



# The Creation of the North Korean Market System

**DailyNK**

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## TABLE OF CONTENTS

<b>4</b>	<b>Foreword by Stephan Haggard</b>
<b>10</b>	<b>Executive Summary</b>
<b>14</b>	<b>Project Structure</b>
<b>21</b>	<b>Report: North Korean Markets Today</b>
<b>25</b>	<b>Consumer Goods Market</b>
<b>36</b>	<b>Services Market</b>
<b>49</b>	<b>Housing Market</b>
<b>56</b>	<b>Financial and Foreign Exchange Markets</b>
<b>70</b>	<b>Labor Market</b>
<b>77</b>	<b>Provincial Breakdown of General Markets and Stalls in North Korea</b>

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### The Marketization of North Korea: How Far Along?

Stephan Haggard

For some time, analysts of the North Korean economy have been aware of a process that Marcus Noland and I have called “marketization from below:” the spontaneous development of market activities driven not by government reforms but by private initiative.<sup>1</sup> The fraying socialist economy of the famine era forced households and work units into survival mode, pressing them into market activities less from opportunity than necessity. Subsequent reforms in 2002 appeared to push the process along. But the onset of the nuclear crisis in 2002 – just as these reforms were launched – generated a more hesitant approach. With Kim Jong Il’s stroke in August of 2008 and the focus on the succession process, the regime appeared even more concerned about independent sources of social power. With the disastrous currency conversion of 2009, the reform process hit its nadir. Indeed, the currency conversion could be interpreted as an attack on traders and their cash holdings.

Skepticism about the extent of marketization continued with the ascent of Kim Jong Un, in part because of ongoing confusion between top-down reform processes led by the government and what was actually happening on the ground. In the early years of the new regime, expectations were high that a Kim from a different generation and with some overseas experience might pursue a different policy course, experimenting more openly with the market. Some experimentation did in fact occur, in both agriculture and the management of the state-owned enterprises. But large-scale reform efforts failed to materialize and the regime appeared to focus its attention on the country’s nuclear and missile programs. In the spring of 2013, the government rolled out the so-called *byungjin* line, promising simultaneous pursuit of nuclear weapons and economic development. Yet most analysts in the United States overemphasized the weapons side of this two-pronged strategy, arguing that such an

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<sup>1</sup> Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid and Reform* (New York: Columbia University Press, 2007).

approach was a contradiction in terms and likely impossible. How could a small isolated country such as North Korea develop without foreign capital and trade? What foreign investors and traders would possibly show an interest in an increasingly-sanctioned nuclear North Korea? Recurrent crises would even undermine confidence in the domestic market.

Yet the blinders are increasingly off as more and more reporting and analytic work has identified the extent of marketization in North Korea itself and the complex and innovative strategies the regime has used to get around sanctions and other external constraints.<sup>2</sup> What has been overlooked is the fact that the central government can advance the course of marketization in the country not only through policy reform along the Chinese model but through sheer acquiescence: simply allowing private actors to make money.

In addition, our very conception of the role of the state in these processes is changing. It was once thought that market actors were in some sense outside the state and even in opposition to it because of the illicit nature of private business in the state-socialist economy. We now understand that marketization is driven in part by state actors, although not necessarily in their policy role. Rather, local governments, state-owned enterprises, other work units and even the military are actively engaged in this marketization process. Even the security apparatus is complicit through bribery. The results are complex hybrid property forms that combine elements of state and private ownership.

We are also developing a more nuanced conception of how North Korea interacts with the world economy. North Korea does in fact have a powerful foreign backer in the form of China. Despite China's selective support of multilateral sanctions, those sanctions have had surprisingly little effect on the burgeoning commercial trade that has fed North Korea's wide ranging marketization process. Chinese firms are not only investing and trading with North Korea, but also playing complex broker

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<sup>2</sup> Andrei Lankov, "The Resurgence of a Market Economy in North Korea," Carnegie Moscow Center, February 3, 2016 at <http://carnegie.ru/2016/02/03/resurgence-of-market-economy-in-north-korea/ithc>; Kim Suk-Jin and Yang Moon-Soo, *The Growth of the Informal Economy* (Seoul: KINU, 2016); Justin Hastings, *North Korea: A Most Enterprising Country* (Ithaca: Cornell University Press, 2016).

roles that connect the North Korean economy to the world economy in surprising ways.<sup>3</sup>

For some time, Daily NK has been an important voice in tracking this marketization process through its reporting on the country, grounded in interviews not only with refugees but also market participants. In this extraordinary document, Daily NK staff worked with 32 informants from North Korea, hailing from all of the country's provinces as well as Pyongyang, to report on the evolution of the market in their communities. The result is a wealth of information on the origins of the marketization process, its current extent – including the size of the General Markets – and what the implications are for thinking about the North Korean political economy.

The first thing to emerge from this story is the size of the consumer goods market, measured in the first instance by the dramatic growth of the so-called General Markets. These markets have had a long and checkered history, but were fundamentally constrained in scope up through the 2009 currency reform. Initially fed primarily by local agricultural production, there are currently nearly 400 of these markets nationwide selling an array of consumer goods from fresh produce to imported cosmetics. The report calculates that the markets may have as many as 600,000 stalls – about 1,500 per market-- directly engaging as much as a quarter of the non-military, non-farm population. This dramatic expansion could not have occurred without official support, and the report shows how the government has both provided physical infrastructure for the growth of these markets and simultaneously benefitted from its capacity to tax transactions.

But the expansion of markets in this quite literal sense does not do justice to the scope of the market nor the variety of actors that have fed it over time. Running through the report is a deep history of the marketization process that goes well beyond the famine-induced marketization of the 1990s. Japanese returnees played an early role in introducing foreign products into the country. The report places particular emphasis on the role of Chinese Koreans and overseas Chinese, who played a seminal role in markets well before the 1990s. So did innovations such as the creation of the so-called August 3 enterprises in the mid-1980s that allowed state-owned enterprise marketing of product directly to

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<sup>3</sup> John Park and Jim Walsh, *Stopping North Korea Inc.: Sanctions Effectiveness and Unintended Consequences* (Cambridge: MIT Security Studies Program, 2016); Center for Advanced Defense Studies, *In China's Shadow: Exposing North Korea's Overseas Networks* (Washington: Center for Advanced Defense Studies, 2016).

customers outside the constraints of the plan. These types of innovations have continued in recent years, for example by allowing Foreign Trade Companies (FTCs) to open sales points – effectively branches – in the General Markets.

The story of state retail outlets shows in microcosm how our standard distinctions between state and market (public and private) ownership have become less and less appropriate for understanding what is transpiring in the country. During the Arduous March, state retail outlets that specialized in foodstuffs and other consumer products fell on hard times because of the collapse of supply from the state-owned enterprise sector and the decline in foreign trade. But these institutions simply turned to investors with cash holdings and independent sources of supply to replace dwindling inventories from the state sector. Large consignments of products from wholesalers – extended on credit – allowed the state retail outlets to survive through profit sharing plans post-sale. Moreover, they faced an expanding consumer market capable of purchasing durables. A number of nominally state-owned retail outlets now sell goods unavailable in the General Markets, including household appliances like rice cookers and refrigerators, computers, furniture and even construction materials.

Much of the discourse about the market in North Korea initially focused on physical markets: both the General Markets and the informal *jangmadang* that operate at the fringes of direct state control and augment their size substantially, perhaps by as much as a fourth. One of the more important contributions of this report is to underline the growth of different types of markets that go well beyond consumer goods, including markets in services, real estate, finance and labor. What these markets suggest is that the process of marketization has moved from the small, retail or household sector to encompass more complex tiered market operations that involve substantial fixed investment, wholesale operators, informal protection of property rights and significant accumulation of capital.

Three examples make the point. In a rapidly marketizing economy, transport is key to move goods to market. Historically, freight transport in North Korea relied on an increasingly decrepit railway system. In the last decade, a variety of new transport services have sprung up, including from military units using their vehicles for commercial purposes, an intercity bus line that carries not only people but consigned goods, and service car and taxi operations.



Real estate provides an even more intriguing example, because of the capital costs of construction and complex issues of property rights. The state continues to be deeply involved in the real estate market, and the gleaming new construction in Pyongyang is in part driven by the building of apartments that are handed out to loyalists, including most recently scientists and others working in the weapons industry. Yet outside of the state sector, complex alliances of wealthy individuals are conspiring with officials to construct and refurbish housing and apartments that can effectively be leased precisely to the newly-emergent social class desirous of “location, location, location.” The fact that both builders and buyers are adequately confident to make such investments and purchases says that property rights problems that are often assumed to be a barrier to growth have effectively been solved.

Probably the greatest mysteries surround the financial market. There is clearly an active market for foreign exchange, but the report finds that retail moneylending to households is less common than we might think. We still do not fully understand how those with more substantial assets hold them, but money seems to find its way pretty quickly into fixed investments and inventories.

Many other insights litter the pages of this report, including the central role that women have played in this process as the effective breadwinners. But what are the broader implications of the picture painted here for outsiders?

First, the assessments of North Korean growth based on physical output measures such as those done by the Bank of Korea are probably underestimating growth. The larger the share of the economy operating outside the SOE sector, the less accurate these estimates are likely to be. One of the more interesting findings of the report is that the emergent market economy may actually be revitalizing the state-owned enterprise sector, but in altogether different activities. The sideline activities appear in many cases to have dwarfed the core businesses as managers and their funding squads exploit real estate and other physical assets in new ways.

Second, the political result is that the regime probably sees the strategic choice of the *byungjin* line as a success, not a failure or contradiction in terms. If the economy is growing more rapidly than we think, then it means that the welfare of North Koreans – or some of them – is improving in a way which would buttress rather than undermine support for the regime. Marketization is often assumed to be at



war with authoritarian rule, but this hopeful expectation might be wrong: the rising incomes brought in by the market could contribute to authoritarian resilience.

Third, and of more possible concern for the leadership, the increase in marketization is almost certainly contributing to much more pronounced inequality and corruption. Will these developments breed fundamental resentment or not? Those who are altogether outside the market circle or at its fringes are marginalized in any case but may still be seeing an improvement in their life even as income disparities widen. Could turf battles among the political elite and economic elite generate friction going forward? It is not impossible, but to date we have seen little evidence of instability coming either from below or within the elite.

A fourth set of conclusions concern the external sector. The entire system does appear to be dependent on the link with China, which has provided resources – and foreign exchange – through foreign direct investment and a variety of goods through trade. This leaves the economy vulnerable to both a slowdown in Chinese growth and possible secondary sanctions. But the dynamism of the domestic economy suggests some resilience, a cushion, against such eventualities. As a result, the country's vulnerability should not be overstated. It would take very concerted action by China or against Chinese companies to put a serious dent in China-DPRK trade. Will the Trump administration pick this fight?

Our priors are slow to change, but the image of an isolated, failing North Korea needs revision. The system has many vulnerabilities, and in fact it may even be more vulnerable to external pressures as trade has expanded. But the findings of this report – unfortunately – suggest the possibility that the regime is quite resilient. Even if mistaken, this more self-confident self-perception is likely to drive Pyongyang's behavior going forward.

# Final Report on the Creation of the North Korean Market System

## Daily NK

In January 2012, the eyes of the world turned toward North Korea as Kim Jong Un took control of the country from his father. Most expert observers anticipated that the Democratic People's Republic of Korea (DPRK), as it is formally known, would be thrown into disarray because of Kim Jong Un's personal limitations – youth, inexperience, and the added embarrassment of being the third generation of the Kim family to run the country. There were even fears that the young and supposedly impetuous Kim might provoke war on the Korean Peninsula.

However, Daily NK did not concur. We forecast instead that the system would stabilize under Kim Jong Un and remain so for the foreseeable future. Systematic monitoring of North Korea since 2004 indicated to us that Kim Jong Il had been successful at maintaining a tight system of societal control. Moreover, it was clear that the project to promote Kim Jong Un as successor began in or before 2007. Hence, by the time Kim did succeed his father on December 17, 2011, North Koreans were already acquainted with their new leader, and he with them. In North Korea, the leadership maintains absolute control, and four years is not a short period of time. Additionally, Kim Jong Un's principal teacher was Kim Jong Il himself, and the veteran dictator knew better than anyone else how to put in place a successor – having done so four decades earlier, successfully maneuvering to succeed his father. Presupposing that Kim Jong Un had the requisite interest in taking power, four years would have been long enough.

