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# Understanding Kim Jong Un's Economic Policymaking

Robert L. Carlin and  
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February 2024

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## Preface

North Korea's academic journals provide key insights into how the country is thinking about its own trajectory—what ideas are being explored, tested and supported. In some cases, they can also reflect a sort of ongoing debate within the country, among the technocrats and academics, about the pros and cons of various policies. However, these journals are published only in Korean language and can be difficult to access outside of the country.

This volume is a compilation of articles researched and written by 38 North Senior Fellow [Rachel Minyoung Lee](#) and Nonresident Fellow [Robert L. Carlin](#) and published on the 38 North website. Based on North Korea's two premier economic journals—*Kyo 'ngje Yo 'ngu* and the *Journal of Kim Il Sung University*, also known as *Hakpo*—from 2012 to 2020, Lee and Carlin examine how Pyongyang's economic policy decisions were made and rolled out under Kim Jong Un.

The translated articles used to inform this research are also archived on 38 North's [DPRK Economic Journals](#) for reference.

This research was made possible through generous support from the Henry Luce Foundation and Korea Foundation.

The series is available on [www.38north.org](http://www.38north.org), and individual pieces are linked below:

- [Project Overview](#)
- [Defense Versus Civilian Spending](#)
- [Pyongyang's Views on Banking](#)
- [Management System Discourse](#)
- [A Review and Implications](#)
- [Tourism as an Industry](#)
- [Rolling out Economic Development Zones](#)
- [Foreign Trade Narrative](#)
- [Juche and Foreign Trade](#)
- [Key Findings and Implications](#)

The translated materials referenced are linked below:

- [Choso'n Sinbo](#)
  - Also written as *Choson Sinbo*. Title in English: *The People's Korea*

- [Kim Il Sung Chonghaptaehakhakpo \(Ch'o'rhak, Kyo'ngje\)](#)
  - Also referred to as *Hakpo*. Titles in English: *The Journal of Kim Il Sung University (Philosophy, Economy)* or *The Journal of Kim Il Sung University (Economics)*
- [Kyo'ngje Yo'ngu](#)
  - Also written as *Kyongje Yongu*. Title in English: *Economic Research*
- “[Kim Jong Un: Let us Bring a Turnabout in Financial and Banking Work and Vigorously Accelerate Powerful State Construction](#),” *Workers' Party of Korea Publishing House*, January 30, 2017 (originally published in 2015).

## Phase I

### Project Overview

May 28, 2021

38 North has launched a project that reviews the dynamics of North Korea's economic policymaking under Kim Jong Un, from when he assumed power in December 2011 until 2020.<sup>1</sup> In the coming months, the authors will follow up with analyses of the specific themes they have identified for closer inspection. Translations of the North Korean economic journal tables of contents and articles used for this project will also be made available on 38 North.

#### Significance of the Economic Policy Question

North Korea's economic policy is not just about trade statistics, budget figures or the impact of international sanctions. It revolves around the deeper and broader questions of resource allocation priorities and the balance between central control and latitude in lower-level units. These two issues inevitably have implications for North Korea's domestic and foreign policy and offer a glimpse of the extent to which Kim Jong Un will carry out economic reform. How the North Korean economic discourse evolves is critical as the country continues to experiment with new ideas and practices to improve its "economic management methods," a codeword for the country's reform-oriented economic measures.

A central component of progress toward North Korean denuclearization and improved inter-Korean relations, up to and eventually including unification, will be economic. It will be impossible to successfully implement economic initiatives that could support denuclearization without a full understanding of North Korea's current and future economic policy calculus. Similarly, steps toward inter-Korean rapprochement and unification must resonate within the framework of North Korean thinking and experience. New ideas and economic concepts cannot simply be imposed from the outside. They will have to be formulated, introduced and implemented in a way that builds on what is already there, either in terms of practice or ideas that have already been discussed.

#### Methodology and Scope

**Methodology:** This project focuses on the timing and sequencing of innovations introduced under Kim Jong Un and the type of opposition they have encountered. Crucially, it pinpoints articles in the regime's two premier—and publicly available—economic journals that provide a window into the types of ideas which the regime allows for discussion, and the range of policy choices it appears to have seriously examined over the years. We know, for example, that from 2001 to approximately 2006, Kim Jong Il introduced new economic policies, which sparked different shades of opinion observable in the DPRK's main economic journal *Kyo'ngje Yo'ngu*<sup>2</sup>

<sup>1</sup> The authors would like to thank Dr. Young Hui Kim, a graduate of Cho'ng Chun-t'aek Wo'nsan University of Economics, who is currently a senior researcher at the Korea Development Bank in Seoul and an expert on the North Korean economy, for her insights on *Kyo'ngje Yo'ngu*.

<sup>2</sup> This paper uses a modified version of the McCune-Reischauer romanization system for North Korean text. Diacritics are replaced with apostrophes. Some proper nouns will follow internationally recognized spellings or North Korean transliterations instead.

and the North’s central media.<sup>3</sup> We assume, and think we can discern, a similar dynamic at work under Kim Jong Un.

There are many approaches to utilize in setting out on such an analytical journey. One popular method in recent years has been the use of machine-learning tools to examine huge swaths of North Korean text.<sup>4</sup> This broad-strokes approach of semantic analysis is effective for identifying the general trends of Pyongyang’s areas of interest. But it fails to distinguish between significant and purely propagandistic articles and overlooks the often-nuanced arguments presented in a pool of select important articles and the domestic or external context in which they appear.

By contrast, we have settled on a traditional but time-tested methodology that relies on refined and tested human understanding and intuition, the result of long experience actually dealing with and observing from a wide variety of angles in the North Korean system and its internal media practices.

**Scope of Sources:** The primary source for this project is the North Korean economic quarterly *Kyo’ngje Yo’ngu*, translated into “Economic Research.” We will review the *Journal of Kim Il Sung University (Economics)* to supplement our research of *Kyo’ngje Yo’ngu*.<sup>5</sup> Throughout the project, we will utilize the party daily *Rodong Sinmun* in order to compare, and in some cases contrast, *Kyo’ngje Yo’ngu* articles with the official economic line. We will also utilize North and South Korean open-source materials to check how *Kyo’ngje Yo’ngu* lines up with major North Korean domestic and foreign policy milestones. Finally, we will use articles and commentary in *Choso’n Sinbo*, a paper run by the General Association of Korean Residents in Japan (*Chongryon*). This source often conveys Pyongyang’s views—or at least a version of them—on important domestic and foreign policy issues which the North may be reluctant to comment on so directly in its own voice.

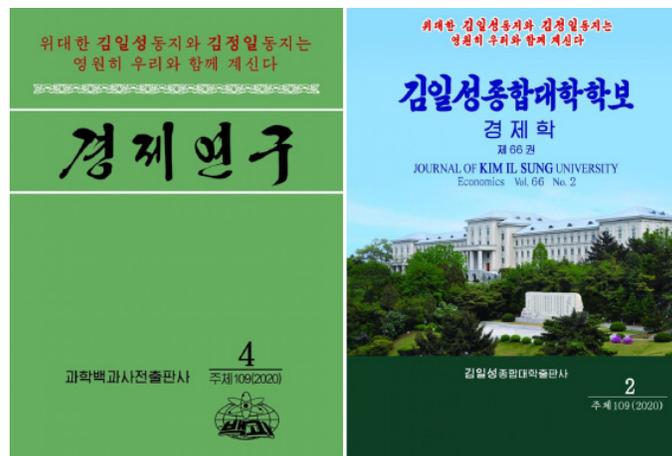


Figure 1. Screenshots of the cover *Kyo’ngje Yo’ngu*, 2020, Volume 4 (left) and the *Journal of Kim Il Sung University (Economics)*, Volume 66, No. 2, published in 2020 (right) obtained from the website of the Tokyo-based DPR Korea Media (KPM).

<sup>3</sup> Robert L. Carlin and Joel S. Wit, “North Korean Reform: Politics, economics and security,” in *Adelphi Paper 382* (London: Routledge for the International Institute for Strategic Studies, 2006), 35-52.

<sup>4</sup> See, for example: Soo-hyun Kim and Sohn Wook, “Economic Policy Changes in North Korea: A Text Mining Approach to Economic Research,” *Bank of Korea*, February 25, 2020, <https://www.bok.or.kr/portal/bbs/P0002240/view.do?nttId=10056673&menuNo=200092>.

<sup>5</sup> *The Journal of Kim Il Sung University (Philosophy, Economy)* through 2018, and the *Journal of Kim Il Sung University (Economics)* from 2019. *The Journal of Kim Il Sung University (Economics)* is the official English name of *Kim Il Sung Chonghaptae hakpansa* (*Kyo’ngjehak*).

**Scope of Topics:** Under the broad objective of gauging the regime's current and future economic policy calculations, our research is driven by a number of questions:

What are the general trends observed in *Kyo'ngje Yo'ngu*? What subjects are covered, and how are they discussed, explained, defended or criticized either on the pages of the economic journal itself or in other North Korean media?

How do *Kyo'ngje Yo'ngu* articles signal new developments or explain changes to previous orthodoxy? How are they reflected—if indeed they are—in official party policies, such as in Kim Jong Un's speeches, party meetings, or party daily editorials?

Out of a range of topics addressed in the two economic journals, we keyed in on themes that appeared to best represent the leadership's thinking on reform and competing priorities, recognizing that in any single article, there could be clues and arguments about larger ideological or political issues we might miss. These themes included: socialist principles and economic management; economic systems; prioritization of industries and resource allocation; the accumulation-consumption dynamic;<sup>6</sup> economic levers; banking; and “revisionism.” Some of these themes appeared to reveal tensions between the traditional views of socialist principles and the more flexible, reformist interpretations, the challenges facing the regime as it pushes its reformist agenda, and the extent to which the regime appears willing to go to implement its economic policy.

### ***Kyo'ngje Yo'ngu* and *Journal of Kim Il Sung University*: A Sketch**

***Kyo'ngje Yo'ngu*:** Experts who follow Pyongyang's economic policies unanimously agree that this journal is the single most important North Korean source of information on the economy, on the grounds that it offers insight on the regime's current policies and the direction in which it is headed with a level of detail not available in central media. In effect, *Kyo'ngje Yo'ngu* functions as an economic “policy handbook” that discusses and, to some extent, reflects differing views on aspects of policy not yet fully decided, still unofficial party policies, and guidelines not published in central media but circulated in the form of detailed internal party instructions. *Kyo'ngje Yo'ngu* articles on the role of commercial banks offer a good example: Central media very rarely mention these institutions, let alone explain their function in the national economy or North Korea's policy toward them. For years, their existence was considered so sensitive that even *Choson Sinbo* was not allowed access to these banks.

*Kyo'ngje Yo'ngu* was launched in 1956. The North Korean encyclopedia describes the journal's target audience as economists, economic experts, university instructors, economic management functionaries and university students majoring in social sciences.<sup>7</sup> The journal was published quarterly, on the 30th of January, April, July and October, by the Science and Encyclopedia Press Group until December 2020, when the KPM website announced that *Kyo'ngje Yo'ngu* and three other “humanities” journals would cease publication starting in 2021. It remains uncertain

<sup>6</sup> Whether to put more weight on “accumulation” (investment) or “consumption” has long been a source of debate among North Korean economists and policymakers, going back to the mid-1950s. Traditionalists favor accumulation, which they view as the key to expanding production and improving the people's livelihood, while reformists regard a balance between accumulation and consumption as necessary for raising the people's living standards and keeping workers motivated.

<sup>7</sup> Electronic version of 조선대백과사전, compiled by the Encyclopedia Press Group and created by the Samilp'o Information Center, 2005.

whether North Korea will replace *Kyo 'ngje Yo 'ngu* with a journal that has a similar function. The North had suspended its publication once before—from 1968 through 1984.<sup>8</sup> Based on that precedent, the journal might be resuscitated in the future, though that could take a while.

The identity of *Kyo 'ngje Yo 'ngu* authors requires educated guessing: Their affiliations are never revealed, and between 2007 and 2020, only 376 out of 1,880 articles, or 20 percent, disclosed author titles (professor or associate professor) or academic degrees.<sup>9</sup> Based on the level of technical expertise and knowledge required to coherently explain party policies in an article, its writers most likely consist of instructors, professors and researchers at academic institutions. Those academics who contribute articles likely are involved in policy proposals and discussions, as are researchers in the Academy of Social Sciences.

*Kyo 'ngje Yo 'ngu* articles have become greater in number and shorter in length over the years. From 2007 to 2011, a single edition rarely contained more than 30 articles. From 2012 to 2015, per volume, the journal carried between 32 and 38 articles; in 2016, between 41 and 44; and from 2017 to 2020, between 37 and 48. Prior to 2016, articles averaged roughly 700 to 1,200 words in length; since 2016, that has shrunk to approximately 600 to 700 words per article.<sup>10</sup>

The general thematic structure of *Kyo 'ngje Yo 'ngu* is as follows:

- Articles on the Kim leadership's achievements. These almost always comprise the first one to four in every volume. *Kyo 'ngje Yo 'ngu* started publishing articles dedicated to Kim Jong Un in 2012, Volume 2, approximately four months after he ascended to power.
- Broad ideological and theoretical issues or economic priorities. Examples include socialist principles, economic management theories, economic structures and systems, and the use of economic levers in a socialist economy (ideological and theoretical issues); and prioritizing certain industries over others, giving primacy to science and technology, and building a knowledge-based economy (economic priorities).
- Practical issues associated with business management, operations and strategies. This includes, for example, how enterprises should formulate business strategies.
- Issues related to specific industries. Common industries featured include agriculture, finance, international trade, banking, taxation, foreign investment, tourism and the environment.
- Historical issues. These include the emergence of markets and industries in ancient Korea and Japan “obstructing” Korea’s economic development during the colonial period.
- Key current international economic trends or concepts and criticism of capitalism and “revisionist” theories.
- Almost every *Kyo 'ngje Yo 'ngu* volume has a section labeled “common sense,” which

<sup>8</sup> Kim Eun-young, “사회주의권 붕괴 이후 북한의 대외경제 관련 담화 분석,” *KDI Review of the North Korean Economy*, December 2012, p. 48, at [https://www.kdi.re.kr/forecast/forecasts\\_north.jsp?pub\\_no=12712&p-g=8&tema=G&pp=10](https://www.kdi.re.kr/forecast/forecasts_north.jsp?pub_no=12712&p-g=8&tema=G&pp=10); and *Kyo 'ngje Yo 'ngu* archives of the KPM and the Korea Institute for National Unification (KINU) and ROK Ministry of Unification websites.

<sup>9</sup> Based on the 2007-2020 *Kyo 'ngje Yo 'ngu* table of contents retrieved from the KPM website on April 20, 2021.

<sup>10</sup> Figures derived from a sampling of *Kyo 'ngje Yo 'ngu* articles, specifically the approximately 100 articles singled out for a closer study.

explains a key economic, financial, trade or tax concept. These are often short primers, with no ideological content.

***Journal of Kim Il Sung University:*** In the absence of *Kyo 'ngje Yo 'ngu*, the *Journal of Kim Il Sung University (Economics)* has become the top economic journal for gaining insight into the regime's economic thinking. The Kim Il Sung University Publishing House launched the *Journal of Kim Il Sung University* in 1956; it was subsequently split into three social sciences quarterly journals in 1998, which were broken down further thematically into five biannual journals in 2019, with the *Journal of Kim Il Sung University (Philosophy, Economy)* being split into one journal on economics and the other on philosophy.<sup>11</sup>

Published on the 30th of April and October, each issue of the economics journal since 2019 has carried 12 or 13 articles; the *Journal of Kim Il Sung University (Philosophy, Economy)* published anywhere from 19 to 45 articles per volume from 2007 and 2018. In contrast to articles in *Kyo 'ngje Yo 'ngu* and the *Journal of Kim Il Sung University (Philosophy, Economy)*, which were shorter and written in essay style, the economics journal articles have become longer and tend to be structured like formal scholarly papers, with an introduction, a main body consisting of a few themes and a conclusion.

The revamping of the Kim Il Sung University journals<sup>12</sup> was almost certainly a response to Kim Jong Un's call in 2016 to “designate *Journals of Kim Il Sung University* as national professional academic journals and develop them into world-class academic journals” and send them to other countries.<sup>13</sup> It also fits with Kim's report to the Seventh Party Congress in May 2016, stressing the need to bring North Korean education up to international levels.<sup>14</sup> As a part of that effort, Pyongyang appears to have viewed it as necessary to set apart these journals, published by the country's top university, from other North Korean journals and align them with international academic norms and standards.

Similar to its predecessor and even *Kyo 'ngje Yo 'ngu*, the *Journal of Kim Il Sung University (Economics)* deals with a range of economic, financial, trade and international economic issues and capitalism. In a stark contrast to these two journals, however, the *Journal of Kim Il Sung University (Economics)* typically does not start with an article praising a Kim leader's achievements. It tends to lead off with an article explaining priority issues for developing the national economy and ends with an article criticizing capitalism. More than half of the contributors to the *Journal of Kim Il Sung University (Economics)* are identified as professors or associate professors, but their affiliations remain undisclosed.<sup>15</sup>

## What's Next?

How North Korea presents the national defense industry and heavy industry and their places in the national economy relative to light industry and agriculture—sectors that have a direct impact

<sup>11</sup> The KPM archive, however, shows that this split occurred in 1997, not 1998.

<sup>12</sup> All five Kim Il Sung University social sciences journals underwent the same changes as of 2019.

<sup>13</sup> Quote translated into English from the full text of Kim Jong Un's letter to Kim Il Sung University faculty and staff marking the university's 70th founding anniversary: “김정은 《주체혁명의 새시대 김일성종합대학의 기본임무에 대하여》 김일성종합대학창립 70돐에 즈음하여 대학 교직원, 학생들에게 보낸 서한 주체105(2016)년 9월 27일,” *Minju Joeson*, September 30, 2016

<sup>14</sup> Kim Jong Un's “work summing-up report” to the Seventh Party Congress. “조선로동당 제7차대회에서 한 당중앙위원회 사업총화보고-김정은,” *Rodong Sinmun*, May 8, 2016.

<sup>15</sup> The *Journal of Kim Il Sung University (Philosophy, Economy)* altogether omitted titles and academic degrees from bylines starting with Volume 3 in 2008 through Volume 4 in 2018. Kim Il Sung University resumed including author titles and academic degrees with the launch of the *Journal of Kim Il Sung University (Economics)* in 2019.

on the people's daily life—often is a weathervane of the regime's current thinking on reform, any challenges it may be facing and where it may be headed. The accumulation-consumption debate tends to resurface when Pyongyang is considering or has decided to pivot from reform-oriented policies and reprioritize national resources between national defense (or heavy industry) and light industry and agriculture.

Against that backdrop, our next piece will cover how the journals' discourse on the national defense industry and heavy industry evolved between 2007 and 2020, and how it aligned with and possibly even deviated from Pyongyang's official economic policies and priorities. The piece will also inevitably review the journals' coverage of the accumulation-consumption issue.



## Defense Versus Civilian Spending

September 22, 2021

There is a generally accepted view that a large—perhaps the largest—portion of the DPRK economy in one way or another is devoted to the defense sector, thus starving the civilian economy.<sup>16</sup> This does not seem to be settled policy, however, and has not been for some time. Internal North Korean discussions on defense spending have been and continue to be key indicators of the range of leadership thinking on this central question, not merely in terms of allocation of resources, but in a larger sense, in terms of thinking about economic reform.

### The Landscape

There has long been a tug-of-war in the North Korean leadership over military versus civilian spending. National priorities have almost always ended up favoring defense spending, not just for military hardware but also for priority access to talent and technology. To some extent, the debate surrounding those decisions has been conducted in full view. Contrary to the commonly accepted notion that there can be no dissent or inconsistencies in North Korean publications, North Korea's primary economic journal *Kyo'ngje Yo'ngu* (Kyongje Yongu)—and to a lesser degree, *Journal of Kim Il Sung University (Philosophy, Economy)*—has served as a platform for voicing differing views on defense spending. Notionally, the journal is simply a platform for academics, but it is inconceivable that this level of disagreement over such a sensitive topic could be conducted without the concurrence, and more likely the active backing, of various elements in the leadership. In effect, the authors, some of whom are apparently on the leading edge of the discussions, are used to voice the contending views when a policy is under discussion within the leadership, sometimes inserting new ideas or even carefully voicing shades of opposition to the current line, again, almost certainly with high-level backing.

In that vein, over the past two decades, there have been frequent episodes where arguments have broken out in the journal over the value of defense spending, forcing those who favor giving defense industries such a large portion of the pie to justify that position in ways that went beyond simple traditional arguments about the need for strong armed forces. Simply put, there is an underlying argument that the more funds the regime allocates to national defense, the fewer resources can be spent to prop up and revitalize the civilian economy, leaving little room for reform-oriented ideas and measures to take root. In recent years, proponents of defense spending were forced to demonstrate how money in the defense sector is actually good for the economy, supports other non-defense sectors, and stimulates growth overall. The opponents, occasionally with unbelievable boldness, argued that defense spending was money down a rat hole, and actually undermined economic growth.

That debate was very evident in the period of 2001 to 2005, for example, when contending arguments appeared in the economic journal and the pages of the party daily *Rodong Sinmun* as Kim Jong Il's efforts to introduce new, reform-oriented economic policies ebbed and flowed.<sup>17</sup>

There was a resurgence of articles in *Kyo'ngje Yo'ngu* beginning in 2008 again advocating a more balanced approach, and thus implicitly less emphasis on the defense sector. This was

<sup>16</sup> This paper also uses a modified version of the McCune-Reischauer romanization system for North Korean text, with some proper nouns following internationally recognized spellings or North Korean transliterations instead.

