

# The Economy of DPRK under Kim Jong Un: Review, Analysis, and Prospects<sup>\*</sup>

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The recent economic situation of the Democratic People's Republic of Korea (DPRK, or North Korea) has been a topic of interest for observers concerned since Kim Jong Un became the national leader more than three years ago. One of the reasons for this is that the national economy has become a major benchmark to evaluate the policy direction and capability of the Kim Jong Un administration, as economic development has been repeatedly emphasized by the young leader and even placed ahead of nuclear weapons in the *Byungjin* Line (developing both national economy and nuclear arms), the newly adopted strategic guideline of the country. Another reason is that 2015 is considered a critical period for Kim Jong Un's long-term policy making, as it marks the end of the three-year mourning period for his father and the 70th anniversary of the Workers' Party of Korea (WPK). Against this background, this paper examines the economic policies and performance of North Korea in the Kim Jong Un era, in order to give some revelation to that country's current economic situation and future prospects.

Compared to the current studies on the same topic, this paper differentiates itself methodologically by building its analysis on a

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political-economic perspective and a comprehensive examination of different forms of information. First, as an attempt to overcome the problem of information asymmetry that has long been hindering research in the North Korean economy,<sup>1</sup> this paper examines the North Korean economy on the basis of a comparative analysis of policies, observations, and data, trying to reduce the risk of being biased by one certain type of evidence. Second, the North Korean economy is a centrally planned system subject to growing pressures of partial reform, which is highly sensitive to state policies. This paper tries to go beyond economic policies and performance to discuss the underlying political economic mechanism of policymaking and implementation, under the purpose of better understanding the recent developments and future prospects of the North Korean economy.

## I. ECONOMIC POLICIES: INCENTIVIZING AND FACILITATING ECONOMIC GROWTH

The national economic policies adopted so far by the Kim Jong Un administration are generally development oriented, designed to incentivize and facilitate economic growth, both domestically and internationally. Domestically, the government of the DPRK issued the New Economic Management Measures and a set of supporting measures to adjust the roles played by the governmental and social organizations in managing and distributing economic resources on the one hand, while on the other, actively interfered in certain key industries (agriculture, light industry, energy and infrastructure) and enterprises to facilitate their development. In relation to international economic cooperation, Kim's government revised and issued laws and regulations regarding foreign invested businesses and economic development zones (special economic zones), and took a variety of actions to attract foreign investment and enlarge foreign exchange earnings.

### 1.1 Incentivizing Domestic Production: New Economic Management Measures

The New Economic Management Measures (hereafter Measures)

are the most notable economic policies on domestic production issued by the Kim Jong Un government. Kim ordered the Cabinet to take the lead in developing the Measures shortly after he assumed top leadership, when he decided to concentrate the policy-making power on the Cabinet and make it the economic control tower. The Measures were reportedly announced in mid-2012, and then reemphasized on several other occasions in the ensuing years. For a brief timeline, the Measures were first announced within the governmental system on June 28, 2012, and are thus usually referred to as the “June 28 Policy,”<sup>2</sup> and then made public on March 31, 2013 when the *Byungjin* Line was established as the new national strategic guideline at the Plenary Meeting of the WPK Central Committee. In his speech made at this meeting, Kim Jong Un specifically emphasized the necessity to “study and complete the North Korean style economic management measures based on what the reality of economic development calls for.”<sup>3</sup> The second time the Measures got highlighted was on May 30, 2014 when Kim Jong Un made a public speech, or the “May 30 Speech,” to announce the full-scale implementation and further upgrade of the Measures.<sup>4</sup> Later on September 3, the *Rodong Shinmun*, the official newspaper of the WPK, published a long editorial as the front-page headline, quoting Kim Jong Un to call for “decisively improving the guidance and management of economic activities.”<sup>5</sup>