Over and above all of this, the decisive basis for Daily NK's position was the nature of the North Korean system itself. We tend to mistakenly believe that while democracy has many faces, dictatorship has only one. But this is not so. The dictatorships of the 20<sup>th</sup> century were all different; because dictators seek to monopolize the distribution of resources, regime evolution is primarily contingent

upon the ability and desire of the dictator. Ergo, North Korea's version of dictatorial politics evolved in accordance with the will of the dictator. Kim Jong Il handed over a system to his son that had changed greatly since he inherited it in July 1994, and the system that Kim Jong Un presides over is different once again. Today, North Korea receives a steady stream of Chinese aid and assistance; it has escaped the dire poverty of the 1990s, and officials have decisively abandoned the idea of transforming the political system.

We focus here on marketization as symbol of these changes. North Korean marketization, which began in the latter half of the 1990s, is often interpreted as a wholly grassroots phenomenon. This is not the case. In each period since the beginning of the marketization process, government instruments have been used to further develop the marketized economy. The North Korean authorities have controlled marketization and allowed it to advance only within prescribed limits, which have themselves changed over time. Marketization has developed within the limits that the North Korean government deems acceptable at any given moment.

We decided to investigate the size of General Markets in North Korea and the current state of marketization. Our aim was to determine whether our picture of the system is accurate. It took a year longer than we expected, but we hereby present statistics that estimate with unprecedented accuracy the scale of market processes in North Korea today. North Korea has a population of just 25 million, but there are at least 387 officially sanctioned markets in the country, and a minimum of 600,000 people are legally permitted to trade from stalls within these marketplaces. It is also believed that, when added to those who trade in illegal locations surrounding official marketplaces, the number of retail traders deriving their livelihoods from market activities reaches one million. Because most traders support families, we can say that approximately four million North Koreans survive on incomes from market activities. Then there are the transport and service industries that facilitate commerce, and the many mid-ranking officials who supplement meager incomes from the bribes given by market participants. Our survey indicates that the number of North Koreans who make a living connected in one way or another to markets is greater than the number who subsist through centrally planned agriculture or functioning state industries. But even these latter groups are not isolated from the marketization phenomenon; they too have been heavily influenced by markets.

Marketization has reached a point where it cannot be reversed. We conclude that the three core constituents of Kim Jong Un's North Korea are the market system, a functioning nuclear deterrence capability, and the economic influence of China.

This news presents us with a conundrum. Policy options to deal with the North Korean nuclear program and how to influence China vis-à-vis North Korea have been debated at length, but little if any time has been devoted to debating policy options that pursue change via the power of the market. This is most unfortunate. 50,000 tons of food aid would once have been sufficient to buy dialogue and cooperation from Kim Jong Il, but things are different now. The North Korean government extracts rents from General Market merchants equating to more than 70,000 tons of rice each and every year. This is no longer a destitute dictatorship willing to accept help from anyone willing to give it. North Korea can no longer be compared to a poor sub-Saharan African country. The number of illegal economic North Korean migrants in China is scarcely 10 percent of what it once was.

As we conducted this survey, we encountered many challenges and did not achieve all that we had hoped for. Given the research environment, there are bound to be errors in the findings and statistics presented here. Nevertheless, these findings present a new paradigm for understanding North Korean marketization. North Korean society today is changing in ways that are beneficial for the Kim Jong Un regime. As rates of absolute poverty and malnourishment have declined, so too have overall living standards risen, and dissatisfaction with the government dropped.

A new approach to the problem of poverty is overdue. We require a strategy that induces reform and opening in the North rather than disaster relief. While nuclear weapons and human rights abuses remain important issues that need to be addressed, we must understand that the socio-economic reality underpinning them has radically altered. Improvements in the North Korean economic situation resulting primarily from marketization mean that, for the time being at least, Kim Jong Un feels secure in his position.

Strategies for North Korean democratization are closely linked to the stability of the Kim regime. Nothing is certain, but our research findings indicate that in the medium-to-long term, the North Korean government is likely to maintain its grip on power. The functioning market system makes

direct articulation of opposition to Kim Jong Un comparatively unusual. It is now far less likely that a popular uprising, a revolt amongst officials or a power struggle at the higher echelons of power will break out. The North Korean economy is open to China, and this has lessened the need for internal economic reform.

That said, changes in the way North Koreans see the world arguably remain a key variable determining the future of the country. The process of marketization began more than a decade ago, and the idea of “equivalent exchange” has taken root in the minds of North Korean people. Ultimately, North Korea’s future no longer lies in the hands of Kim Jong Un. It is in the hands of the North Korean people.

### Training Citizen Journalists

Daily NK taught the core tenets of journalism to legal North Korean visitors to China in three cities: Dandong, Shenyang and Yanji. We then facilitated their return to North Korea, and instructed them to obtain information about the system of General Markets, which we asked them to convey back to contacts in China. Information obtained in this way was used to prepare this report. There were initially 18 project participants; by the end there were 32.

### Recruitment

In the 2000s, the cities of Yanji (the capital of the Yanbian Korean Autonomous Prefecture) and Dandong (on the Yalu River opposite the major North Korean border city of Sinuiju) received a similar number of North Korean visitors. But this is no longer the case. Since Kim Jong Un rose to power, more than 2/3 of North Koreans entering China have done so via the border crossing at Dandong.

The number of North Koreans legally visiting China to meet relatives or for foreign trade has risen markedly. As obtaining permission from the North Korean government to visit China has grown easier, North Koreans have begun to gather in Dandong. Of all the Chinese cities on the PRC-DPRK border, Dandong has the largest population of North Korean expats, and it has the biggest and best developed North Korean expat community.<sup>4</sup> This trend is exacerbated by the declining ethnic Korean population in Yanji and the wider Yanbian region. There are even specific hotels in Dandong where North Koreans gather. Although some participants were recruited through existing connections, most were introduced to Daily NK by people trading with North Koreans or running

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<sup>4</sup> Of all the border cities, Dandong has by far the fastest and most convenient travel connections to major cities in China. It is connected by high-speed rail to Shenyang (1hr 20mins) and from there to the major cities of the Three Northeastern Provinces, notably Changchun (2hrs 57mins) and Harbin (4hrs), and the Chinese interior, such as Tianjin (5hrs 20mins) and Beijing (6hrs 20mins).

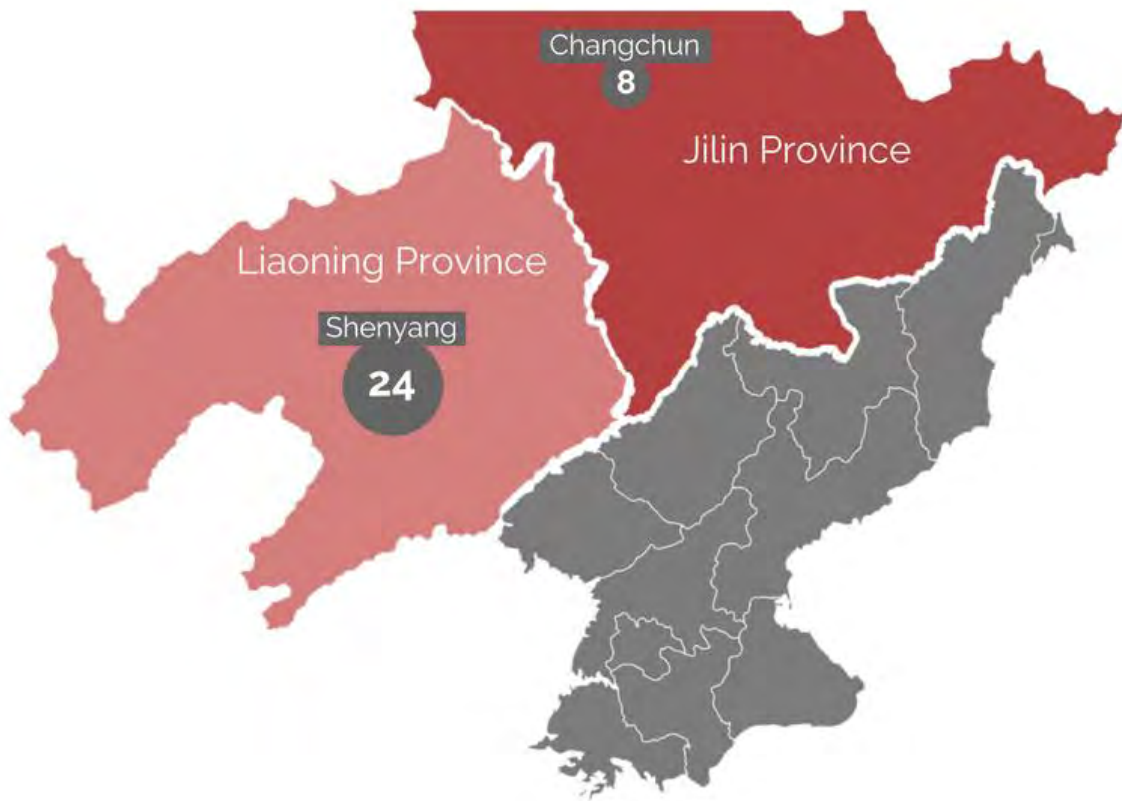
restaurants/accommodation frequented by North Koreans.



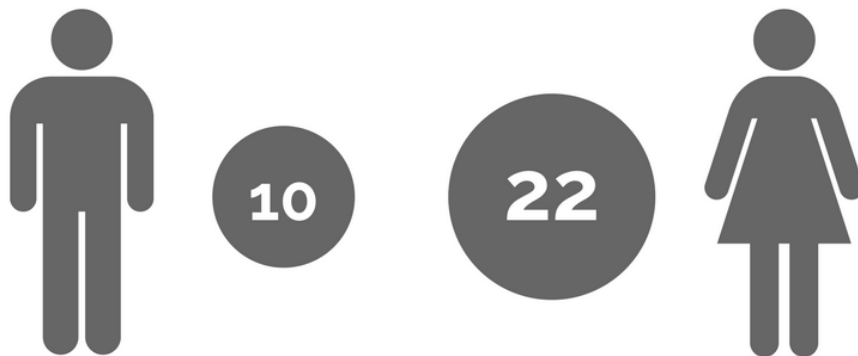
## Instruction

Daily NK rented apartments in Shenyang and Changchun for use as classrooms. Participants stayed onsite for 1-3 weeks. They were given a 100 USD allowance for living expenses, and were provided with standard household appliances and daily necessities to make their stays as comfortable as possible. When leaving, they were given the funds to enable them to return to North Korea, as well as a single reconditioned Chinese smartphone with which to keep in contact thereafter.





## Gender



Since Kim Jong Un rose to power, the number of North Korean men legally visiting China has risen noticeably. In the 2000s, the majority of those visiting relatives in China were women of retirement age or older. However, the number of North Korean men in their twenties, thirties and forties visiting the country has risen sharply, only because the North Korean government now permits such visits in a way that it previously did not.

Men mainly go to China on business, while women tend to cross the border to visit relatives. A proportion of men go to China on the understanding that they will pay a share of the income generated from their business activities to enterprises inside North Korea. We recruited women because we deemed them more trustworthy, and also more useful for gathering information about North Korea's system of General Markets. Women are the main participants in the North Korean market system.

## Reasons for Visiting China



All the participants shared a common purpose for visiting China: money. While North Korean visitors used to come to China to get money from relatives (as loans or gifts), they increasingly do so to activate networks and make money. North Koreans understand that they cannot just rely on their relatives to provide for them, not least because family relationships have ultimately fallen victim to donor fatigue.

The general trajectory is for an individual to get manual work or work on a production line, earn a lump sum and buy Chinese produce to resell in North Korea. They hope that they can turn a profit by doing so, and many do. Those of an entrepreneurial disposition attempt to persuade rich Chinese people to invest in their business ventures.

