

The Economic Reform of North Korea in the Kim Jong Un Era: Status & Evaluation

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Abstract

This paper aims to identify major economic reform measures conducted by North Korea in the Kim Jong Un era and evaluate the characteristics, accomplishments, and limitations of the reform policy. After running several pilot programs since 2012, starting 2014, North Korea began to implement the so-called “Our Style Economic Management System” and “Socialist Enterprise Responsibility Management System.” These are characterized by the expansion of the scope of activities officially allowed to conduct in the market and the incorporation of market mechanism into the planning system. The North Korean economy in the Kim Jong Un era saw the dual structure where the planning and market systems exist in parallel being more firmly established. The economic management system in that era shares many characteristics of other economic reforms in socialist countries on the one hand; but on the other hand, North Korea’s economic reform has some characteristics that are different from those of other socialist economies.

Key Words: North Korea, Kim Jong Un era, economic reform measures, market, dual structure of the economy

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I. Introduction

In its early stages, the government of North Korea headed by Kim Jong Un continued on the same economic policy path laid by the Kim Jong Il administration, the predecessor. However, in actuality, there have been quite a lot of subtle changes over time. The underlying tone of the policy seems to have maintained the same stance but there are significant shifts in the way the country manages its economy. For example, the large-scale investment towards the heavy and chemical industry has been scaled down while the resources to the agriculture and light industry, with guaranteed short-term pay-offs, have been intensively distributed comparatively.

There are more visible signs on the frontlines of economic reform. Since Kim Jong Un took power, North Korea's economic reform has seen clear progress vis-à-vis the substance of policy. After running several pilot programs since 2012, starting 2014 the North began to implement the so-called, "Our Style Economic Management System" and the Socialist Enterprise Responsibility Management System. However, North Korea has yet to openly and officially use the term "economic reform," which suggests that the reform's institutional level is still very low.

Economic reform and opening are the key factors to consider when evaluating the status of North Korea and where its economy is headed. Overall, such reform and opening appear to be the only options for a socialist nation to tackle its economic problems. The country has remained passive to such changes due to their political implications, but the prolonged economic crisis has forced the government to pursue a new strategy to a certain extent.

This study examines the economic reform of North Korea in the Kim Jong Un era and provides an overview of how his economic reform has been implemented to evaluate its purpose, nature, achievements, and limitations.

II. Conceptual Grounds

Before discussing North Korea's economic reform, a brief summary of the definition of reform is needed. János Kornai, a renowned expert in socialist economy theory, said reform must affect, at least, one out of the following three spheres: the official ruling ideology or power structure of the communist party, state ownership, and (bureaucratic) coordination mechanism.

In addition, such changes must be, at least, moderately radical.¹ In other words, economic reform is an extensive alteration of the socialist economic system characterized by the use of market mechanism or the full-fledged introduction of market principles. Accordingly, direction (market orientation), level (scope and extent), and dimension (official systems) all matter in economic reform.²

Thus the scope and level of economic reform vary in nature. Although the experiences of socialist economies such as China and Vietnam offer relevant criteria, they do not provide absolute standards. The question of how to evaluate the North Korean economy of today is far from simple. North Korea has significantly departed from the classic and traditional model of centrally-planned economy espoused by socialism, and it is not fair to judge that the economic reforms have not made any progress. However, what is true is that economic reforms in the country has yet to truly take off and still lags behind the models followed by China and Vietnam.

From the standpoint of the North Korean government, economic reform is merely a means rather than a goal. Strictly speaking, reform is the concept and scope that strongly reflects the perspective of the outside world. In other words, for economic reform to succeed, first, the framework of a national strategy must be established. Second, economic development strategies must be formulated and within that framework the role, status, scope, and level of reform should be determined.

III. Economic Reform Measures in Kim Jong Il Era

(1) Summary of the 7.1 Economic Management Improvement Measures

Before discussing the economic reforms in the Kim Jong Un era, the following is a brief overview of the economic reforms under the previous administration of his father, Kim Jong Il.

After Chairman Kim Jong Il was officially inaugurated as the leader in 1998, his government sought to quell internal turmoil caused by the economic crisis, especially disruptions to the economic and social order amid the mushrooming of black markets, and to reorganize the nation's overall system and institutions. Internally, the country promoted

¹ Kornai, J. *The Socialist System: The Political Economy of Communism* (Princeton, NJ: Princeton University Press, 1992), p. 388.

² The opening of the North Korean economy is occurring on multiple fronts, mostly driven by the liberalization in the sectors of materials (trade), capital (inflow of foreign currency) and also supported by the exchanges of people (e.g., tourists) and culture (ideology). Accordingly, economic reform and opening are like two wheels on a cart – they go together.

utilitarianism or practical socialism from 1998 and the so-called “New Thinking (Shin-sa-go)” from 2001 as the core policy principles. Internationally, the North began to improve relations with other countries, especially China, from 1999 and held the first inter-Korean summit in 2000.³

Against this backdrop, in 2002, North Korea announced “The 7.1 Economic Management Improvement Measures” (hereinafter referred to as the 7.1 Measures) and completed its institutional overhaul with the introduction of several follow-up measures (See <Table 1>). The 7.1 Measures resulted in significant changes such as, introducing improvement methods and partially incorporating market mechanisms into the centrally-planned economy. It included actions to improve the planned economy such as: 1) sharp increase in consumer prices, wages, and foreign exchange rates; 2) greater autonomy in business management and increased labor incentives; and 3) the full-fledged introduction of a self-supporting accounting system. Notably, consumer prices were raised 25-fold, wages 18-fold, and foreign exchange rates 70-fold, bringing the state-determined prices and foreign exchange rates in line with the market level.