The contents of the Measures cover the management of agricultural production and industrial companies and factories. Regarding agriculture, the Measures decided to downsize the production units and enlarge the proportion of yields that farmers can keep. The Unit Responsibility System was reportedly put into practice in mid-2012, which reduced the basic agricultural production units from 10-25 people to 4-6 people and allow these units to keep 30% of their yields exceeding the designated output of agricultural products. The government also planned to make household the basic agricultural production unit and raise the share of privately retained extra yield to 60% in 2015,<sup>6</sup> of which some pilot projects are reported to be in operation already.<sup>7</sup> Companies and factories are also allowed more autonomy in operational management. In addition to aspects like production planning

and raw materials procurement, in which certain autonomy for companies have been granted according to the July 1 Economic Management Improvement Measures of 2002, the recent Measures expanded the autonomy to more items, such as sales, product development, quality management, personnel management, and the expenditure of extra income. It is also reported that a plan has been made to implement nationwide the “manager responsibility system.”<sup>8</sup>

These DPRK-style economic governance policies are designed to incentivize farmers and company managers to increase domestic production, which resembles the policies of delegating greater power to the local governments and sharing part of profits to the enterprises China adopted in the early stage of its reform and opening-up drive. By delegating a certain part of management power to individual grassroots agents and granting the agents certain residual claims,

the objective is to make the economic actors more greatly motivated without bringing any change to the ownership of the means of production. To some extent, these adjustments are tantamount to allowing social agents to get involved in the course of the allocation of the state’s economic resources to exchange and distribute part of the production factors out of their own will according to the actual demand and supply at the grassroots, so as to form certain supplement to and substitute of the national economic plans and raise the effect of overall allocation of resources. In short, the Measures can, at least in theory, help increase the economic incentive of private actors and improve the efficiency of resource allocation, and thus release to some extent the formerly distorted or depressed economic potentials of North Korea.

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The core of DPRK-style economic governance is decentralization and redistribution of earnings.

## **1.2 Facilitating Domestic Production: Key Industries and Companies**

The other theme of domestic economic policies is to facilitate production by providing micro-level support to selected key

industries and companies. Kim Jong Un's definition of key industries largely continued his father's policy that stresses agriculture, light industries, and the four "priority industries," namely, coal, electricity, metal, and railway construction. His way of sequencing and positioning these industries, however, differed slightly and seemed to be more practical and specific. For instance, Kim Jong Un laid more stress on agriculture in his 2014 new year's speech, and added livestock farming, fishery, and forestry in 2015, focusing on solving the "eating problem."<sup>9</sup> Also in this year's speech, he noted that light industries should strive for "production normalization" to insure the stable supply of consumer goods and the self-sufficiency of raw materials, being much more specific than his earlier speeches that only vaguely defined light industries as the "main frontline of economic development."<sup>10</sup> According to *Rodong Shinmun* reports, over the past three years, Kim Jong Un paid frequent visits to important factories or enterprises of these key industries, and in some cases granted them special autonomy on management, supply of equipment and raw materials, as well as construction funds.

### 1.3 Incentivizing FDI: Law on Economic Development Zones

Bringing in foreign investment stands out as the main objective of Kim Jong Un's policy on international economic cooperation, which again is promoted through the combination of institutional improvement and direct government interventions. The major action to enhance institutional improvement is that the DPRK enacted and released the Law on Economic Development Zones (hereafter referred to as the Law) to incentivize Foreign Direct Investment (FDI), before proceeding to establish approximately twenty new special economic zones (hereafter SEZs). The Law was issued on May 29, 2013, about two months after the WPK Plenary Meeting decided that provincial governments could establish SEZs according to their local situation and special features. It resembles the existing laws on single SEZs in tax preferential policies, while also introduces innovative provisions to specifically differentiate the comprehensive economic development zones and special economic development zones, and allows foreign companies and

local governments to apply for the establishment of new SEZs.<sup>11</sup> In October 2013, the Standing Committee of the Supreme People's Assembly of the DPRK announced the establishment of 13 provincial-level SEZs, namely, the Chongjin, Amrok (Yalu) River, Manpo and Hyesan Economic Development zones, the Hungnam, Hyondong, and Wiwon Industrial Development zones, the Onsong and Sinphyong Tourism Development zones, the Songrim and Waudo Export Processing zones, and the Orang and Pukchong Agricultural Development zones. Later in July 2014, North Korea further decided to establish another six SEZs in Pyongyang, Huanghae Namdo, the Nampo City, Pyong'an Namdo, and Pyong'an Pukdo, and to name some areas of the Sinuiju City an International Economic Belt.<sup>12</sup> In addition, the North Korean government also designated the Wonsan-Kumgang Mountain International Tourism Zone as the "Project of the Year" in January 2015, and claimed to have completed a general development plan for the 13 provincial level SEZs.<sup>13</sup>