The desire to make money meant that many potential participants had no interest in taking part in our project. In the past, our provision of comfortable housing, living allowances and money for the return trip to North Korea was considered worthwhile by participants, but is no longer of much interest. As recently as 2008, 100 USD was sufficient to cover the deposit on a stall in a General

Market (leaving only the daily usage fees to be paid thereafter), but as living standards have improved in the North, 100 USD has become a less meaningful sum – no longer enough to cover the down payment.

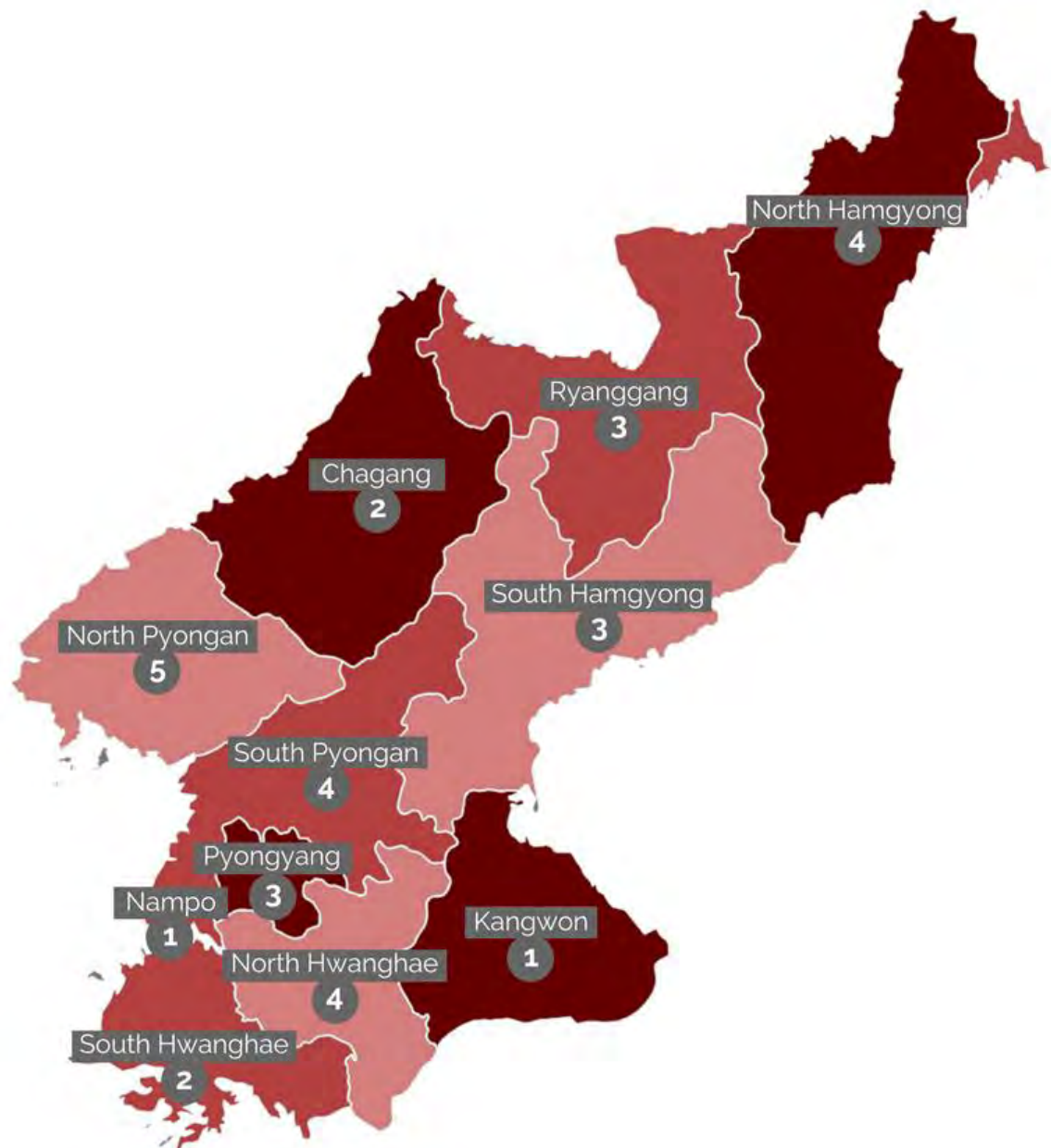
## Age



A wide range of ages were represented, a sign that the North Korean government is not paying close attention to the ages of those who visit China today. Of course, the death of an elderly visitor could result in a sensitive diplomatic issue, so the very old and/or infirm do struggle to obtain permission. However, those in their forties and fifties, as long as they have money to bribe officials, can visit China largely without limitation. In the Kim Jong Il period, the government believed that people in their thirties might abscond while visiting China, and thus strictly controlled access to passports and permits. However, these days there is an active labor export policy, and thus people in their thirties can more easily visit China than in the past.

## Places of Residence

Because there are General Markets all across North Korea, we sought to recruit participants from every part of the country. However, there are still very few visitors to China from the rural, underpopulated Kangwon, Chagang, and South Hwanghae provinces. Most North Korean visitors to China come from Pyongyang, South Pyongan, North Pyongan, and North Hamgyong.



## Second wave of participants

Daily NK originally planned to publish this White Paper in July 2015. As of that date, we had given training to 24 North Koreans. However, only six subsequently kept in contact after returning to North Korea. The majority remained in China earning money, and others returned to North Korea but did not make contact. As a result, by July 2015 we had only been able to assess the circumstances in 27 General Markets.

This left us in the unenviable position of needing to recruit additional participants whilst also waiting for the first generation of participants to make contact. Journalism training continued until April 2016, with the final number of participants totaling 32.

## **Writing the White Paper**

Through the program, Daily NK had the opportunity to conduct in-depth interviews with all 32 participants, and in this way we were able to discuss in detail the social changes that have taken place since Kim Jong Un rose to power. What's more, through information provided by the nine informants who contacted us upon their return to North Korea, we were able to produce estimates of the current scale of the General Market system. The sources and their collaborators worked together to count the number of stalls in the markets listed in the attending graphs. We were able to verify the existence of 387 General Markets, and a total of 612,661 market stalls.

These figures face statistical limitations because they cannot be cross-referenced, but are valuable for what they indicate about the current state of the General Market system and marketization in North Korea more broadly. First, our findings confirm that the General Market system has developed as a direct result of North Korean government policy. Second, we find that up to five million North Koreans, 20 percent of the population, survive directly or indirectly through association with markets inside the country. Third, we conclude that as a result of the development of the General Markets, marketization has reached the point of irreversibility. Fourth, we believe that marketization has raised both living standards and the general knowledge base of North Koreans to an extraordinary degree. These conclusions form the basis of this report.

# North Korean Markets Today

## History of North Korean marketization

To North Koreans, marketization is the antithesis of the bedrock of state socialism, which is the system of planning, allocation and distribution. Marketization does not merely mean the emergence and spread of markets, but also indicates changes in the way North Koreans live. Likewise, it speaks to the fact that the way the North Korean state seeks to control its people has changed. Hence, “marketization” must be seen as the transformation of the social system of the North Korean state.

At the macroeconomic level, marketization refers to an economic form in which prices are set by the market, the price mechanism dictates supply and demand, and resources are allocated in response to information acquired by market actors. At the microeconomic level, consumer, financial, labor, service and real estate markets have developed as separate sub-sections of the emergent market economy. Marketization has exercised a transformative influence on the way North Koreans think and behave.

Marketization began with the collapse of the planned economy. As state distribution of food and consumer goods ceased, many were faced with the impending prospect of starvation. The North Korean government continued to uphold the principles of state socialist economics, meaning that all market activities were initially conducted underground. The state pursued a variety of contradictory policies in the face of this rising underground economy, including control, punishment and tacit acceptance, while suppressing dissent where it arose.

However, with the July 1st Measures of 2002, the state recognized the existence of certain markets and

related practices, and reorganized the institutional and legal order. Accordingly, from 2004, General Markets – legalized consumer markets – emerged across the country. In November 2009, however, Kim Jong Il, apparently believing that continued marketization posed a threat to the sustainability of the North Korean political system, took the extreme step of closing General Markets and implementing a snap currency reform policy. However, the clampdown on market forces was abruptly halted just weeks later in late January in order to forestall rising instability. The government quickly allowed the reopening of the General Markets, and gradually readopted the position of tacit acceptance of marketization as a whole. Indeed, since 2012 the state has actually begun to promote marketization with policies designed to strengthen incentives at the individual and production-unit level.

Hence, North Korean marketization under Kim Jong Un does not just mark a change in the economic system; it is a phenomenon that helps us further understand the thoughts and actions of the North Korean people today. It can be seen as a response of the North Korean state to how the people, their ideas and actions change over time. The North Korean people define these changes as an “irresistible current.” Because market practices and forces are becoming ever more widespread and prevalent, the North Korean government cannot readily reverse course by simply enacting new policies.

## **North Korean marketization today**

Daily NK concludes that there are 387 General Markets in North Korea across 66 urban areas, 147 counties, 66 districts and three larger districts, each of which has a population large enough to support a General Market. In those administrative units with high population densities, there are 2-3 General Markets. North Korea has an estimated population of 24,851,627<sup>5</sup>, thus there is roughly one General Market for every 64,216 North Korean people.

There are approximately 612,661 stalls across all General Markets, one for every 40 North Koreans. Pyongyang has 4,000 such stalls across Kwanmun, Chilgol, Songsin and Pyongchon markets, among others. Each province has a major General Market: South Pyongan Province has Toksan Farmers

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<sup>5</sup> CIA World Factbook, 2014 (online). See: [https://www.cia.gov/library/publications/the-world-factbook/geos/print/country/countrypdf\\_kn.pdf](https://www.cia.gov/library/publications/the-world-factbook/geos/print/country/countrypdf_kn.pdf). Accessed December 30, 2016.



Market (8,658 stalls), North Pyongan Province has Chaeha Market (5,685), Chagang Province has Huichon Market (2,840), Ryanggang Province has Hyesan Farmers Market (4,092), North Hamgyong Province has Sunam Market (12,098), South Hamgyong Province has Sapo Market (8,692), Kangwon Province has Kalma Market (4,860), South Hwanghae Province has Tonghaeju Market (4,230), and North Hwanghae has Kuchon Market (4,860).

There are also makeshift street markets that do not have fixed locations and whose size can therefore not be verified. However, evidence from sources across the country indicates that makeshift markets near General Markets average 30 percent of the scale of official General Markets. From these numbers, it is thus estimated that around one million people are involved in the market retail sector, most of whom engage in market activities to ensure the survival of their families.<sup>6</sup> The average size of a North Korean household is 4.1, meaning that around four million people survive directly through market activities or the market activities of family members. This represents 15 percent of the population. According to South Korean government statistics, a total of 8.23 million North Koreans either work at collective farms or are family members of collective farm workers. There are also two million family member of North Korean soldiers. Thus, the non-military, non-farm population of North Korea is estimated at around 15 million people, of whom four million survive directly or indirectly through activities linked to the General Market system. This group has been decisive in the North Korean marketization process.

Physically, General Markets are comprised of entrances, signs, walls and fences, markets stalls, toilet facilities, and market management offices. Above the entrance is a sign, and next to the entrance sits the market management office with its staff and a police office with its assignment of officers. Stalls specialize in different kinds of goods, everything from industrial produce to shoes, secondhand clothing to pharmaceuticals, rice to fish, and meat to accessories. Sellers of food have to wear hygienic clothing. Each is also required to wear a service permit indicating name, address, stall number and the type(s) of goods on sale on the right side of the chest (a Kim Il Sung/Kim Jong Il badge is worn on the left side). Management staff at the market management center wear armbands indicating their

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<sup>6</sup> It is customary for children to care for parents in old age, and it is not possible for unmarried adults to obtain state housing. Hence, there are very few single-occupancy households in North Korea.

position.

Many General Markets lack mains electric lighting and water, and most have very limited heating or insulation. Only General Markets in large cities are connected to mains electricity, which allows for refrigeration of foodstuffs, with stallholders paying extra for electricity consumption.