The partial introduction of market mechanism can be also viewed as the North’s way of accelerating the marketization of the economy. In 2002, an “earned income indicator” was adopted to evaluate the business performance, allowing businesses to produce and distribute outside the scope of central planning. In effect, this gave the nod to the market-driven economic activities.

In addition, the government partially introduced a market for production materials exchange, the first official approval of its kind. Created under the Kim Jong Il’s directive, this market allowed factories and businesses to barter a percentage of their output in exchange for raw materials or parts in short supply. Moreover, another market for production materials opened in 2005, which allowed the exchange of imported products. One example was the joint exchange market in the district of Botonggang called the “Botonggang Joint Exchange Market,” where North Korean and Chinese companies traded imported goods on a wholesale or retail basis. In sum, the government acknowledged that a centrally-planned system could only do so much to ensure the supply of raw materials to companies hence, the market activity was

³ North Korea held a summit with Japan in September 2002, just two months after the 7.1 Measures was introduced, and the establishment of the Sinuiju Special Administrative District was also announced around that time. In addition, laws on the inter-Korean industrial complex in Gaeseong and tourism in Mount Kumgang (Kumgang Mountain) were announced in November 2002, only four months after the introduction of the Measures. Both regions were designated as the special districts.

allowed to fill the remaining supply gap.

The General Market is the major representative of consumer goods market, and in March 2003, it was officially introduced in North Korea. Formerly known as the “Farmer’s Market” changed its name to just “Market” and a wider scope of products was sold, going beyond agricultural and domestically produced goods to include processed foods and manufactured products. Although prices are set by the government, they are also aligned with the market price to closely reflect the conditions of supply and demand. The government also transformed the existing farmer’s markets into modern buildings and simultaneously built and pursued modernized new markets.

In addition, not only the state-run businesses and cooperatives but also individuals are allowed to trade some products in the general markets. Under the title of personal side jobs, sales of items produced by small handicraft producers are also allowed in the general markets.

In fact, the government converted the state-run stores into the part of the market. Some of the state-run stores, which could no longer function properly after the collapse of the national supply system, are either leased or sold to organizations and businesses in return for fee. Those entities that took over the state-run stores in the form of leasing are various organizations and businesses including trading companies. In particular, trading companies that leased state-run stores are allowed to sell their imported goods. In addition, there are cases where an individual with financial means became the de facto operator of these leased stores, using the organizations or businesses as fronts. Furthermore, these individuals are allowed to operate not only the stores but also provide service businesses such as billiard halls, karaokes, public baths, restaurants, and PC cafés through borrowing the titles from the organizations and businesses. These individuals are also given permission to own small-scale service businesses through leasing, virtually allowing private ownership.

| Table 1 | The List of 7.1 Measures and Follow-up Measures

Category	7.1 Measures	Follow-up Measures
Prices, wages, & FX rates	<ul style="list-style-type: none"> - Increase in: Prices (25-fold), Wages (18-fold) & FX rates (70-fold) - Abolished free provision of consumer goods - Reduced or removed various subsidies 	<ul style="list-style-type: none"> - Installed FX counters in general markets (2003)
Fiscal Finance	<ul style="list-style-type: none"> - Abolished transaction tax; allowed business profits for state-run businesses introduced business profits payable to government - Introduced land rental fee 	<ul style="list-style-type: none"> - Introduced general market utilization fee and government tax (2003) - Issued “people’s livelihood bond” (2003) - Established <i>Jipgeumso</i> (tax collection agency) (2003) - Expanded land usage fee to real estate usage fee (2006) - Revised the Central Bank Act (2004) - Enacted the Commercial Bank Act (2006)
Agriculture	<ul style="list-style-type: none"> - Increased purchasing price of grain (50-fold) to spur more production from farmers - Scaled back government purchase - Enhanced autonomy in farm management 	<ul style="list-style-type: none"> - Introduced “farmland unit system” to cooperative farms on pilot basis (2004) (farmland assigned to small groups of workers)
Business	<ul style="list-style-type: none"> - Based performance evaluation on earned income system - Implemented independent profit system - Strengthened owner’s rights - Expanded management autonomy of businesses - Strengthened labor incentive system 	<ul style="list-style-type: none"> - Implemented reforms at select factories & businesses to markedly increase management autonomy (2004)
Commerce, Distribution & Services		<ul style="list-style-type: none"> - Opened general markets (2003) - Converted state-run stores into lease or for purchase stores (2003) - In fact, allowed individuals to operate restaurants & service businesses (2003)
Foreign Economic Relations	<ul style="list-style-type: none"> - Expanded decentralization of trade 	<ul style="list-style-type: none"> - Designated Sinuiju Special Administrative Region (September 2002) - Designated Mount Kumgang Tourist Region (October 2002) - Designated Gaeseong Industrial District (November 2002)

Source: Yang, Moon-Soo, *the Marketization of North Korean Economy: Forms, Characteristics, Mechanism, Implications* (Paju: Hanul, 2010), p.74.

(2) Evaluation of the 7.1 Economic Management Improvement Measures

The 7.1 Measures could be considered as a comprehensive countermeasure for the economic crisis at the national and institutional levels. It could also be considered as a part of the series of measures to revise the economic system of the North when Chairman Kim Jong Il officially took power in 1998. However, these measures were criticized for lacking completeness as a policy package.

The goal of the 7.1 Measures was 3-fold when it was first introduced: 1) Expand production (normalization of output), 2) Overcome the fiscal crisis, and 3) Suppress inflation. Out of these three, the key was probably the expansion of production. At the same time, the North sought to expand its tax revenues by strengthening the tax collection function (finding new taxable sources) and overhauling and strengthening the tax administration system, while relieving inflationary pressure by soaking up currency held by the private sector.