It should be pointed out that Kim Jong Un is not the first North Korean leader to establish SEZs. It was in the mid-1980s that North Korea began to enact laws and regulations on international economic cooperation. The subsequent establishment of the Rason, Sinuiju, Kumgang Mountain, and Kaesong special economic zones made up the "two lines and four points" structure along the China-North Korea and North-South borders, whereas the Ten-Year Strategic Plan for Economic Development published under Kim Jong Il further laid the basis for the current SEZ policies.<sup>14</sup> Nevertheless, it should be recognized that the Kim Jong Un government has made considerable new efforts. It stepped up legislation on and establishment of SEZs, refined and relaxed some FDI regulations, and expanded the geographical coverage of SEZs from the borders to the interior and Pyongyang areas.

#### **1.4 Facilitating FDI**

The Kim Jong Un government is also striving to promote FDI and increase the country's foreign exchange earnings mainly through three ways: 1) hosting international exhibitions and investment policy briefing sessions; 2) establishing regular offices



overseas to attract FDI; and 3) bringing in FDI issues in diplomatic negotiations. Firstly, the government held international exhibitions and investment policy briefings quite frequently in the past few years. The events range from the yearly Pyongyang International Trade Fair, the Rason International Trade Fair, and the North Korea-China Economic, Trade, Culture and Tourism Expo, to special policy sessions designed to match up with certain important policy decisions, construction projects and foreign visits, such as the 2013 and 2014 Pyongyang international conferences, at which experts from multiple countries were invited to discuss the newly established SEZs, and recent policy briefings on the Wonsan-Kumgang Mountain International Tourism Zone.<sup>15</sup>

Secondly, North Korea also experimented with establishing FDI offices overseas, an example of which was the establishment of North Korea Investment Office in Chaoyang District, Beijing, in 2012. This office is said to be the only overseas branch established so far by the Committee on Joint Venture and Investment, which is under the direct leadership of North Korean Cabinet. Even though some media reports claimed that the office have stopped functioning, it did play an active role in attracting FDI via a variety of events, such as holding policy briefings and projecting PR events as well as organizing the Chinese investors' delegation to visit North Korea.<sup>16</sup> Last but not the least, there are also multiple cases in which the Kim Jong Un government included FDI as part of its diplomatic agenda. Examples of this include the North Korea-Japan Stockholm Agreement signed in May 2014, in which Japan agreed to lift its unilateral sanctions on North Korea and consider humanitarian aid to the latter in exchange for North Korea to reopen the investigation on Japanese abductees. When Choe Ryong-hae, Kim Jong Un's special envoy, visited Russia, the two sides decided a number of economic, trade and infrastructure projects. In every Peninsula Inter-Korean negotiation, resuming the Kaesong Industrial Complex and the Kumgang Mountain tourism are always topics on the agenda of improving bilateral relations between the DPRK and the Republic of Korea.

## 2. DPRK ECONOMIC PERFORMANCE: OBSERVATIONS AND DATA

This study analyzes North Korea's economic performance in Kim Jong Un era by making a comparative examination of observations and data, focusing on observations of North Korean people's consumption behavior and signs of market factors in its daily economic activities, and data on North Korea's production and trade as published by the institutions of the United Nations (UN) and the Bank of Korea (BOK). In view that the problem of information asymmetry has long been hindering the study of the North Korean economy, the comparative approach adopted in this analysis can hopefully help build a more balanced view on the country's recent economic performance.