As long as a woman pays her market usage fee to the market management office and taxes on income, she is permitted to trade. Merchants with stalls are required to purchase usage operations permits, and when purchased, a service permit is issued – with merchants required to wear such permits when sitting at their stalls. Each stall has its own number assigned by the market management office. Stalls may be traded between individuals; market management offices do not regulate or otherwise control that trade.

For example, in May 2015 a stall in Hyesan Farmers Market from which industrial goods could be sold could be bought for six million Korean People's Won (KPW). At the time this was the equivalent of one ton of rice. Compared to the average wage of a North Korean worker (5,000 KPW/m), this indeed represents a substantial sum. Market merchants pay 500-1,500 KPW per day in usage fees to market management offices. The fee is determined by the price range of the products each sells. The average is estimated at around 1,000 KPW/day.<sup>7</sup> It is thus estimated that 64 million KPW is collected daily in the form of market usage fees. When public holiday market closures are factored in, a total of 22.4 billion KPW is collected over the course of a year. At market exchange rates, this equals approximately 2.8 million USD, enough to buy 4,400 tons of rice. This is a non-trivial quantity of unearned income going directly to the state.

## **Marketization by sector**

There are five major markets in North Korea today, each of which is growing more and more complex over time. In addition to (1) the market for consumer goods, these are (2) the market for services; (3) the market for real estate; (4) the financial market; and (5) the labor market. Each one impacts state-society relations in a variety of ways.

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<sup>7</sup> Given that today the average price of one kilogram of rice in a General Market is around 5,000 KPW, these fees are relatively minor.

## CONSUMER GOODS MARKET

There are four main types of economic entity in the consumer goods market. The dominant one is general markets. The others are state retail outlets, direct-sales points, and department stores.

### General Markets

General Markets are the largest single provider of consumer goods in North Korea today.<sup>8</sup> They have been around since 2003, when legal restrictions on trade in consumer goods were, to an extent, lifted. The development of the General Market system also stimulated the development of logistics networks, and expanded the scope of financial and labor markets.

In the past, North Korean markets did not develop much beyond exchanges of consumer goods, and until the reforms that created the General Market network were implemented in 2003, the only legal markets were Farmers' Markets. However, since long before the 2003 reforms took effect, North Korea had suffered from chronic shortages of consumer goods, a situation that stimulated the development of unofficial, illegal markets. In the 1990s, with famine (the period known as "the Arduous March" in Korean) and the collapse of the Public Distribution System (PDS), the size and capacity of consumer goods markets expanded dramatically.

The period prior to 1994 is known as the Farmers Market (*Jangmadang*) period. As the state socialist system was established in the 1950s, consumer goods markets largely disappeared in North Korea. Markets survived in the cities as "night markets," and in the countryside "between individuals" (i.e. farmers). The scale was also very small, the number of transactions being small, and the products usually being limited to basic daily necessities and farm produce.

From 1994, with the collapse of the PDS, between one and two million North Koreans starved to death. As a result, state retail outlets also ceased to function, and *Jangmadang* began to proliferate in a

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<sup>8</sup> There also exist department stores, modern, large-scale retail outlets and convenience stores that the North Korean government has permitted to be built with Chinese investment capital.

disorderly fashion. Amidst these developments, Kim Jong Il introduced “Military-first Politics” and began to attempt repairs to the old system. With this began state attempts to regulate the market system. Officials tasked with monitoring and regulating the *Jangmadang*, with market management offices central to this process, were dispatched and began to work onsite at market places. However, in spite of this, with serious consumer goods shortages remaining unresolved, the scale and number of markets continued to increase.

Kim Jong Il’s approval of the General Market Plan in 2003 meant that by the spring of 2004, General Markets were to be found in every city and county in the country. These were the first permanent market places that the country had ever seen – complete with fences, roofs, stalls and designated entrances. At the same time, up until that point, imported consumer goods had been sold at state-operated Foreign Currency Shops, but market reforms led state Foreign Trade Companies (FTCs) to open sales points (branches) in General Markets.

### **State retail outlets**

For many years there were state retail outlets that specialized in foodstuffs, industrial goods, vegetables, pharmaceuticals et al., but the famine meant that many of these outlets were put in financial difficulties. As a result, the number of individuals entering into partnerships with state organizations to sell goods inside state retail outlets increased. Such people are investors who have reliable suppliers and cash holdings. There are also merchants who obtain large consignments of products from wholesalers on credit and sell them in state retail outlets, dividing the profits post-sale, and a large number of nominally state retail outlets that sell goods unavailable in General Markets, including construction materials, and household appliances like rice cookers, computers and freezers that are comparatively expensive. They also sell furniture.

Since 2010, there has also been an increase in state investment in the retail sector in Pyongyang, with the rise of meat and seafood outlets. Although they are state outlets, they do not sell at state-set prices, but rather at market prices. Thus, the state is profiting from the consumer goods market.

There are also a growing number of stalls run by individuals, not by the state itself, State-owned

enterprises (SOE) or other state institutions, with these individuals paying for the use of their stalls. For example, the state gives the right to operate a stall to a factory enterprise, the factory sets up the stall and gives the right to use it to an individual, or sells said right to an individual who then sets up the stall himself/herself. These stalls usually sell food (noodles for instance), but sometimes also sell industrial goods.

### **8.3 People's Consumer Goods Production Movement and direct-sales points**

As the consumer goods situation worsened in the 1980s, the North Korean government created a single direct-sales point for every county/township that would sell 8.3 Products only. A direct-sales point is a retail outlet directly managed by a factory. 8.3 Products are products made from raw materials unused after all goods have been produced in accordance with the command economic plan. These instructions were handed down on August 3rd, 1984 by Kim Jong Il, hence the name. Factories that produced 8.3 Products are known as 8.3 Factories, while workers who work at such factories are known as 8.3 Workers.

On the basis of these instructions, 8.3 Products were sold directly by the factories where they were produced. At times, products brought from China by relatives were sold in such outlets, and helped them to gain market share. In the 2003 General Market Plan, it was decided that these direct-sales points would be further expanded, but they were not able to successfully compete against General Markets in many areas. From the late 2000s, individuals started to take over old state retail outlets, and direct-sales points also got taken over by private capital.

All state factories and institutions are permitted to operate direct-sales points or other kind of outlet of a certain size. SOEs that produce products are also allowed to operate such outlets for the sale of their produce, as well as engage in commercial activities to fulfill their 8.3 Plans. Independent budgetary institutions and cooperatives are permitted to open retail outlets in order to obtain necessary financial resources.

### **Department stores and other large-scale retail outlets**

The market for consumer goods also includes large-scale department stores. While there remain some large stores, like Pyongyang's No. 1 Department Store, that sell at state prices, most large-scale retail outlets sell at market prices. Department stores differ from General Markets and direct-sales points only in the price and type of goods offered; they are essentially the same in all other respects.

That said, the creation of large, modern retail operations requires large investments that are beyond the capacity of most private investors. Thus, foreign capital, in cooperation with the state, or local governments themselves, modernize existing facilities and import goods directly from China for sale; alternatively, they rent space out and subcontract sale to individual merchants.

State-centered, marketized large retail outlets come in several forms. The most typical is the use of Chinese capital or domestic state funds to construct and operate the facility. The Kwangbok Street Commercial Center, completed in 2010, is a typical example of this; akin to a Walmart, it mainly sells products imported from China, along with domestic vegetables, seafood, and alcoholic beverages. While this facility is state-owned and operated, it is not part of the PDS. It is effectively a massive, foreign currency earning retail outlet, and that is how it is run.

## **Principal Actors**

There are seven main actors in the consumer goods market:

### **North Korean overseas Chinese**

Overseas Chinese (*Hwagyo*) are people who were born in China, or the children of those who were. Korean-Chinese (*Joseonjok*) are also Chinese nationals, but being considered part of the Korean nation, if they moved to North Korea they were absorbed into the North Korean population. Overseas Chinese residents of North Korea have a different status from normal North Koreans. Their identity papers indicate that they are "Han [Chinese]." They are thus, as the name implies, Chinese people living in North Korea. They do not serve in the North Korean armed forces, nor are they permitted to join the Korean Workers' Party. They have permanent residency, but do not have the same rights as North Korean citizens. From the Korean War in the 1950s through the Cultural Revolution in the

1960s, a fair number of Chinese people moved to North Korea and settled there. Unless they commit very serious criminal offenses, they are allowed to travel relatively freely between China and North Korea, and buy and bring back Chinese goods and Chinese RMB. As North Korean dependency on China deepened in the 2000s, controls on overseas Chinese became laxer still. Some overseas Chinese took the opportunity to relocate back to China with their families, while others travelled to their northern neighbor on the pretext of visiting relatives in order to bring back much-needed products to sell, beginning a cycle of trade and import, and reaping significant profits.

North Korean officials soon sought to forge special relationships with overseas Chinese so as to take advantage of their privileges. Overseas Chinese were compliant; they needed the help of officials to get passports issued and overcome other immigration hurdles. By way of example, in the 2000s it was with the help of overseas Chinese that the ministries of State Security and People's Security, North Korea's two main security services, were able to install computers in their offices.

As we can see, the overseas Chinese community has played a decisive role in the development of consumer, producer, and capital markets in North Korea, and is still a vital network for the country.

### **Japanese Korean returnees**

With the withdrawal of Chinese forces (that had fought in the Korean War) in 1958, the North Korean government launched a campaign encouraging overseas Koreans in Japan to return home and contribute to the reconstruction of the country. Their principal target arrived in large numbers, and soon played a key role in nurturing the seeds of capitalism in the form of underground markets during the early stage of socialist construction. They brought high-quality Japanese products to the North, which had grave problems with scarcity; this had a significant impact. Living standards were extremely low in the country, such that North Koreans were exposed to a completely new world through returnees, whose watches were worth more than local residents could earn in a decade. The North Korean government recognized the right of the returnees to private property, but by the 2000s relations between Japan and North Korea had soured, the returnees' cash reserves had become exhausted, and their influence on economic development had decreased markedly.



### **Korean-Chinese (*Joseonjok*)**

Whereas Japanese Koreans saw their economic standing decline in the 1990s, from the 2000s Korean-Chinese, the aforementioned *Joseonjok*, became an important supplier of products to the North Korean market. Korean-Chinese living on the Chinese side of the Sino-North Korean border worked with relatives on the North Korean side to begin small-scale trading operations. They would visit relatives on the North Korean side, stay with them for a time, and utilize family networks in-country to buy and sell to North Koreans in the area. From the 1990s, they assembled in officially designated locations to sell Chinese produce to North Koreans, and would go to and from China daily by truck. As a result, Namyang, Hoeryong, Musan, Hyesan and Sinuiju, the major cities on the North Korean side of the border, witnessed the emergence of markets exclusively for Chinese goods and merchants.

### **Farmers**

There are two kinds of farmland in North Korea: (1) collective farms; and (2) tacitly recognized private plots. Private lots have developed in small and medium-sized cities as well as in rural areas. From the 1970s, the North Korean government distributed private plots of 30 pyong<sup>9</sup> to each family on collective farms, and allowed farmers on collective farms to sell the produce thereof in Farmers Markets. These plots became sources of income for farmers, and naturally incentivized them to focus their major energies in that direction. This was a major cause of the marketization of the village economy. Farmers used money generated from selling produce to buy daily necessities, going to local markets to sell and buy directly. With the emergence of General Markets, many of these entrepreneurial individuals became merchants.

In recent years, cultivation of cash crops like chili, garlic, tomatoes and tobacco have become more widespread; in other words, crops are increasingly being grown for sale not merely for subsistence, and with the passage of time the marketization of private farming has become more pronounced. Many have taken to farming products like tobacco, fruit and vegetables as cash crops, while there are also private enterprises turning harvested crops into processed foods like tofu and alcoholic drinks. Livestock farming has also become a way to make money. These trends are indicative of the fact that

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<sup>9</sup> One pyong = 3.3058 m<sup>2</sup>

the economic lives of North Koreans have improved. Items that were previously impossible to get from the state distribution system are now easily obtained, and at prices within the reach of many North Koreans.

