Market distribution makes control of information more difficult
    - Chinese-made televisions can receive ROK TV
    - DVD players can play imported South Korean programming
- Special economic zones for foreign investment
  - Most successful Kaesong Industrial Park being built with South Korea capital, linked to South Korea by road and rail (for the first time since the Korean War), and opened in the fall of 2004
- Experiments with small farm production units from 2004 포전담당제♪
- Result was extremely high inflation
  - Increase currency, but with no increase of supply inflation is the result

# Rural Sector after 2002

- Price increases for agricultural products combined with smaller compulsory state purchases
  - Raised rural standard of living
- Shift to small work teams of 7-8 (p'ojŏn tamdangje)
  - Never fully implemented nationwide, and not family based
- Enlargement of private plots from 30 (1000 square feet) to 400 p'yŏng (1/3 acre)—in Seattle a good-sized city lot is 5000 square feet (1/10 acre)
- Rental fee for land use (including private plots)
  - Consequence of “independent enterprise accounting system”
- Experiments with private plots in Hambuk Hoeryŏng and Musan counties

# Attempt to follow “China Model”?

- China bills itself as a “socialist market economy”
  - North Korea now has general markets, and is willing to talk about reform 개혁, but describes its economy as “our style of socialism” 우리식 사회주의
  - China has private enterprises
  - North Korea has made ownership by foreign individuals or corporations legal, but not for its own citizens
- In theory creating markets with “real” prices can facilitate more effective central planning
- North Korea has “managed marketization”
  - The traders in markets that have been observed all over North Korea
  - Some traders are agents of state-owned firms or cooperative farms paying 5% sales tax and monthly rent to the government
  - Farmers markets in which farmers sell used goods and their own produce are marginalized as much as possible

# However . . .

- There is a large-scale Chinese-owned department store in P'yŏngyang, but this caters only to elites
  - High level cadres get some of their salary in hard currency
  - Those with relatives in Japan or China may shop with hard currency remittances from relatives
- China (and Vietnam) decollectivized agriculture
  - The Chinese term for decollectivization “bundle production down to the household” 包產到戶 is not mentioned in North Korean sources
  - “Field Responsibility System” first mentioned in 2004 포전담당제 involves “work teams” of 5 or so (as opposed to punjo of around 15) and did not become widespread



# Three or Four Economies?

- Centrally Planned Economy
  - But consumer goods produced locally under the August 3 Products Production Movement
- Military Economy
  - Includes farms, factories, hard currency earners (like export of natural resources) that normally would be civilian
    - This problem has plagued China at times, but the military finally had to divest
- Party/Court Economy
  - Provides for luxury and/or imported goods for high level cadres and the Kim family
    - KWP Offices 38 and 39 당38/39호실

# Office 38

- Located on the 3<sup>rd</sup> floor of KWP P'yŏngyang Party Headquarter
- Said to be responsible for managing the Kim family finances
- Controls businesses in the DPRK and in a few other Asian countries
  - Uses earned foreign exchange to purchase imported luxuries
  - Some go to the Kim family, but they are also used to reward other high party leaders

# Office 39

- Located on the 3<sup>rd</sup> floor of KWP Party Headquarters in P'yŏngyang and independent since 1988
- Mostly involved in businesses (both legitimate and illegitimate) that earn foreign exchange
  - Export of raw materials
  - Said to also engage in cigarette bootlegging, opiates and methamphetamine, counterfeiting, etc.

# Why is change so difficult?

- Janos Kornai (Hungarian)
- Elites benefit
  - Live well, have secure livelihoods, and access to goods
- Regular people don't have enough information to suggest changes
  - Except creeping marketization is a grass roots "reform"
- Economic system is entwined with political power
  - PDS as a form of social control
- Dissenters easily silenced

# Daily Life

- Men assigned to full-time work when they finish school
  - After 10<sup>th</sup> grade for most men
  - After college for elites
  - Workers must join the Workers Federation, or Peasants Federation in which “institutional life” 조직생활 is important
    - Ideological study
    - Self-criticism sessions once a week
- Women not automatically assigned to full-time work any more
  - Must join the Women’s Federation, and often participate in neighborhood meetings 인민반

# Leisure Time

- Organized leisure (sporting competitions, theater) is done on a work-unit basis
  - Parents attend with their work unit, students with their class unit
  - Sundays can be family time

# Large Construction Projects

- Military construction brigades do much of the work, rather than skilled construction workers
- Oftentimes students and others without much experience are mobilized for labor
- Hassig and Oh p100
  - Lax work is pervasive, and speeches are always scolding the lazibones 건달꾼, 건달 부리는 일=게으름뱅이

# Self-Labor

- In theory self-labor is prohibited, but cooperatives are allowed
- Women have more room to maneuver
  - Marketing, maids, mistresses
  - Cooperative snack shacks
- With connections men may buy out their jobs (, but they need connections to do anything else