<sup>17</sup> Robert L. Carlin and Joel S. Wit, "Preparation for Economic Reform," *The Adelphi Papers* 46, no. 382 (2006): 27-52.

despite the North's hardening line against cabinet-led economic reforms, which culminated in Kim Jong Il's "June 18 talk" in 2008 with senior party and state economic officials that appeared to be rolling back these reforms.<sup>18</sup> Even after Kim's stroke in August 2008, when the North seemed to swing toward a harder external line, most notably on the nuclear issue, arguments for more balanced economic policies continued to appear in the journal. There are many possible interpretations for that, but at one level, it suggests that Kim's efforts to prepare for the eventual political succession consisted of two parts: a shield of toughness against external pressure, and a new look at ways to improve the economy to increase the chances of a smooth transfer of power.

Each year from 2007 to 2010, there were several articles in *Kyo'ngje Yo'ngu* that dealt primarily with or were exclusively dedicated to the defense industry and its correlation with other industries. These decreased sharply starting with the first volume of 2011, giving way to more articles on economic management—a theme which, as it developed, became increasingly linked with reforms. In other words, just four months after Kim Jong Un's public debut in 2010, and nearly a year before his father's death in December 2011, the economic journal was already reflecting a new focus on economic policies associated with reform and less on defense priorities.

### The Debate: Three Areas of Focus

**First Front.** The easiest theme to identify in this overall debate is the clear cry of pain from those whose back is seemingly against the wall trying to defend the priority once granted automatically to defense industry spending.

In an article published in early 2010, proponents of a massive diversion of economic resources to the defense sector had to shift their ground. They argued, not very convincingly apparently, that spending on defense did not retard but actually helped stimulate the economy, and that arguments raised to the contrary were "one dimensional." They said:

Conventional wisdom has it that it was the development of munitions production that delayed overall economic development. The basis for this is that munitions products cannot be inducted into the reproduction process again. This, however, is based on a one-dimensional understanding. The national defense industry of the military-first era plays the role of leading and vigorously promoting overall people's economic development.<sup>19</sup>

This sort of reference to another side of an argument—in this case pushing back against a "one dimensional" viewpoint—is usually a sign of an underlying debate. Writings later in 2010 appeared to advance the other side. In typical fashion, these tiptoed into the argument. On the surface, they acknowledged the importance of the defense industry, but then argued, for example, that the defense industry was dependent on a prior development of heavy industry, implicitly rejecting the idea that by giving priority to the former, it would strengthen the latter. An article in the final volume in 2010, after a lengthy lead-in that ostensibly discussed the importance of the defense industry, shifted gears to argue the opposite. In effect, it argued that the country had already reached the level of a "militarily powerful state"—a flag around which reformers had

<sup>18</sup> For more on Kim Jong Il's rolling back of economic reforms, his "June 18 talk," and the anti-market measures that followed, see 한기범, *북한의 경제개혁과 관료정치* [Han Ki-beom, *North Korea's Economic Reform and Bureaucratic Politics*] (Seoul: Daewon Publishing, 2020), 176-205.

<sup>19</sup> Quote translated from 리춘일, "선군시대 경제건설로선에서 국방공업의 위치와 역할," [Ri Ch'un-il, "[The Position and Role of National Defense Industry in the Economic Construction Line of the Military-First Era](#)"] *Kyo'ngje Yo'ngu* 1, (January 2010).

long rallied, and that:

At the present time, the urgent issue in our people's struggle to build a powerful socialist state is to build our country into an economically powerful state with powerful economic capabilities.

Our country has already confidently stepped up to the position of a politically and ideologically powerful state and a militarily powerful state under the wise leadership of the great party.

Hence, the issue that needs to be resolved in our people's struggle to build a powerful state at the present time is to place the country's productivity development level to a position of an economically powerful state.

In order to decisively raise the level of the country's productivity development, [we] must first give a boost to the leading sectors and basic industrial sectors of the people's economy, which are in charge of the leading processes of social production and are the basic sectors of all industrial development, such as the machine industry.<sup>20</sup>

An article published in the *Journal of Kim Il Sung University (Philosophy, Economy)* in 2015 seemed an effort to straddle the two positions. It largely swept away an appeal to the economic efficacy of the national defense industry and reverted to an old-fashioned argument that was unusually harsh, given that Kim Jong Un's key economic reforms had been tested and launched by the time the article was published. The article argued that military spending was crucial, first and foremost, to protect the country against "the imperialists," citing Afghanistan and Iraq as examples that must be avoided at all costs. Nevertheless, the times apparently did not allow that argument to stand alone, and so the author was obliged to address the efficacy of defense spending for overall economic progress, in terms similar to what had been advanced in *Kyo'ngje Yo'ngu* several years before:

Strengthening national defense capabilities guarantees rapid economic advancements by rejuvenating the entire socialist economy through the priority development of the national defense industry... The development of the national defense industry is premised on the priority development of heavy industry. Therefore, if [we] advance the national defense industry, [we] end up promoting the priority development of heavy industry, and based on the priority development of heavy industry, [we] can also rapidly advance light industry and agriculture.<sup>21</sup>

In short, through this period, those arguing for special status for the national defense industry were being forced to make their case that "munitions production" was actually a productive investment, something that paid dividends, perhaps over time, in terms of overall economic progress.

Eight years later, in January 2018—almost certainly in anticipation of, and implicitly voicing some level of opposition to Kim Jong Un's shift to the "new strategic line" of "concentrating

<sup>20</sup> Quote translated from 박순철, "현시기 인민경제 선행부문, 기초공업부문을 추켜세울데 대한 우리 당 경제정책의 정당성," [Pak Sun-ch'o'l, "The Legitimacy of Our Party's Economic Policy on Giving a Boost to the Leading Sectors and the Basic Industrial Sectors of the People's Economy at the Present Time"] *Kyo'ngje Yo'ngu* 4, (October 2010).

<sup>21</sup> Quote translated from 엄경철, "국방력강화는 국사중의 국사," [O'm Kyo'ng-ch'o'l, "Strengthening National Defense Capabilities Is the State Affair of State Affairs"] *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 3, (2015).

all efforts” on the economy announced in April of that year—dueling articles appeared in the same issue of *Kyo'ngje Yo'ngu*. One, seemingly trying to head off the decision to shift to the new line, advocated the harder position that defense spending helped to stimulate the economy. The other suggested the need to shift emphasis away from the military. Although the former article noted that “considering the requirements of the times today, newly clarifying the position of the national defense industry arises as a particularly important issue,” it did not actually clarify anything new. Instead, it basically repeated the same argument from 2010:

According to existing notions, the effects of munitions production on civilian production have been regarded as being limited effects on the overall economic development and as delaying economic development. This was based on the grounds that munitions products cannot be inducted into the reproduction cycle again and that investment in munitions production is unproductive investment.<sup>22</sup>

This reference to “existing notions” is a window into how baldly the debate is being conducted beneath the surface, that however roundabout those who advocate easing off defense spending may sometimes make their arguments in the pages of *Kyo'ngje Yo'ngu*, the gloves are actually off. Someone is calling investment in munitions production “unproductive,” a devastating charge that no one would make without very high-level backing.

**Second Front.** In addition to the back-and-forth noted above, a second part of the debate revolves around the seemingly obscure issue of whether the defense industry is part of or separate from heavy industry. This is not simply academic angels dancing on the head of a pin. Within the context of the debate over the position of the defense industry’s place in the overall economic scheme, it deals with an important issue—whose share of the pie the defense industry is consuming, or by implication, it ought to consume. If the defense industry is viewed as part of heavy industry, then spending on the defense industry gets counted as contributing directly to the heavy industry sector performance. In that case, the defense industry cannot be accused of taking resources away from a vital sector since, by definition, it is actually part of that sector. In turn, that reinforces the argument that spending for the defense industry is a contribution to economic development. Those who argue to the contrary are, in effect, adopting the line referenced above—that investment in the munitions industry is unproductive; that is, it adds nothing and is actually a net loss for the economy.

The national defense industry and heavy industry are closely intertwined so as to be inextricable. The national defense industry is founded on heavy industry, and the development of the national defense industry cannot be thought of apart from the development of heavy industry.<sup>23</sup>

This has apparently been a tough argument to oppose, and it is not unusual for writers to throw up a protective shield in the first part of their article by seeming to support the conservative (or safe) position, then to shift to something over the line by arguing the opposite. For example, in 2008, the first half of a *Kyo'ngje Yo'ngu* article emphasized in standard language the link

between the defense industry and heavy industry, only to suddenly pivot to what appeared to be its real main point: heavy industry’s resources must support more than national defense and

<sup>22</sup> Quote translated from 광명철, “국방공업의 지위를 옳게 밝히는것은 사회주의경제건설에서 전략적의의를 가지는 중요한 문제,” [Kwak Myo'ng-ch'o'l, “[Correctly Clarifying the Status of the National Defense Industry Is an Important Issue That Has Strategic Significance for the Construction of a Socialist Economy](#)”] *Kyo'ngje Yo'ngu* 1, (January 2018).

<sup>23</sup> O'm Kyo'ng-ch'o'l, “Strengthening National Defense Capabilities Is the State Affair of State Affairs.”

should extend to light industry and agriculture:

All of this shows that the development of heavy industry into heavy industry for the national defense industry serves as the basic direction of heavy industry construction in the military-first era.

Next, the basic direction of heavy industry construction in the military-first era is to build [heavy industry] into heavy industry that vigorously lends impetus to socialist economic construction...

From this point of view, building heavy industry into heavy industry that vigorously lends impetus to socialist economic construction means building heavy industry into heavy industry that actively lends impetus to the development of light industry and agriculture.<sup>24</sup>

**Third front.** Pyongyang's discourse on accumulation (investment) and consumption is a third battleground inextricably, though not always explicitly, linked to the issue of defense spending.

Dueling narratives in North Korea on accumulation and consumption go back as far as the mid-1950s, when Kim Il Sung supported concentration in heavy industry and the defense industry, while those who opposed Kim's policy accused him of neglecting the people's livelihoods. The core of this debate has never gone away, though arguments on both sides have shifted over time.

Proponents of accumulation call for investing national resources in the people's *future* happiness, namely by delaying consumption and strengthening, first of all, the defense shield, then the basic (heavy) industry necessary to produce machines and resources required for eventual use by light industry and consumer goods. They argue that consumption can grow only through a systematic increase in investment.

Supporters of consumption, on the other hand, place weight on satisfying the people's more *immediate* material needs, in some cases arguing that if the people are expected to come to the defense of the nation, they need to have something to defend. They argue that excessive focus on either will adversely affect the other, as accumulation and consumption both use national income. They specifically warn against overspending on accumulation (and heavy industry goes into the accumulation basket), as it reduces the national resources available for satisfying the people's immediate needs, such as workers' salaries, thereby negatively impacting growth in production.

In the past, during periods of discussion or debate within the North Korean leadership over economic reform policies or when the North was looking to pivot away from reform, *Kyo'ngje Yo'ngu* published articles that emphasized accumulation to justify increased defense spending as investment in the people's future happiness. For example, there was a resurgence of articles in the journal on the accumulation-consumption debate starting in 2004, in line with Kim Jong Il's "economic construction line of the military-first era," which called for advancing the defense industry first while rhetorically at least developing light industry and agriculture simultaneously.<sup>25</sup>

*Kyo'ngje Yo'ngu* articles on accumulation and consumption in Kim Jong Un's time have

<sup>24</sup> Quote translated from 류운출, "선군시대 중공업건설의 기본방향," [Ryu Un-ch'ul, "[Basic Direction of Heavy Industry Construction in the Military-First Era](#)"] *Kyo'ngje Yo'ngu* 4, (October 2008).

<sup>25</sup> Han Ki-beom, 128-130.

generally emphasized equilibrium between accumulation and consumption, with some explicitly justifying such a course by painting in rosy terms the economic impact:

In a socialist society, the correlation between accumulation and consumption calls for consuming while accumulating, and accumulating while consuming without being partial to any specific one of these. In a socialist society, there can be no contradictions between accumulation and consumption—they both are geared toward promoting the well-being of the people...

When [we] firmly build socialist material and technical foundations by first directing more funds toward accumulation for strengthening the production foundations of the leading sectors of the people's economy, the basic industrial sectors, light industry, and agriculture can [we] strengthen the country's financial foundation, accelerate overall economic development with [our] own funds, and rapidly improve the people's living standards.<sup>26</sup>

### The Current Discourse

Despite Kim Jong Un's [avowal](#) at the Eighth Party Congress in January to continue to develop new weapons and improve existing deterrence, there appear to be no signs yet of North Korea significantly backtracking on economic reforms to make room for more emphasis on defense industry. North Korean central media continue to espouse the socialist enterprise responsibility management system (SERMS) and the "plot responsibility system," the country's key reform measures in the industrial and agricultural sectors, respectively.

Even Kim Jong Un's remark at a recent party Political Bureau meeting that "the mission of our economy is to meet the people's material demand," as he emphasized the importance of light industry, sounded like consumption over accumulation.<sup>27</sup>

Though *Kyo'ngje Yo'ngu* ceased publication as of the beginning of this year, we don't expect an end to the long-running internal North Korean discussion or debate over whether defense spending is crucial to or a drag on the economy.

### What's Next?

The next installment will deal with North Korea's banking policy based on articles published in academic journals on the role of banks and funds. "Bank," much less "banking," is almost never mentioned in North Korean central media in a policy context, apparently due to its sensitivities. North Korean academics, however, write on them regularly in journals, reflecting the regime's awareness of the importance of banks for revitalizing the economy.

### [Translator's Note and Works Cited](#)

<sup>26</sup> Quote translated from 박혁, "축적과 소비의 균형의 법칙을 정확히 구현하는것은 사회주의재정의 중요한 임무," [Pak Hyo'k, "[Accurately Materializing the Law of Balance Between Accumulation and Consumption Is an Important Duty of Socialist Finance](#)"] *Kyo'ngje Yo'ngu* 1, (January 2016).

<sup>27</sup> "Third Enlarged Meeting of Political Bureau of 8th C.C., WPK Held," *Rodong Sinmun*, September 3, 2021.

## Pyongyang's Views on Banking

December 22, 2021

As the third project in our series on understanding Kim Jong Un's economic policymaking, we examined how North Korean academic journals treat the concept of banking.<sup>28</sup> We did so, in part, because of the surprisingly large number of articles touching on the banking issue in recent years. That intense focus suggested that new policies on banks—signaled by [Kim Jong Un's letter](#) to a banking conference in December 2015—had presented the regime with a complicated challenge, engendering considerable research and discussion.

Indeed, that turned out to be the case. The deeper we got into over 40 journal articles, not only in *Kyo'ngje Yo'ngu* and the *Journal of Kim Il Sung University (Hakpo)* but also *Sahoe Kwahagwo'n Hakpo* (the *Journal of the Academy of Social Sciences*), the more threads there were to pull, the more angles to understand, and the more links to be followed. It also seemed worth noting that, although the banking issue was a focus in the journals, it was—and still is—almost completely absent from the two major central media sources targeting the general domestic public—*Rodong Sinmun* and *Minju Joson*.<sup>29</sup>

In many ways, it appears that the issue of banks was more complex than the defense versus civilian spending conundrum we discussed in the second installment of this series. As sensitive as the regime considered the defense spending issue, the banking problem was perhaps even more so. The enlargement and reform of the banking sector, which is what the regime has been attempting under Kim Jong Un, seems to have forced Pyongyang to deal with a number of new, thorny questions about how, practically and realistically, to push the economy to grow. In the process, explicitly or not, the regime had to justify adopting measures that, only a few years ago, were roundly condemned as capitalism in its worst forms. Charging interest for loans became one approved way banks could earn funds for operating capital; credit cards became portrayed as a way to increase money circulation and to ease the burden on consumers of traveling to the bank.<sup>30</sup>

There is an assumption sometimes expressed by outside observers that the North's efforts in the banking sector have been primarily aimed at increasing control over funds accrued outside of central control. To the contrary, the bulk of the articles in the journals we studied focused on the opposite: how to increase “creativity” in banks, lessen rigid control from the center, and make space for bank officials—and the sector as a whole—to respond to conditions and developments at the local and enterprise levels without undue restrictions.

<sup>28</sup> This paper uses a modified version of the McCune-Reischauer romanization system for North Korean text, with some proper nouns following internationally recognized spellings or North Korean transliterations instead.

<sup>29</sup> For that contrast in coverage, we still don't have an explanation. It might reflect the sensitivity of the banking issue; it might also be explained by the fact that as changes to banking policies are under internal discussion, the issue is not yet deemed appropriate for either the party or government dailies.

<sup>30</sup> Forms of electronic money, including credit cards, were extensively and at least implicitly explored favorably in *Hakpo* articles as early as 2013. See Ri So'n, “Understanding Electronic Financial Services and the Direction of Their Development,” *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 2, (2013); and Ryu Ch'o'n, “Types of Electronic Money,” *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 3, (2013). For the issue of loan and savings interest, see Nam So'k-ch'un, “Composition of Commercial Banks' Funds in a Socialist Society and Their Characteristics,” *Kyo'ngje Yo'ngu* 2, (April 2019).

## Tracing the Banking Narrative

As with our study of defense versus civilian spending, we started this research by examining articles back to the early 2000s to ensure that what we have seen under Kim Jong Un was not previously discussed during Kim Jong Il's time in power. What we observed was that under both leaders, there was a long stretch of educational articles in *Kyo'ngje Yo'ngu* about banks, banking and the international financial system, very much focused on preparing North Koreans for business relationships with capitalist actors outside the country and entry of capitalist companies or investors into the North. Many of these articles were nonjudgmental and illustrative, in a sort of "Banking for Dummies" approach. In some cases, the authors felt compelled to justify their treatment of what would otherwise be controversial topics by explaining:

Correctly understanding the economies of other countries and the international market is the first step in external economic activity and as such is important work for its success. This is because when [we] know the economies of other countries and the international market well can we proactively carry out external economic transactions and guarantee actual profits [silli; 실리].<sup>31</sup>

North Korean academic journals had dealt with foreign economic practices since at least 1990, but it was not until 2000 that they started to pay attention to foreign banking and financial practices and institutions in a non-ideological, educational manner. That was no accident. It was in 2000 that there was significant progress in Democratic People's Republic of Korea-Republic of Korea (DPRK-ROK) and DPRK-US relations, all part of the lead-up to Kim Jong Il's 2002 economic reforms. The study of foreign banking practices continued into the first few years of Kim Jong Un's rule, signaling that research was still underway about more encompassing internal financial and banking reform.

One early sign that a policy change was in the works but not yet fully approved came with a spring 2014 article in *Kyo'ngje Yo'ngu*. Apparently still not on firm ground to advance new thinking, the article employed a traditional tactic journal authors use to protect themselves from criticism, beginning the article as a paean to orthodox thought before switching in an effort to push the envelope with new ideas. In this case, the article began by stressing the importance of money circulation for defense spending before pivoting to make what was really the main point: "If a money circulation strategy is implemented, it would generate more monetary income in the hands of the working people, and their purchasing power would rise systematically."<sup>32</sup>

After Kim's 2015 letter, article after article in the journals seemed to reflect a clear understanding that fresh, to some extent independent, thinking at the bank level was critical to the success of Kim's efforts to transform management policies through the socialist enterprise responsibility system (SERMS), Kim's key reform measure of giving individual enterprises greater latitude in planning, production, and management of resources and profits. For example, the first journal article exclusively dedicated to expounding on a new concept known as the "accounting system of financial institutions"—essentially the equivalent of SERMS for the banking sector—noted that one of its purposes was to increase the sense of responsibility and creativity of commercial banks.<sup>33</sup> An article that appeared the following year went beyond simply espousing the goal of

<sup>31</sup> Quote translated from Pok Po'm, "Several Issues Drawing Attention Regarding Changes in International Financial Market at the Present Time," *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 2, (2013).

<sup>32</sup> Kim Ch'o'l-so'ng, "Accurately Drawing up and Implementing a Money Circulation Strategy Is an Important Requirement for the Construction of an Economically Powerful Socialist State," *Kyo'ngje Yo'ngu* 2, (April 2014).

<sup>33</sup> Han Yo'ng-ch'o'l, "Accounting System of Financial Institutions and Important Issues Arising in Its Operation," *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 1, (2018).

banks' creativity and advocated measures to make sure that was not impeded: "Legal provisions and regulations related to commercial bank activities as a whole should be reviewed on a state level, and too many shackles tying down commercial banks should be rectified."<sup>34</sup>

After Kim Jong Un's December 2015 guidance on banking reform—instructions which made no reference to a link between such reform and military spending—journal authors were freed from the burden of having to protect their flanks by rationalizing the new policies on grounds other than improving the economy.

### Kim's December Letter

The issues of concern enumerated in Kim's December 2015 letter—issues subsequently tackled in the journals—were: the role of banks in support of SERMS; currency circulation and stability; and the use of "idle funds." In fact, the major purpose of the banking reforms appears to have been to support SERMS from all angles, making banks profitable so they could provide more loans and keep money in circulation, utilizing "idle funds" and thus ensuring funds for enterprises on their own—i.e., with least state money—to compensate workers, purchase new equipment and additional materials as output grew.

There was a curious gap of nearly a year in which the journals did not pick up on the ideas set forth in Kim's letter, a rather long hiatus for North Korean journals to start expounding on the leader's guidelines. When they did, it was *Hakpo*, whose writers are generally assumed to be Kim Il Sung University faculty, that took the lead in expanding on and explaining many of the key themes Kim set forth in his letter, suggesting that the university may have played an instrumental role in researching and conceptualizing these ideas.