Both observations and data from different sources show that the North Korean economy has been quite stable for the past three to four years, even showing quite a few signs of improvement. In almost all first-handed observations, as reported in newspapers and noted by experts of North Korean studies who recently visited the country, there appeared indeed new economic phenomena during the Kim Jong Un era. In terms of market circulation, North Korea's supply of consumer goods is reportedly much better than the situation a few years ago, with greater diversity of goods and larger numbers of counters in local market, whereas the demand side has also grown stronger, as shown in the crowdedness of domestic markets and the overseas shopping sprees of rich North Koreans. As for daily consumption, North Korea's growing economic vitality can be seen from the fashion of women, the popularity of cellphones and other IT products, the increasing visibility of taxis, the ordinary North Koreans who are enjoying themselves at restaurants and tourist attractions, the quick expansion of real estate transactions, and the more active participation of North Korean companies in recent international expositions, among others.<sup>17</sup> Relatively, the autonomy of basic production and trade organizations have new room. Examples include: that the enterprises can independently develop and sell products, individuals who would like to be private economic actors can get permissions of doing business and affiliation by paying royalty to their employment units, and some rich citizens make investments to



operate road transportation and real estates projects.

These signs of economic improvement can also be confirmed by data. As shown in Table 1, both the UN and the BOK numbers reveal a slight growth in North Korea's gross and per-capita GDP in the first two years of the Kim Jong Un era (the decrease in the UN data for 2013 is said to be an error due to the lack of information). For a brief summary by sector, as shown in Table 2, agriculture and forestry carried on the upward trend in the late Kim Jong Il years, increasing by 3.9% and 1.9% respectively in 2012 and 2013; mining and industries, electricity, gas, and water ended the previous decrease and recorded a minor positive increase; construction came out as the only sector with negative growth; and services maintained the average growth rate in recent years. North Korea's foreign trade also kept at a relatively high level (see Table 3). If we include its trade with the ROK, the total trade volume of North Korea in 2012 and 2013 was respectively US\$8.78 and 8.48 billion. The total number dropped slightly due to the unfavorable peninsular North-South relations, but the trade deficit also went down from US\$884 to US\$806 million.<sup>18</sup>

**Table 1 GDP of North Korea, 2000-2013**

Unit: (gross) billion US dollars, (per-capita) US dollars

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BOK	G	16.7	15.7	17.0	18.4	20.7	24.1	25.5	26.6	24.7	22.3	25.8	29.1	29.5	30.7
	P.C.	737	684	737	790	885	1025	1075	1117	1032	927	1068	1196	1207	1251
UN	G	10.6	11.0	10.9	11.1	11.2	13.0	13.8	14.4	13.3	12.0	14.0	15.7	15.9	15.5
	P.C.	462	476	468	471	473	548	575	597	551	494	570	638	643	621

Source: UN (<http://unstats.un.org/unsd/nationalaccount>), BOK (<http://ecos.bok.or.kr>), quoted in 남진욱, “2014 년 북한경제동향 관련 통계자료”, <KDI 북한경제리뷰>2015 년 1 월호, p. 66.

**Table 2 Growth Rate of North Korean GDP, 2000-2013**

Unit: %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	0.4	3.8	1.2	1.8	2.1	3.8	-1.0	-1.2	3.1	-0.9	-0.5	0.8	1.3	1.1
Agriculture/Forestry	-5.1	7.3	4.2	1.7	4.1	5.3	-2.6	-9.1	8.0	-1.0	-2.1	5.3	3.9	1.9
Mining/Industries	2.7	3.7	-2.2	2.9	1.0	4.3	0.9	1.0	2.5	-2.3	-0.3	-1.4	1.3	1.5
Electricity/Gas/Water	3.1	3.9	-4.0	4.3	4.7	4.4	2.7	4.8	6.0	0.0	-0.8	-4.7	1.6	2.3
Construction	13.5	7.1	10.5	2.1	0.4	6.1	-11.5	-1.5	1.1	0.8	0.3	3.9	-1.6	-1.0
Service	1.1	-0.3	-0.2	0.6	1.3	1.3	1.1	1.7	0.7	0.1	0.2	0.3	0.1	0.3

Source: BOK (<http://ecos.bok.or.kr>), quoted in 남진욱, “2014 년 북한경제동향 관련 통계 자료”, p. 67.