From a macroeconomic perspective, implementing the 7.1 Measures was the North's attempt to formulate a new economic management strategy through an institutional overhaul covering both production and distribution. First, the Measures sought to expand the economy by improving overall productivity and increasing output through the simultaneous implementation of improvement and reform measures (the introduction of market mechanism) at the production level – for instance, increasing the pie of the whole economy. Second, on the distribution front, the Measures aimed at drastically enhancing the collection of excess resources to channel them from individual economic players and production and distribution (trading) units to the state-controlled sectors. The focus was also on maximizing the collection of excess resources not just within the already existing planned economy but also within the realm of the market economy, which had been newly incorporated into the institutional boundary. Third, as a part of resource redistribution, excess resources secured by the government are allocated on a differential distribution basis to various parts of the national economy, which was in line with the advancement of the priority-based resource allocation system. In particular, the North opted to make official a dual structure strategy of allocating more resources to the priority areas and less to the non-priority areas.

As a follow-up to the 7.1 Measures, the North implemented bold reforms in 2004 named after Prime Minister Park Bong Ju called, the “Park Bong Ju Reform Measures.” The reform bearing his name was designed to implement business and agricultural reforms targeting select

state-owned corporations and cooperative farms, granting greater autonomy than the 7.1 Measures. After Park was dismissed from his position amid the strong resistance from the conservative forces including high-ranking party and military officials the pilot program fizzled out. Given that the North's economic policy took a more conservative turn from 2005 to 2009, it is unlikely that the 7.1 Measures was further maintained.

Moreover, the 7.1 Measures received negative reviews by South Korean experts and internationally, as the policy package fell short of alleviating the North's fiscal deficit as well as suppressing inflation. In particular, it eventually failed to make any significant progress in the expansion of output, the primary goal of the reform.

Yet the 7.1 Measures did play a critical role in North Korea's shift towards marketization, which will be discussed further later.

IV. Overview of Economic Reforms in Kim Jong Un Era

(1) Progress of Our Own Style Economic Management System

The so-called, "Our Style Economic Management System," the leading economic reform of the Kim Jong Un Administration, dates back to December 2011 immediately after the state funeral of Kim Jong Il. Under the orders of Kim Jong Un, related researches began and the new system was gradually implemented following several adjustment phases. However, the launch of the implementation varied across sectors. The commercial sector was the first to adopt the new system in 2012, followed by the agriculture sector in 2013 after several pilot tests are conducted and then the corporate (industrial) sector in 2014 also after several pilot tests are conducted. (See <Table 2>)

The Our Style Economic Management System and the Socialist Enterprise Responsibility Management System, which is the second-tier measures, are officially presented at the 2016 Party Congress, which has the highest authority and supreme power in North Korea. Accordingly, both the system and its subsystem are granted the highest level of authority and official status.

It should be noted that the North supported these economic reform measures by legislating new laws and revising existing ones from 2012 to 2015 for 4 years after Kim Jong Un took power. The publication of the Code of Laws of the Democratic People's Republic of Korea (Revised Edition) in 2016 reflected such changes.

| Table 2 | Progress of Economic Reforms under the Kim Jong Un Regime

Period & Stages	Key Contents
December 28, 2011: Kim Jong Un orders to prepare measures to improve economic management	“If economic issues, especially those involving feeding the people with enough food, are resolved, there would be nothing left to be desired. We should find our own way to manage the economy, which embodies <i>juche</i> (self-reliance) ideology.”
Early 2012: Task force team formed at the cabinet level	Reforms included empowering the cabinet, allowing businesses to pay wages and set product prices, promoting state-run distribution networks, and overhauling the agricultural sector. * Select details leaked and mistakenly known as the June 28 Measures
June 2012: Dynamic pricing adopted on pilot basis	A pilot project was launched to switch fixed pricing to dynamic pricing.
June 2012: Income distribution method switched to earnings distribution on pilot basis	The income distribution method was changed for factories and businesses from net income to earnings distribution. Accordingly, contributions to state coffers comprised a percentage of sales revenue. After the state share has been paid, factories and businesses received more discretionary power on how to use their earnings.
September 2012: Cabinet’s proposed plan immediately implemented on pilot basis but in the commercial sector implemented immediately	Measures are devised to stimulate the distribution of consumer goods through the state-run commercial network, and state-run businesses and cooperatives were allowed to sell their products on the market.
In 2013: Scope of reform expanded to agriculture	New agricultural management methods are implemented such as grain allocation according to the farmland assignment system under the <i>bunjo</i> (sub-team) management system.
January 2013: Factories & businesses granted pricing rights	Factories and businesses are allowed to set prices according to each situation to spur initiative in business management.
July 2013: The sale of consumer goods allowed on market	A commercial directive allowed consumer goods producers to sell their products on the market by operating stalls at the factories and businesses.
August 2013: Businesses allowed to organize production according to orders received	Businesses received discretionary power to organize production according to orders and contracts if they have extra capacity after fulfilling the quota and if there is demand in certain areas.
May 30, 2014: Kim Jong Un's statement The 5.30 Discourse	Kim Jong Un’s discourse with the representatives from the ruling Workers’ Party, national organizations, and the military on the establishment of the “Our Style Economic Management System” to respond to the latest developments (May 30, 2014) Kim underlined the need for an economic management system tailored for the North to build a "powerful socialist nation," stressing thorough implementation of the principles of socialist ownership and groupism.
July 2014: Cabinet issues follow-up measures	The National Economic Development Strategy devised in 2015 included gradual increases in state-determined prices to reflect market prices and the shutdown of businesses incurring losses or failing to meet the goals for three consecutive years.