### **Middlemen and middle-women**

Smuggling grew along the Sino-North Korean border in the 1990s. Peddlers began to profit from arbitraging price differentials between the borderland and inland markets. These price differences drove many merchants to move to the borderlands. The biggest customers of border market merchants are inland wholesalers.

By utilizing price differentials, a network encompassing Chinese traders on the Chinese side of the border, North Korean borderland traders and “runners” who buy low on the border and sell higher inland has taken shape. As merchants from all over the country have concentrated on the border, a single borderland market for goods, personnel, and even information has developed, and the area has become the principal location for wholesale distribution nationwide. However, with Kim Jong Un’s rise to power, volumes of official cross-border trade have risen and the power of the market middlemen and middle-women has begun to decline. Items can now go directly from China to Pyongyang and other inland regions. The development of scaled up logistics networks within North Korea is an important driver of these developments.

### **Foreign Trade Companies (FTCs)**

The North Korean government’s General Market reforms of 2003 meant that a diverse range of actors were empowered to participate in market activities. This was also the time when FTCs expanded the bounds of the market. Until then, FTC imports had only been sold in Foreign Currency Shops, but following the establishment of General Markets, FTCs were able to sell their products directly.

North Korean FTCs were entirely beholden to the state until well into the 1990s, fulfilling orders on its behalf. However, since 2004, FTCs have been constructing warehouses and stockpiling Chinese products autonomously. Middlemen and entrepreneurs have become involved in these operations, selling many goods across the country through the General Market system. As the FTCs as institutions

have become more active, as foreign currency earning activities have taken off, the availability of products has expanded, and the size of consumer product markets has also expanded.

### **Individual producers**

The development of consumer markets has stimulated productivity. As consumer markets have expanded, the number of people involved in production has also risen. First, “cottage industry” production increased. In the 1990s, food security was the most pressing problem, but everything else was in short supply, too. In response, individuals began to produce all kinds of daily necessities, from toothbrushes and toothpaste to footwear, underwear and much more. There also emerged merchants who specialized in selling these commodities. From the 2000s, individual and SOE production began to merge in the drive for various efficiencies. Shoe factories produce rubber soles, for instance, and assembly of the final shoes is done in homes. Since Kim Jong Un came to power, mechanized production has grown more widespread, with individuals introducing machines and attempting to achieve economies of scale. Of course, because the North Korean state does not recognize private ownership over the means of production, individuals first have to “borrow” the name of a SOE. Mechanized production is dependent upon regular supplies of electrical power; thus, business people seek out SOEs with reliable access to electricity supplies in order to maximize production. Factories have also embraced division of labor to further improve performance.

## **Influence and Government Response**

### **Economic spillover effects**

To the average North Korean person, consumer markets are the means by which food and daily necessities are obtained. The construction of General Markets in various parts of the country meant that it has become easier to enter the marketplace. It is no longer necessary to travel in order to obtain the tools of survival. As the selection of goods available in markets has diversified, the desires of consumers have been satisfied, and expectations have risen naturally in response. With money, one can obtain almost anything. The market system provides a degree of comfort that was unimaginable under the PDS of the Kim Il Sung era.

The development of consumer markets has not merely increased levels of consumption, it has also led to a concomitant rise in private production, from foodstuffs like bread and alcohol in private homes to the cottage industry production of toothbrushes, toothpaste and shoes. Moving up the value chain, there are private companies working with SOEs to produce pharmaceuticals. Furniture is mostly made by individuals, and the market for home renovation projects is expanding. It is not only consumer goods that are made privately, but also capital goods like injection molds and the essential tools of the engineering trade.

The development of consumer markets has also stimulated SOE production. State-run brick factories now distribute their produce primarily through markets, and it is thanks to the existence of wholesale merchants that this is possible. A growing number of SOEs employ existing facilities and workers to produce machines to order, and pay their workers autonomously from the profits they generate. The development of consumer markets has reduced unemployment from its peak in the 1990s.

The development of consumer markets has also spurred the development of markets for factors of production – labor, capital, land, etc. Individual enterprises hire workers, lease land, and borrow funds from the rich in order to expand production and generate profits.

Finally, the development of consumer markets has promoted the development of markets for services. Consumer industries encouraged the emergence of reliable distribution networks, and with this better transport was required. Long-distance bus networks have thus arisen. Though they do not operate under the name of individuals, they are technically run by entrepreneurs who pay state institutions for the right to register in their name. Transport services allow merchants to move relatively easily around the regions. The development of consumer markets has led to an increasing demand for information and communication services – mobile services have spread rapidly as a result of the demand for information.

### **Government response**

With food and consumer goods shortages leading to mass starvation, the North Korean government had no choice but to permit the spread of consumer markets. The supply of consumer goods is a

fundamental problem facing the socialist planned economy. If supply is disrupted, the socialist system effectively ceases to function, and at the time this had the potential to lead to the collapse of the Kim government. Hence, the North Korean government had no choice but to permit the distribution of consumer goods via the market. This can be seen as the gradual collapse of state power over the people due to the state's inability to supply consumer goods. In the 2000s, the Kim Jong Il government tried twice to suppress markets and revive the PDS as a source of consumer goods. Clearly the state was aware of the dangers it faced.

However, since Kim Jong Un came to power, market disrupting or control policies have vanished. At the same time, the state has raised market taxes, and under Kim Jong Un it has sought to co-opt the credit for living standard improvements brought by marketization. These circumstances seem to indicate that consumer goods will continue to foster rapid economic growth in North Korea – at least for the time being.

### **Changing attitudes**

The development of consumer markets resulting from the establishment of General Markets has also had a dramatic impact on how North Koreans see the world. The most important features of this are arguably the emergence of a self-reliant attitude and disappearance of dependence on the ruling Korean Workers' Party and state. Many witnessed deaths firsthand with the collapse of the PDS in the 1990s, and with the establishment of General Markets in the 2000s they also saw the emergence of a nouveau riche.

Marketization has been a relatively welcome development for Kim Jong Un. Indeed, while the early Kim Jong Il era was characterized by mass starvation, the Kim Jong Un era has accompanied more opportunities to get rich. Kim Jong Un continues to test nuclear weapons, and indeed, has unleashed a reign of terror amongst the elite, but to the average North Korean without political ambitions, this is the first genuine economic boom they have ever experienced.

That said, however, in fostering a wide range of collaborative relations between individuals, the consumer market system has the potential to act as a threat to the system. Buyers, sellers, lenders,

borrowers and contractors; cooperative sets of relations are becoming more varied and extensive. Middle- and low-ranking officials are already dependent on the market for their survival, hence the potential for social upheaval is immense. These phenomena are not welcome to some in the top leadership, which desires a vertical, hierarchical power relationship between citizen and state. If Kim Jong Un were to implement policies that damaged market interests, active resistance to the regime could in principle break out.

## **SERVICES MARKET**

As with consumer goods, services used to be provided de facto free of charge by the state. The state not only provided health care, education and national defense, like nearly all states, but also postal, transport, retail and distribution, and other services.

Consumer goods were conveyed from state factories through the PDS to state retail outlets. State retail outlets then sold them to individuals at fixed prices. Production and distribution were thus centrally administered according to the command economic plan. Transport and postal services were mainly provided through the rail and shipping network, while other services like hair dressing, clothing and shoe repair et al. were provided by local service centers.

However, the overall level of government investment was far lower in services than in manufacturing. This meant that services were generally in short supply and of low quality. Nonetheless, until the end of the 1980s a certain level of service provision was guaranteed. However, as economic crisis set in in the 1990s, the state service sector collapsed completely, to be replaced fitfully by the emergent private service sector. With the development of General Markets in the 2000s, the marketized service sector developed rapidly both in terms of quantity and quality of services on offer.

The rising market created new demand for both freight and transport services. Rising household incomes from marketization led to an expansion of demand for and provision of personal services like hairdressing and clothing repair. As marketization proceeded, the number of individuals investing in the service sector rose – some with money made in other sectors, and others making use of the emergent, fragmented capital market. This also naturally led to a pervasive culture of bribery for the simple reason that one key feature of the North Korean system was that it de jure rejected private enterprise. This culture of bribery was far more limited within the consumer goods sector because the market was clearly making up for a lack of state capacity in a sector where it had previously taken on the duty to provide – thus, state control was lax. However, the service sector was considered intrinsically capitalist, and hence bribery became endemic.



These dynamics of supply, demand and a culture of bribery remain at the core of the service sector under Kim Jong Un. Excluding national defense, education and healthcare, which have traditionally been provided by the state, other areas of the service sector are seeing increasing private investment.

## **Facts about the Services Market**

### **Freight and transport**

#### *Railways and shipping*

Rail transit was so important that it was designated one of the “Four Priority Sectors” in North Korea. In the 1990s, however, electricity shortages meant that the system was unable to fulfil its functions, with the exception of transporting personnel and equipment for the military. But with the continued construction of hydroelectric power plants, and rising demand from cadre investors, it is thought that since the rise of Kim Jong Un, railway operations have recovered to levels last seen in the 1980s.

The railway system is still the principal means by which large-scale, strategic materials like coal and iron ore are transported across the country. There have been few opportunities for private capital to participate in the restoration of the railway network. The railway network is also considered a part of the military-industrial complex, precluding private investment even where it would be useful. Nonetheless, instances of bribery are increasing where mineral resources like coal and iron ore are being hauled. Wholesale merchants may also bribe railway cadres to transport goods, and there is a growing amount of shipping for private commercial use in the West Sea (Yellow Sea) and East Sea (Sea of Japan).

The railway system and shipping operate according to state plan. Because a single train can transport a large volume of goods, they are favored by wholesale merchants as relatively cheap and efficient. Rich investors and wholesale merchants can also, by bribing cadres who manage the network, hire private trains outside of the state plan. Fisheries businesses also provide shipping services to rich investors and wholesale merchants.

However, trains and ships are not fast, and because they are only efficient where high-volume goods are being transported, buses and trucks are also widely used.

### *Servi-cha*

The expression *servi-cha* originates with the spread of trucks. In the 1990s, as railway services ceased, North Korean cadres began to make use of the trucks they controlled to start haulage of goods and people. Road haulage services were financed as commercial services through private funds, and are broadly similar to intercity bus services and trucks in that they are registered as semi-autonomous parts of state institutions.

Following the emergence of General Markets, not only did the demand for the transport of people and goods rise dramatically, but the capacity to fund such services also greatly increased. In the 1990s, buses and trucks would haul anything or anyone who could pay. But since the 2000s, trucks came to specialize in freight, while buses took to transporting people. Initially, most trucks were old vehicles owned by state institutions, factories, military units et al., but the rise of the General Market presaged expansion and the import of large container lorries from China.

North Koreans generally used to know trucks by the expression *servi-cha*, but since Kim Jong Un rose to power the meaning has changed, with merchants still using the word to indicate trucks, while the general public uses the term for intercity buses. This is a sign of how many more North Korean people now use buses to travel between different parts of the country. General Markets led to the creation of a nationwide bus network connecting major cities like Pyongyang, Pyongsong, Sinuiju, Nampo, Haeju, Hamhung, Chongjin et al. It has also become possible to take buses from medium-sized cities and counties to areas near large cities. Hence, except for the DMZ and the smaller urban settlements near the Sino-North Korean border, it is possible to travel across the country via bus.

From Sinuiju, there are buses going to all of the country's major cities, including Pyongsong, Nampo, Haeju, Hamhung, Chongjin and Kimchaek. And it is not just Sinuiju; in all of the provincial capitals and major cities, there are buses offering connections to the rest of the country. Note, however, that because Pyongyang is inaccessible to most people from the provinces, most capital connections and transfers are done through Pyongsong. It is possible to get from Pyongsong to any other provincial level city in a day, including Hoeryong (on the Sino-North Korean border).