Note: Numbers in this table are calculated based on the BOK data in KRW; the growth rate appears even higher if converted into US dollars as in Table 1.

**Table 3 Trade Volume of North Korea, 2000-2013**

Unit: million US dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Export	556	650	735	777	1020	998	947	919	1130	1063	1513	2788	2880	3220
Import	1414	1620	1525	1614	1837	2003	2049	2022	2686	2351	2660	3528	3931	4120
Total	1969	2270	2260	1837	2857	3002	2996	2941	3816	3414	4174	6316	6811	7340

Source: KOTRA, < 북한무역동향 > 2000-2014, quoted in Lin Jinshu and Jin Meihua, “Jin Zheng’en zhizheng hou chaoxian duiwai maoyi jiqi zhengce bianhua” (North Korea’s Foreign Trade and Policy Changes after Kim Jong Un’s Assumption of Leadership), *Yanbian Daxue Xuebao: Shehui Kexue Ban* (Journal of Yanbian University: Social Sciences), Vol. 1, 2015, p. 43.

International scholars used to have different views about the general situation of the North Korean economy under Kim Jong Un, yet the majority of them now tends to agree that there are indeed signs of improvement. There are still debates, however, about the exact degree of and policy implications of such improvements, about which I have three brief comments. First, the actual situation of North Korea’s economic improvement should be somewhere between the impressions that observers had and statistics data obtained. Observation shows the latest changes in the North Korean economy, in particular market circulation that is partly taking over the role of the ration system with regard to resource reallocation. Such changes are generally more radical and visible than other aspects of the economy, thus usually leading to over-estimated conclusion. On the other hand, the statistical data tend to under-evaluate the overall development of the North Korean economy because the institutions that published them have only limited capability in information collection and interpretation in North Korea. For instance, Table 2 shows that the construction sector recorded negative result in 2012-2013. Considering the fact that many new public facilities, factories, and apartments were built in North Korea during this period, it is highly possible that the actual growth rate of the section is not truthfully represented in the

data.

Secondly, in a comparison of the situation in different sectors, Kim Jong Un's economic policies seem to have paid off better in agriculture than in the mining and industrial sectors, and domestic production seems to have achieved greater improvements than international economic cooperation. As shown in Table 2, the growth rate of agriculture is much higher than that of other sectors, and the Food and Agriculture Organization (FAO) appears quite optimistic when it estimated North Korea's grain production in 2014, predicting that the gap between grain demand and supply would shrink to 340,000 tons.<sup>19</sup> Compared to agriculture, the mining and industries recorded lower growth rates. The greater diversity and abundance of home-made light industrial products, which were reportedly observed in marketplaces and expositions, might have been produced at the cost of partial reduction of state planned or designated production, which to some extent compromised the overall growth of industrial production. As for international economic cooperation, the Kim Jong Un government has made frequent efforts to attract foreign investment, but so far very few success stories have been reported in the media.

Thirdly, North Korea's recent economic improvement cannot be fully attributed to Kim Jong Un's economic policy, but the policy is undeniably one of the important factors that played a role in making the economy better. There are still very different opinions about whether a causal relationship exists between the economic policy and economic improvement of North Korea, with people of skeptical views arguing about attributes other than governmental policies, such as good weather, domestic agencies of local economic players, and so forth. This author believes that governmental policies have undoubtedly played a positive role in improving North Korea's economic institutional environment by releasing encouraging signals, incentivizing economic players, and relieving some existing institutional constraints, although it still remains to be revealed in more details the contribution ratio of policies as compared to other factors and the mechanisms through which the economic results actually are produced.

### 3. BETWEEN POLICIES AND ECONOMIC PERFORMANCE: A POLITICAL ECONOMIC ANALYSIS

Based on the above review of North Korea's economic policies and performance in the past three to four years, this section proceeds to examine the process of the making and implementation of economic policies under the Kim Jong Un government, in order to better understand the political-economic mechanisms underlying the North Korean economy.