In that vein, a *Hakpo* article in late 2016 led the way for explaining or building on instructions in Kim's letter that left room for interpretation—and, not surprisingly, there were several points in the instructions that needed fleshing out.<sup>35</sup> Central to the banking issue was the role of commercial banks in a socialist setting. Exclusively about commercial banks, this article was pivotal in that it went beyond *introducing* the outside world's banking policies and sought to *adapt* commercial banks to North Korea's needs.

### Commercial Banks

At the center of the banking sector overhaul was the issue of expanding the role of commercial banks—defining how these banks differed from the central bank, and crucially, how much "creativity" commercial banks were to exercise apart from central control and instructions. Prior to Kim Jong Un's financial and banking reforms, North Korea operated a "monobanking system" common in socialist planned economies: The central bank performed all key banking functions, namely note issue, currency control, deposits and loans. Pyongyang enacted a Commercial Banking Law in 2006 under Kim Jong Il to create commercial banks, likely to support his new economic policies, but the plan did not make headway and faded—although not completely—along with his initiatives.

Commercial banks had long been regarded as the epitome of capitalism, as reflected in the North Korean encyclopedia's characterization in 2005:

<sup>34</sup> Quote translated from Pak In-so'n, "Basic Principles Arising in Management of Socialist Commercial Banks," *Kyo'ngje Yo'ngu* 3, (July 2019).

<sup>35</sup> Ko Ku'm-hyo'k, "Important Issues Arising in Turning Banking Institutions into Commercial Banks at the Present Time," *Kim Il Sung Chonghaptae'hakpo (Ch'o'rhak, Kyo'ngje)* 4, (2016).

In order to obtain as much interest and commission as possible, commercial banks even pour funds into loans with unproductive, parasitic, predatory, and aggressive purposes, suck up a portion of the profits the capitalists have acquired, and direct them to dividends and reserves.<sup>36</sup>

Switching to a full embrace of commercial banks—indeed, converting existing branches of the central bank into commercial banks—was not an easy sell. It is no wonder, then, that the 2016 *Hakpo* article on operationalizing commercial banks in North Korea went out of its way to try to distinguish between capitalist and socialist commercial banks:

In a capitalist society, commercial banks are exploitative and profit-making businesses that will resort to any means and methods to achieve their profit-pursuing objectives. In a socialist society, however, commercial banks carry out their mission and duties as state institutions that financially guarantee the people's economic development and control business activities for their improvement, including currency control work and management of state property in their regions.<sup>37</sup>

North Korean journals intensified their attention to commercial banks starting in 2018—more than two years after Kim's letter clearly blessed the role of these banks and as Kim was shifting to direct diplomatic engagement with Seoul and Washington. The articles focused on explaining the function of commercial banks and described ways to improve their operation.

Why this spate of articles? It is possible that difficulties developed internally over accepting the broadened role of such banks, especially the idea that in order to fulfill their function as a spark plug for economic growth, they needed to be freer to operate, especially in what was beginning to look like a favorable external environment that could present new opportunities for the economy. Possibly in response to criticism or political pushback from within, an article in *Hakpo* introduced the term “socialist commercial banks” as if to distinguish the new, good version of banks from the capitalist variety.<sup>38</sup> At the same time, much as Kim Jong Un had done in his letter, articles frequently took care to point out that the commercial bank initiative was completely in line with previous policies by Kim Il Sung and Kim Jong Il, though an important, transformative step beyond.<sup>39</sup>

A key concept associated with commercial banks was the “accounting system of financial institutions.” As noted above, this was the companion in the banking sector to SERMS in the enterprise sector. Kim Jong Un briefly introduced the new accounting system for banking in his 2015 letter:

The accounting system of financial institutions is a mode of business activity where commercial banks compensate for their expenses with revenues from financial business and give benefits to the state.<sup>40</sup>

<sup>36</sup> Translated excerpt of the “commercial bank” entry in the electronic version of the *Korean Encyclopedia*, compiled by the Encyclopedia Press Group and created by the Samilp'o Information Center, 2005.

<sup>37</sup> Ko Ku'm-hyo'k, “Important Issues Arising in Turning Banking Institutions into Commercial Banks at the Present Time,” *Kim Il Sung Chonghaptae-hakhakpo (Ch'o'rhak, Kyo'ngje)* 4, (2016).

<sup>38</sup> Hong Chu'ng-po'm, “Unique Ideas and Theories on Socialist Commercial Banks,” *Kim Il Sung Chonghaptae-hakhakpo (Ch'o'rhak, Kyo'ngje)* 3, (2018).

<sup>39</sup> Ibid.

<sup>40</sup> Kim Jong Un, *Let Us Vigorously Accelerate Powerful State Construction by Bringing a Turnabout in Financial and Banking Work—Letter Sent to Participants in the Third Conference of National Financial and Banking Functionaries—December 13 Juche 104 (2015)* (Pyongyang: Workers' Party of Korea Publishing House, 2017), 15-16.

That was a bare-bones reference to something so important, and so journals eventually—though not until 2018—expanded on it, explaining the differences between this new concept and the old “budget system,” which had been the former mode of operation for North Korean banks:

In the operation of banks, the budget system method is an operational method of offering all the work income generated in the process of operating banks toward the stage budget and [pay for] all the expenses incurred during the work process by receiving [money] from the state budget. Whether banks are operated through the budget system method or the accounting system method is one of the fundamental issues raised in the operation of banks. That is because this issue is an issue of boundaries in the economy of bank operation and thus is an issue of whether banks themselves take responsibility for compensating for bank operating costs, or whether the state compensates for them.<sup>41</sup>

The delay in more fully discussing the new accounting system for banks could well reflect sensitivities about the concept—even though Kim Jong Un himself had introduced it.<sup>42</sup> By contrast, it is worth noting that North Korean academic journals started mentioning SERMS in October 2014, only five months after Kim introduced the terminology. As recently as 2020, a journal article on the bank accounting system took care to note it was keeping with the late Kim leaders’ “behest.”<sup>43</sup> That the writer felt the need to reassert this point long after the policy had been promulgated suggested there were, and probably are, ongoing problems.

### Idle Funds

Kim Jong Un’s 2015 letter contained only the barest instructions on the issue of “idle funds.” That term would seem to be self-explanatory but turned out to be more complex than first appeared. If commercial banks were, according to the new accounting system, supposed to obtain funds apart from the state budget to sink back into the economy, where were they going to find them? Defining, locating, utilizing and increasing “idle funds” all had to be tackled. The first journal article that picked up Kim’s letter, in *Hakpo*’s final volume for 2016, only scratched the surface on idle funds, noting:

“In order to develop the deposit business to meet actual requirements, the business system should be perfected so that the idle cash tied down to the hands of not only individual residents but also businesses can be mobilized to the maximum.” For that, banks “should revitalize the residents’ savings work.”<sup>44</sup>

The article offered no speed bumps to commercial banks getting control of idle cash: “In particular, if banks cannot use credit levers properly, they will not be able to take control of the cash in the hands of residents or the idle cash in the hands of businesses.”

Other than passing mentions, the issue then lay fallow in the journals for more than a year when it was again tackled, this time in more detail by a series of articles in 2018. A *Hakpo* article

<sup>41</sup> Quote translated from Hong Chu’ng-po’m, “Unique Ideas and Theories on Socialist Commercial Banks,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 3, (2018).

<sup>42</sup> Cho’n Ryong-sam, “The Consolidation of Currency Circulation and the Method of Its Realization,” *Kyo’ngje Yo’ngu* 1, (January 2017); and Han Yo’ng-ch’o’l, “Accounting System of Financial Institutions and Important Issues Arising in Its Operation,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 1, (2018).

<sup>43</sup> Ch’oe Yo’ng-nam, “The Essence and Characteristics of Financial Institutions’ Accounting System,” *Kyo’ngje Yo’ngu* 2, (April 2020).

<sup>44</sup> Ko Ku’m-hyo’k, “Important Issues Arising in Turning Banking Institutions into Commercial Banks at the Present Time,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 4, (2016).

in 2018 emphasized the importance of cash “in the hands of residents” and thus the need for “ensuring smooth money circulation and improving the people’s living standards by mobilizing to the maximum residents’ idle money to banks.”<sup>45</sup> The same article added for the first time in the journals’ discussions of new banking policy the warning: “In addition, commercial banks should regard credit with residents as the law and keep it without fail, and accept various forms and methods of savings suitable for the income levels, living conditions, and needs of residents.” While most of that work was taken from Kim Jong Un’s December 2015 letter, the final phrase on “income levels, living conditions, and needs” was added, apparently to emphasize even more strongly the importance of banks encouraging savings programs.

The concept of “idle funds” apparently continued to be a source of at least confusion, if not controversy. As with the introduction of the new terminology on banks (“socialist commercial banks”), an article published at the end of 2018 that dealt with idle funds tried something similar, reintroducing the term “temporarily” idle funds:

The fund mobilization and utilization function is one of the basic functions of commercial banks, as it concentrates into banks the temporarily idle funds that are not being used for production or consumption by residents, institutions, and businesses and supplies them to businesses that are short of funds.<sup>46</sup>

Fiddling with terminology, apparently, did not settle the issue. Consequently, a much more detailed treatment of idle funds appeared, this time in *Kyo’ngje Yo’ngu* by Nam So’k-ch’un, though it strained to define which funds could be considered “idle” that commercial banks could utilize. The problem was that since virtually all money in the system had to be derived from some form of “socialist ownership,” what funds could a commercial bank utilize on its own, in a sense outside of state purview?

To address this, the article went through a tortured explanation of how the money in socialist commercial banks was different from that in capitalist banks, how that of the socialist banks “largely” fell under socialist ownership, and thus, implicitly, what was important was not the theoretical sources of the funds but how they were utilized.

The various natures of funds concentrated in commercial banks in a socialist society are funds raised on the basis of social production. As such, they are guaranteed materially and accordingly are utilized in a planned manner. Even the idle monetary funds absorbed by commercial banks are funds raised on the basis of social production and concentrated in commercial banks due to their function of mobilizing funds. By utilizing the monetary funds collected into their possession in a way that is suited to their character, commercial banks actively contribute to accelerating the social reproduction process.<sup>47</sup>

Nam’s first article left too many questions, apparently, and more needed to be done in defining what constituted idle funds that banks would use and what they could not.

Nam followed up with a second article a few months later, using this passage from Kim’s 2015

<sup>45</sup> Han Yo’ng-ch’o’l “Important Issues Arising in Accounting Systems of Financial Institutions and Their Operation,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 1, (2018).

<sup>46</sup> Quote translated from Kim Yo’ng-ryo’n “Important Issues Arising in Improving the Functions and Operation of Commercial Banks at the Present Time,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 4, (2018).

<sup>47</sup> Quote translated from Nam So’k-ch’un, “Composition of Commercial Banks’ Funds in a Socialist Society and Their Characteristics,” *Kyo’ngje Yo’ngu* 2, (April 2019).

letter:

[Commercial banks] need to meet the demand for funds in their given regions with their own sources of funds, strike a balance between revenue and expenditure, and ensure that money circulates smoothly revolving around banks by utilizing deposits and loans, payment methods, and interest rate levers in a diverse manner.<sup>48</sup>

While this citation did not specifically mention idle funds, Nam used the quote as a jumping-off point to deal with that issue, taking a reader through the maze of funds, something beyond “state versus nonstate” or “temporarily idle versus productive.” While some funds were in commercial banks, they were not to be considered a source of funds the banks could utilize as loans or forms of credit.

The sources of commercial banks’ funds are either idle monetary funds that commercial banks mobilize from residents, organs, and enterprises through credit methods for financing, or their own funds raised in the process of their financial business activities. In this vein, not all funds in commercial banks are commercial banks’ sources of funds: those funds mobilized through credit methods or commercial banks’ own funds raised during financing processes serve as sources of funds for commercial banks.<sup>49</sup>

In sum, Nam said that commercial banks’ “sources of funds consist of their own funds, revenue from savings mobilized from residents, revenue from deposits mobilized from organs and enterprises, and financial organs’ loans,” and that, “among the important characteristics of commercial banks’ sources of funds is, above all, that they are idle monetary funds of a temporary character.”

That might seem enough, but Nam was compelled to add a wrinkle:

Idle monetary funds of a temporary character refer not to funds that are functional in reproduction processes in reality, but funds that are temporarily idle outside reproduction.

Enough already! But Nam had to go deeper, balancing and clarifying what seemed to be competing claims to “idle funds”:

Temporarily idle funds in the hands of residents, organs, and enterprises are idle monetary funds but are not sources of funds for commercial banks. That is because such funds are not idle monetary funds mobilized for commercial banks but are idle monetary funds in the hands of residents, organs, and enterprises.

In other words, not all temporarily idle funds are the same, and not all are equally available for bank use.

Temporarily idle monetary funds existing among residents, organs, and enterprises are not sources of funds for commercial banks, but these funds pose the possibility of being mobilized and used as sources of funds for commercial banks in the future, because they are not being utilized for productive or consumptive objectives.

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<sup>48</sup> Quote translated from Nam So’k-ch’un, “Commercial Banks’ Sources of Funds in Socialist Societies and Their Characteristics,” *Kyo’ngje Yo’ngu* 2019 4, (October 2019).

<sup>49</sup> Ibid.

Even Nam didn't have the courage (or permission) to go any further in explaining how "in the future" it would be possible for commercial banks to figure out how to use these funds. It is possible that issue had not yet been clarified in regulations or legislation. Even so, Nam was not through but moved on to take up what was an extremely sensitive issue of how much control banks had over some of their funds, and which ones, in Nam's words, needed to be seen as "of a returned character." Not stated was the fact that this was a key issue in any effort to restore confidence among the public in banks. Idle funds not being used for production or consumption, Nam said, "are usually of a returned character" and thus "must" be returned to the owners of the funds "once a certain period has passed."

This was obviously a point he felt he needed to drive home several times:

Commercial banks' sources of funds must be returned without fail once a certain period has passed, though the period of their use may be different depending on the characteristics of their composition...Not only residents' funds but also organs' and enterprises' funds included in commercial banks' sources of funds must be returned to the owners as per their demand when the time is up...Idle monetary funds mobilized from residents, organs, and enterprises are absolutely not spare funds but are temporarily unemployed idle monetary funds. Every monetary fund movement in a socialist society dovetails with goods or commodities. Due to factors such as the characteristics of monetary fund uses, the irregularity of materials and commodities supply, and others, some funds of residents, organs, and enterprises are not used for their consumptive or productive expenses—they remain in the hands of residents, organs, and enterprises. Hence, such funds must be returned at any time to residents, organs, and enterprises when they ask for them.

## Conclusions

A close reading of the journal articles that followed Kim Jong Un's December 2015 letter on banking shed light on the pattern that Kim has established for rolling out his new economic policies. There is no instantaneous jumping through hoops. After some discussion of fundamental direction (discussion that we almost never see), Kim issues overarching policy guidance. It is then up to others to fill in the blanks, work out details, clarify what is ambiguous, and resolve disputes about how best to operationalize the concepts. In the case of the banking sector, this was a long process, at least four years from the time Kim issued his guidance, and undoubtedly some time—perhaps a year or even more—spent in formulating the new concepts, building on ideas already under discussion from the Kim Jong Il era.

Given the complexity of banking issues that North Korea apparently is still trying to work out, it seems unlikely that central media like the party and government dailies will publicly discuss commercial banks or their operation until the regime has made substantial progress in that realm. Even details of the country's central bank, whose history goes back to 1946, remain scarce in central media, reflecting the highly sensitive nature of the North's banking policy in general.

## What's Next?

The next paper in this series will examine North Korea's "economic management methods of our style," Kim Jong Un's economic reform package that is broadly composed of agricultural reform ("field responsibility system"), enterprise reform (SERMS) and financial reform. Specifically, it will review how these concepts were rolled out in North Korean academic journals, what appeared to be the point of contention, and how the key concepts may have evolved over the

years.

[Kim Jong Un's December 2015 letter addressed to banking conference](#)



## Management System Discourse

February 16, 2022

This paper is the fourth installment of the “Understanding Kim Jong Un’s Economic Policymaking” series.<sup>50</sup> It tackles what has been the heart of Kim’s economic policy initiatives from the very start of his time in power—an effort to revive the North Korean economy by changing in both the enterprise and agricultural sectors the incentive and responsibility structures which had previously put enormous power in the hands of the central state and party bureaucracy.

Making these changes would not be easy, and Pyongyang faced numerous practical and ideological challenges along the way. Kim appears to have approached these policy initiatives carefully and systematically, though as is always the case, the fine details of implementation at the real operational levels had to be worked out as theory and plan met realities on the ground. The North’s two key economic journals—*Kyo’ngje Yo’ngu* and the *Journal of Kim Il Sung University (Economics)* (also known as *Hakpo*)—provide important insights into how this process evolved, and at least an indirect look at the various perspectives on what the policies meant and the difficulties they faced.

### Background

Kim’s “report” at a party plenum in March 2013 is best remembered for his proclamation of the *byungjin* policy of simultaneous economic and nuclear-armed forces construction. But we often forget that it was at this meeting that Kim officially defined and offered broad guidelines on “economic management methods of our style,”—reforms intended to pick up and build on his father’s “July 1 [reform] measures” from 2002.<sup>51</sup> The plenum also marked the first time Kim explicitly endorsed “socialist enterprise management methods,” which would later become known as the “socialist enterprise responsibility management system (SERMS),” the hallmark of Kim’s reform that gives individual enterprises greater latitude in planning, production, and management of resources and profits.

At that March plenum, Kim said:

[We] should research and perfect economic management methods of our style in line with the demands of reality’s development. Economic management methods of our style that materialize the *Juche* idea should be socialist enterprise management methods that ensure the producer masses fulfill their roles and responsibilities as masters of production and management. [This should be done] by firmly adhering to the socialist ownership of the means of production, and with all enterprises carrying out their business activities independently and creatively under the state’s unified guidance.<sup>52</sup>

As early as March 2012—only months after Kim Jong Un had assumed power—North Korean state media started referring to “economic management methods of our style that materialize

<sup>50</sup> This paper uses a modified version of the McCune-Reischauer romanization system for North Korean text, with some proper nouns following internationally recognized spellings or North Korean transliterations instead.

<sup>51</sup> For analysis of Kim Jong Il’s reform initiatives, see Sung-wook Nam, “Evaluation of the North Korean July 2002 Economic Reform,” *North Korean Review* 3, no. 1 (Spring 2007): 32-44, and Jong S. You, “Market Reforms in North Korea: Are They for Real?” *North Korean Review* 3, no. 2 (Fall 2007): 27-44.

<sup>52</sup> Quote translated from “경애하는 김정은동지께서 조선로동당 중앙위원회 2013년 3월전원회의에서 하신 보고,” *Rodong Sinmun*, April, 2, 2013.

the *Juche* idea,” indicating that reform measures were already being researched and formulated under that rubric. In his *New Year's speech* in 2013, Kim gave his first official nod to reform by mentioning the need to “steadily improve and perfect the methods of economic management.”<sup>53</sup> The further guidelines he provided at the party plenum two months later laid the groundwork for the media and academic journals to disseminate and expound on the ideas and principles of the new reforms.

There is good evidence that economic reform was at the top of Kim's agenda when he ascended to power. It seems likely that these ideas were being discussed even before Kim Jong Il died in December 2011. According to Pyongyang's unofficial mouthpiece *Choso'n Sinbo*, Kim Jong Un presented guidelines on reform to economic officials and academics at the end of 2011, presumably right after Kim Jong Il's funeral.<sup>54</sup> The Cabinet, research institutions and economic sectors then went through a process of conducting research, holding discussions, proposing ideas and introducing viable proposals to farms and enterprises on a trial basis—and once they passed the test, implementing them on a national level.<sup>55</sup> Accordingly, North Korea in 2012 started giving greater management rights to some plants, enterprises, and cooperative farms on a trial basis.<sup>56</sup> By February 2014, Kim was ready to announce incentivized farming (detailed below under “Agriculture”). In a private talk with party, state and army officials on May 30, 2014, Kim formalized the three main pillars of “economic management methods of our style”: 1) the state's unified guidance of the economy and strategic management, 2) correct implementation of SERMS within the parameters of the socialist economy, and 3) the party's leadership over economic work.<sup>57</sup>

North Korean academic journals launched a campaign on economic management in the summer of 2013, shortly after Kim's March plenum report. In the beginning, the articles focused on explaining the basic principles of economic management methods, stressing the importance of researching and perfecting them. The articles then moved on to the three main points of the Kim Jong Un-led “economic management methods of our style.” SERMS was mentioned for the first time in a *Hakpo* article at the end of 2014, but it was not until the spring of 2018, after North Korea shifted from *byungjin* to a policy focusing on the economy and as the country was embarking on a path of diplomacy, that the journals started discussing SERMS and its specific aspects in earnest.

### Drawing Lines of Responsibility

One writer in *Kyo'ngje Yo'ngu* described SERMS as follows:

SERMS is an enterprise management method of our style and is the most superior

<sup>53</sup> “New Year Address Made by Kim Jong Un,” *KCNA*, January 1, 2013.

<sup>54</sup> Kim Chi-yo'ng, “[Economic Construction Based on Byungjin Line: ‘Changes on the Ground’ According to an Academy of Social Sciences Researcher](#),” *Choso'n Sinbo*, January 26, 2015.