Large cities have officially designated bus terminals, while in small and medium sized cities, General

Markets or train stations serve as bus stops. Bus stops have timetables, and though intercity buses are far more expensive than trains, it is possible to catch one at any time (provided the requisite sum is paid), with estimated times of arrival also provided. Since Kim Jong Un took power, there has been no particular effort to control intercity transit, and bribery of officials who are supposed to enforce travel regulations has ensured that the bus system operates unhindered. Of course, one still requires prior approval to enter Pyongyang (if one is from the provinces), as well as to go to the Sino-North Korean border or the DMZ.

Compared to the average income, buses are indeed very expensive. The Sinuiju-Pyongsong route, which can be termed a long-distance route, costs in the region of 100,000 KPW, with relatively shorter journeys still costing 30-40,000 KPW. However, most journeys by bus are done for commercial purposes, and the cost is treated as a cost of doing business.

Generally, investors drive the buses they themselves own, and long-distance routes are typically done as round-trips. Thus, it appears that many buses are owned by two driver-investors, who take turns driving. In other words, buses are seemingly often run as small businesses by a sole proprietor or partnership of a couple of investors. Intercity buses also have a conductor, often a relative of the driver, who is in charge of the vehicle, manages the haulage of cargo for merchants, and pays bribes to military personnel or police on major roads.

As noted above, intercity buses do not just function as passenger transportation but also haul small-scale freight. Passengers take luggage with them, but individuals can also entrust baggage to the conductor who then takes responsibility for its delivery. Such delivery services can save money and are becoming more popular, and it appears that North Korea's mobile phone network is encouraging their spread. Fuel and maintenance are the responsibility of the bus owner, and although petrol can be bought at state-owned petrol stations, it is usually sourced from individual oil merchants. Where breakdowns occur, repairs are done by mechanics working at specialist repair shops, and the owner has to cover the cost of all repairs.

The major clients for long-distance bus services are merchants. Traders at General Markets do use buses, but it seems that the principal users are importers and middlemen who provide goods for sale

to the former. Reports also indicate that black market USD traders also make frequent use of intercity buses to take advantage of regional differences in exchange rates.

All *servi-cha* are registered with an organization that makes their activities appear legal. The most typical is registration of the company as the transport agency of a provincial, city or county People's Committee. Individuals use their own funds (saved or borrowed) to purchase buses or trucks from China, and then register said vehicle(s) with the organization in question. As a result, on paper it appears as if the North Korean government administers the transport network, but in reality it is operated and financed by individuals for profit. The state absorbs part of the income generated. In this way, a stable transport network that allows for the reliable distribution of goods and movement of people has been established in a way that is not "anti-socialist," that does not create capitalists, and that has not led to a massive outflow of the working-age population. Such institutional arrangements are less likely to generate problems for the system under Kim Jong Un going forward.

The major issue to which the *servi-cha* system has given rise is bribery. Private buses are stopped and inspected by soldiers and police, with these inspections causing delays and incurring an additional expense for the operator (i.e. bribes). There is, however, a growing number of people who perceive bribery as merely a "cost" – a tax levied on bus operators by cadres for doing business. As private bus services have spread across the country, a type of "market price" mechanism for bribery has also taken hold, with bus operators avoiding cadres they know will demand excessive bribes, or paying bribes to said cadres' superiors (if they offer more competitive rates). Thus, cadres cannot just extort as much money as they would like. These mechanisms can also be interpreted as a further sign of an emerging set of increasingly diverse power relations between low to middle-ranking cadres, merchants, and the general North Korean public.

### *Taxi*

Since Kim Jong Un rose to power, the North Korean state has worked on improving urban services and encouraging tourism from abroad. These policies have resulted, inter alia, in a significant increase in urban passenger transport, including taxis. Official taxi services operate only in large cities, but unofficial services are available in other places.

Taxis are, like intercity buses, the preserve of the more affluent groups in society. Cars that can be used for passenger transit are registered with People's Committees or factory enterprises. Cadres and foreigners are the main users. The base fare for taxis is two USD in Pyongyang, where most of the supply is concentrated. Although there are more affluent families in North Korea than ever before, the costs of owning a taxi or private car are onerous: not only are the vehicles themselves expensive, but obtaining the necessary licenses and registrations is also not cheap.

Taxis and other passenger vehicles are not only used for ferrying passengers; they also transport freight. Because vehicles registered with state institutions can travel relatively freely and safely, small amounts of freight, goods for sale at market and the like are transported within cities. Thus, passenger vehicles are used for both of these purposes.

### **Retail and distribution networks, restaurants**

Retail and distribution networks were originally established by the state to distribute consumer goods to the North Korean people. Food was distributed through food distribution points, and other daily necessities were sold through state retail outlets. The state also ran some restaurants, like the famous *Okryugwan* in Pyongyang, that allowed North Koreans to dine out occasionally at highly subsidized prices. This retail and distribution system mostly halted in the 1990s, however, and while some hard currency shops continued much as before, most state retailers could only provide a very limited service at best.

Following the emergence of General Markets, commerce and distribution went through far-reaching change. Attempts were made to restore light industrial production during the late Kim Jong Il period in order to revive the PDS, but these all failed. Electricity shortages meant that light industrial factories could not operate at anything close to capacity. Other state companies were not able to operate at capacity, either, and so demand for consumer goods was not met in any sector. The state surrendered the retail and distribution networks to the General Market.

In the Kim Jong Un era, licensed state retail outlets increasingly act like private shops for the obvious reason that, aside from stalls at General Markets, there are few facilities that can be used for individual

retail activities, so cadres have started to allow individuals to use state retail outlets – at a price. In the 2000s these outlets were mainly used in their original form, with the products sold differing from what had previously been on offer when the outlet had been under the purview of the state. The managers of the defunct state outlet would receive a certain sum for the use of the facilities under their control from the entrepreneur who used it, but it was a highly illegal venture nonetheless.

Today, the practice has gradually expanded to encompass direct sales points run by state factories, institutions, cooperatives et al., stalls and 8.3 Outlets, with entrepreneurs officially registering with the relevant institution, while actually operating said facilities as private businesses. The North Korean state has chosen to turn a blind eye to these activities in exchange for “loyalty payments.” Over 90 percent of all retail outlets nominally run and within the purview of state factories and other state institutions are actually run by individual business people.

Thus, since Kim Jong Un took power, retail services, outside of a few, limited areas, are provided on a for-profit basis by the market. The basic distribution network is the General Market system, where nominally state-run retail outlets are actually individually operated with the tacit acquiescence of the government, though there also exist retail facilities directly managed by the state and/or financed through cooperation with foreign capital. The latter development was facilitated by the expansion of consumer trade with China – both by raising efficiency and generally fostering trade links between the two states.

### **Private service providers**

Amidst the general expansion of service provision brought about by marketization, market forces continue to hold sway in personal services that were once provided by the state. These individual services have, as with other services, been marketized with the collapse of state provision, and with rising incomes and increased demand, are growing. Marketization and the rising buying power of the population means that individual services are catching up with other industries.

The expanding market for individual services has taken the form of several means of distribution. First, the provision of services at state service centers on a marketized basis has expanded as state

funding capacity has declined. The second is the provision of services by state factories and other state institutions at market prices instead of state-set prices or free of charge. Both forms of provision take place within state factories or other institutions, but how they are provided and/or by whom has changed. The third form of service provision is by the market alone, outside of existing state channels – for instance, repairs of household appliances, or haircuts done at private homes, without formal registration.

The rise of individual services of this kind has contributed to a general rise in the service market in areas outside education and healthcare, which remain largely dominated by the state. This has led to improvements to the chronic underemployment/unemployment problem the North Korean economy has long experienced. At the same time, it should be noted that other illicit activities like the sex trade and narcotic-related activities are gradually expanding. With respect to narcotics, the state cultivated the sector in order to earn foreign currency, but as the state's ability to control its population has declined, private manufacture of narcotics has expanded. Private prostitution, non-existent until the 1990s, has greatly increased since the 2000s.

### **Service provision via the state service network**

State service centers provided services like haircuts, clothing, watch and household appliance repairs for free or at token prices – as was once the case with foodstuffs and other daily necessities. People who worked at the centers were paid upon fulfilling plan targets, and lived off distribution from the state. The economic crisis of the 1990s, and the resultant decline in the planning system meant that, on the one hand, the supply of raw materials and spare parts to centers was found wanting, and on the other, the supply of food and other daily supplies for workers also fell. This meant that far fewer services were offered by the centers, with state provision thus declining precipitously.

With the emergence of General Markets, however, the character of services provided by centers changed. Marketization led to rising demand, including for those services provided by centers. Because it was only these workers who had the knowhow required to provide many of the services, the centers where they were employed remained key in spite of the arrival of market forces. As with retail, where the goods on offer at retail outlets changed with marketization, so it is with services; the remit

of centers has remained the same, and even the owners of the centers has not changed. All that has changed is the status of workers at the centers. Now, a service provider pays the state a fixed amount to cover putative output quotas under the plan (around 50,000-100,000 KPW), but are free to work for themselves. Their salaries are a nominal 3,000-5,000 KPW a month, but all money they earn in excess of output quotas is theirs to keep.

They are still employed by the centers, and have duties that they undertake in that capacity. They still receive a nominal salary, too, and thus to some extent the previous system remains in effect. However, the fact that staff keep the residual income they generate in excess of planned output and the cost of actually providing services means that they are in many regards private businesspeople. This means that plenty of people now favor jobs in the service sector because it is possible to earn well in excess of their nominal salary after the fulfilment of state quota – though the amounts on offer differ by service and region.

There are also instances in which private investors have invested under the cover of state institutions – i.e. registering a personal house or other place of business as connected to an existing state service center. This is possible even where one is not an employee of such a center, so long as one has the requisite skills and capital to set up a business in an area where demand exists. Individuals are obliged to fulfil some of the center's planned allocation and must pay for registration. Although they have not changed in such a striking way as service centers, service providers connected to SOEs and other state institutions are in a similar position. For instance, a repairman at a substation may provide electrical repair services to individual households, and earn in excess of the nominal salary paid by the substation.

Vehicle repair is done by separate service stations, broadly similar in character to state service centers. That said, car repair is comparatively expensive and because of spare part supply issues, it is mainly to be found in larger cities. Thus, in less competitive and populous regions, there are almost no repair provisions for the market, and makeshift repairs are seemingly often necessary (as is the case in many factories in these areas).

### **Competition and market prices**



A standout feature of the services market is competition between providers, with competition existing between individuals working at state service centers and individual providers. As state service centers have been captured by market forces, individuals not working at state providers have entered the market and begun to compete with their formal rivals. That said, the kinds of services on offer often differ, and thus it seems that the level of competition is not intense. Indeed, state service centers mainly provide what has traditionally been the preserve of the state: haircuts, clothing repair et al. whereas individuals provide services related to the emergent consumer sector like TV and computer repair. Hence, state service centers have comparative strength in areas that do not require niche technical skills.

It also seems that there is competition between service providers within particular industries. State service centers in particular are in competition with one another. Particular service workers also have varying client bases dependent on their own particular skills, networks and the like – and this has a direct impact on their incomes. Workers thus compete to maximize the number of customers on their books through the services they offer and quality of materials used. In this respect, state service centers can be understood like a loose grouping of individual service providers. Of course, there is also competition between individual service providers. Individuals develop reputations for “fixing something” and there are, of course, rising income disparities between those with good and others with mediocre reputations. This has resulted in rising standards for services overall, and price standardization.

### **Wireless communication**

Until the 1990s, the phone network in North Korea was constituted solely by landlines, and access to the network could only be obtained with government permission. In 2008, Koryolink was set up – a joint venture between Orascom, a multinational telecommunications company based in Egypt, and the North Korean state. Orascom took a 75 percent stake in the company, with the remaining 25 percent held by the North Korean Ministry of Post and Communications. As a result, 3G services became available in 2009. Services were offered only to a limited group of senior party, military and state officials, as well as those with jobs directly related to security and hard currency earning. Others

were not allowed to join the network regardless of their ability to pay. Of course, some used unofficial means, like bribery, to gain access to the network, but these were exceptional cases.