Full-scale measures to improve the corporate sector after 2014	<p>Following the announcement of Self-supporting Accounting Rules for the Implementation of the Responsibility Management System for Socialist Enterprises (Jan. 2014), the following enforcement decrees were issued:</p> <ul style="list-style-type: none"> - Aug. 2014: Revision and Supplement to Enforcement Decrees on Labor Wage Payment Rules - Sept. 2014: Standards for Mobilization of Idle Funds held by Companies and Individuals - Sept. 2014: Standards for Socialist Production-Material Exchange Market - Sept. 2014: Standards for Enterprises Unit Indicator Prices - Nov. 2014: Standards for Enterprises Income Allocation
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Source: Lee, Seog-ki et al., A Study on the Economic Reform in North Korea under Kim Jong Un: Focusing on the Our Style of Economic Management System (Sejong: Korea Institute for Industrial Economics & Trade, 2018), pp. 53–54.

(2) Summary of Our Style Economic Management System

A. Adjusting the role of the central government and enterprises under the Planning System: Decentralization

Since Kim Jong Un took power, North Korea has overhauled its Enterprise Management System by revising key economic laws such as the People’s Economy Planning Act, the Farm Act, the Enterprise Act, the Trade Act, and the Materials Management Act. The most notable change was the official overhaul of the allocation system for planning indicators⁴ between the central government and individual production and trade units (Refer to <Table 3>).

First, the amendment to the People’s Economy Planning Act divided the national indicator into three categories: the central, regional, and enterprise. The strategically significant and ones that need government control fell under the central indicator and others fell under the regional and enterprise indicators (Article 13).

The revised Enterprise Act clearly stated that the government grants the planning rights to the state-owned enterprises. Unlike before, now the enterprises could plan their own operation plans that are more plausible and befitting to their business needs (Article 31). Also, the indicator based on these plans was firmly established as the Enterprise Indicator with the differentiated concept and scope from the central and regional indicators.

In the agriculture category, the Planning Act, a new concept of farm indicator was used. The revised Farm Act stated, as long as the agricultural production quota, a centrally determined amount was met, the farms could add lucrative crops to the farm indicator and cultivate them if desired (Article 23).

Under the trade category, three indicators were set up: the national strategic indicator,

⁴ A planning indicator quantifies a volume-based quota assigned to a company from the higher office. It can be considered as planning by item.

limitation indicator, and other indicators. Under the revised Trade Act, the indicator was allotted between the central government and trade actors, with the national strategic indicator and limited indicator being planned in the production volume terms by the National Planning Commission, while the other indicators set in value terms of (import and export) by the same commission.⁵ Further, specific production volumes were independently planned by institutions, enterprises, and organizations (Articles 30 through 31).⁶

As such, the division of roles in the planning indicator between the central government and companies also affected the allocation of roles between the two in the materials supply planning, as well. In the past, only the National Planning Commission was in charge of planning the materials supply however, now this role has been divided between the central government and economic entities. It is prescribed in the revised Materials Management Act that the materials supply planning for the central indicator should be done by the National Planning Commission while that of the other indicators should be prepared by the relevant institutions, enterprises, and organizations (Article 9).

The reason that the planning indicators was reorganized with the clear division in the role of the central government and individual production · trade units indicates that the top-down directive type of planning for not only enterprises but also for individual production · trade units will be either reduced or abolished. In other words, the number of mandatory quota items for individual units such as spot assignment (Planning indicator) was scaled down or abolished. In short, the implementation of the Socialist Enterprise Responsibility Management System meant that the indicators planned at the central level are drastically reduced while the indicators that are autonomously planned at the individual level are sharply increased.⁷ In addition, the raw materials quota system burdened on companies was either reduced or abolished. Thus, the restructuring of the Enterprise Management System facilitated a step towards decentralization, as the centralized control under the traditionally planned economic system was drastically weakened.

⁵ Planning in trade value means plans are devised and executed only based on import and export values.

⁶ The previous Trade Act states, “trade transactions must be conducted by trading companies established in accordance with related laws and licensed to trade.” The 2015 revision to the law, however, allowed such transactions to be conducted by institutions, enterprises, and organizations licensed by the central organ for trade guidance (Article 11). Thus the scope of trading actors was expanded from licensed trading companies to licensed institutions, enterprises, and organizations.

⁷ If the central government controlled ten indicators in the past, under the Socialist Enterprise Responsibility Management System, only one to two key indicators are centrally planned. 三村光弘, “北朝鮮經濟の最近の變化と今後の見通し,” *ERINA REPORT*, No.130, 2016, p. 2.

| **Table 3** | Reallocation of the Roles between the Central Government and Enterprise under the Revised Laws:
Decentralization

Category	Related Laws	Previous Provisions	Revised Provisions (as of 2012~2015)
Allotment of “People’s Economy” planning Indicators	People’s Economy Planning Act	No specific mention	Indicators were allocated at the central, regional, and corporate levels, meaning the key indicators with strategic significance are managed at the central level while other indicators are allocated to the regional and business levels.
Enterprise’ right to plan & enterprise unit indicator	Enterprise Unit Act	No mention	Businesses received the right to develop plans independently, which constituted the business indicator.
Farmer’s right to plan & farming indicator	Farm Act	No mention	Farm indicator was divided into the central and farm indicators. Farmers were allowed to plan their own indicator as long as they achieved the central indicator.
Allocation of indicators in trade planning	Trade Act	The National Planning Commission only devised the comprehensive plans such as overall export and import values and set indicators for key resources.	The National Planning Commission planned national strategic and limitation indicators in volume terms. Other indicators were set by the key actors in trade in trade-value terms.
Responsible party for developing materials supply planning	Materials Management Act	National Planning Commission	For the materials supply planning, the National Planning Commission was responsible for developing the central indicator and relevant institutions, businesses, and organizations for other indicators.