<sup>55</sup> Ibid; Ri T'ae-ho, “[Cabinet and Production Sites Closely Connected amid the Supreme Leader's Interest](#),” *Choso'n Sinbo*, May 10, 2013; and Ri T'ae-ho, “[For the Perfection of ‘Economic Management Methods of Our Style’: Interviews with Cabinet Officials Concerned](#),” *Choso'n Sinbo*, May 10, 2013.

<sup>56</sup> Ri T'ae-ho, “[Cabinet and Production Sites Closely Connected amid the Supreme Leader's Interest](#),” *Choso'n Sinbo*, May 10, 2013.

<sup>57</sup> North Korea's veteran economist Ri Ki-so'ng in an interview with *Choso'n Sinbo* unveiled that these were the three main points of Kim Jong Un's “economic management methods of our style.” See Kim Chi-yo'ng, “[Economic Construction Based on Byungjin Line: ‘Changes on the Ground’ According to an Academy of Social Sciences Researcher](#),” *Choso'n Sinbo*, January 26, 2015. See also 김치관, “김정은 ‘5.30담화’와 내각 상무조,” *통일뉴스*, January 6, 2015.

economic management method. It enables plants, enterprises, and cooperative organizations to carry out their duties before the party and state by conducting enterprise activities creatively with the actual right of management, based on the public ownership of the means of production. It also enables the producer masses to fulfill their roles and responsibilities as masters of production and management.<sup>58</sup>

Management rights, creativity and initiative of enterprises are the central components of SERMS, and naturally, they are the most consistently touted themes in North Korean academic articles on economic management. The fundamental question North Korean academic journals have grappled with over the years is exactly how much responsibility central institutions, namely the state and party, should cede to individual units.

The key principles and concepts associated with economic management, such as SERMS, do not appear to have evolved over time. Different articles and authors, however, have taken different positions on or emphasized different aspects of the same concepts. For example, some authors stressed lower units' management rights and de-emphasized the Cabinet's management responsibility, while others did the opposite.<sup>59</sup> Sometimes two different authors writing for the same volume of the same journal took slightly opposing views on the dynamic of state and lower units' responsibility.

In 2015, when the push for reform was in full swing, one author in Kim Il Sung University's *Hakpo* explained:

In our country, the Cabinet has the responsibility and power to manage the country's overall economic work in a unified manner under the party's leadership. The Cabinet entrusts and grants some of its responsibilities and powers to committees, ministries, and provincial people's committees...As a result, responsibilities and powers are distributed vertically from the center down to the lowest executive unit.<sup>60</sup>

This same article then advised central organs like the Cabinet against trying to control A to Z, calling on them to focus only on big national projects and delegate the rest to lower units:

Central economic guidance organs grasping down to the last detail all the issues arising in the management of the provinces, lower organs, and enterprises and guiding them

<sup>58</sup> Quote translated from Kim Yo'ng-hu'ng, "Important Issues Arising in Implementing the Socialist Enterprise Responsibility Management System in a Realistic Manner," *Kyo'ngje Yo'ngu* 4, (October 2020).

<sup>59</sup> For an article stressing enterprises' management rights, see Cho Ung-chu, "Important Issues Arising in Enterprises' Proper Implementation of Socialist Enterprise Responsibility Management System," *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak*, *Kyo'ngje*) 2, (2018). For an article emphasizing the state's unified guidance in the implementation of the SERMS, see Ri Sang-kuk, "Characteristics of the Socialist Enterprise Responsibility Management System, Which Has the Working People Fulfill Their Responsibilities and Roles," *Kyo'ngje Yo'ngu* 3, (July 2016). For more on the SERMS and enterprises' management rights, see Ri Ch'ang-ha, "Socialist Enterprise Responsibility Management System Is a Unique Enterprise Management Method of Our Style," *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak*, *Kyo'ngje*) 2, (2018); An Myo'ng-hun, "Understanding of Socialist Enterprises' Right of Management," *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak*, *Kyo'ngje*) 4, (2018); and Ri Yo'ng-nam, "Several Important Issues Arising in Ensuring Producer Masses Fulfill Their Responsibilities and Roles as Masters," *Kyo'ngje Yo'ngu* 4, (October 2018).

<sup>60</sup> Quote translated from Ho' Kwang-chin, "Important Issues Arising in Rationally Establishing the Responsibilities and Powers of Economic Management Organizations," *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak*, *Kyo'ngje*) 3, (2015). For a similar discussion, see Han Myo'ng-so'n, "Clearly Defining the Duties and Powers of the State's Leading Economic Organs, Including the Cabinet, and Enterprises Is an Important Issue Arising in the Establishment of Socialist Economic Management Methods," *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak*, *Kyo'ngje*) 3, (2015).

cannot be the way to truly strengthen the state's centralistic and unified guidance today, when the size of the economy has increased, and the environment for and conditions of economic construction assume a highly fluid nature.

In order to actually strengthen centralistic guidance in line with the changing environment and conditions, [we] need to improve the dynamic of distributing responsibilities and powers so that central economic guidance organs can concentrate their efforts on solving the strategic tasks for socioeconomic development. Ministries and central organs should directly take hold of those economic sectors and units that have national significance, such as central industries, and guide and manage them under the Cabinet's guidance.

[We] should have complexes take full responsibility for and tackle immediate production issues.

A rather different view—emphasizing the party's leadership and calling on the Cabinet to provide guidance “down to the last detail”—was put forward by Cho Ung-chu, a prolific writer on key North Korean economic policies for *Kyo'ngje Yo'ngu* and *Hakpo*, at the end of 2020. This was shortly before the Eighth Party Congress, where North Korea [hinted](#) that reforms were still on track but emphasized stronger centralization and control:

How the economic construction line and policies are implemented after the party puts them forward hinges on whether the Cabinet carries out its role properly or not. With the spirit of [believing in] the absoluteness and the unconditionality of the party's line and policies, the Cabinet must carry on the economic organization work down to the last detail and strengthen guidance on economic work. Instead of stopping at conveying new policies to lower units when the party brings them forward, the Cabinet should give assignments to lower units after deeply carrying out research and finding concrete methods of implementation, and help them out well, all the while regularly receiving reports on and inspecting the state of their execution.<sup>61</sup>

Notably, the same year-end *Kyo'ngje Yo'ngu* volume in 2020 published a different author's article on SERMS that emphasized lower-level units' rights, similar to the 2015 *Hakpo* article.

Furthermore, leading state economic organs, including the Cabinet, must remove unnecessary procedures and institutions to enable enterprises to carry out business activities smoothly and establish decisive measures to find without exception the factors that put the brakes on production activities and reduce work efficiency in state management and economic work, rather than trying to seize everything or chaining up lower units for no reason in the name of providing unified guidance of economic work.<sup>62</sup>

### Central Control Versus Reform

It should be noted that the unified guidance of the state, namely the Cabinet and leading economic institutions, and the party's leadership, have been an innate part of Kim's reform policy that was centered on giving greater management rights to lower units. Accordingly, it is

<sup>61</sup> Quote translated from Cho Ung-chu, “Important Issues Arising in Strengthening the Cabinet-Responsibility System and the Cabinet-Centered System, the Core of the State Economic Work System,” *Kyo'ngje Yo'ngu* 4, (October 2020).

<sup>62</sup> Quote translated from Kim Yo'ng-hu'ng, “Important Issues Arising in Implementing the Socialist Enterprise Responsibility Management System in a Realistic Manner,” *Kyo'ngje Yo'ngu* 4, (October 2020).

not surprising to find references to the state’s unified guidance or the party’s leadership in any journal article about economic management, including articles endorsing reform. Hence, the appearances of these formulations alone do not signal North Korea’s hardening economic line or rolling back on reform.

When trying to determine whether there is a shift in Pyongyang’s economic line, what really matters is the context in which certain terms are used, as well as patterns of their usage. For example, continued emphasis of the state’s or party’s control—particularly the party’s, as it traditionally has stood for conservative economic policies—could be a signal that Pyongyang is headed toward greater centralization, though that does not necessarily translate into curtailing reform initiatives. Despite North Korea’s emphasis on the role of the state and party in the economy in the lead-up to and following the Eighth Party Congress, it continues to seek ways to research, improve, and perfect “economic management methods,” suggesting reform initiatives are still on.

Finding the right balance between central control and lower-level units’ independence was a major question for Pyongyang, and it clearly remains so, as demonstrated by the different viewpoints on responsibility outlined above. This dilemma is aptly captured in one of the early *Kyo’ngje Yo’ngu* articles on economic management from April 2014, as research and test-runs were still in full swing and Kim Jong Un was gearing up to formalize the “economic management methods of our style” with his officials:

If [we] were to view just one side of the state’s unified guidance as absolute and unilaterally strengthen it, [we] could bind up the hands and feet of every enterprise and suppress its independence and creativity from being displayed in business activities. Conversely, if [we] were to over-emphasize every enterprise’s independence and creativity, [we] would not be able to guarantee the unity and balanced development of the overall economic development of the country. Not only that, [we] could trigger grave consequences like disrupting the country’s entire economy or inciting capitalism by corrupting and degenerating the essence of the socialist economy.

What is important in correctly combining the state’s unified guidance with the independence and creativity of every enterprise’s business activity is to give priority to guaranteeing the state’s unified guidance in line with the intrinsic requirements of a socialist society and, based on this, have all enterprises actively display independence and creativity in their business activities. Only then will the entire socialist economy, as a large-scale economic organism, be managed and operated in line with the common demands and interests of the producer masses. And only then will it be a true economic management method of our style that ensures they [enterprises] fulfill their roles and responsibilities as masters.<sup>63</sup>

## Agriculture

As noted above, in 2012, very soon after coming to power, Kim Jong Un experimented with new ideas on agriculture policy, testing the theory that the way to increase harvests was to give the farmers more material incentive to produce. By February 2014, after further study and a period of trial implementation at selected farms, Kim was ready to promulgate a new policy, which he presented in a letter to a national meeting of agricultural sub-workteam leaders. In the letter, Kim noted:

<sup>63</sup> Quote translated from Tang Kyo’ng-ho, “The Essential Characteristics of the Economic Management Method of Our Style Elucidated by the Respected and Beloved Comrade Kim Jong Un,” *Kyo’ngje Yo’ngu* 2, (April 2014).

Recently, a measure has been taken to implement the plot responsibility system within the sub-workteam management systems to raise the production enthusiasm of farm members. Cooperative farms should apply this system correctly in line with their own actual conditions and make it prove its worth in agricultural production.<sup>64</sup>

The sub-workteam was not a new concept, but Kim rejiggered it to support his efforts to increase farmers' motivation through the "plot responsibility system," designed to give small teams of farmers both the responsibility and the reward for increasing production on a plot of land which was, essentially, no longer under the complete control of the larger cooperative but was theirs to farm, to improve, and to share directly in the results. This was more complex and far-reaching than it might first appear, since—at least theoretically—it meant diluting long-established lines of authority and the basis for collective work and collective responsibility.

The new policy was justified as an extension and an improvement on the agricultural policies of Kim Il Sung and Kim Jong Il. These, it was argued, were being updated and "improved" to meet the needs of the "current reality," a well-worn rhetorical cloak to avoid the appearance of seeming to reject previous, seemingly sacrosanct policies as mistakes. If not read carefully, outside observers often read this approach as reinforcing the old policy prescriptions rather than what they really are: an effort to strike off in new directions.

Initially, reaction in *Kyo'ngje Yo'ngu* and *Hakpo* to Kim's new agricultural program was supportive—hardly a surprise. But then signs of pushback began to appear. As usual, none of these confronted the new policies head-on. Instead, criticism was veiled, seemingly not criticism at all, or ostensibly pointed elsewhere.

The first signs of opposition came in a *Kyo'ngje Yo'ngu* article a few months after Kim unveiled his new policies. The article might have been nothing more than a routine paean to Kim Il Sung's previous theories on agriculture, except that it focused exclusively on the elder Kim and failed to mention Kim Jong Un's new policies.<sup>65</sup> In the context of the times, that silence spoke volumes.

The following year, things heated up as a battle over the new sub-workteam and plot responsibility concepts broke out in the pages of the journals, a battle that lasted into 2018. Articles praising and explaining in more detail the concepts supported the new policies as a way to meet the "demands of developing reality" and a way to meet and even exceed the country's grain production goals by increasing the motivation of farmers. Left free to pursue their own best interest, the argument went, the farmers would end up benefiting the country overall. For example, Kim Kyo'ng-il in early 2015 argued:

The methods of guiding and managing a socialist economy cannot be set in stone, and they should be improved continuously in line with the changing conditions and environment. If [we] fail to improve economic management methods in line with the changing and developing reality and they are tied down to a fixed framework, [we] cannot promote economic development. Rather, this could obstruct economic and social progress.<sup>66</sup>

<sup>64</sup> "Kim Jong Un's Letter to Participants in National Conference of Sub-workteam Leaders in Agricultural Sector," *KCNA*, February 7, 2014.

<sup>65</sup> Kim Su'ng-t'aek, "Great Leader Comrade Kim Il Sung's Immortal Achievement of Elucidating Original Ideas on the Resolution of Agricultural Issues," *Kyo'ngje Yo'ngu* 3, (2014).

<sup>66</sup> Kim Kyo'ng-il, "Improving Economic Management Methods in Line with the Changes in and Development of Reality Is a Lawful Requirement of Socialist Economic Development," *Kyo'ngje Yo'ngu* 1, (January 2015).

In response, while avoiding any explicit mention of the new policies, articles in opposition escalated to fierce warnings about the fate of socialism decades earlier after what was portrayed as the poison of “revisionists”—an exceptionally dirty word in these sorts of arguments—undermined the Eastern bloc countries, putting them on the slippery slope to capitalism. Through this historical dodge, these articles sliced away at the very rationales used by those supporting the new policies. Where the authors in support—indeed, Kim Jong Un himself—cast the new policies as an improvement by meeting changing realities, the conservatives pounced, casting this as the very song “revisionists” had sung in the 1960s in the Soviet Union and, to some extent, even the North at that time.

A 2015 *Hakpo* article warned: “Moreover, starting from illusions about capitalism, they found in capitalist market economies an exit to the resolution of economic issues and pressed ahead with the ‘restructuring’ and ‘reform’ policies of reviving private ownership and establishing market economic systems.”<sup>67</sup> Criticizing the “revisionists” for enabling various forms of ownership to coexist under public ownership “on the pretext that the ownership dynamics already established in socialist countries did not measure up to the actual levels of progress in productivity,” the article continued: “In other words, they blabbered that private, household, and small-group ownership should be linked to public ownership, and that diverse forms of mixed ownership, such as state-cooperative ownership, state-private ownership, state-capitalist ownership, and cooperative-private ownership, should be encouraged.”

A *Ky’ongje Yo’ngu* article at the end of 2015 kept up the criticism, pointedly attacking any move to more individual responsibility:

The socialist rural economic system is based on collectivism, the life of a socialist society, and puts forward the agricultural working masses as the masters of production and management. Only by applying a guidance method that can strengthen collective unity and cooperation based on socialist and collectivist principles can [we] defend and adhere to the socialist rural economic system and fully display its superiority. If [we] tolerate private production and business methods or draw such methods into the socialist rural economy, it would bring essential changes to the socialist rural economic system, and [we] would not be able to continuously develop agricultural productivity.

Guidance of the rural economy should not proceed as simply administrative and technical work. It should proceed on the basis of ideological remolding work aimed at bringing out to the highest degree the mental strength and creative power of management functionaries and cooperative farmers, and on the basis of ensuring that they carry out all farming work responsibly by strengthening political work and educating them, [instilling] in them the consciousness befitting masters, and raising their revolutionary enthusiasm and creative activity...

Making sure that they value political evaluation more than material evaluation and voluntarily rise up in order to increase production and improve business activities—this is indeed the demand of socialist principles and should be the fundamental core of agricultural guidance improvement...

However, in a socialist society, which is based on public ownership of the means of production, the masters of production and management and economic activities are not

<sup>67</sup> Ryu Cho’ng-wo’n, “Defending and Adhering to Socialist Ownership Is the Most Important Issue at the Present Time for the Construction of a Powerful Socialist State,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 1, (2015).

individuals but the popular masses, a social group united as one with the state as the unit. From this, in a socialist society, all economic activities are carried out to materialize the economic requirements and interests of the popular masses, and the gains [ridu'k; 리득] that are generated in reality as a result—the actual economic gains—are actual profits.<sup>68</sup>

Perhaps the most pointed, almost brazen attack on the new economic policy lines—no doubt aimed at SERMS as much as plot responsibility—appeared in a two-part 2018 *Kyo'ngje Yo'ngu* series by Kim U'ng-ch'o'n, the first appearing in Volume 2 entitled “Modern Revisionist Theories That Distort the Essence of Socialist Ownership,” and the second in Volume 3 entitled “Birth of Modern Revisionism and Its Origin.” This final article, published after the party plenum in April had declared a “new strategic line” of “everything for the economy,” was almost brazen in its criticism:

[Khrushchev] seized power in the party and state through a conspiratorial method. Next, he called for the establishment of so-called “new lines,” saying that Stalin’s lines and policies must be reexamined on the pretext of how “the times have changed.”<sup>69</sup>

The criticism of Khrushchev was hardly new, nor were the warnings of the danger of a successor steering a revolution off track. The latter had been a major theme in the immediate aftermath of Kim Il Sung’s death in July 1994. But the revival of that line, especially in the context of developments since 2012, strongly suggests that Kim Jong Un, just as his father had with his new economic policy initiatives in 2002, faced headwinds from pockets of orthodoxy somewhere in the leadership.

This opposition, however, does not seem to have had significant effect. In December 2016, Kim Jong Un reiterated his support for the plot responsibility system, ordering that it “should be introduced as intended by the Party, so as to enhance the sense of responsibility and enthusiasm for production on the part of the agricultural workers.”<sup>70</sup> Subsequently, in visits to the countryside by the premier, there were frequent mentions of plot responsibility as well as positive, detailed articles in *Rodong Sinmun*. One article in the party daily even suggested that the policy was reaching down to the farm household level.<sup>71</sup>

At the same time, it was obvious that not all was easy in terms of implementation at the local level. It is difficult to tell how much of that was due to the complexity of the changes that the new policies entailed and how much due to local officials dragging their feet.

In July 2021, there was evidence that either the new policies—seven years old by then—were still not completely implemented, or that some changes might be underway. KCNA, for example, noted that on a visit to the countryside, Premier Kim Tok Hun “heard the opinions of officials of the farms about some practical measures to be taken by the Cabinet to improve the methods of economic management, as required by the developing reality.”<sup>72</sup> Two weeks later, another KCNA item reported that Premier Kim, again in the fields, urged officials to “arouse the enthusiasm of farmers by enforcing in a methodological way the field-responsibility-system [plot responsibility

<sup>68</sup> Quote translated from Pak Yo'ng-nam, “The Seed That [We] Must Hold Onto in Improving and Strengthening Guidance on Agricultural Production in the Present Time,” *Kyo'ngje Yo'ngu* 4, (October 2015).

<sup>69</sup> Quote translated from Kim U'ng-ch'o'n, “Birth of Modern Revisionism and Its Origin,” *Kyo'ngje Yo'ngu* 3, (July 2018).

<sup>70</sup> “Kim Jong Un Sends Letter to Those Attending of the 8th Congress of UAWK,” *KCNA*, December 8, 2016.

<sup>71</sup> 장은영, “분조강화이자 알곡생산실적,” *Rodong Sinmun*, March 28, 2020.

<sup>72</sup> “Premier Kim Tok Hun Inspects Different Farms,” *KCNA*, July 11, 2021.

system] within the framework of the sub-work team management system.”<sup>73</sup>

SERMS and the plot responsibility system represent a considered, pragmatic approach by Kim Jong Un. They were studied internally and then introduced very soon after he took power. They were not meant as a short-term fix, but apparently looked forward to a much longer-term transformation of the economic and, to some extent, the power relationships in the system. Some centers of power would have seen their role diminished; others would have gained. Kim’s economic initiatives looked to be having a positive effect on the economy, at least through 2017, when new United Nations Security Council sanctions kicked in. COVID-19 obviously had a significant effect on the economy, and by cutting off trade, the border lockdown instituted in response to the pandemic greatly reduced the room for the still-new reformist measures to take root and develop. The question at the moment is, have those measures been forced off the top of Kim’s agenda, and if so, how far have they fallen, and indeed have they been scrapped. The issue of “studying and completing our-style economic management methods”—the code phrase used for reformist economic measures, including SERMS—was discussed at a recent enlarged plenary meeting of the Cabinet, indicating it remains under discussion in Pyongyang.<sup>74</sup> North Korea has taken steps over the past year or two to retighten central controls under the difficult circumstances, but having been in play for most of the past two decades (since Kim Jong Il’s 2002 economic reforms), the reformist strains represented by SERMS are likely to reemerge when Pyongyang calculates the external environment shows promise of once again improving.

### Looking Ahead

The next and final installment of the first phase of this “Understanding Kim Jong Un’s Economic Policymaking” series will review the purpose of and key findings from the project. It will conclude with potential implications for North Korea’s foreign policy.

<sup>73</sup> “DPRK Premier Inspects Several Sectors of National Economy,” *KCNA*, July 24, 2021.

<sup>74</sup> “Enlarged Plenary Meeting of Cabinet Held,” *Rodong Sinmun*, January 30, 2022.



## Review and Implications

**March 24, 2022**

When we launched this research project last year, there were fundamental questions about the North Korean economy we felt needed to be examined: How does Pyongyang view its key economic and financial interests? How do those interests translate into policy decisions? How, once decisions are made, are new policies rolled out? And is there any pushback to those policies from within? It seemed that too often, discussions of North Korean economic policy are constrained by common wisdom about “regime survival.” We sought to break out of this straitjacket and examine internal regime consideration of broader questions concerning resource allocation and the balance between central control and autonomy for lower-level units.