#### **3.1 Economic Policy Making: the Policy Makers and Objectives**

As the key actor in North Korea's economic policy making, Kim Jong Un is demonstrating a "double pursuits" strategy regarding economic affairs, which is to pursue economic development while maintain the existing political-economic system of the DPRK. Kim Jong Un began to show strong interest in economic development even before assuming top leadership as he took part in many on-site guidance visits. He reportedly ordered economic officials to plan some economic improvement measures on his father's funeral day, and emphasized the importance of economic development and improving people's livelihood in a number of speeches and New Year's Day addresses, which received wide international media coverage. As a young leader who had overseas study experience and had been long expected as the successor to his father, Kim Jong Un's willingness to develop economy appears strong and stable, and not easily subject to change judged by either his own governing idea or the pressure of economic difficulties or market reality. That does not, however, mean that Kim Jong Un would be willing to compromise on the existing political-economic system, as he makes strong emphasis on the importance of adhering to the leadership of WKP whenever he mentioned the Measures, and remains highly cautious about reform and opening up. This kind of "double pursuits" is not new

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The "double pursuits" strategy is to develop economy while maintain the existing political-economic system of DPRK.

to the North Korean leadership, as Kim Jong Il also tried to find a third way differentiating from the radical transition model the Soviet states took after the collapse of the Soviet Union, and the Chinese-style incremental transformation.<sup>20</sup> Kim Jong Un has so far shown greater flexibility than his father with regard to power decentralization and the interests transfer, and the tolerance to market factors, but the future pace and direction of North Korea's economic improvement still largely depends on whether he can find the right solution to serve his "double pursuits" as well as the country's economic reality in a satisfactory way.

Economic apparatus and personnel are now playing an increasing role in North Korean economic policy making. Kim Jong Un decided to concentrate economic power into the Cabinet again after he assumed top leadership and set up a Preparatory Team of Economic Management Improvement to take charge of developing the Measures.<sup>21</sup> The General Bureau of Economic Development was renamed as the National Committee of Economic Development in October 2013, before it merged into the Ministry of Trade and combined with the Committee on Joint Venture and Investment to become the Ministry of External Economic Affairs.<sup>22</sup> As for personnel, Pak Pong-ju was appointed Premier the day after the announcement of the *Byongjin* line<sup>23</sup> and allowed to take charge of policy development again after his leading the previous economic adjustment in the Kim Jong Il era. Young generation elites are also reportedly gaining more influence in economic institutions and playing an active role in policy development, as they are more open to the experience of foreign countries and having a keen interest in upward mobility within the system.<sup>24</sup> In addition, a few international experts are also invited to attend policy seminars in Pyongyang and provide consultative opinions to the North Korean government regarding SEZs and other external economic affairs.<sup>25</sup>

The economic policies actually adopted in the past three to four years are generally development-oriented policies aiming to promote domestic production and FDI, which well serves Kim Jong Un's "double pursuits." Under this policy framework, the North Korean government also came up with a series of supporting measures, such as establishing "direct material exchanges" for

companies to trade raw materials, permitting enterprises to executive cash settlements, and allowing companies without a foreign exchange quota to open foreign exchange accounts, among others.<sup>26</sup> These supporting measures not only facilitate the linkage between new economic policies with the existing system, but also help accommodate emerging market factors into the domain of state control and regulation. It is worth noting that these supporting measures are an important feature of Kim Jong Un's economic improvement policies as compared to what his father did: the lack of supporting measures in the process of decentralization and vitalization of market eventually led to tightened policy to keep the economy on track. Because of these supporting measures, the current economic adjustment is more likely to last and keep a good order, and thus possibly preventing a sudden reversal and drastic loss of control over economy.