However, in 2010, as demand for mobile services was rising and Kim Jong Un emerged as his father's successor, the government lowered restrictions on access. Thus, normal (if comparatively wealthy) North Koreans were able to join the network, with the metric being ability-to-pay. After Kim Jong Un took power, the application process was made much simpler. Initially, in order to join the network, one had to submit an application form, which was then strictly screened over a considerable period of time. The number of subscribers has risen dramatically as a result: in 2009 there were 1,694 users, but by the first quarter of 2010 it had risen to 120,000, and by 2013 had reached two million. By 2015, there were over three million users. Most handsets are Chinese imports, but of late the North Korean side has begun importing Chinese parts and assembling their own handsets, a trend that has resulted in reduced costs for consumers.

Plans are prepaid, with reports indicating that as of 2014, the base fee of 3,000 KPW would buy 200 minutes of voice calls and 20 SMS messages. Where customers require more minutes/SMS, recharging is accomplished by purchasing a prepaid card. At an exchange rate of 8,000 KPW/1 USD, the network is certainly very cheap by global standards; however, given the size of average incomes in North Korea, it remains very expensive for most.

The user base of the service is broad, with the only ones who cannot join being soldiers and children under 10. These two groups total around four million, so this would indicate, in theory at least, that the other 83 percent of the population could use the service. But the main users are still those working in a few sectors: traders, rich business people, and merchants, for whom mobile telephones represent an efficient means by which to obtain valuable information about market conditions, and people who work for party or state agencies who use mobiles for official rather than private business, with the state footing the bill. It is likely that pervasive monitoring stops such people from using them for unofficial purposes.

As the mobile market has expanded, handsets have become a symbol of wealth, and the user base has expanded greatly. It is not just for government officials or merchants; the network is for people who

embrace conspicuous consumption, others who want to stay in contact with loved ones, and those who use phones for other leisure purposes. Non-economically active members of society, students in particular, form a rapidly growing part of this new user base.

The spread of mobile telecommunication services means that information now moves more easily. Due to network surveillance by the state and simultaneous self-censorship by users, economic information is most common. The consumer and service markets in particular are becoming rapidly more efficient as they combine and interact with mobile communications. Information about prices and demand curves spreads in real time, whilst delivery services are also made easier with mobiles. Price differentials between regions narrow, fostering price stability and greater consumer welfare. And it is not just prices. Being able to take photos with phones means that merchants no longer necessarily have to see products. The costs of doing business for merchants has fallen, and opportunities have increased. Repeated transactions of this kind also promote trust between merchants.

## **Influence and Government Response**

### **Economic spillover effects**

The expanding service sector is an important factor in rising living standards. The development of consumer and service markets reflect, and promote, the fact that North Korea has become a more peaceful place in which to live. The state boasts of service sector development as one of Kim Jong Un's personal achievements, which in turn makes it likely that the state will continue to “neglect” the service market going forward.

Recent expansion of freight, mobile phone and commercial services has further deepened existing trends towards marketization. The spread of mobile phones promotes the spread of information, bringing down price differences between regions and contributing toward overall price stability. Long distance freight services promote the spread of not only information but also of people and goods between regions. The expanding range of commercial services converts potential into actual demand, first facilitating market transactions then also expanding the range of production and kinds of income subject to market mechanisms. The rise of service markets has not only improved the incomes of

those offering services, but also helped to stabilize price levels and promote production and trade-related activities.

### **Government response**

There are cases in which the North Korean state is itself the creator and principal provider of a service. Large supermarkets and department stores built with North Korean state or foreign investor funds are examples of the state taking a role in the expansion of the retail sector. Some individuals have invested in state agency-held facilities (bus services, retail outlets, restaurants et al.), and from the profits some have made, a new group of rich people have emerged. In the course of these developments, the North Korean state has both helped stabilize the economic lives of the North Korean people and absorb some of the wealth generated by service markets. The service market, as with the Orascom case, has also sometimes directly contributed to a broadening of the financial base of the state, and because of these strengths, it appears unlikely that the Kim Jong Un regime will clamp down on the service market for the foreseeable future.

## HOUSING MARKET

It was in the 1990s that the private housing market first emerged, but only since the emergence of General Markets in the 2000s have transaction volumes ballooned. In the 2000s, groups of private investors began to invest in the construction of apartments that they then could dispose of on the open market. The North Koreans now even have their own term for real estate agents, literally “house bringer.”

From the 1980s, the North Korean government instructed state institutions and enterprises that they were required to handle access to housing for their workers. As a result, not only did state institutions and enterprises start building housing, but trade in housing also emerged. In the 2000s, demand grew, and successful traders with significant investment assets began to express a preference for better locations and facilities. Cadres, when paid off, turned a blind eye to the transactions, and the market extended beyond the sale and remodeling of existing houses into the construction of new, large scale apartment blocks, with housing emerging as a new commodity in the nascent market economy. It is important to note, however, that the commodity being traded is not land, but the rights to the ownership and use of that which is built on the land. Trading in land remains illegal.

The North Korean Real Estate Management Act defines “land, buildings, facilities and resources” as “the same.” The main item traded on the North Korean real estate market is housing. Under North Korean law, the buying and selling of housing is illegal, and all real estate is, legally, the property of the state. Individuals and enterprises only hold usage rights. What's more, even the lending of real estate is illegal, so if an entity is not using the real estate to which they hold usage rights, they have to return it to the state. Property prices and usage fees are determined by state-set prices. Hence, there is no institutionalized market for real estate.

It is housing that makes up the bulk of individual transactions in North Korea's real estate market. Because land is exclusively managed by the state, it is artificially cheap. Hence, land as a proportion of the price paid for housing is actually quite low, with the majority of the cost associated with housing

being the price of construction. That said, with rising demand for land in specific areas, prices cannot but rise accordingly. The fact that private land ownership is legally impossible means that a bribe can be used to obtain usage rights. At the same time, because there are only a limited number of individuals with the financial resources to fund the construction of housing, prices in many areas have not risen all that rapidly. Amidst such circumstances, with a certain amount of money, an investor in housing can obtain a highly profitable commodity. In the late 2000s in particular, the North Korean government started a propaganda campaign extolling housing construction projects as evidence of the leadership's greatness, and this provided ample political cover for investors to fund new housing construction ventures. In the Kim Jong Un era, the state takes no interest in who is constructing houses and why – or whether “capitalist methods” are being used. After all, the presence of new housing can be used in political propaganda as further proof of the rectitude of the Workers' Party line.

As stated above, institutionally and legally the real estate market does not exist in North Korea. Thus, Article 33 of the Real Estate Management Act states: “The price of real estate and the usage fees thereof shall be set by the State Price Bureau.” Hence, in principle, real estate prices are not determined by market forces but by a state institution. In spite of this institutional constraint, real estate has been commodified. Initially, individuals may have made changes to the structure of their property before selling, but of late investors have taken to using the names of state institutions (which they pay for) as a front for small-scale apartment construction projects, the product of which is then disposed of on the open market. Recently, contracting for the construction of production-related facilities, mines and the like, has grown more prevalent.

As a result, real estate has become closely associated with commerce. The right to possess property is paid for, while the recognition of actual usage rights to property are, after a period of time, granted by the state. This forms a part of the decentralizing trend at the administrative level.

## **Facts about the Housing Market**

### **The housing allocation system in North Korea**

### *Privately-owned housing and state-owned housing*

There are three types of housing in North Korean law: (1) state-owned; (2) collective-owned, either by collective farms or enterprises; and (3) privately owned. The third can be inherited and traded, and is considered private property under North Korean law, whereas residents in the first are only granted usage rights to their properties. While on paper this is the case, in reality, most housing is actually privately owned. Housing constructed by the state is state property until it is allocated, then it becomes the de facto possession of the individual recipient of usage rights. That said, the property may revert to state ownership in the event that the resident dies, is sent into internal exile, etc.

### *House usage permits*

Housing is subject to state distribution (allocation), with North Korean government propaganda presenting the state as providing to all North Koreans free of charge. The most important thing in the allocation process is the House Usage Permit. Individuals looking to receive an allocation of housing make a “housing allocation application” to the People’s Committee in their locality, or to the enterprise/collective farm where they work. Upon receipt of the application, the relevant documents are drawn up, with the institution in question then allocating housing to the applicant. Once housing has been allocated, the individual concerned then applies for “housing usage [rights].” They then are issued a “housing usage permit,” thus completing the process, permitting applicants to move into their new property.

The following are illegal acts punishable under North Korean law: (1) permitting people to reside or residing in the property for which a Housing Usage Permit has not been issued; (2) the exchange of housing for commercial or other unjustified purpose; (3) the receipt of money, goods etc. as unjustified conditions for cohabitation or for accommodation services; and (4) the purchase or sale of state-owned housing, illegally lending housing to others, or providing brokerage services with respect to housing. Moreover, with respect to state-owned housing the following acts are also prohibited: (1) converting two or more separate houses into a single property; (2) demolishing, extending, renovating, structurally changing or damaging furnishings without permission; (3) building walls or fences around a property, or extending gardens beyond their set area.

## **Housing trade between individuals**

### *Supply and demand*

There is a very limited supply of new housing from the North Korean state, with much of the current housing stock constructed between two and five decades ago. With improvements in the economic situation and deepening marketization, there is growing private demand for housing. Most new housing supplied by the state is allocated to people the regime deems to be loyal and important – effectively a payment for their loyalty. Aside from this, there is practically no new housing supplied by the state. Thus, under the guise of “constructing new housing stock,” enterprises and investors have taken the lead in new residential construction projects.

### *Market prices for housing*

The determinants of house prices can be divided into objective and subjective factors. Objectively, the location, size, and furnishings exercise considerable influence on the cost of housing. With respect to location, proximity to General Markets, main roads, bus and train stations, and schools and administrative institutions are the things that matter. Subjectively, the number of powerful officials, the level of wealth of an area, privacy etc. are key determinants. Since Kim Jong Un’s rise to power, “cadre neighborhoods,” “rich neighborhoods,” “worker neighborhoods” and “poor neighborhoods” have emerged.

With location, infrastructure is a primary concern. Because most infrastructure is under the oversight of the state, be it the water supply, sewage systems or electricity supply, there are many issues that are difficult to resolve through private housing construction. Indeed, since the economic crisis of the 1990s, infrastructure and utilities have become major issues not only for factories and collective farms, but for residential areas, too. Indirectly indicative of this is evidence that richer elements in society buy potable water at the markets.

Being able to afford the purchase of a new house indicates a certain level of economic power – with many being somehow involved in trade. It is therefore not surprising that access to transport networks, government services, and other conveniences are major factors when decisions about a purchase are made.



The most important convenience related to daily life is the General Market. A lack of public transport in much of North Korea means that bicycles, motorbikes and walking are the main means of transportation. Given that North Koreans have to frequently go to markets to buy food and other necessities, proximity is important. Thus, poor neighborhoods tend to be far away from markets.

Where the house in question is not new, a variety of other factors are also significant. First is the state of the house's furnishings, the state of the floors, windows and ceiling, and if it has been remodeled for instance – i.e. the fundamental elements of the house. Second is the presence or absence of a garden and its size. The latter is especially important in regional cities and more rural areas, with the size of the garden often proving decisive in the valuation of the house.

### *Real estate agents*

There are no real estate specialists in North Korea. Thus it is difficult for would-be sellers and buyers to find partners. Even where contracts are concluded between parties to a real estate transaction, there is then the issue of avoiding state interference while obtaining a new housing usage permit. Hence, with such complex institutional issues, since the emergence of the General Markets, North Korea has seen the rise of specialist real estate agents. Called “house bringers” by North Koreans, they bribe officials, facilitate real estate deals, and handle the issuance of housing usage permits. The right to issue such permits is held by large state institutions like city management departments of Provincial and Municipal People's Committees and large state enterprises. The housing managers of such institutions are responsible both for the issuance of permits and the collection of usage fees on properties, hence, with a bribe, they can be persuaded to help facilitate real estate-related transactions.

The amounts required differ slightly between regions, but usually equal around five to ten percent of the sale price of property. Since Kim Jong Un's rise to power, bribes for real estate deals are subject to the logic of market forces; officials known to demand excessive bribes are avoided altogether, leading to greater standardization of prices.