Though we understand why the North Korean economy is usually discussed in the context of details such as trade, market price and foreign exchange rate data, our view was that these issues would be better raised after a careful look at the larger frame in which the smaller data points make sense.

Since Kim Jong Un’s assumption of power at the end of 2011, these larger, more fundamental policy concerns appear to have been a focus of intra-regime discussions. The central question—explicit and implicit—was how to boost the economy by increasing incentives for workers and farmers and by easing, though certainly not abolishing, higher-level state and party control. These tensions became evident when examining discourse in the Democratic People’s Republic of Korea (DPRK)’s economic journals *Kyo ’ngje Yo ’ngu* and *Hakpo*—the Kim Il Sung University journal of economics. Articles in the journals provided guideposts for understanding Kim Jong Un’s commitment to implementing what in North Korean terms amounts to a form of economic reform. Tracking this evolution over time provided a window into the process of the North’s continuing experiments—moving ahead, tacking, falling back—with new economic ideas and practices.

North Korean thinking about economic policy tells us more than just what reforms the regime is contemplating. While often overlooked, it should always be a central component in considering a range of issues that seem much higher on the list of concerns to the outside world—namely denuclearization, inter-Korean ties, and US-DPRK relations. To the extent positive movement on any of these is possible, they will inevitably have an economic component, and the effectiveness of that component will depend on how well it resonates with Pyongyang’s economic policy thinking. Simply projecting onto North Korea what we believe they should want will not work. Instead, greater consideration is needed of what already exists in terms of concepts, perspectives and goals in the regime.

### Methodology and Scope

We began this project by reviewing 15 years of North Korea’s top two economic journals, *Kyo ’ngje Yo ’ngu* and *Hakpo*, in order to understand the types of ideas that the regime allowed for discussion and the range of policy choices it appears to have seriously examined over those years. Of particular interest to us were the timing and sequencing of initiatives introduced and rolled out under Kim Jong Un; the types of discussions about those initiatives that took place; and any signs of opposition the proposals encountered.

In terms of sources, we knew it would be important to go beyond rounding up the usual suspects, in short, what was available in the normal central media sources such as *Rodong*

*Sinmun*, *Minju Joson*, Pyongyang radio and TV, and Korean Central News Agency (KCNA). Experts who follow Pyongyang's economic policies agree that *Kyo 'ngje Yo 'ngu* was the single most important North Korean source of information on the economy. This is because the journal offered insights into the regime's current policies and the direction in which it is headed with a level of detail not available in central media. In effect, *Kyo 'ngje Yo 'ngu* functioned as an economic "policy handbook" that discussed and, to some extent, reflected differing views on aspects of still unofficial party policies or guidelines not published in central media but issued by Kim Jong Un either directly in private talks with experts or circulated in the form of detailed internal party instructions. Unfortunately, *Kyo 'ngje Yo 'ngu* ceased publication in 2021. This means Kim Il Sung University's *Hakpo* and the Academy of Social Sciences journal (*Sahoegwahagwo 'n Hakpo*) have become more important for researchers of North Korean economic policy.

Though Kim Jong Un assumed power in December 2011, the study reached back to 2007 in order to avoid the pitfall of assuming that all discussions appearing after his ascendance to power were new to his leadership. Rather than posit a sharp break between the Kim Jong Il and Kim Jong Un eras, it was important to test the hypothesis that the North's economic policies in the last few years of Kim Jong Il's reign—years when Kim Jong Un likely already was being groomed for succession—may have shaped the son's economic policies.

### Key Takeaways

There are three key lessons learned from our research.

First, a close reading of the journals shows a pattern for rolling out new economic policies. Nothing is instantaneous or ad hoc. It starts with the journals introducing certain issues or topics, indicating Kim has issued some broad policy guidance that prompted interest in and research on them. After research had been conducted, new ideas were tested in some units, viable plans were identified and policies were issued, the journals would go beyond simply introducing concepts and start advocating the new policies, emphasizing the rationale and detailing how the new ideas could best be operationalized.

Second, contrary to the commonly accepted notion that there can be no dissent or inconsistencies in North Korean publications, *Kyo 'ngje Yo 'ngu* served as a platform for voicing differing views. We saw this in two key areas examined, both with defense spending and issues associated with economic reform. It is inconceivable that dueling narratives on such sensitive topics could be conducted without the concurrence, and more likely the backing, of various elements within the leadership. Contending views are more likely when policy is under discussion within the leadership, but there are still times when these appear even after a decision has clearly been made.

Third, the central, fundamental question of "economic management"—a code word for reformist economic policies—for Pyongyang seems to boil down to finding the right balance between state and/or party control and the independence of individual units. We continue to see dueling narratives on this issue, which indicates that the Kim regime is still trying to find the right answer in the midst of shifting circumstances. The general assessment among North Korea watchers since the Eighth Party Congress in January 2021 seems to be that Pyongyang is slowing down on or even backtracking on reform because of the emphasis on the state's unified guidance and the party's leadership, as well as the regime's stated intent to continue to develop and test new weapons. North Korea has clearly shifted to stronger state and party control over the economy

in the last one or two years, but for now, this seems aimed at continuing with its economic initiatives in a way that the regime can manage, rather than rolling back on reform. North Korea continues to promote the “socialist enterprise responsibility management system” (SERMS) and “plot responsibility system” at high levels—for example, at cabinet and parliamentary meetings and the premier’s field inspections.<sup>75</sup> In fact, North Korea is still in the stages of researching, improving, and perfecting economic management methods, according to an expanded plenary meeting of the cabinet held on January 28, 2022.<sup>76</sup>

## Reviewing Key Narratives

Out of a range of topics addressed in the two economic journals, we keyed on two broad themes that appeared to best reflect the leadership’s thinking on reform-type measures and competing priorities: 1) civilian versus defense spending, and 2) North Korea’s initiatives in the farming, enterprise and banking sectors. Internal discussion on these fundamental concerns reveals tensions between the traditional views of socialist principles and the more flexible, nonorthodox (we are comfortable calling them “reformist”) interpretations; the challenges facing the regime as it pushes its reformist agenda; and both the extent to which the regime has been willing to go and its persistence in trying to implement new ideas.

***Civilian Versus Defense Spending.*** There has long been a tug-of-war in the North Korean leadership over military versus civilian spending. In some ways, this was the biggest issue Kim Jong Un has had to tackle in fashioning new economic policies. The question of whether North Korea allocates more resources (not just money but also talent and technology) to defense rather than to the civilian economy goes beyond whether the country is planning to build and test more missiles or add to its nuclear arsenal. The basic issue, one that seems well understood in the regime, is that the more resources the regime allocates to national defense, the less room there is for reform-oriented economic policies to take root.

It was noticeable that the number of articles dealing primarily with the defense industry decreased sharply, starting with the first volume of *Kyo’ngje Yo’ngu* in 2011—during Kim Jong Il’s last year in power, and after Kim Jong Un had made his debut as the successor-designate the previous fall. At the same time, there was an increase in articles on “economic management.” In the articles that argued for defense spending as a priority, the authors were forced to demonstrate how spending on the defense sector was not an unassailable good but was actually of benefit to the economy as a whole. In other words, defense of the nation was not enough to justify the privileged position for military spending, and proponents had to show that priority allocation of resources to defense supported nondefense sectors and stimulated economic growth overall. Those who opposed leaving military spending as a sacred cow argued that disproportionate money spent on defense was not productive. It did not support but undermined economic development by wasting resources. These opposing views showed up in two articles carried in the same issue of *Kyo’ngje Yo’ngu* in January 2018.<sup>77</sup> Both articles were almost certainly written in anticipation of Kim Jong Un’s announcement a few months later, at an April 2018 party

<sup>75</sup> See: “Enlarged Plenary Meeting of Cabinet Held,” *Rodong Sinmun*, February 26, 2021; “인민경제 여러 부문에서 요구하는 철강재를 원만히 생산보장하겠다,” *Rodong Sinmun*, February 8, 2022; and “DPRK Premier Inspects Several Sectors of National Economy,” *Rodong Sinmun*, July 24, 2021.

<sup>76</sup> “Enlarged Plenary Meeting of Cabinet Held,” *Rodong Sinmun*, January 30, 2022.

<sup>77</sup> Kwak Myo’ng-ch’o’l, “Correctly Clarifying the Status of the National Defense Industry Is an Important Issue That Has Strategic Significance in the Construction of a Socialist Economy,” and Cho Kwang-ch’o’l, “The Development of Heavy Industry Is a Firm Guarantee for the Construction of an Economically Powerful Socialist State,” *Kyo’ngje Yo’ngu* 1, (January 2018).

plenum, of a “new strategic line” of “concentrating all efforts” on the economy.<sup>78</sup> In other words, as Kim was about to direct more resources to the civilian sector, opponents of that approach were still making their case that defense spending helped to stimulate the economy and, implicitly, should not be cut back.

**Farming and Enterprise Sectors.** Even as the debate (yes, we call it a debate) over the priority of defense versus civilian resources was going on internally, Kim Jong Un moved ahead to define the broad principles of his reform-oriented economic initiatives. At a party plenary meeting in March 2013, barely a year after he assumed power, he referred to a policy of “economic management methods of our style,” clarifying those were intended to allow enterprises to carry out their activities “independently and creatively.”<sup>79</sup> Kim added the usual qualifiers—that this be done under the state’s unified guidance and that workers fulfill their roles and responsibilities within the socialist economic system. However, there was no mistaking that he was opening the door for policies that made possible greater initiative by people and enterprises working at lower levels in the economy, freer from central bureaucratic control. In effect, Kim’s remarks at the plenum became the starting gun for a broader process rolling out reform by economic sectors—starting with agriculture, then enterprises and finally banking.

In February 2014, 11 months after his remarks on “economic management” at the party plenum, Kim gave his first public endorsement of reform in the agricultural sector. In a letter to an unusual national meeting of “Sub-Workteam Leaders in the Agricultural Sector,” Kim endorsed the “plot responsibility system,” that is, smaller-scale, incentivized farming giving more responsibility and potentially more financial rewards to farmers.<sup>80</sup> Not long after, in May, in a talk with senior party, state, and army officials, Kim established the three pillars of “economic management methods of our style.” They were: 1) the state’s unified guidance of the economy, 2) correct implementation of the “socialist enterprise responsibility management system” (SERMS) within the parameters of the socialist economy, and 3) the party’s leadership over economic work. Again, what was new and potentially far-reaching—SERMS—was carefully sandwiched between seemingly orthodox concepts. SERMS gave individual enterprises greater independence in planning, production, and management of resources and profits. It became the main part of what Kim meant when he spoke of “economic management methods.”

**Banking.** North Korean journals had published articles introducing foreign banking practices in the first few years of Kim Jong Un’s rule, signaling that research was underway about internal financial and banking reform. But it was not until a December 2015 national meeting of financial and banking officials that Pyongyang formalized reform in that sector.<sup>81</sup> In a [letter](#) to the meeting, Kim gave instructions on these key issues: the role of banks in support of enterprise independence and “creative” use of their resources; currency circulation and stability; and the “accounting system of financial institutions,” the equivalent of SERMS in the banking sector giving greater latitude to individual banks in their operation. In fact, the major purpose of the banking reforms appears to have been to support SERMS from all angles, making banks profitable so they could provide more loans and keep money in circulation as a means of supporting enterprises’ business.

Whether the North was not ready to promote banking so quickly or whether it had to deal with

<sup>78</sup> “3rd Plenary Meeting of 7th C.C., WPK Held in Presence of Kim Jong Un,” *Rodong Sinmun*, April 21, 2018.

<sup>79</sup> “경애하는 김정은동지께서 조선로동당 중앙위원회 2013년 3월전원회의에서 하신 보고,” *Rodong Sinmun*, April 2, 2013.

<sup>80</sup> “Kim Jong Un’s Letter to Participants in National Conference of Sub-workteam Leaders in Agricultural Sector,” *KCNA*, February 7, 2014.

<sup>81</sup> “3rd National Conference of Financial and Banking Officials Held,” *KCNA*, December 13, 2015.

sensitive policy details, there was a curious gap of nearly a year during which the journals did not pick up on the ideas contained in Kim's December 2015 letter. When they finally did, they went beyond *introducing* the outside world's banking policies and sought to *adapt* banking, and in particular, commercial banking, to North Korea's needs. By contrast, North Korean journals started mentioning SERMS in the fall of 2014, just a few months after Kim introduced the concept in his talk with functionaries in May.

### **Foreign Policy Implications**

North Korea's stance on economic reform is significant, not just for its domestic repercussions, but also for how it might impact the country's foreign policy. This is an area that needs closer study of particular cases. One good case could be Kim Jong Il's July 2002 economic policy reforms and their connection to the North's diplomatic initiatives starting in early 2000. Another would be a study of possible links between Kim Jong Un's diplomatic initiatives in 2014 and 2015 with the introduction of his measures in agriculture, enterprise management and banking in that time period. The most obvious would be the connection between Kim's pivot to diplomacy in January 2018 and Pyongyang's declaration of the "new strategic line" of "everything for the economy" three months later, in April. One working hypothesis to test might be that Pyongyang tries to improve its external security environment—usually meaning improved relations with Washington—in order to provide better conditions for introducing new, reformist economic ideas. If it can't move the foreign policy quickly enough, it moves ahead on the economic front anyway, anticipating it can get the diplomacy in line. Depending on the conclusions of such studies, they might support or contradict the commonly held idea that Pyongyang goes into diplomacy mainly for rewards or carrots from Washington.



## Phase II

### Tourism as an Industry

July 26, 2022

This article is not about booking a tour to North Korea.<sup>82</sup> That’s a topic for another day. Rather, this is a study of how articles on tourism in the primary Democratic People’s Republic of Korea (DPRK) economic journals—*Kyo’ngje Yo’ngu* and *Hakpo* (the *Journal of Kim Il Sung University (Economics)*)—reflected and possibly played a role in the regime’s thinking about economic policy between 2012 and 2020. A recent government daily editorial endorsing the cabinet’s leading role in the economy called for: “continuously researching, perfecting and applying optimized economic management methods” by “carrying out discussions broadly and in-depth between academia and functionaries on the ground.”<sup>83</sup> This suggests that the ideas being put forward in North Korea’s economic journals carry policy significance and are intended to have a practical impact.

Broadly speaking, these articles on tourism can be separated into two categories: the first, and by far the smaller, was concerned with tourism as an ideological issue; the second was purely practical explorations of how to make tourism successful and, most of all, profitable. Naturally, some articles were a little of both, with authors starting with a nod to ideological orthodoxy and then halfway through casting that off to concentrate on pragmatic approaches.

#### Background

Between 2012 and 2020, the two aforementioned journals published nearly 60 articles dedicated to tourism. The topics ranged from general discussions about the nature of “socialist tourism” to areas such as hotel service work, tourism advertising, the impact of tourism on the economy and international trends in tourism. This focus went well beyond the South Korean-financed Mt. Kumgang tourist area in Kangwon Province.<sup>84</sup>

Despite the oft-repeated description of North Korea as being isolated and closed to outsiders, tourism was not a new concept to the DPRK when Kim Jong Un assumed power after his father, Kim Jong Il, died in December 2011. The elder Kim had devoted much attention to tourism, especially near the end of his rule, when North Korea signed several agreements with the People’s Republic of China (PRC), easing visa requirements for Chinese tourists, whose numbers had increased to tens of thousands per year.<sup>85</sup> Kim Jong Il himself made on-site inspections to tourist hotels and sites around the country to check on new construction and upgrades to existing

<sup>82</sup> For those interested in more background on tourism in North Korea, see Dean J. Ouellette, “Understanding the ‘Socialist Tourism’ of North Korea Under Kim Jong Un: An Analysis of North Korean Discourse,” *North Korean Review* 16, no. 1 (Spring 2020): 55-81, <https://www.jstor.org/stable/26912705>.

<sup>83</sup> “<사설> 내각의 결정과 행정명령은 당의 결정이고 국가의 법이다,” *Minju Joson*, June 30, 2022.

<sup>84</sup> Mt. Kumgang was an inter-Korean joint tourism venture that closed in 2008 due to an incident of a North Korean guard shooting a South Korean tourist. This was one of the first large-scale tourism projects in North Korea. Despite being closed since 2008, articles dedicated to the resort appeared in *Kyo’ngje Yo’ngu* as late as 2017, and hopes to reopen the resort resurfaced during inter-Korean talks as recently as 2018. However, Kim Jong Un in October 2019 threw cold water on this inter-Korean project by calling for removing South Korean facilities and developing the district without the South.

<sup>85</sup> “Agreement and Agreed Documents Signed between DPRK and Chinese Governments,” *KCNA*, October 4, 2009; “DPRK Draws Many Tourists,” *KCNA*, April 21, 2011; and “Harbin-Mt. Kumgang Tourist Group Tours Mt. Kumgang,” *KCNA*, November 7, 2011.

facilities.<sup>86</sup> Money was spent on infrastructure improvements, including rail lines to get tourists to various sites, especially in the northeast.<sup>87</sup>

What changed under Kim Jong Un was how tourism became part and parcel of the extensive push for new economic policies. The DPRK introduced its tourism initiative in the midst of researching and testing various economic reform ideas that spanned from [incentivized farming and greater autonomy to enterprises](#) to [revitalized commercial banks](#). All of which suggested that tourism was part of Kim's new economic policies. His first public endorsement of tourism and economic development districts came at the March 2013 party plenum, simultaneously with his broad guidelines on the “economic management methods of our style,” which was code for the aforementioned economic reform initiatives.<sup>88</sup> In the months that followed, North Korea started to actively promote tourism, holding knowledge-sharing conferences and promulgating relevant laws.<sup>89</sup> Eventually, tourism became seen as an “economic activity” in its own right.<sup>90</sup> As such, it required consideration in the context of a full range of economic issues rather than simply as an ornament or ideological-propaganda tool to influence the thinking of foreigners. For that reason, discussions about tourism in the country's economic journals should be seen as bearing increased policy significance.

### Pushing the Envelope

Taken as a whole, the articles on tourism implied ways to probe, and in some cases transform, the boundaries of economic thinking—boundaries that had to be crossed for new ideas and practical approaches to succeed. A few of the articles appeared to bump up against red lines beyond which thinking on tourism could not tread, although some authors seemed determined to tiptoe in that direction regardless. This pattern is consistent with their handling of [the range of reforms](#) Kim Jong Un has advocated for from the outset of his rule.

For example, a *Hakpo* article in 2017, which wrestled with the problem of how to be (or seem) faithful to Marxist economic concepts when applied to tourism, sought to find a safe middle ground. The author went to great pains to explain why the “law of value,” a thorny topic due to it being equated with the market economy, still plays a role in a socialist economy, albeit limited. The author then warned: a “socialist state should correctly assess these characteristics of the law of value and should not show left and right deviations in its use.”<sup>91</sup> This, of course, might well raise the question: If the law of value needed to be watered down in the tourist economy, why not in other sectors as well?

While seemingly focused on the narrow question of tourism, several articles in these journals

<sup>86</sup> “Kim Jong Il Gives Field Guidance to Mt. Myohyang Recreation Ground,” *KCNA*, October 25, 2009; and “Kim Jong Il Inspects Renovated Hyangsan Hotel,” *KCNA*, January 30, 2010.

<sup>87</sup> “Rason City Development Plan,” *KCNA*, April 6, 2011; and “Rason Directs Efforts to Tourist Development,” *KCNA*, August 30, 2011.

<sup>88</sup> “경애하는 김정은동지께서 조선로동당 중앙위원회 2013년 3월전원회의에서 하신 보고,” *Rodong Sinmun*, April 2, 2013.

<sup>89</sup> “DPRK Law on Economic Development Zones Enacted,” *KCNA*, June 5, 2013; “Tourism-related Explanation Session Held in DPRK,” *KCNA*, August 24, 2013; and “DPRK to Develop Tourism as One of Major Industries,” *KCNA*, August 28, 2013.

<sup>90</sup> “Cho'n Yo'ng-myo'ng, “Tourism Economy as Economic Relations of Tourism Activities,” *Kim Il Sung Chonghaptahakhakpo* (*Ch'o'rhak, Kyo'ngje*) 1, (2017).

<sup>91</sup> Cho'n Yo'ng-myo'ng, “Key Economic Laws Operating on Socialist Tourism Economic Activities,” *Kim Il Sung Chonghaptahakhakpo* (*Ch'o'rhak, Kyo'ngje*) 2, (2017).

have implicitly raised wider policy issues—security, foreign policy and resource allocation.<sup>92</sup> All of these were singled out as areas that had to be addressed in fashioning effective tourism policies.

Some of this attention to tourism flowed from Kim Jong Un’s 2013 instructions to establish new economic and tourism zones around the country. This expansion of zones—some of which were already in existence—was directly connected with his efforts to slowly and carefully open the economy to foreign participation and, in the process, to hand localities more responsible for their own development through the cultivation and use of foreign resources. A 2017 article in *Kyo’ngje Yo’ngu* pressed the point that the tourist zones in particular needed to break free from the considerations driving the development of industrial zones. In effect, it argued that for tourist zones to succeed, they had to march to the beat of a different economic drummer. In industrial zones, according to the author, “the basic purpose of the use of foreign investment is to combine the advanced technologies of other countries with our advantageous potential to achieve world-class competitiveness in industrial products.” The same author pointed out that in a tourism zone, on the other hand, “under the condition that its purpose is tourism service, the use of foreign investment in infrastructure construction, service facility construction, and related industries... is investment in service and thus the result of its use is also service.”<sup>93</sup> Once again, this became another excuse to push against the boundaries of economic thinking on a number of levels.