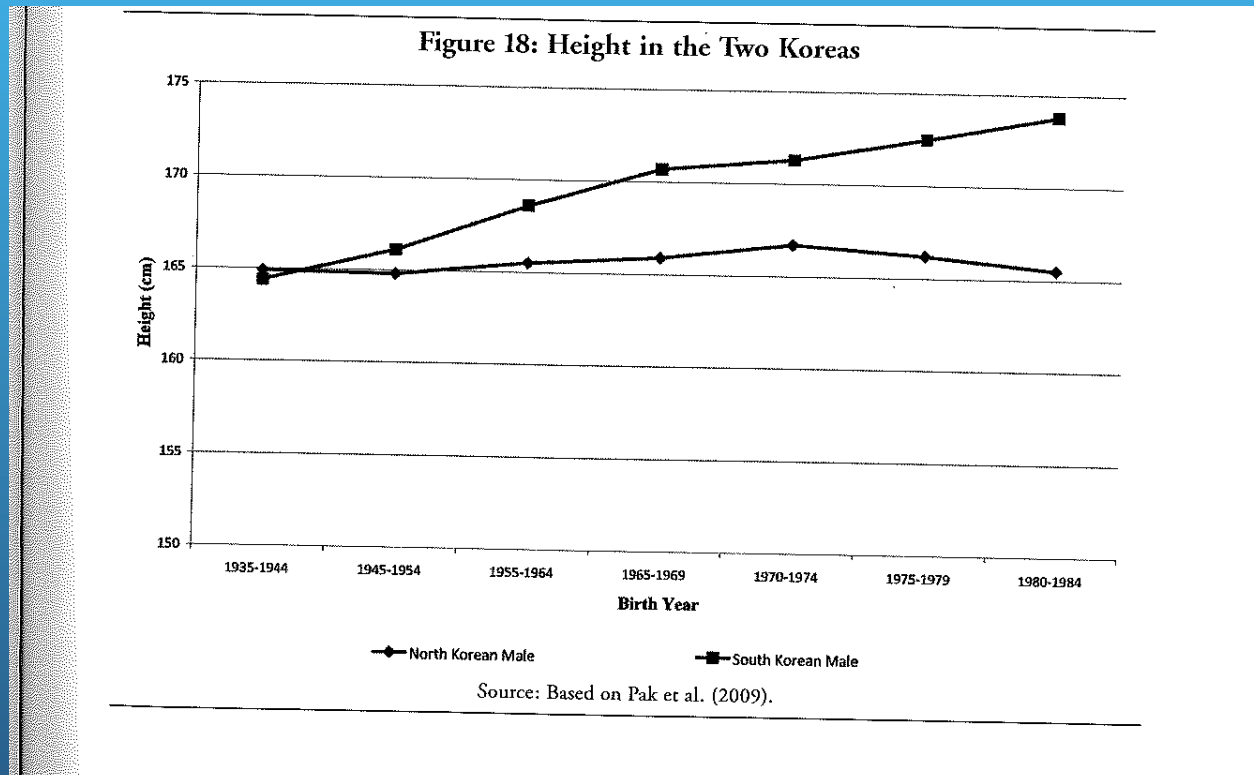
# Animal husbandry?

- Animals like chickens eat grain, and therefore exacerbate grain shortages
- Thus the authorities are always recommending grazing animals:
  - Rabbits, goats

# PDS

- Abandoned in 2002 (formally in 2003), but began to be reinstated after 2005
  - August 2005 banned trade in grain
  - However production shortages have prevented the full reinstatement of PDS grain distributions (except for elites) so most people rely on markets for food
- Since 2009 (botched “currency reform”) 400 general markets selling everything from fresh produce to imported cosmetics
  - Perhaps 25% of the non-military, non-farm population are involved
  - Ethnic Korean Chinese (Chosŏnjok, Chaoxianzu) and overseas Chinese in North Korea (chaejo hwagyo, zaichao huajiao) play key intermediary roles in critical trade with China

# Comparative Physical Stature in the Two Koreas Over time



# 서비스차 Ssöbich'a

- “service vehicles”
- Vehicles owned legally by a state office 기관 or enterprise 기업소 might transport individuals or goods for a fee in order to earn money for the unit
- Vehicles that are actually privately owned might be registered to a office or enterprise, but then be used by the owner to earn money
- First appeared around 1995 as the transportation system began to deteriorate

# Service Vehicles



# Fight over service vehicle



# Return of Field Responsibility?

- January 31, 2014 North Korean Central Broadcasting report
- “National Assembly of Agricultural Sector Subteam Heads
  - 50<sup>th</sup> anniversary of KIS’s “Theses on Socialist Agricultural Problems”
  - Field Responsibility System 포전담당제 praised
  - Was praised in 2013 as well

# Pseudo-State Enterprises

- >Andrei Lankov *JEAS* 17-51-67 (2017)
- Emerged in DPRK after the famine as “marketization from below” continued
- Foreign Trade Companies
  - Established by state-owned enterprises for foreign trade purposes
  - An entrepreneur with expertise and access to capital is appointed manager of a FTC “division” (kiji) and pays a commission to the central office—independent in all but name



# Pseudo-State Enterprises (2)

- Directly Registered Company
  - Entrepreneur strikes deal with administration to pay a fixed sum of money (plus bribes) to be registered as a state company, but in fact is private
- Entrepreneur takes over a state factory
  - Entrepreneur pays (say 20%) of turnover to use idle (state-owned) factory and equipment to manufacture a product
  - De jure entrepreneur is state employee, de facto entrepreneur provides capital, expertise, and hires and fires personnel
- (These are sometimes called August 3 enterprises)

# Where do entrepreneurs come from?

- Sōngbun important to rise up the party ladder, but not relevant for businessmen
- Acquire capital through small-scale market activity
  - Smuggle goods from Chinese border
  - Have a booth at a general market
- \$5000 is enough to start a pseudo-state enterprise
  - It is legal for “state-owned firms” to trade with each other

# Consequences

- New class of rich—tonju—who don't depend upon sŏngbun or position in the party nomenklatura for their livelihood
  - In P'yŏngyang and other places they engage in conspicuous consumption
    - Go out to fancy restaurants
    - Wear fashionable clothes
    - Live in good apartments
- Incentives of central and local officials different
  - Local officials want steady income, smooth functioning, and a healthy local economy, so allowing PSEs (for a fee) is in their interest
  - High central officials are less dependent on bribes and more ideologically committed, so they are more likely to crack down
  - Over time large-scale entrepreneurs are subject to arrest and execution