Source: Yang, Moon-Soo, “The Institutionalization of Markets and the Changes in the State-run Economy in the Kim Jong Un Era,” in *Changes in North Korea’s Economy and an Analysis of Inter-Korean Economic Integration*, ed. Lee, Suk (Sejong: Korea Development Institute, 2017).

B. Incorporation of market mechanism into the Planning System: Institutionalization of markets

As discussed earlier, the revised laws officially incorporated products that the state-owned enterprises and farms are allowed to plan into the National Planning system under the titles of Enterprise Indicator and Farm Indicator. However, the raw materials needed for these products were not centrally supplied but must be procured individually at the market price. Accordingly, if companies and farms were allowed to set the sale prices for these products, the prices had to be set at the market rate to compensate for the production cost. Such pricing behavior was legalized and incorporated into the National Planning System (See <Table 4>).

Under the revised Enterprise Act, state-owned enterprises could set prices for products

produced as a part of the enterprise indicator and other products, for which companies independently procured raw materials, including contracts with customers, to ensure that the enterprise could recover their production cost. For consumer goods, wholesale and retail institutions were allowed to sell through all distribution networks (Article 39). In addition, the revised Farm Act stated, farms could set prices for and sell agricultural goods produced for the farm indicator as well as those produced for self-initiated work on the sideline (Article 50). In other words, state-owned enterprises and farms were allowed to sell the abovementioned products at the market price.

| Table 4 | Incorporation of Markets into the Planning System under the Revised Laws: Institutionalization of Markets

Category	Related Laws	Previous Provisions	Revised Provisions (as of 2012~2015)
Interconnecting the Plan and Order contracts	People's Economy Planning Act	No mention	The People's Economy Plan was designed to link the indicator demands allotted to institutions, enterprises, and organizations with resources. The connection can be achieved through order contracts.
Conclusion of contracts	People's Economy Planning Act	Institutions & enterprises must conclude contracts based on the People's Economy Plan.	Institutions and enterprises are allowed to enter into contracts outside the scope of the People's Economy Plan. Order contracts could be concluded at any time of the year.
Pricing and sales rights of Enterprises	Enterprise Act	No mention	Enterprises are granted pricing and sales rights. Also, it is possible to set price and sell products for the business indicator and order contracts for customers. Among the output produced as a part of the enterprise indicator, consumer goods can be sold directly to wholesale and retail institutions.
Pricing and Sales rights of Farmers	Farm Act	Select agricultural products are allowed to be sold via direct sales outlets	Farmers are allowed to sell excess products after meeting their quota to institutions and enterprises. They are given the pricing and sales rights on the farm indicator products as well as any sideline products.
Allocation of trade price-setting rights	Trade Act	All prices are centrally determined	Trade prices planned by the National Planning Commission on the volume-based indicator must obtain approval from the central government. Trade prices of other indicators are set by the parties to the trade transaction.

Source: Source: Yang, Moon-Soo, "The Institutionalization of Markets and the Changes in the State-run Economy in the Kim Jong Un Era," in *Changes in North Korea's Economy and an Analysis of Inter-Korean Economic Integration*, ed. Lee, Suk (Sejong: Korea Development Institute, 2017).

Moreover, in order to link the indicator demands of the People's Economy Plan with the resource mobilization, the revised People's Economy Planning Act allowed order contract as a new method (Article 18). The order contract refers to the contract that reflects the market price where the buyer and seller mutually and voluntarily set the price, unlike the price pre-determined at the central level. Under the revised Materials Management Act, the supply and procurement of production materials between individual organizations and enterprises are allowed at the market price (Article 11), and in such cases, cash transactions are also allowed (Article 17).

(3) The Five-year Strategy for the National Economic Development and the Our Style Economic Management System

Since 2016, the Five-year Strategy for the National Economic Development has proven pivotal to the North Korea's economic policy. During the Seventh Congress of the Workers' Party held in 2016, Kim Jong Un ordered the implementation the Five-year Strategy, which will be continued from 2016 to 2020. However, he merely outlined the overall principles and direction of the strategy without further details, prioritizing the problem of power supply.

In fact, the core of economic policy in a socialist planned economy is usually a long-term economic plan of five or more years. However, North Korea has not introduced any long-term economic plans for the past 23 years since the third Seven-year Plan (1987-93) in 1993. Still, in May 2016, the Party Congress was held after 36 years and at the same time, the long-term economic plan was revived after 23 years. By simultaneously ending the state of emergency status and normalizing the national operation, the North seems to be promoting the normalization of socialist economic operation, which is a part of the Kim Jong-un's regime in pursuing the "normalization policy."

It should be noted that this is not the Five-year National Economic Development Plan but, the Five-year National Economic Development Strategy. This was not an attempt to revive or restore the centrally-planned economy contrary to some views. According to the official literature of North Korea, a plan is a specific, legally binding, and detailed blueprint whereas a strategy is a comprehensive design or milestone without a strong legal binding power.⁸ In addition, an economic development strategy is comparable to a general design, whereas an economic development plan stipulates specific targets and tasks at each step to accomplish goals

⁸ Park, Hong Gyu, "Issues on the Interpretation of Economic and Corporate Strategies," *Economy Research*, Vol. 3, 2008, pp.12-14.

set by the economic strategy.⁹ Moreover, the basis for economic management was thus changed¹⁰ from national plan to national strategy.¹¹

The Five-year National Economic Development Strategy included the reduction of government's role and drastically expanded the role and autonomy of businesses, as is often the case with the reformed socialism. It should be noted that the Five-year Strategy is actually a package plan along with the Our Style Economic Management System and the Socialist Corporate Responsible Management System. However, North Korea appears to have devised the new term, “strategy” after much consideration since using the term “reform” was politically too burdensome while using the term “plan” was unfitting since it is clearly different from the past.