The DPRK’s economic journals’ discussions on tourism appear to have followed the same pattern as those on new economic concepts in other areas, such as [banking](#). The early articles begin with more limited descriptions of the concept of tourism, for example differentiating “capitalist” from “socialist” tourism. The capitalist form of the tourism industry was portrayed as reflecting greed, where businesses squeeze as much as possible out of tourists in order to feed themselves. Socialist tourism was described as being more interested in improving the lives of the tourists.<sup>94</sup> Over time, this distinction was blurred and, in most cases, dropped entirely.

The next phase ushered in articles that began to tackle new ideas. It was not uncommon for these pieces to begin by praising the orthodox economic theory before moving beyond—in some cases, considerably beyond—the limits. Finally, in step with the tenor of the times, bolder articles appeared that advocated for ideas that only a few years before would have been impossible to publish.

### Exploring New Boundaries

By 2017, by which time many of Kim’s economic reforms had found their footing, the discussions on tourism were more clearly exploring new concepts that pushed against the boundaries of economic thinking in step with the developments in other fields. Increasingly, journal articles portrayed tourism as part of a global industry, making the case that one had to keep up with and surpass overseas trends to capture a share of the market. There was no such thing as *Juche* tourism or “tourism in our style.” Some articles unabashedly admitted that

<sup>92</sup> Ri Myo’ng-hu’i, “Understanding of Socioeconomic Factors Affecting Demand for Tourism,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 2, (2016); Kim In-cho’ng, “The Essence and Characteristics of Tourism Resources,” *Kyo’ngje Yo’ngu* 3, (2015); and Cho’n Yo’ng-myo’ng, “Essence and Characteristics of the Tourism Industry,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 1, (2014).

<sup>93</sup> Kim Ch’ung-hyo’k, “Characteristics of Foreign Investment Uses in the Development of the Wonsan-Mt. Kumgang International Tourist Zone,” *Kyo’ngje Yo’ngu* 4, (2017).

<sup>94</sup> Cho’n Yo’ng-myo’ng, “Essential Characteristics and Role of Socialist Tourism,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch’o’rhak, Kyo’ngje*) 1, (2015).

the country would not attract large numbers of foreign tourists if it could not compete on an international scale in accordance with global standards.<sup>95</sup>

To do that, a variety of steps were presented as being necessary, ranging from the removal or easing of legal barriers, such as visa requirements and eliminating some forms of tourist taxes, to improving the quality of goods sold to tourists and significantly upgrading the tourism infrastructure such as transportation, guides, hotels and sewage.<sup>96</sup> In short, tourism was being described in what previously would have been seen as capitalist terms, and there was no reticence about emphasizing that it had to operate by the golden rule of capitalism—supply and demand.<sup>97</sup>

Increasingly, articles revolved around the issue of how to estimate and increase demand and how to balance demand with an adequate supply that would give tourists value for their money. The bottom line was not about fulfilling a central plan—though the idea of sticking to the “plan” was given lip service—but how to make the tourists happy. It was argued that to achieve this, there had to be an understanding that tourists operated outside of planning; that not all tourists were the same, and that age, gender, physical condition and particular interests all played a part and could, implicitly, confound planning. For example, younger tourists might enjoy the beach more than older ones and could thus be charged more.<sup>98</sup>

None of these steps would be without opposition, though that was never explicitly noted. Visa-free entry would make the job of the security service more difficult. Dropping the tourist taxes would deprive the state of income. Accepting that the tourism economy would not function according to state plans but almost entirely to supply and demand conceivably set a bad example for other sectors of the economy. However, it is possible that letting tourism economics lead the way was part of the plan. For tourism, money had to be spent to make money. One author went so far as to suggest that profits from the tourist business should not go to the state but back into development of the tourism sector. It was understood this would not be a moneymaking venture, at least not at first.<sup>99</sup>

By 2018—when North Korea shifted from weapons tests to diplomatic engagement and from the *byungjin* policy of parallel economic and nuclear development to a policy of focusing on the economy—journal articles had already started portraying the tourism economy as a separate entity and implying that it had to grow and adjust to different factors in accordance with modified or altogether separate rules from other sectors.<sup>100</sup> To some extent, this put tourism on the leading edge of new economic thinking. Supply and demand were paramount forces, price and advertising were key components and service to the consumer was the *sine qua non*.

Interestingly, one article argued that the top socioeconomic factor affecting tourism was good

<sup>95</sup> Ri Myo'ng-hu'i, “Important Issues Arising in Drafting State Tourism Development Plans,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak, Kyo'ngje*) 2, (2018).

<sup>96</sup> Kong Hyo'k, “Several Issues Arising in the Development of Tourism Development Parks,” *Kyo'ngje Yo'ngu* 2, (2017).

<sup>97</sup> Cho'n Yo'ng-myo'ng, “Key Economic Laws Operating on Socialist Tourism Economic Activities,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak, Kyo'ngje*) 2, (2017).

<sup>98</sup> Pak Cho'ng-ch'o'l, “Ways to Rationally Use Price Levers in Business Activities of Tourism Businesses,” *Kyo'ngje Yo'ngu* 3, (2019).

<sup>99</sup> Ri Myo'ng-hu'i, “Important Issues Arising in Drafting State Tourism Development Plans,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o'rhak, Kyo'ngje*) 2, (2018).

<sup>100</sup> *Ibid.*

relations with other countries, as bad relations were bad for tourism.<sup>101</sup> The same article pointed out that increases in tourism were in part reliant on the availability of more leisure or vacation time and called for “research on international tourism markets in order to set reasonable tourism service fees.” But most of all, there was an underlying recognition that there was no plan that could dictate the number of tourists. It was necessary to recognize the existence of different economic classes so that tourist packages could be divided into “luxury,” “medium” and “ordinary.”<sup>102</sup> Tourism packages that included hotel, meals and airfare could be sold as a way of lowering prices and making things more accessible for tourists. The concept of “price levers,” which had already begun to gain traction in North Korean economic discussions elsewhere, was stretched to include a form of surge pricing, though that term was never explicitly used. Instead, it was presented as charging different prices for the same hotel room, airplane seat or entry fee depending on when the booking was made and for whom.<sup>103</sup>

## Conclusion

Tourism was not a new concept to the DPRK when Kim Jong Un assumed power at the end of 2011. However, under his rule, the shift in the treatment of tourism within economic policymaking is notable and evident in how the concept was discussed in the DPRK’s economic journals. At the same time that Kim defined the concept of [“economic management methods of our style”](#)—a reference to his various economic reform initiatives—he also encouraged tourism to blossom as part of his economic policy framework. This suggests tourism was part of his new economic policies.

The journal discussions on tourism appear to have followed the same pattern as those introducing new policies in other economic areas. The early articles begin with more limited descriptions of the concept of tourism. The next phase introduced articles that began to present new ideas that pushed against the boundaries of economic thinking in step with developments in other fields. Finally, by 2018, when North Korea was making diplomatic overtures and shifted from *byungjin* to a policy of focusing on the economy, bolder articles advocating for ideas, such as allowing the principle of supply and demand to take its course in lieu of central planning, appeared, where only a few years before these would have been impossible to publish.

<sup>101</sup> Ri Myo’ng-hu’i, “Understanding of Socioeconomic Factors Affecting Demand for Tourism,” *Kim Il Sung Chong-haptaehakhakpo (Ch’o’rhak, Kyo’ngje)* 2, (2016).

<sup>102</sup> Ibid.

<sup>103</sup> Pak Cho’ng-ch’o’l, “Ways to Rationally Use Price Levers in Business Activities of Tourism Businesses,” *Kyo’ngje Yo’ngu* 3, (2019).



## Rolling Out Economic Development Zones

December 21, 2022

Continuing our study of North Korean economic policies under Kim Jong Un, this article is focused on the North's thinking about economic development zones (EDZs). The country's premier economic journals, *Kyo'ngje Yo'ngu* and the *Journal of Kim Il Sung University*, also known as *Hakpo*, continued to guide our research on how the *concept of EDZs was viewed and discussed* by various stakeholders in the Democratic People's Republic of Korea's (DPRK) economic policymaking circles and possibly by the leadership itself, rather than how *EDZ policies were implemented*.

These journals provide a window into the regime's thinking and a sense of the scope of allowable internal discussion. No single article or topic can be interpreted in isolation from the others. Rather, the breadth of articles should be read longitudinally, across the spectrum of policy developments, since that is undoubtedly how the authors themselves saw the world. How EDZs were covered followed a well-established pattern in all of the key economic reform themes that Pyongyang rolled out under Kim Jong Un, from [commercial banking](#) and [economic management methods](#) to [tourism](#). The journals would typically start by publishing articles that simply introduced concepts or foreign practices. Later articles would then step things up a notch by exploring the various aspects of a theme in-depth and examining how certain concepts or foreign practices could (or should) be applied in North Korea.

A review of how EDZs were treated within these two journals suggests that the North clearly welcomed an influx of external ideas and actively solicited discussions about establishing and operating these zones, although some articles also warned against the potential side effects of these zones. The positions and emphasis between 2013-2018 tended to be forward-leaning, and many were in line with the trends in reformist policies being considered more broadly at the time. The warning signs were more subtle during these years, but became more pronounced in 2019. In 2022, some discussion of EDZs has resurfaced, although not in the journals as much as in other outlets such as the website *Naenara*. Where it goes from here, post-pandemic, is still unclear.

### Background

EDZs, as defined by the North Korean law on EDZs adopted in May 2013, are: “special economic areas [zones] where preferential treatment is accorded to economic activities pursuant to the special laws and regulations enacted by the State.”<sup>104</sup> They were not new to the North when Kim Jong Un pressed for their development in his March 2013 party plenum speech. For example, Kim Il Sung created the Rason Economic and Trade Zone in the early 1990s, and Kim Jong Il followed suit with the Kaesong Industrial Zone and the Sinuiju Special Administrative Zone in the early 2000s. Even the KEDO project (1994-2005) was a sort of development zone as it carved out a geographic area that was not bound to DPRK laws, and where foreign economic and construction practices could be observed by North Korean citizens.

<sup>104</sup> “DPRK Law on Economic Development Parks,” *Korean Central News Agency (KCNA)*, January 16, 2014. This paper translates *kyo'ngje kaebal ku* (경제개발구) as “economic development zone (EDZ)” for consistency with North Korean English outlets' most widely accepted rendering of the term (they have also used “economic development parks” but more rarely). Technically, “district” would be the better translation for *ku* (구), while “zone” would be more appropriate for the term *chidae* (지대) in Korean.

At the very end of Kim Jong Il's time, the North revised a string of EDZ-related laws between November and December 2011, which was well after Kim Jong Un's public debut in the fall of 2010. The speed with which the younger Kim picked up and added to the concept of EDZs upon assuming power after his father's death suggests he may have played a role in jump starting the EDZ initiatives. In Kim's March 2013 speech, when he called for developing EDZs in every province, Kim was doing more than simply reviving them. He was deliberately opening the door of reconsideration to a range of sensitive economic and social policies, in some cases well beyond what had been normal or comfortable for the regime up to that point. In short, the real issue was not just about the zones. In fact, almost in the same breath, Kim mentioned zones, tourism and management—each part of what was likely a single economic reform measure package.

What Kim had in mind in 2013 was dotting the entire country with special economic zones of different sizes and different purposes. These zones were meant to economically lift local areas while exposing the population to international economic practices and new approaches to management. Doing so also addressed the need for local provinces to assume responsibility of management that was relatively free from direct state control. Apparently, the operation of these multiple zones did not raise the overwhelming problems of “contagion” in Kim's mind. If there were ideological and security concerns expressed within the leadership about the danger such an expansion of EDZs posed in terms of exposure to new ideas from the outside, Kim must have overridden them.

### Embracing EDZs

Perhaps more than on any of the other issues this series has tackled, when it comes to EDZs, the North clearly welcomed an influx of ideas from the outside and actively solicited in discussions about establishing and operating these zones. Special economic zones (SEZs) were the subject of international conferences in Pyongyang in [October 2013](#) and again in [May 2014](#). In June 2015, North Korean experts took a [study tour](#) to Indonesia. Indeed, the effort to learn from the outside appears to have been wide-ranging. According to the DPRK government website *Naenara* in August 2016:

Since one of the most important tasks for the development of SEZs is to train a lot of competent zone development experts, the government of the Republic is establishing and implementing an education system to nurture experts in this field.

Various universities, including Kim Il Sung University, University of National Economy, and the Wonsan Jong Jun Thae University of Economics have started regular education for training SEZ development experts.<sup>105</sup>

The *Naenara* piece described how the universities created “new courses related to SEZ development, EDZ management, real estate management, tourism, and international investment” and “wrote the necessary textbooks and reference books and published a lot of papers, too.” Universities trained experts on:

...theoretical issues like the economic principles and effects of SEZ development and the forms and development methods of zones, as well as methodological issues like the establishment of development strategies, formulation of general development plans, selection of development enterprises, conclusion of development contracts,

<sup>105</sup> Quote translated from 조창준, “특수경제지대와 개발전문가양성사업,” *Naenara*, August 1, 2016.

granting of development rights, conclusion of land use contracts, sale of land use rights, operation of infrastructure, and management of foreign-invested enterprises' economic activities.

Taken together, this was an extraordinary effort by the DPRK to reach out for international advice while exploring—sometimes gingerly, sometimes boldly—how to adapt EDZs to the North's realities and policy boundaries. The *Naenara* piece was no doubt meant in part to sell foreigners on the idea of investing in North Korea. The breadth and depth of the effort to study the complex issues involved in establishing and operating economic zones is reflected in over 30 articles in *Hakpo* and *Kyo 'ngje Yo 'ngu* from 2013-2020, when the latter ceased publication. It can be assumed that at least some of the authors of these journal articles were part of the state-sponsored effort to stimulate thinking on the various aspects of EDZs.<sup>106</sup> More than other issues we've studied in this series of reports, most of the journal articles on EDZs seem to explore and exchange ideas rather than advocate for specific policies.

In these journal articles, there was a wide range of issues that were considered important to address, including the purpose and scope of the zones; national versus provincial roles; the involvement of non-zone players; the management, speed, and sequence of development; taxation; currency regulation; and land use. Given Kim's instructions and several laws promulgated at the time, it might seem that the boundaries for these discussions would have been clear. In reality, the complexity of introducing the wide range of EDZ-related issues instead focused on the details, implementation, sequence and meaning of specific terms.

In a handful of articles, the authors seemed to feel the need to justify the new EDZ policies as a way to “break the blockade” or “crush the US imperialists.” Interestingly, it was mainly in *Hakpo* articles from 2015-2017 that this sort of language appeared. In *Kyo 'ngje Yo 'ngu*, only one article on EDZs, published at the end of 2015, mentioned the blockade-busting justification.<sup>107</sup> The fact that this line of argument got such little attention may be due to the general understanding that the image of fighting the imperialists did not jibe well with one of the main themes in the overall approach to EDZs: that capitalists were welcomed and needed to feel “comfortable” if they were to invest in the North.

In order to expand the countries and regions from which to accept investment, we should accept investment from the capitalist countries that treat our country in a friendly manner.

The important thing about accepting investment from capitalist countries is to actively go out to capitalist countries and boldly wage investment attraction activities. In particular, we need to strengthen economic exchanges and cooperation with the European Union and actively wage investment attraction activities in European countries.<sup>108</sup>

Similarly, two years later:

Under the condition where socialist markets are gone, it is important to expand and develop economic relations with capitalist countries as well as developing countries to

<sup>106</sup> These efforts included international seminars in Pyongyang in October 2013 and May 2014 and a study tour to Indonesia in June 2015.

<sup>107</sup> 김영철, “경제개발구개발사업을 적극 밀고나가는것은 경제강국건설의 중요요구,” *Kyo 'ngje Yo 'ngu* 4, (2015).

<sup>108</sup> Quote translated from 로명성, “경제개발구를 개발하는데서 나서는 원칙적요구,” *Kim Il Sung Chonghaptae-hakhakpo* (*Ch'o'rhak, Kyo 'ngje*) 1, (2016).

increase foreign markets.<sup>109</sup>

From the beginning, there was a general understanding expressed in the journals that within the zones, normal rules and procedures had to be massively overhauled in order to attract foreign investors. Two 2015 *Kyo'ngje Yo'ngu* articles put it bluntly:

If the laws and regulations that apply to all regions of the country are applied exactly as they are to an EDZ, foreign investors will not invest in it, and thus it will have no significance as an EDZ.<sup>110</sup>

Fifthly, the characteristic of the contract-based production and management method is that our side, party to the contract-based production and management contract, does not interfere with the production and management activities of the developer, the investor.<sup>111</sup>

In a practical vein, several articles mentioned the need for customs and immigration authorities to understand they were there to facilitate and not impede people and goods coming in and going out. Cooperation on that level may have been a continuing problem as such organizations do not dance to the tune of more enlightened policies.

The system of guaranteeing convenient economic activities includes more favorable and convenient measures for economic activities such as the entry and exit of personnel, taking in and taking out of goods, customs payment, finance and accounting, loan and foreign currency use, advertisement, insurance, agency and consignment, auction and bidding, and trust. What is important here are the conditions related to the entry and exit of personnel, the taking in and out of goods, and trade activities of enterprises.<sup>112</sup>

In order to guarantee well the conditions related to the construction of the infrastructure, we should also guarantee to the maximum the convenience of investors entering and exiting EDZs.<sup>113</sup>

Perhaps one of the most consequential aspects of the new policy on economic zones was the idea that, unlike Rason and Kaesong, the provincial zones would not be isolated from the rest of the country.

The latest technologies and management methods used in EDZs can also affect economic sectors outside of a region and can be introduced and used according to actual circumstances...<sup>114</sup>

A characteristic of EDZs is also that production and consumption ties to domestic enterprises outside of development zones arise as an essential requirement... However, due to their functional characteristics and limited development area, EDZs cannot solve on their own many of the problems raised within the zones, and in many cases, they

<sup>109</sup> Quote translated from 로명성, “경제개발구들의 창설운영은 대외경제관계발전의 중요방도,” *Kyo'ngje Yo'ngu* 3, (2018).

<sup>110</sup> Quote translated from 리일철, “경제개발구의 개념과 주요류형,” *Kyo'ngje Yo'ngu* 2, (2015).

<sup>111</sup> Quote translated from 신광호, “도급생산경영방식의 특징,” *Kyo'ngje Yo'ngu* 2, (2015)

<sup>112</sup> Quote translated from 로명성, “경제개발구의 특혜제도,” *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 2, (2018).

<sup>113</sup> Quote translated from 전은주, “경제개발구의 하부구조건설에서 나서는 몇가지 문제,” *Kyo'ngje Yo'ngu* 1, (2019).

<sup>114</sup> Quote translated from 김영철, “경제개발구개발사업을 적극 밀고나가는것은 경제강국건설의 중요요구,” *Kyo'ngje Yo'ngu* 4, (2015).

require connection with the outside of the zones. In other words, many of the problems raised in the course of management and operation in EDZs require connection with the outside of the development zones, and [EDZs] develop based on that. An important feature of EDZs indeed is that their production and consumption dependence on domestic enterprises outside EDZs is very high, and thus production and consumption ties with the outside of the zones are an essential requirement.<sup>115</sup>

A later *Kyo 'ngje Yo 'ngu* article made the same point:

One of the important tasks of a management institution is to enable enterprises in EDZs to smoothly forge mutual economic ties with other regions of the country. In the process of conducting various types of transactions, such as accepting labor required for corporate business activities, borrowing monetary funds, purchasing raw and other materials, or selling manufactured products, economic links with other regions of the country are inevitably raised. In order for enterprises to resolve the [issue of] necessary economic resources and gradually expand the scope of sales and volunteer activities, they need to establish more economic connections with domestic regions and expand the breadth of business activities.<sup>116</sup>

In our view, the links and openness of the zones to the rest of the country are key to understanding that the zones were meant, in part, to be teaching models and test beds for new policies. Walling them off would have defeated that purpose, as they could not serve as training grounds for achieving a wider understanding of international practices—perhaps none so important as foreign styles of management. It was no accident that in March 2013, at exactly the same time he publicly endorsed EDZs, Kim Jong Un launched the effort to develop a new managerial approach ([SERMS](#)) throughout the country. Combined with the imperative to keep the zones open to interchange with the surrounding regions, the benefits of deliberate exposure to new managerial styles are not hard to see.

Finally, congruent with Kim Jong Un's overall efforts at the time to devolve decision-making and responsibility to lower levels throughout the country, one of the primary themes in the EDZ articles was that the heavy hand of central authority needed to be eased in the zones. Early on, a *Kyo 'ngje Yo 'ngu* author began with a Kim Il Sung citation in order to suggest that his article's advocating less central interference was consistent with the highest authority:

The government sector, as the owner and organizer of SEZs, takes two methods in the development and construction of SEZs: a direct method and an indirect method. The direct method is a method in which the government directly organizes and guides the development and construction of SEZs, and this method is typically used a lot in developing countries. The indirect method is a method in which non-governmental organizations, such as public organizations, local self-governing organizations, universities, and businesses, carry out the development and construction of SEZs, and the government provides only indirect guidance and support in various ways.<sup>117</sup>

The next year, an article explored the concept of a particular development method, citing numerous ways this approach relieved the state of a number of its normal functions in an economic zone:

<sup>115</sup> Quote translated from 김영철, “각 도에 창설되는 경제개발구들의 특징,” *Kyo 'ngje Yo 'ngu* 4, (2016).