### **3.2 Policy Implementation: Practical Challenges**

The implementation of the Measures experienced some partial delays because of the resistance of some vested interest groups within the party and military system who control some economic entities, and the management of some companies who are either risk avoiders or facing with practical difficulties. The Measures was first internally released on June 28, 2012. Since then it has been repeatedly put forward and currently still in experimental stage. This fact can confirm to some extent that its implementation encountered resistance. According to South Korean sources, the North Korean government at first planned for the nationwide implementation of the Measures starting on October 1, 2012, but had to accept delays in the process of internal policy briefings, on-site investigations and pilot operations. The reasons for that include outdated equipment, raw material shortage, and the lack of other infrastructure or soft environment. Experimentation of the Measures did expand only after the announcement of the *Byongjin* line, but it has not yet spread out as widely as originally expected.<sup>27</sup>

Regarding international economic cooperation, North Korea's efforts to attract FDI are also encountering difficulties. International investors are still concerned about some perceived



policy ambiguities regarding new legal provisions on SEZs,<sup>28</sup> and it seems that the government's determination and degree of opening up are to be further observed. On the other hand, the North Korean government took different standings on the issue of denuclearization with that of the international community, and that also constitutes a key obstacle for a major breakthrough in attracting foreign investment. Nowadays, the North Korea is under UN sanctions because of its third nuclear test, and the relationship with its biggest trade partners like China and South Korea is quite cool, so it is hard to avoid the setbacks in obtaining investments from international private sector. There have been attempts on the North Korean side to improve its relations with Japan and Russia, but it has turned out to be inadequate for satisfying its current demand for FDI.

#### 4. CONCLUDING REMARKS: PROSPECTS OF DPRK ECONOMY

Having made above review and analysis, the author would like to make three points about the economy prospects of the Democratic People's Republic of Korea. Firstly, in the short term, North Korea is going to maintain the current development-oriented economic policies, unless some major external incidents take place. Kim Jong Un himself is still highly devoted to the simultaneous pursuit to consolidate both the political status quo and economic growth, whereas the economic policy-making apparatus and personnel are functioning and expanding at a steady pace. It is most likely that the Kim Jong Un government will follow the current policy direction and proceed to develop more supporting measures to solve the existing institutional obstacles and facilitate further advancement in policy implementation.

Secondly, North Korea should be able to maintain minor growth in the short run based on its domestic potentials. For one thing, the Measures will still have room to provide domestic players with formerly unavailable incentives and to optimize resource distribution. The government investments in infrastructure, factories renovation and equipment upgrade will also continue to affect domestic production positively. In addition, North

Korea's main exports, namely, iron ore and anthracite, experienced international price plummet, and China's import demand became weaker because of higher environmental standards.<sup>29</sup> The situation builds up pressure for earning foreign exchange through export, and makes it possible to transfer more mineral-resource products for domestic usage. Furthermore, if the North Korean government can come up with more supporting measures that well solve the problems hindering policy implementation or can go even beyond the current "decentralizing power and releasing profits" policy to make further institutional changes, it would surely help add more momentum to the growth of domestic production.

From the medium- and long-term perspective, however, it would be hard for North Korea to sustain the current pace of economic growth without some visible achievements in improving its foreign relations and thus attracting foreign resources. Considering the relatively small scale and weak foundation of the national economy of the DPRK, the room for domestically driven improvement will be limited if no inflow of external resources can be found to solve practical problems in materials, equipment, labor, technology, and so forth. In fact, there are already a few media reports stating that the North Korean government is facing difficulties in foreign exchange reserves and investment capability, although the authenticity of the reports remains to be confirmed. In any case, the ultimate solution for North Korea to overcome the bottleneck of economic growth would be to give serious consideration to the international community's concerns and demands about the nuclear weapons program issue and make sincere efforts in negotiation and reasonable concession, in particular, to improve the relations with China and the Republic of Korea, its two major economic partners. Breakthroughs in foreign relations will not only help the DPRK to overcome its present economic bottleneck, but can also ultimately serve Kim Jong Un's "double pursuits" as well as benefits for the North Korean people.

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The ultimate way out for the DPRK is to make sincere negotiations and reasonable compromise.

1 See 이석, “총론: 2014 년 북한경제 평가와 2015 년 전망,” <KDI 북한경제리뷰>, 2015 년 1 월호, pp. 3-15.

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