V. Evaluation of Economic Reform Measures in the Kim Jong Un Era

(1) Characteristics of Our Style Economic Management System

A. Progress in economic reform

From historical experience, economic reforms of socialist countries have the following in common. First, government-directed plans for firms and the raw materials allotment system are either reduced or abolished. In addition, the central government comprehensively plans only the operation of macroeconomic management. Also, along with the expansion of freedom to dispose firm earnings in any way it fits and increased incentives, the firm profits received by the central government are reduced. At the same time, the autonomy and responsibility of companies are greatly expanded.

The Our Style Economic Management System in the Kim Jong Un era clearly shares many, if not all, the characteristics of other economic reforms in socialist countries. As discussed earlier, the common characteristics include the reduction of bureaucratic adjustment mechanism and expansion of market adjustment mechanism, reduction or abolishment of government-directed plans for businesses, the central government establishes and executes only at the macroeconomic level, and substantial expansion in autonomy and incentives for enterprises, and finally, increased self-accountability.

⁹ Suh, Seong Cheol, “The Fundamental Contents and Characteristics of the National Economic Development Plan,” *Economy Research*, Vol. 4, 2013, pp.11–13.

¹⁰ Song, Jeong Nam, “The Fundamental Characteristics of Strategic Economic Management Method,” *Economy Research*, Vol. 4, 2015, pp.14–16.

¹¹ For more details on the differences between the North’s economic development strategy and economic development plan, see Yang, Moon-Soo’s “North Korea’s Economic Reform Measures in the Kim Jong Un Era—A Comparison with the China’s Experience,” *The Journal of Asia Studies*, Vol. 59, No.3 (2016), pp.131–132.

On the other hand, North Korea's economic reform has some characteristics that are different from those of other socialist economies. The reduction and abolishment of government-directed plans for enterprises are not due to the government's policy intentions but rather due to the recognition and acceptance of the collapse of the planned economy. Furthermore, the government provided the legal grounds for the implementation of reform through revisions to existing laws or the introduction of new ones, but economic reform was never officially implemented or significantly incorporated into the institutional framework. Indeed, the term "market" never appears in the latest revisions and legislation, while the North's internal documents often mention the term "market."

The Our Style Economic Management System focused more on the economic reform than its predecessors (See <Table 5>). This System took a step further than the 7.1 Measures of 2002 in terms of extent, depth, and scope of reform. For example, the 7.1 Measures legalized markets but under the title of "economic activities outside planning," meaning it was not within the main focus of the national plan. However, under the Our Style System, markets were placed within the centrally-planned economy. Thus the major difference is that the latter system incorporated markets into the centrally-planned system in the form of enterprise indicator and farm indicator.

| Table 5 | Comparison of Economic Reforms in the Kim Jong Il Era and Kim Jong Un Era

	7.1 Measures	Our Style Economic Management System
Legal status of markets	- Legalized markets outside the scope of centrally-planned economy	- Legalized markets within the scope of centrally-planned economy
Level of institutionalization	- Low - Without legal framework - No official reference by the top leader	- Mid - Backed by legal framework - Frequent reference by the top leader
Duration	2–3 years	At least, 6-7 years
Reduction of government-directed indicators	Low	High
Expansion of autonomy for businesses, farms, & trade companies	Low	High
Scope of reform	Enterprises, farms, trade, prices, finance, etc.	Enterprises, farms, trade, prices, finance + plan system, financing

Source: Summarized by the author

Further, it is noteworthy that the implementation period and duration of economic reform is long but, the level of institutional reform of markets is high. The Our Style Economic Management System was officially launched in 2016, the first of its kind in 36 years, at the Workers' Party Congress, which is considered the highest authority in the North headed by the supreme leader of the party. Moreover, with the constitutional reform of April 2019, the Socialist Enterprise Responsibility Management System, which is in the subcategory of the Our Style System replaced the "Collective Economic Management System (Dae-An)," which was one of the pillars in the economic management system of North Korea in the past under the Kim Il Sung era, as the new economic management method.¹²

It should be pointed out that while the 7.1 Measures was never publicly mentioned by the North's leader, however, the Our Style System was mentioned on several occasions.

B. Coordinating the interests of the government, enterprises and households

The latest institutional reform was designed to align the interests of the country's three main economic actors -- the government, firms and the populace (households and laborers) -- so that the government can achieve its economic goals by coordinating the roles and responsibilities of the three parties and expanding the overall output of the national economy.

Here, the goal of the household, which means the goal of laborers, is to maximize the wage income or household income, while the goal of the enterprise is to maximize the disposable income and maintaining the livelihood of its employees. In addition, the government's economic goal was to secure resources and funds to maintain the nation through the implementation of volume-based plans and the expansion of financial revenues. Accordingly, the system was reorganized in a way that it fully aligned the interests of the three actors but strictly speaking, this was impossible. As a result, the realistic alternative was to reach a compromise or coordinate the interests of the three actors.