<sup>116</sup> Quote translated from 리영수, “투자봉사를 위한 경제개발구관리기관의 기능과 역할을 높이는데서 나서는 몇가지 문제,” *Kyo 'ngje Yo 'ngu* 4, (2019).

<sup>117</sup> Quote translated from 리승준, “경제특구와 그 발전방향,” *Kyo 'ngje Yo 'ngu* 4, (2012).

Foreign investment constructs the target of development with its own funds and bank loan funds, and even after the project has been completed, the business management of the target is conducted independently without the participation of the government of the capital-importing country.<sup>118</sup>

As late as 2019, *Kyo 'ngje Yo 'ngu* was warning of the danger of excessive control of foreign enterprises operating in the zones.

If an EDZ management institution fails to manage the business activities and transactions of foreign-invested enterprises so that they can act independently in accordance with the characteristics of the development zones and international customs, and excessively controls and shackles them, the enterprises cannot avoid losses in the course of operation, and they will give up their investment or take the invested property and move to a more advantageous area...As for in-company business activities such as control and distribution of production plans and production factors, conduct of production activities, handling of products, and the distribution and use of profits, it is important to grant management independence so that enterprises take due responsibility and handle them on their own.<sup>119</sup>

## Warnings

The positions and emphasis between 2013-2018 tended to be forward-leaning, and many were in line with the trends in reformist policies being considered more broadly at the time. But all along, there were warning signs.

A sense of pulling back became much more evident in *Kyo 'ngje Yo 'ngu*, suggesting there was a stream of thought emerging that things needed to be tightened. This was a difficult moment, and there appears to have been some effort to deal with both impulses at the same time. The state's interest and control had to be more carefully considered, rules needed to be enforced and taxes needed to be collected.

In an economic and trade zone, no financial management method or order that could damage the political and economic interests of the state should be allowed, and capitalist elements that could damage the image of the socialist system should not infiltrate into the financial sector.<sup>120</sup>

In keeping with the standard form of argumentation presented in these journals—protecting oneself by stating a conservative position and then suggesting a forward-leaning workaround—the author went on to suggest that one way to achieve this goal was not by tightening central control but rather by changing central guidance:

The third general principle of organizing financial businesses in economic and trade zones is to allow foreign-invested financial institutions a certain degree of economic independence and freedom in financial transactions. Under the condition where different ownerships and types of financial institutions exist in economic and trade zones, and the monetary funds they have invested, too, are composed of various types of foreign currency, we cannot mechanically bind them to one centralized administrative system.

<sup>118</sup> Quote translated from 강원우, “《BOT》개발방식의 본질적특징,” *Kyo 'ngje Yo 'ngu* 2, (2013).

<sup>119</sup> Quote translated from 리영수, “투자봉사를 위한 경제개발구관리기관의 기능과 역할을 높이는데서 나서는 몇가지 문제,” *Kyo 'ngje Yo 'ngu* 3, (2019).

<sup>120</sup> Quote translated from 유철남, “경제무역지대에서 금융업조직의 일반적원칙,” *Kyo 'ngje Yo 'ngu* 4, (2014).

In particular, foreign financial institutions, which carried out financial transactions in capitalist economic environments, do not want to be enlisted in a centralized financial system. It is necessary, therefore, to research and perfect a method of enlisting foreign financial institutions in one financial system monetarily and financially while giving them certain independence in terms of their management activities.<sup>121</sup>

Several months later, another article also sounded a cautious note:

As EDZs are being set up in each province, there should be no phenomenon in which each region impedes national economic development by pursuing only its own economic development. To that end, it is important to carry out practical work related to the establishment and operation of EDZs under the unified guidance of the Central Special Economic Zone Guidance Organ.<sup>122</sup>

An article in 2017, while generally positive on the question of foreign direct investment in the zones, did warn:

The use of foreign direct investment may also have a negative impact on the industrial structure of SEZs.

Direct investment transactions between countries are generally conducted based on the superior funding and technological power of the investing country compared to the country accepting investment, and foreign investors usually try to invest in industries where they can achieve a market monopoly in the investment destination. For this reason, the use of foreign direct investment in an SEZ with a relatively small economy could give rise to certain foreign-invested enterprises having a market monopoly. If a market monopoly occurs in an SEZ by one or several foreign-invested enterprises with superior funding and technological power, it will produce monopolistic high-interest profits in the SEZ, lowering the income of enterprises and residents and causing bankruptcies of enterprises. This will hinder the modernization of an SEZ's industrial structure by weakening the investment capacity within the SEZ and suppressing economic development...

This shows that, for the development of the industrial structure in an SEZ, it is necessary to direct due attention to the effective use of foreign direct investment and strategically formulate measures to thoroughly prevent the negative effects that could arise in the process.<sup>123</sup>

Another article later the same year tried to strike a balance by warning against too little and too much control:

In many cases, foreign-invested enterprises or foreigners enter and work in EDZs, so special attention should be paid to guaranteeing the country's security.

What is important in the enactment of laws and regulations related to guaranteeing the safety of the country is to stipulate contents that can restrict and control all the factors that are unfavorable to economic activities in an EDZ.

<sup>121</sup> Ibid.

<sup>122</sup> Quote translated from 로명성, “각 도들의 실정에 맞게 경제개발구들을 창설운영하는데서 나서는 몇가지 문제,” *Kyo'ngje Yo'ngu* 2, (2015).

<sup>123</sup> Quote translated from 한철룡, “특수경제지대의 산업구조발전에 미치는 외국직접투자리용의 영향,” *Kyo'ngje Yo'ngu* 2, (2017).

EDZs should draw up laws and regulations with which to find, restrain, and punish all factors in foreign investors' economic activities that infringe on the security and interests of the country, including the entry and exit of personnel, the taking in and out of goods, residence, advertisement, and tax payments.<sup>124</sup>

By 2019, the warnings took on the patina of a more orthodox approach, as if an undercurrent of restraint had entered the internal discussions.

The third important issue arising in the infrastructure construction of an EDZ is to strengthen national guidance and control in this work...

EDZ guidance organs should systematically, routinely, and deeply research and study the behest of the great leaders and the words of the respected and beloved Comrade Supreme Leader in relation to EDZ development and infrastructure construction, and organize and carry out all the work according to their demands.<sup>125</sup>

In late 2019, land use in the zones was singled out for a lengthy warning.

The scope of land use should be clearly defined on how [those who have obtained the right of land use in an EDZ] do not have any right to extract, possess, or use underground or underwater natural resources or valuable objects such as buried or hidden cultural relics and precious metals, nor should they misuse land or exceed the designated land area...

In EDZs, enterprises may engage in activities that violate laws and regulations related to real estate development and transactions and environmental protection while developing land or conducting business activities. EDZ management organs, therefore, should thoroughly command and control in order for enterprises to use the land in accordance with the requirements of the laws and regulations of the state.

For example, [EDZ management organs] should exercise strict control so as to prevent violations of the land use order, such as developing and using without the state's approval, moving the approved location as one likes or increasing the area, changing the purpose of development and use arbitrarily and handing it over to other enterprises, polluting the leased construction site and its surrounding areas with industrial waste, and a failure to properly take measures to prevent damage caused by natural disasters and toxic substances...

Of course, strict legal punishments should be imposed where enterprises interpret laws and regulations in their own way or intentionally engage in various illegal activities while infringing on the interests of the state for the interests of their enterprises.<sup>126</sup>

However, the author somewhat softens her tough tone by placing some of the burden on local authorities to not undermine the "investment environment."

State management of land use in EDZs should be project management work for all investment enterprises that use land to develop and protect land more rationally and

<sup>124</sup> Quote translated from 리현철, "경제개발구의 법률적환경보장에서 지켜야 할 원칙," *Kyo'ngje Yo'ngu* 3, (2017).

<sup>125</sup> Quote translated from 전은주, "경제개발구의 하부구조건설에서 나서는 몇가지 문제," *Kyo'ngje Yo'ngu* 1, (2019).

<sup>126</sup> Quote translated from 김영란, "경제개발구에서 토지리용에 대한 국가적관리를 강화하는데서 나서는 몇가지 문제," *Kyo'ngje Yo'ngu* 3, (2019).

effectively. It should not be supervision and control for the sake of supervision and control. Enterprises entering an EDZ to develop land and conduct production and management activities may, in the beginning, commit negligence as a result of not being accustomed to the local legal environment...

However, if [EDZ management organs], in the name of managing and controlling land use, attempt to solve a problem by way of punishment only after there has been an illegal act, it will not only hinder the land protection work but also have that much of a negative impact on EDZ development and the investment environment. Therefore, state management of the land use process of corporations should also be management work to prevent and eradicate in advance impediments to land protection and the effective use [of land]. To do so, management methods should be improved and implemented in a rational manner accordingly.<sup>127</sup>

### Looking Ahead

North Korean print media, both internal and external, ceased reporting on EDZs after the externally oriented news agency KCNA, in late 2019, reported on North Korea's efforts to expand EDZs and revise some EDZ regulations. However, North Korea's external propaganda website *Naenara* in May 2022 [began](#) running a series on the country's EDZs by introducing their key features and longer-term goals. At this point, the notion of EDZs may be dormant or simply moving ahead in North Korean provinces behind closed doors. The extent to which they have been activated will be more apparent if and when the DPRK eases its COVID travel restrictions and normal air, and rail transportation routes are resumed. This may provide some clues as to the direction the North plans to go in joint ventures—the subject of the next paper in this series.

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<sup>127</sup> Ibid.



## Foreign Trade Narrative

February 6, 2023

Attention on North Korean external trade tends to focus on the numbers, the import-export balance or earnings from specific export commodities, such as coal. The most recent spate of United Nations Security Council (UNSC) sanctions was designed to limit export of commodities on the grounds that earnings from these have been funding the Democratic People's Republic of Korea's (DPRK or North Korea) weapons programs.

However, in this piece, we will examine trade from the perspective of underlying internal policy discussions, and to some extent, the differences in view about trade as both an economic and a political act. As we have done throughout this series of articles, we rely on *Kyo'ngje Yo'ngu* and the *Journal of Kim Il Sung University*, which is also known as *Hakpo*, as our primary resources. These journals have been the North Korean regime's premier economic journals in which new ideas have been introduced and discussed.

To some extent, trade has been the easiest of the various topics that we have tackled thus far. This is because the discussions in the journals are more straightforward and, with few exceptions, are less centered on ideological axles than others.

In this article, we review these journals' invocation of the socialist enterprise responsibility management system (SERMS)—Kim Jong Un's key reform initiative meant to give greater latitude to individual economic units across planning, production, and management of resources and profits—to justify new ideas on foreign trade. We then examine the journals' handling of diversification, one of Kim's key instructions related to foreign trade and the sensitivities involved in trading with capitalist countries. Although the views supporting economic reform prevailed for a time in the economic journals, the North's shift to conservatism in recent years has taken a toll on its trade policy.

### Decentralizing Trade

The arguments for and against new ideas about trade that are presented in these journals follow familiar lines. They usually start with providing some orthodox views before pushing against the boundaries of what has been considered acceptable thus far.

Notably, several articles are built on Kim Jong Un's economic reform initiatives to justify new ideas on trade. For example, two articles in 2015—one published in the July edition of *Kyo'ngje Yo'ngu* and the other in *Hakpo* later that year—cited SERMS as supporting the decentralization of the external trade sector and giving greater trade autonomy to individual enterprises. As we noted in an [earlier piece](#), SERMS was mentioned for the first time in a *Hakpo* article at the end of 2014, but it was not until the spring of 2018 that the two journals started discussing SERMS and its specific aspects in earnest. As such, these two aforementioned articles on foreign trade are among the earliest to use SERMS as a way to advocate for additional new policies.

After noting that “all independent-accounting enterprises” should “carry out business activities proactively and with initiative, in line with the requirements of SERMS,” the *Kyo'ngje Yo'ngu* article went on to argue:

Today's actual condition where [we] have come to deal with only capitalist markets calls on all independent-accounting enterprises to carry out external economic

activities proactively. Independent-accounting enterprises should actively realize the modernization of equipment and production and technical processes while resolving [the issue of] necessary raw and other materials and equipment on their own. They should do so by proactively carrying out external economic activities to the extent possible with the trade rights granted by the state. To that end, independent-accounting enterprises should fully guarantee the funds necessary for the production of trade goods.<sup>128</sup>

The *Hakpo* article went even further, detailing a wide range of “newly granted rights” that those enterprises had under SERMS:

Under the SERMS, trade, equity joint venture, and contractual joint venture rights include the rights of enterprises to independently enter into and fulfill trade contracts or equity joint venture and contractual joint venture contracts; establish and use export bases; independently conduct interviews overseas; engage in international communications with foreign counterparts; sell the enterprise’s products to foreign countries; make external payments through independent accounts with domestic and foreign banks; receive income distributed according to the investment ratio; and deal with contract violation incidents by means of arbitration and such.<sup>129</sup>

### Diversifying Trade

In a recent article discussing Europe’s inflation and energy issues, the North Korean Foreign Ministry website admonished: “One of the ways out of the current economic crisis is to diversify external trade. This is common economic knowledge.”<sup>130</sup>

The diversification of trade is a principle that Pyongyang preaches, not just for other countries to follow. It is an oft-repeated policy the North itself has attempted to implement for years. Kim Jong Un, for example, called for “making foreign trade multilateral and diversifying it so as to smash the hostile forces’ sanctions and blockade maneuvers” at a party plenary meeting in March 2013.<sup>131</sup> At the Seventh Party Congress in 2016, he said, “one-sidedness should be removed in foreign trade,” and even noted: “[We] should... advance multifaceted exchange and cooperation with even capitalist countries.”<sup>132</sup>

In keeping with Kim’s instructions, the two journals have published multiple articles on the importance of diversifying trade.

One *Hakpo* article in 2016 emphasized that foreign trade was key to becoming an economic power, saying:

A self-supporting economic power is by no means a country with an ‘isolated economy’ or a “closed economy.” Rather, it is a country commanding a high level of external economic authority that, with strong external economic competitiveness, takes the lead in expanding and developing external economic relations with many countries around

<sup>128</sup> Quote translated from 김명심, “현시기 독립채산제기업소들에서 무역상품생산에 필요한 자금보장에서 지켜야 할 기본요구,” *Kyo’ngje Yo’ngu* 3, (2015).

<sup>129</sup> Quote translated from 김홍일, “대외경제관계를 다각적으로 발전시키는데서 나서는 중요문제,” *Kim Il Sung Chonghaptaehakhakpo (Ch’o’rhak, Kyo’ngje)* 4, (2015).

<sup>130</sup> Son U Jin, “Europe’s Dependence on Others: What Does It Show?” *North Korean Foreign Ministry website*, January 18, 2023.

<sup>131</sup> “경애하는 김정은동지께서 조선로동당 중앙위원회 2013년 3월전원회의에서 하신 보고,” *Rodong Sinmun*, April 2, 2013.

<sup>132</sup> “조선로동당 제7차대회에서 한 당중앙위원회 사업총화보고 김정은,” *Rodong Sinmun*, May 8, 2016.

the world... A country's external economic authority is enhanced by expanding and developing its external economic ties.<sup>133</sup>

The same article went on to explain the meaning of “removing one-sidedness” and “diversifying trade” as:

[We] should remove one-sidedness in foreign trade and diversify it. To remove one-sidedness in foreign trade and diversify it means to not limit trade partners to one specific country and to expand and develop it to various countries around the world... In order to remove one-sidedness in foreign trade and diversify it... [we] should develop trade even with capitalist countries that recognize our country's sovereignty and treat us in a friendly manner.

One common theme of these passages is developing trade with multiple countries across the world rather than “one specific country,” possibly echoing the North Korean leadership's concern—including Kim Jong Un's, as he called for diversifying and removing one-sidedness in trade—about the country's overdependence on China.

In April 2019, another author in *Kyo 'ngje Yo 'ngu* expressed this concern more bluntly while expressing confidence in the North's improved trade prospects on the grounds of its “external environment.” He wrote:

In the past, the foreign trade sector was unable to remove one-sidedness and develop foreign trade in a diversified manner. This has largely to do with the fact that it was unable to improve foreign trade negotiations in line with the realities of our country's economic development and the continuously changing and evolving global trade development trends. The scope of our foreign trade negotiating partners was too concentrated in a certain country and region...

Such an objective reality shows that it is necessary for our country to expand as much as possible its foreign trade negotiating partners not only to Asian markets, including our neighboring regions, but also to Europe, the Americas, Oceania, and Africa; study the characteristics of markets at different levels of development, such as free trade areas, customs unions, common markets, and economic alliances created and operated among regional countries; and formulate and carry out negotiation strategies to broaden trade relations...<sup>134</sup>

This article appears to have been written in the lead-up to the second US-DPRK summit in Hanoi in February 2019. It is also possible that the article was published despite the summit's failure because Pyongyang was still hopeful of there being some kind of breakthrough with Washington at some point that year.

### Trading With Capitalist Countries

It must be noted that some journal articles, even while supporting the idea of trade itself or the diversification of trade, have voiced concerns about the potential fallout from trading with capitalist countries.

<sup>133</sup> Quote translated from 장순남, “대외경제관계를 확대발전시키는것은 사회주의경제강국건설의 중요요구,” *Kim Il Sung Chonghaptaehakhakpo* (*Ch'o 'rhak, Kyo 'ngje*) 4, (2016).

<sup>134</sup> Quote translated from 김현철, “현시기 대외무역협상사업을 개선하는것은 대외무역발전의 필수적요구,” *Kyo 'ngje Yo 'ngu* 2, (2019).

One *Kyo'ngje Yo'ngu* article in 2016 clarified that trade was only intended to supplement North Korea's efforts to build a "self-supporting national economy":

Developing foreign trade on the basis of building a self-supporting national economy is the material guarantee that enables us to advance foreign trade on the principle of complete independence and equality...

Without one's own things, one cannot buy necessary products or goods from other countries. Moreover, today's reality, where we must conduct trade relations with capitalist countries, shows that independent and equal trade relations can be expanded and developed only when trade relations are advanced on the basis of one's own economic foundation...

If we rely on imports for things that we can easily take care of by our own efforts, it would not contribute to the construction of a self-supporting national economy but rather weaken the revolutionary spirit of self-reliance, promote dependence on other countries, and increase foreign currency expenditure.<sup>135</sup>

Another *Kyo'ngje Yo'ngu* article, published earlier in the same year, explicitly stated that "political interests" were key to selecting target markets and warned against forging economic ties with political strings attached:

The important thing when selecting a target market is to first weigh political interests well. Ensuring political interests is a fundamental requirement that must be met in selecting a target market. From this, in target market selection, we should not carry out economic transactions with countries that have hostile relations with our country or raise unfair political side conditions for economic exchange.

Right now, imperialist countries, including the United States, are forcing unreasonable political demands on developing countries and independent countries.

Therefore, we should firmly adhere to the principle of not allowing trade with countries that could generate political losses, though it may be economically advantageous.<sup>136</sup>

One *Hakpo* article, carried in late 2015, went a step further and called on developing countries to step up trade cooperation, defining current trade relations as "subordinate and predatory created by the imperialists."<sup>137</sup>

## Conclusion

Our research on North Korea's economic policymaking, as seen through its academic journals, has [shown](#) that *Kyo'ngje Yo'ngu* served as a platform for dueling narratives on sensitive or controversial topics, such as economic reform or defense spending, despite the conventional wisdom that there can be no dissent or inconsistencies in North Korean publications. Although the views supporting economic reform prevailed for a time, the North's shift to conservatism across all realms in recent years has taken a toll on its trade policy as well. This has been most recently [exemplified](#) by Kim Jong Un's report to a party plenary meeting in December 2022.

<sup>135</sup> Quote translated from 리순철, "자립적민족경제와 대외무역의 호상관계를 밝혀주신 위대한 령도자 김정일동지의 불멸의 사상리론적업적," *Kyo'ngje Yo'ngu* 4, (2016).

<sup>136</sup> Quote translated from 태영남, "무역의 다각화전략작성에서 나서는 몇가지 문제," *Kyo'ngje Yo'ngu* 1, (2016).

<sup>137</sup> Quote translated from 리경영, "발전도상나라들사이의 무역협조를 강화하는데서 나서는 중요문제," *Kim Il Sung Chonghaptaehakhakpo (Ch'o'rhak, Kyo'ngje)* 4, (2015).

Previously, the North Korean cabinet in February 2022 [pledged](#) to “keep pushing forward the work to recover the unitary trade system of the state,” which is a far cry from the “newly granted rights” of enterprises the economic journals supported in the past. At the Eighth Party Congress in January 2021, Kim Jong Un said, “external economic activities are premised on being directed toward supplementing and reinforcing the foundation and potential of the self-supporting economy.”<sup>138</sup> Kim’s language mirrored the above-cited 2016 *Kyo ’ngje Yo ’ngu* article on subordinating foreign trade to the construction of a “self-supporting national economy” and indicated Pyongyang’s conservative shift on trade at the highest level.

The next installment in this series will explore how North Korea actually used the *Juche* ideology to build the case for, rather than against, expanding foreign trade.

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<sup>138</sup> 본사정치보도반, “우리 식 사회주의건설을 새 승리에로 인도하는 위대한 투쟁강령 조선로동당 제 8 차대회에서 하신 경애하는 김정은동지의 보고에 대하여,” *Rodong Sinmun*, January 9, 2021.



## Juche and Foreign Trade

February 16, 2023

Throughout this [project](#), we have noted that some authors in North Korea’s two premier economic journals—*Kyo ’ngje Yo ’ngu* and the *Journal of Kim Il Sung University*, also known as *Hakpo*—often use a form of intellectual sleight of hand in order to be seen as staying within orthodox boundaries while actually advocating positions beyond those limits.

Kim Jong Un’s economic reform agenda introduced new ideas and initiatives for a wide variety of issues—enterprise management, agriculture, banking and special economic zones, to name a few. As such, the pulling and hauling over how far the new policies could or should go was almost inevitable.

The call to expand foreign trade presented special tests because it potentially presented direct challenges to the regime’s bedrock concept of *Juche*. How could a country supposedly dedicated to an extreme concept of independence and self-reliance justify expanding trade with the outside world, particularly with capitalist countries? In some cases, articles on trade in the journals raised *Juche* in a cautionary manner, to warn against compromise of basic principles even while cautiously expanding trade. In others, however, *Juche* was used not as an excuse to limit foreign trade, but as grounds for actually enlarging it.

In this article, we examine how the North Korean economic journals used the topic of *Juche* to build the case for broadening, rather than limiting, foreign trade since the early years of Kim Jong Un’s reign. We then review how these journals, which were generally more forward-leaning in their thinking on foreign trade, took on a more conservative tone by 2020, seemingly a reflection of Pyongyang’s hardening foreign policy after the collapse of the Hanoi Summit and the lack of any further diplomatic progress with Washington by the end of 2019. This shift to a more conservative tone on trade was significant in that it was one of the early signals of Pyongyang heading toward virtual repudiation of foreign elements and imports.

### *Juche* as Justification for Trade

An article in *Kyo ’ngje Yo ’ngu* fairly early in Kim Jong Un’s reign was heavy on warnings about trading with capitalist countries and stressed that the dangers of the infiltration of capitalist practices far outweighed whatever economic benefit might accrue.<sup>139</sup>

In 2014, the same journal carried what read like a forward-leaning reply to orthodox circles’ conservative position on trade. This article threw up a defensive screen by warning against accepting “capitalist elements,” and argued that “we should maintain the *Juche*-oriented standpoint” in conducting foreign trade, which by itself might have been an argument for limiting trade. Instead, the author argued, *Juche* was not so confining.<sup>140</sup> In fact, the article argued, *Juche* did not mean “unilaterally pursuing just the interests of one’s own country in external economic transactions,” but “opposing all kinds of unequal and unfair international economic relations and enabling all countries to benefit from one another on an equal footing and with equal rights, thereby carrying key significance in broadening economic relations between countries.”<sup>141</sup>

<sup>139</sup> 최영욱, “실리를 보장할수 있도록 대외무역전략을 세우는데서 나서는 중요한 문제,” *Kyo ’ngje Yo ’ngu* 4, (2013).

<sup>140</sup> 황한욱, “주체적립장은 대외경제발전의 주요담보,” *Kyo ’ngje Yo ’ngu* 2, (2014)

<sup>141</sup> Ibid.

Crucially, the article implied there was no fixed standard for judging how much or where *Juche* principles should be applied:

Firmly maintaining the *Juche*-oriented position, therefore, is a very important issue for resolving all issues arising in economic transactions with other countries **in accordance with the actual circumstances of one's own country**.<sup>142</sup> (Emphasis added.)

Indeed, this article suggested, *Juche* actually mandated trade. In addition, since it could be said that *Juche* was in pursuit of developing a “self-supporting national economy,” it followed that trade was perfectly in line with achieving that goal:

By maintaining the *Juche*-oriented position and developing foreign economic relations on the basis of self-supporting national economic construction, it is possible to produce and sell various products in demand in other countries, and, in return, buy goods necessary for the country's economic construction and the improvement of the people's living standards...

One could almost hear this muttering in the background: “But look what happened to the East European countries that opened themselves to dealing with capitalist countries!” In what looks to be a preemptive effort to head off such criticism, the article went into a lengthy recounting of the fate of those countries in the 1980s:

The experience of many countries shows that, when one does not maintain the *Juche*-oriented position and develop foreign economic relations on the basis of self-supporting national economic construction, it will cause serious consequences for the revolution and construction. Former Eastern European socialist countries just listened to others without *Juche*, producing and selling only those that had tradition in and advantages for production and importing machinery, equipment, and people's consumer goods from other countries. As a result, they failed to achieve the country's economic self-sustenance and later even had the socialist system collapse. In addition, even some developing countries have yet to completely put an end to the deformities and backwardness of the economy they inherited from colonial rule and, shackled to an outdated international economic order, have not been able to escape from the imperialists' domination and plunder even though it has been a long time since they became independent. That is because they were unable to establish their *Juche* and build foreign economic relations on the basis of self-supporting economic construction.

The proposed solution to that dilemma was not to limit foreign economic relations, but rather to adhere to *Juche*:

Like this, firmly maintaining the *Juche*-oriented position is the main guarantee for simultaneously pushing ahead with the country's economic development and expansion of economic exchanges with other countries by advancing foreign economic relations on the basis of self-supporting national economic construction.

Moreover, the article pointed out, there was no choice but to deal with non-socialist countries. And if that was a problem, here again, *Juche* was the solution:

Furthermore, firmly maintaining the *Juche*-oriented position in foreign economic relations is an important issue because it arises as an even more important demand in today's changed external

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<sup>142</sup> Ibid.

economic environment where socialist markets have collapsed. Under the condition where socialism was frustrated in the Soviet Union and Eastern Europe, we cannot but expand foreign economic relations with capitalist countries.

Perhaps concerned that even the above argument might not be a sufficient justification to blunt orthodox counterarguments, the author again used history to justify more, not less, trade. Openly admitting the dangers—always a good tactic to blunt criticism—the article then invoked *Juche* as the means to provide the all-encompassing shield of protection.

We should maintain the *Juche* position in foreign economic relations with socialist countries as well, but we must maintain it more firmly in foreign economic relations with capitalist countries. The imperialists use economic relations with other countries as a means of overseas invasion and plunder, saying this and that about “cooperation” and “aid.” Moreover, under today’s condition, where the anti-Republic maneuvers of the imperialists, including the US imperialists, are severe, we can prevent all kinds of capitalist elements from invading our inside only when we firmly maintain the *Juche*-oriented position in foreign economic relations. One of the main reasons for the collapse of socialism in Eastern Europe was the failure to maintain a *Juche*-oriented position in foreign economic relations. Countries in this region opened up and liberalized their countries’ economies, talking about developing the economy. In doing so, they were unable to defend their socialist planned economies and let the capitalist market economy run rampant.

Finally, the author arrived at the bottom line, putting the case most directly:

Maintaining the *Juche*-oriented position in foreign economic relations is by no means a closed-door principle and does not preclude the development of economic relations with other countries. *Juche*-based foreign economic relations simply oppose the attempt to blindly rely on trade transactions, technology transactions, equity joint ventures, and contractual joint ventures with other countries and demand that we tackle what our country does not have or lacks through foreign economic relations. Though they may belong to capitalist countries, we should accept things like advanced technologies, rational production organization, and construction methods if they are necessary and beneficial to us.

Nine months later, in January 2015, another article in *Kyo ’ngje Yo ’ngu* picked up the essence of the argument that foreign trade might not be contrary to *Juche*, though at the same time injecting the cautionary note that following the party’s line was of primary importance.<sup>143</sup>

The economic construction line and policies presented by the party intensively reflect the interests of the masses of working people and society, as well as the fundamental interests of the revolution. They also explain on a full scale the external economic sector’s direction of development, tasks, and methods of their implementation. Only when the calculation of economic effectiveness is based on the line and policies presented by the party can external economic exchanges give practical benefits to society and the people and directly contribute to economic development and the improvement of the people’s living standards.

A more direct call for trade appeared the next year, prominently linking Kim Jong Il with the idea that foreign trade was consonant with a “self-supporting national economy”:

<sup>143</sup> 김세영, “대외경제교류의 경제적효과성타산에서 지켜야 할 중요원칙,” *Kyo ’ngje Yo ’ngu* 1, (2015).

Taking a brilliant place among the immortal ideological and theoretical achievements accumulated by the great leader Comrade Kim Jong Il in laying a solid foundation for the construction of an economically powerful state are the ideas and theories on the correlation between a self-supporting national economy and foreign trade.<sup>144</sup>

Building on that idea, the article went on:

Based on scientific analysis of the essence of the construction of a self-supporting national economy and the lawfulness of the development of international trade relations, the great leader Comrade Kim Jong Il presented original ideas and theories on the correlation between a self-supporting national economy and foreign trade, such as the inevitability of foreign trade in the construction of a self-supporting national economy, the development of foreign trade based on the construction of a self-supporting national economy, and foreign trade that serves the construction of a self-supporting national economy.

To make sure there was no doubt about the question, the article quoted the late leader directly:

The great leader Comrade Kim Jong Il instructed as follows:

“A self-supporting national economy is by no means a closed economy and does not exclude foreign trade. Even if we build a self-supporting national economy, we cannot produce tens of thousands of types of things all by ourselves, nor do we need to.” (*The Complete Works of Kim Jong Il*, Volume 4, p. 199).

Notice that the key point in the argument here is to give a nod to the concept of a “self-supporting national economy,” which the author summarizes as “an economy that is not subjugated to others and walks on its own, an economy that serves its own people and develops by relying on its people’s strength”—but then quickly moves on to the crucial qualification:

Just because a self-supporting national economy is an economy that walks by itself does not mean it is an economy that excludes or shuts its door to trade relations with other countries and produces and supplies everything necessary for the country’s economic construction and the people’s livelihood. A self-supporting national economy inevitably calls for foreign trade as an objective condition for economic construction in every country. No country, no matter how rich in natural resources, has all kinds of resources necessary for its own industrial development in sufficient amounts. Nor is there a country, no matter how favorable it is to agricultural development, that has the natural and geographical conditions to sufficiently produce and supply all kinds of agricultural products.

The importance of trade helping to fulfill one of Kim Jong Un’s goals—developing the science and technology sector to expand the economy—appeared in a 2017 *Kyo ’ngje Yo ’ngu* article:

The scientific and technological achievements and experiences of each country are not the same due to the differences in and limitations of scientific and technological development in each country, as well as natural and economic conditions and the degree of productivity development. For that reason, it is not possible to solve all the scientific and technological problems arising in economic construction on one’s own. Especially

<sup>144</sup> 리순철, “자립적민족경제와 대외무역의 호상관계를 밝혀주신 위대한 령도자 김정일동지의 불멸의 사상리론적업적,” *Kyo ’ngje Yo ’ngu* 4, (2016).

today, in the era of the information industry, as science and technology develop faster than ever before and economic construction intensifies; as a result, it is impossible for one country to solve all the necessary scientific and technological problems.<sup>145</sup>

As with earlier articles, *Juche* was also cited as part of the solution. Simply stated, if the problem was that no one country (namely North Korea) could resolve every issue in the science and technology sector, then *Juche* becomes key to facilitating the required foreign trade:

This calls for advancing the country's science and technology quickly in the shortest period of time possible by solving scientific and technological problems arising in economic construction from a *Juche*-oriented position, thoroughly based on the scientific and technological capabilities of one's country and one's own resources, while resolving, by means of acceptance from other countries, the scientific and technological issues that cannot be resolved right away on one's own or are urgently needed.

### ***Juche* as a Shield Against Trade**

By 2020, warning flags were flying in *Kyo'ngje Yo'ngu* about the dangers foreign trade presented. This was, in part, a reflection of the retrenchment of policies across the board that was underway after the failed Hanoi Summit and as the country entered a period of self-isolation to prevent a COVID outbreak. *Juche* was no longer an open door. Instead, it had regained some of its old orthodox colors. According to one article in *Kyo'ngje Yo'ngu*, there could still be:

...foreign economic cooperation, technological exchanges, and trade activities in a multilateral, proactive, and strategic manner in the direction of supplementing the parts and aspects that are desperately needed to strengthen the country's economic foundation.<sup>146</sup>

Nevertheless:

Embodying the principle of independence from a *Juche*-oriented position means establishing an independent line in economic relations between countries and taking the lead in developing foreign economic relations in accordance with the actual conditions and interests of one's own country by relying on one's own strength.

The suppleness of previous interpretations of *Juche* as a boon to foreign trade began to fade, and it became part of the defensive barrier of preserving independence by hewing to the "revolutionary stand" without compromise:

If [we] are to properly establish a foreign economic development strategy and correctly formulate the methods and measures for its implementation without the slightest bias, [we] should clearly see through our party policy on thoroughly defending the principle of independence from a *Juche*-oriented position and should not in the slightest compromise the principle of independence in formulating and implementing a foreign economic development strategy...

First, [we] should firmly maintain socialist principles in formulating and implementing foreign economic development strategies. If we abandon the revolutionary stand and give up socialist principles under today's condition, where the hostile forces are

<sup>145</sup> 김명국, "나라의 경제발전에서 기술허가무역의 중요성," *Kyo'ngje Yo'ngu* 3, (2017).

<sup>146</sup> 장금주, "나라의 경제토대를 강화하기 위한 대외경제발전전략작성과 그 실현에서 나서는 기본요구," *Kyo'ngje Yo'ngu* 2, (2020).

tenaciously clinging to sanctions and blockade maneuvers to isolate and crush us, [we] will ruin the revolution and [socialist] construction and lose everything.

## Conclusion

The above-cited 2020 *Kyo'ngje Yo'ngu* article was only one of the many signals pointing to North Korea's shift to conservative policies across all realms, including foreign policy and trade, since the collapse of the Hanoi Summit.

North Korea took a yet more conservative turn at the latest party plenary meeting, held in December 2022. The party plenum “dealt a resolute and serious blow to the outdated idea that still attempts to bargain on the principle of self-reliance, without shaking off dependence on the technology of others. It also acknowledged the need to continue to wage a struggle to completely liquidate the remnants of all kinds of wrong ideas hindering our work....” By referring to the acceptance of foreign technology as an “outdated idea” and one of the “wrong ideas hindering our work,” the meeting in effect contradicted what was previously seen as acceptable or even advocated.<sup>147</sup>

A review of Kim Jong Un's public remarks and North Korean media's treatment of political, economic, social and foreign policy issues suggests that the North's policies, including those on the economy and trade, will remain conservative for the foreseeable future.

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<sup>147</sup> For more, see Robert Carlin and Rachel Minyoung Lee, [“North Korea Makes a Still More Conservative Turn at Party Plenum,”](#) *38 North*, January 5, 2023. \_\_\_

## Key Findings and Implications

**February 23, 2023**

All good things must come to an end, they say, and this is a chance, at the end of the project “Understanding Kim Jong Un’s Economic Policymaking,” to review what we tried to do, what we may have accomplished and the tremendous amount of work that remains to be done.

By reading and analyzing North Korea’s two premier economic journals—*Kyo ’ngje Yo ’ngu* and the *Journal of Kim Il Sung University*, also known as *Hakpo*—in depth, the project set out with the goal of shedding some light on how Pyongyang’s economic policy decisions are made and rolled out under Kim Jong Un from 2012-2020.

The breadth of this study was extensive, including Kim’s initiatives across the farming, enterprise and banking sectors, as well as tourism, economic development zones (EDZs) and foreign trade. It examined how these various reform-related initiatives were introduced and how sensitivities (and sometimes pushback) connected to reform initiatives were revealed. Across the board, a careful reading of the journals revealed the following: tensions between the traditional views of socialist principles and the more flexible, pro-reform interpretations; the challenges facing the regime as it pushes its reformist agenda; and both the extent to which the regime has been willing to go and its persistence over time to try to implement new ideas.

### Key Findings

To wrap up this project, we are providing a summary below of five key findings from our research.

First, judging by articles in the journals, the Democratic People’s Republic of Korea (DPRK or North Korea) follows a particular pattern in rolling out new economic policies. New ideas do not simply appear out of the blue. The journals start by introducing the topics, signaling that Kim has issued some broad policy guidance that necessitated research on them. After studies have been conducted, new ideas have been tested in some units, viable plans have been identified and policy guidelines have been issued, the journals then go beyond general discussions and start explaining the new initiatives in more detail and advocating them with a range of arguments—some of which are highly abstruse, others more detailed and plainly stated—and, most importantly, how the new ideas can or should be operationalized.

Second, contrary to the widely accepted notion that all North Korean publications speak with one voice and toe the party line, the country’s two economic journals, particularly *Kyo ’ngje Yo ’ngu*, have served as a platform for internal discussions and often for differing views on new ideas and initiatives. It is inconceivable that dueling narratives on sensitive topics, such as economic reform, could be conducted without the concurrence, and more likely the backing, of various elements within the country’s leadership. Contending views may be more likely when a policy is still under discussion within the leadership, but there are times when these appear even after a top-level decision has clearly been made.

Third, the fundamental question of “economic management,” which is used in DPRK media as code for “reformist economic policies,” seems to boil down to finding the right balance between centralization (state and/or party control) and decentralization (greater decision-making for individual units). We continued to see contending narratives on this issue through the end of 2020, after which *Kyo ’ngje Yo ’ngu* was discontinued, thereby indicating that the Kim regime

was still struggling at that time to find the right answer. *Hakpo*, since 2019, has published formal scholarly articles, a departure from the shorter essay-style writings it published through the end of 2018 that made this journal one of the two major [platforms](#) of economic policy discussions. Unless North Korea resumes the publication of *Kyo'ngje Yo'ngu* or changes the focus and format of *Hakpo* articles, it will be difficult to decipher the country's intentions regarding the various economic policy issues. We will continue to have access to the North Korean party's official economic policy through the dailies, but the dailies do not provide the behind-the-scenes discussions that inform decision-making or otherwise reflect Pyongyang's dilemmas and challenges.

Fourth, North Korea's push for tourism, EDZs, and foreign trade was not new when Kim Jong Un took power. What was different was how they became integrated into Kim's broader push for new economic policies. It is hardly a coincidence that Kim called for promoting tourism and EDZs in the same speech where he formalized the concept of "economic management methods of our style."<sup>148</sup> In many ways, the North's external economic measures were shaped by and built on the North's domestic reform initiatives that explored new boundaries, even to the extent of supporting ideas that traditionally were thought "risky" or "too capitalist." For example, some journal articles on tourism and EDZs presented a variety of steps to rejuvenate the North Korean tourism industry and attract foreign investors, ranging from removing or easing legal barriers to allowing the principle of supply and demand to take its course in lieu of central planning. In addition, multiple academic journals supported the diversification of trade, even with capitalist countries.<sup>149</sup>

Fifth, there is no indication that Pyongyang is completely retreating on Kim's earlier push for reform. North Korean media continue to mention "improv[ing] economic management" and "steadily perfect[ing] the optimized methods of economic management" at the highest levels.<sup>150</sup> Nevertheless, there has clearly been a shift toward greater centralization in the past few years, and this shift has taken a toll on the North's external economic policies as well.<sup>151</sup> This was [exemplified most recently](#) by Kim Jong Un's report to a party plenary meeting in December 2022, which essentially repudiated the import of foreign technology, something that in the past was accepted and even endorsed. Whether the renewed emphasis on economic centralization is temporary or represents a strategic decision with long-range consequences, only time will tell.

## Implications

North Korea's stance on economic reform is significant, not just for its domestic repercussions, but also for how it links with the country's foreign policy. This is a critical area that needs closer study. Some of the questions to ask include: How were Kim Jong Il's July 2002 economic policy reforms connected to the North's diplomatic initiatives starting in the early 2000s? Are there links between Kim Jong Un's diplomatic initiatives in 2014 and 2015 and the introduction of his measures in agriculture, enterprise management, and banking during that period? Were there [diplomatic opportunities](#) missed that could have been exploited with a better understanding of

<sup>148</sup> "경애하는 김정은동지께서 조선로동당 중앙위원회 2013년 3월전원회의에서 하신 보고," *Rodong Sinmun*, April 2, 2013.

<sup>149</sup> For more, see Robert Carlin and Rachel Minyoung Lee, "Understanding Kim Jong Un's Economic Policy-making: Foreign Trade Narrative," *38 North*, February 6, 2023, <https://www.38north.org/2023/02/understanding-kim-jong-uns-economic-policy-making-foreign-trade-narrative/>.

<sup>150</sup> Political News Team, "Report on 6th Enlarged Plenary Meeting of 8th WPK Central Committee," *Rodong Sinmun*, January 1, 2023; and "On DPRK Cabinet's Work for Last Year and Tasks for This Year," *Rodong Sinmun*, January 19, 2023.

<sup>151</sup> *Ibid.*

the North's economic policy developments?

Perhaps the most obvious area that should be researched more thoroughly would be the connection between Kim's pivot to diplomacy in January 2018 and Pyongyang's declaration of the "new strategic line" of "concentrating all efforts on socialist economic construction" three months later, in April.<sup>152</sup> One overall hypothesis to test might be whether Pyongyang has tried to improve its external security environment, which usually means improving relations with Washington, to provide better conditions for introducing new, reformist economic ideas. Should this particular situation present itself again, the question of whether there are specific diplomatic steps to take that go beyond the stale discussions of "carrots" or "incentives" that would be congruent with Pyongyang's reform-oriented measures and utilize the momentum of North Korea's own domestic economic policies should be more closely examined. If anything, our review of the journal articles on Pyongyang's domestic reform measures and their impact on tourism, EDZs, and trade policy has reinforced the impression that there needs to be much closer consideration of the linkages between the North's economic policy initiatives and its diplomacy. Identifying these domestic economic initiatives may help US policymakers to craft future policies that can both encourage and build on the momentum of these trends.

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<sup>152</sup> "3rd Plenary Meeting of 7th C.C., WPK Held in Presence of Kim Jong Un," *KCNA*, April 21, 2018