In general, the most common problem accompanying fiscal and corporate reform in a socialist country is the possible conflict between the increased autonomy and incentives of enterprise and the government's need

¹² Article 3 of the North Korea's Constitution revised in April 2019 states, "the nation shall implement the Socialist Enterprise Responsibility Management System under the economic management." Previously, the Constitution had stipulated the implementation of a self-supporting accounting system to meet demands from the Collective Economic Management System (Dae-An) under the economic management. Thus for the national economic management method, the latter system was replaced by the Socialist Enterprise Responsibility Management System. Under the collective system introduced by Kim Il Sung in 1961, the Factory Party Committee exercised the final authority and responsibility for the factory management and operation (*The Hankyoreh*, July 12, 2019).

to expand fiscal revenue. On the other hand, if enterprise has greater autonomy and incentives, this could lead to a reduction in government revenue. Thus the question of how to stop this dilemma is raised. In other words, the question is how to promptly align the interests of the three actors? As discussed earlier, the North Korean government devised various measures to this end.

In the past, when there were frequent conflicts between the government and enterprises on the state coffer contribution and others, the government either looked away or imposed its will by intervening or meddling into business activities. Yet, there was no guarantee that the government's goal could be met by such method, and so various illegal enterprise activities continued.

Against this backdrop, it seems that the government finally acknowledged and accepted the current situation and focused on finding a common ground with enterprises. Thus the government decided that it would be beneficial in achieving its goal through compromise.

C. Ex-post recognition of changes

The underlying motive of this institutional reform was to institutionalize the activities of economic actors left outside the previous institutional framework. As such, illicit or quasi-legal market activities were legalized to a certain extent.

Since the beginning of the 1990s economic crisis, the autonomy and decision-making authority granted to enterprises have been expanded beyond the scope allowed by the government. At the same time, individual economic entities such as households and enterprises have pursued illicit and quasi-legal activities that are in violation of the law and system in order to survive, which in turn has widened the gap between the official system and reality and given rise to a host of socioeconomic problems.

Accordingly, the 7.1 Measures implemented in the Kim Jong Il era sought to narrow the gap by allowing, albeit belatedly, higher autonomy of economic actors and allowing some illicit and quasi-legal activities to a certain extent. The decision-making power and illicit and quasi-legal activities of such actors, however, continued to increase beyond the scope permitted by the official system, further widening the gap and causing more socioeconomic issues.

Coming into the Kim Jong Un leadership era, the government introduced the Our Style Economic Management System to grant more autonomy and authority to the economic entities such as households and enterprises and partially approve illicit and quasi-legal economic activities, as was with the 7.1 Measures, in an attempt to narrow the gap between the official system and reality. As it was seen previously, the direction of the new system was to align the interests of the three major economic entities.

(2) The Ripple Effect of Our Style Economic Management System

The Our Style Economic Management System created a favorable environment for the economic entities to conduct and accelerate marketization. A case in point is the impact on the 7.1 Measures, which partly legalized the markets. The measures made marketization an integral part of the economy and significantly affected the three main actors in the economy -- the government, enterprises, and households -- in fact, the government selectively approved illicit and quasi-legal economic activities performed through the market. The social atmosphere also grew more favorable and lenient towards such activities, as doing so was inevitable to advance the national plan. In addition, households and enterprises embraced the concept of self-reliance as a new belief system through the 7.1 Measures, and market economic activity by enterprises was justified to a certain extent.

Like the 7.1 Measures, the Our Style Economic Management System provided a wider room to maneuver within the official economic framework and created a more favorable atmosphere in the market, which further justified the market activities conducted by the three entities and thus, legitimized the building of a self-reliance system through the market. Thus the chances that the public sector including the state-owned corporations will take more advantage of the market are very high.

Moreover, as the Our Style Economic Management System was a catalyst to marketization, the connection between the planned/official economy and market/unofficial economy strengthened, with the former relying more on the latter. Thus the expansion and deepening of the connection and mutual reliance between the two economies coincided with the blurring of the boundary between the two. Furthermore, the possibility of that the market economic activity of state-owned enterprises will increasingly contribute to the implementation of national plans and thus overall economic growth is highly expected.

(3) Achievements and limitations of Our Style Economic Management System

The primary goals of introducing the Our Style Economic Management System are productivity improvement and production growth, and in order to achieve these goals the North revised its system. Yet, the excessive shortages of resources like energy, raw materials, and funding clearly hurt the implementation of economic reform. No matter how good a system is, achieving productivity improvement and production expansion are a tall order when the supply

of energy and raw materials is limited and funding sources are almost non-existent. Overcoming these obstacles is a huge challenge.

Through an institutional overhaul, the Our Style Economic Management System aimed to grant more autonomy and incentives to the individual economic entities such as the state-owned corporations and cooperative farms, empowering them to fully take advantage of the market and boost their management performance. Economic entities are likely to have more room to maneuver within the boundary of law and be better positioned to procure resources and expand production to sell their output in the market, generate higher sales, and more efficiently reinvest their earnings in production. In this context, the Our Style System was apparently effective in boosting utilization at a given capacity and expanding production volume.

Yet doubt surrounds whether such changes in the system can ease the North's severe shortage of investment funds and production capacity. Under the new system, the government has a limited role, while the enterprise has a bigger responsibility in raising investment funds but enjoys greater autonomy in allocating their own funds. As such, officially allowing the enterprises to invest their retained earnings and acknowledging their disposal rights on facility investment means a significant improvement was made in the enterprise management environment. Nevertheless, the business sector remains limited in its ability to internally raise investment funds, thus making it difficult to expand production capacity beyond a certain limit.

Meanwhile, North Korea's latest institutional reform signals changes in the resource allocation mechanism by allowing the market to play a greater role and hold a higher profile in the official economic management. No changes, however, were sought in ownership, for which the gap between the official and unofficial economies continued to widen, as was the case with the market. The government did indirectly ease the illegality issue inherent in the private ownership by upgrading the institutionalization level of the market. However, the Our Style System fell short of officially tackling the private ownership issues.

In addition, the North's institutional reform showed the government's intent to reduce the conflict with individual economic entities over the tax burden such as contribution to the state coffers, but did not touch on the issues of quasi-tax such as social (or policy) tasks,¹³ loyalty (or

¹³ Social (or policy) tasks refer to financial contributions that production units (e.g., enterprises and farms) must make for large-scale national construction projects such as the development of the Masikryong Ski Resort and Kangwon-do Sepodeungpan Livestock Farming and the construction of the Samjiyon and Heecheon power plants, as well as provincial projects such as housing renovation and construction along the Dumangang (Tumen) River, apple tree farming in Kangwon-do province, and road construction.

Revolution) funds,¹⁴ and non-tax payments. In reality, both tax and quasi-tax are huge expenditures that weigh heavily on the economic actors such as enterprises, farms, and trade units.

This study does not believe that the North's institutional reform devised measures to acknowledge the so-called privileged economy, i.e., the party and military economies.¹⁵ The North Korean government took every opportunity to emphasize the cabinet-driven economic management, but made no attempts to incorporate enterprises and trade companies, which are a part of the privileged economy, into the framework of the centrally-planned economy or reduce the size of the privileged economy and expand the cabinet-driven (or general) economy in the Our Style System, which is considered as the limitation of this System.

The latest reform was the result of discussions at the institutional level, leaving no guarantee that the changes in the legal or institutional framework will produce changes in the real economic management. Whether North Korea will deliver the promises made under the new legislation and law revisions remains unclear, and this is, yet another limitation of the Our Style Economic Management System.

VI. Conclusion

The Our Style Economic Management System campaign in the Kim Jong Un era as the economic reform of its time, has many, if not all, similarities with the economic reforms implemented in socialist countries. As discussed earlier, the highlights of the reform includes reduction or abolishment of government-directed planning for enterprises, limiting the planning role of the central government to the macroeconomic level, and allowing greater autonomy, incentives and accountability to enterprises.

However, this system is different from those of other socialist countries. The reduction and

¹⁴ Loyalty (or Revolution) funds, a type of party fund, refer to foreign currency that trading companies under organizations and enterprises donate to the North Korean leader as a pledge of loyalty apart from the planned quota. Accordingly, foreign currency-earning activity is called "an act of loyalty" and the foreign currency fund is called the loyalty (or Revolution) fund.

¹⁵ The privileged economy refers to that enjoyed by the ruling Workers' Party of North Korea and that of the military. The party and military economies have economic flows and structures complete with their own farms, factories, mines, trade companies, and banks. Both economies function like a country within a country. North Korea began to separate its general economy from its privileged one from the mid-1970s, when the former operated under direct control of the supreme leader independent of the cabinet. The two economies also set up a series of trading companies under their umbrella after the economic crisis of the early 1990s, and expanded their size by taking over mines, factories, and farms that would have otherwise put under the cabinet's control.

abolishment of government-directed plans for enterprises came about not as the government's intentional policy plan but as the ex post facto recognition of a failed economic plan, which was centrally driven. Although the North provided legal grounds for the implementation of reforms through law revisions or introducing new legislation, the past economic reforms have neither been officially implemented nor significantly incorporated into the institutional framework. In addition, the importance and share of privileged economy and quasi-tax in the national economy is still excessively high.

Kim Jong Un's Our Style Economic Management System seems to have more economic reform characteristics compared to the measures implemented during his father's time. The system took a step further from the experimental reforms implemented by Prime Minister Park Bong Ju in 2003 and 2004, not to mention the 7.1 Measures of 2002, in the extent, depth, and scope of the reform. In addition, the Our Style Economic Management System was officially presented at the Workers' Party Congress in 2016, and with the constitutional reform in April 2019, the Socialist Enterprise Responsibility Management System was upgraded as the new method of economic management and replaced the longstanding and party-centric Collective Economic Management System (Dae-An). As such, the Our Style System is incomparable to the 7.1 Measures in its formality as well as the authority. Furthermore, the 7.1 Measures fizzled out after two to three years of experimentation, whereas the Our Style System has been around for more than six years, at least, officially.

Despite the limitation stemming from the shortages of raw materials, energy, and funding, the North's institutional reform could potentially raise the utility rate to a given production capacity and expand output. In addition, the reform might further accelerate the economy's marketization and tighten the link between the state-run economy and markets to make contributions to the overall economic growth, albeit marginally.

However, the important fact is that the institutional reform stemmed from discussions at the legislative and institutional levels. Changes in the legal or institutional framework do not necessarily lead to the changes in the real economic management. Thus it remains uncertain whether North Korea will deliver the promises through the new legislation and law revisions. In addition, the limitation of the reform is that while it takes a relatively accommodative stance on market functions, it falls short of tackling issues such as ownership rights, quasi-tax, and the privileged economy.

Tighter global sanctions on the North since 2017 will likely impede the implementation of the Our Style System. Thus the country's exports and foreign currency earnings has declined

sharply, it is possible that the two forces act in opposite direction for the sub-units of the economy such as farms, enterprises and households. Institutions and units are officially required to grant more autonomy to individual production and trading units (basic economic units). Yet the tighter sanctions are expected to hinder national output, forcing the central government to mobilize strategic materials needed to manage the national economy and expand the scope and quantity of centrally-controlled and managed materials; this is a virtual backpedaling of economic reform. At the same time, higher institutions could seek to offset the negative impact of stricter sanctions on their earnings from both foreign and domestic currency sources by unofficially expanding or enhancing quasi-tax collection from basic economic units. If so, this study does not rule out the possibility that the incentive structure for basic economic units diverges from what the North Korean government initially envisioned and intended, and thus the system could be thrown into disarray.

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