## **The construction of new housing**

### *State-led housing construction projects*

North Korea is, on paper at least, a state socialist economy, and it is considered normal for housing construction and real estate development to be part of the planned economy. Accordingly, every regional administrative unit has an office tasked with “urban planning.” Of course, the direct instructions of the top leadership take precedence. Kim Jong Un, for instance, has directly issued instructions related to the Central and Mangyongdae districts of Pyongyang – needless to say, Pyongyang People’s Committee and/or enterprises in the capital cannot influence state policy in such cases. The aforementioned areas house people whose loyalty is considered of particular importance to the regime. Since Kim Jong Un came to power, the Kwangbok Apartment Complex, Unha Scientist Avenue and Mirae Scientist Avenue Apartment Complexes have appeared in the official media as significant state achievements.

#### *Institution-led housing construction projects*

Powerful institutions and enterprises are allowed to construct houses – though they have to have the funds necessary to finance operations. Much of the funding for enterprise/state institution construction projects actually comes from private investors. Remuneration is often in-kind; an investor who provides an elevator might be given an apartment, and another who provides five tons of concrete also gets one. At the same time, reports indicate that since Kim Jong Un came to power, cash rather than in-kind compensation for initial investments is becomingly prevalent as it is now possible to secure needed construction materials from General Markets or China. A portion of apartments constructed under such arrangements are allocated to the state, either to then be distributed on the basis of loyalty or sold with the proceeds entering central government coffers. The remainder are divided amongst officials and are sold to would-be buyers for profit. As a result, enterprises and state institutions that oversee such projects often make large profits because, unlike other consumer goods, the supply of housing is limited, and thus it is more profitable than other kinds of production or trade. It is worth noting that since the rise of Kim Jong Un, apartments in Pyongyang that have sold for as much as 100,000 USD.

#### *Private housing construction projects*

No matter how rich a person may be, individual residential construction ventures are not easy. Therefore, a group of private individuals usually invests as a group and divides the income from the

sale of finished properties. This practice has emerged since the rise of Kim Jong Un. Individuals pool funds, work under the guise of a state institution, construct apartments and compensate the state institution in question with a number of the housing units. The state institution can advertise its political success in constructing apartments, while behind the scenes it can then sell its share. Mutually beneficial arrangements of this kind have emerged across the country, with private investor-led housing construction coming in many forms. For example, a number of single-story houses can be bought with the pooled funds of a group of investors; these houses are then demolished and a five to six story apartment block is built in their place. The first floor is sometimes given over exclusively to retail facilities, which helps to maximize the return on investment. It goes without saying that officials who oversee the construction sector are bribed to ensure success.

## **Influence and Government Response**

### **Economic spillover effects**

At the basic level, the development of the real estate market is an indicator of rising living standards. The fact that marketization has spread to real estate speaks to how widespread it has become in North Korea. However, one can simultaneously speak in terms of rising inequality: cities used to be divided into “cadre neighborhoods” and “worker neighborhoods” whereas now they are divided into “rich” and “poor” neighborhoods, but the result is inequality all the same.

Nevertheless, the market has given the North Korean people a concept of ownership and this may become a force for change in the system. Resistance would likely accompany any state-led attempt to restrict the role of private dynamism in the real estate sector in an arbitrary fashion akin to the November 2009 currency reform.

## **FINANCIAL AND FOREIGN EXCHANGE MARKETS**

There are many limitations to a separate discussion of financial services and foreign exchange with respect to North Korean marketization. First of all, there is no specific site in which such transactions occur. North Korea has neither a stock exchange nor a bond market, or a system to facilitate such transactions. Secondly, the financial sector is of little significance to the state sector. Although there are a number of state banks, all linked through the Central Bank, individuals and companies usually do not use them for savings and loans or cash transfers. Consequently, calling them “financial institutions” is a stretch. Many kinds of financial transactions occur between individuals instead, and these transactions take very primitive forms. Individual financial transactions do not have any institutional or legal protection, so payment is usually in cash. It is not easy to assess such processes as a part of a particular social institution/system.

In spite of these issues, following the emergence of General Markets, the most conspicuous market-related changes occurred in financial services. The lending of money for interest is an important element in the overall process of marketization that has occurred in North Korea over the last two decades. That said, the sector has been excluded from all official reforms, being considered a symbol of the socialist identity of the North Korean state. Accordingly, the North Korean finance sector exists wholly in unofficial form, and while there is an official set of financial institutions, these exist merely on paper to preserve the facade of the planned economy. The state banking sector and financial institutions play no actual role within the economy. North Korean consumer, service, labor, and real estate markets have developed simultaneously along legal and illegal lines, the latter making up for the weaknesses of the former. Thus, there is a need to undertake a thorough investigation of the “unofficial” North Korean finance and foreign exchange sector.

In the wake of the economic crisis of the 1990s, the North Korean economy transitioned from being largely barter-based to cash being the principal means of exchange. The supply of goods was the primary economic responsibility of the North Korean state, but with the state no longer able to fulfil

this role, individuals were forced to acquire goods through other means. With rising consumer demand, cash was needed to facilitate transactions between individual consumers. State-owned enterprises (SOEs) were also unable to receive the supply of raw materials that the state had once provided; thus, SOEs were forced to acquire resources on their own. Hence, both had to find alternative sources of financing, be it from outside the state or otherwise. North Korean state financial institutions do not offer loans to individual North Koreans. This is because legally private companies cannot exist, so individual would-be entrepreneurs have no legal reason to receive a loan from the state. That said, SOEs could obtain financing from the state banking system, but the economic crisis of the 1990s led the state to draw down bank reserves, which were gradually depleted, meaning that there were no additional funds to lend to individual SOEs. Conversely, rich entrepreneurs with comparatively large pools of capital gradually emerged in the private sector. It was these entrepreneurs that became the main suppliers of funds in unofficial financial markets.

With the rise of markets in the 1990s, as a result of the economic crisis, individual money lenders emerged – after all, trade requires funding. It was at this time that *Donju* or “money masters” (to translate the colloquial North Korean expression), for instance, Chinese residents of North Korea, long-term Korean residents of Japan (*Zainichi*) and loan sharks et al. rose to prominence economically. Factories and collective farms also began to borrow money from such individuals.

The July 1<sup>st</sup> 2002 Measures provided important opportunities for the unofficial financial sector to expand further. The North Korean government told SOEs that they no longer needed to prioritize fulfilment specific plan indicators. Up until then, SOEs were expected to produce specific quantities of particular products, but the North Korean state was saying all that was now required was for them to fulfil their income targets (hitherto of secondary importance under the plan).

As a result, factory managers were given wide ranging autonomy over everything from the kinds of items they would produce, to how to obtain raw materials and sales. Consequently, so long as SOEs could obtain funds, they did not need the state to supply raw materials in order to fulfil their obligations under the plan – the state only demanded cash. Also because plan targets were given in state-set prices, the actual payment requirements under the plan were extremely low (compared to the

price obtainable for goods on the open market). An example will help illustrate this. Planners used to order shoe factories to produce 100 pairs of shoes, but under the new system, factories were ordered to produce shoes worth one million KPW (the cash value of 100 pairs of shoes under state-set prices). Given that at the time, market prices were 20-100 times higher than state-set prices, cash-payment planning (as opposed to material balance planning) was highly advantageous. Thus, ambitious managers began to obtain financing from the private sector to fund production.

With the emergence of General Markets post-2004, not only small regional factories, but even large, central factories began to obtain investment funds from rich merchants. At the same time, the rising trade in goods with China (both illegal and legal) meant that more transactions were conducted in RMB and other foreign currencies. At the time, the highest denomination of KPW was the 2,000 KPW note, and this was barely enough to buy one to two kg of rice. Without higher denominations of bank notes, with a growing quantity of Chinese produce entering the North Korean market, and an explosion in the quantity of transactions occurring in the market sector, demand for the US dollar, the Chinese RMB and other foreign currencies naturally rose. Under the currency reform of 2009, individuals were permitted to exchange no more than 500,000 KPW, with the rest of their KPW holdings becoming little more than tissue paper. Since then, faith in the domestic currency has collapsed. Since 2010, General Market transactions have been conducted in USD and RMB. Thus, the USD and RMB have become the currencies of choice for the North Korean market.

North Korean economic policy since Kim Jong Un's rise to power has encouraged the further expansion of the unofficial private sector. The North Korean government has given management rights to SOEs and collective farms, thus giving managers greater discretionary powers and improved incentives to produce. Up until then, production units had little left after fulfilling obligations to the state under the plan, but under the new system, production units were allowed to keep far more of their production to dispose of as they wished. The idea of "first concentrating on making money and see what happens" has thus spread across all North Korean production units.

Financial transactions in the unofficial sector take a peculiar form – production as opposed to consumer finance. North Koreans do not lend money to finance the purchase of housing or cars, or

for that matter to pay school fees. North Koreans, be they private individuals, collective farms or factories, lend money to make a return. There are sometimes cases of people running away having borrowed money, but this has not shrunk the size of North Korea's financial market.

## **Facts about the Financial and Foreign Exchange Markets**

### **Private finance**

#### *Financial relations between individuals*

There are very few cases of households borrowing from loan sharks in order to finance regular expenses. Of course, in the 1990s, there were people who borrowed small amounts from neighbors or relatives to survive, but since 2000 this has largely disappeared. Smaller amounts are sometimes borrowed from friends, relatives and acquaintances, but such transactions are of little significance to the North Korean economy. In the Kim Jong Il era, a person borrowing money from neighbors or relatives was a sign that they had nothing to eat. Hence, many would just borrow rice or corn directly rather than cash.

However, since Kim Jong Un took power, far fewer people are borrowing from neighbors or relatives. This is because, first, absolute poverty has sharply declined. Second, there are far more opportunities to engage in day labor or trade in order to make money. Third, the culture of small-scale lending has disappeared. As a consequence of marketization, North Koreans have started to think of the poor in negative terms. For instance, even in the 2000s there was some sympathy for homeless young adults (*kkotjebi*), but from the 2010s they have increasingly come to be seen as lazy and feckless. North Koreans now believe that you can always sell something to get by. Thus, most people borrow money to start small-scale trade businesses – not just market stalls selling consumer products, but also small-scale cart transport of goods, motorbike taxi services, or bribes to get the chance to work with someone running a large business. It is due to these “start-up costs” that most seek to obtain private loans.

#### *Financial relations between merchants*

Financial relations between merchants typically occur between wholesale merchants and intermediary

merchants. Wholesale merchants are often rich entrepreneurs who provide goods on credit to intermediaries. These intermediaries then sell these goods to retail merchants, and repay the funds to wholesalers. Large volumes of assets are required.

#### *Financial relations between individuals and collective farm workers*

In the Kim Jong Il era, collective farm workers borrowed money from individuals, usually in the spring to pay for food, repaying in-kind in the autumn during the harvest season. Since Kim Jong Un's rise to power, however, this practice has largely disappeared. Collective farm workers have seen their standard of living improve dramatically, with their distribution of farm products rising somewhat, and privately-run plots (often illegal, mountainside, small-scale farms) also boosting individual incomes substantially. Until the end of the 2000s, North Korean collective farm workers were arguably the principal actor in North Korea's unofficial financial markets, but since Kim Jong Un rose to power, their "market share" has been gradually declining.

### **Enterprise Finance**

#### *Enterprise loans*

There are many instances of individuals making loans to enterprises and collective farms – often rich merchants lending money and being repaid in produce. Indeed, the purpose of some of these kinds of transactions is for merchants to obtain stock to sell on the open market. Many factories in the provinces, especially food processors and makers of daily consumables, are small in scale, have poor facilities, and receive little or no funds or supplies of raw materials from the state. Merchants thus often supply such factories with raw materials to produce goods for markets. Since the rise of Kim Jong Un, the number of cash loans is also increasing.

#### *Loans to collective farms*

Farms sometimes lack sufficient funds to purchase seed or fertilizer in spring, and have to borrow money or supplies from rich merchants. For instance, giving pigs to a farm in spring but being repaid with corn worth twice the price of the pigs in autumn. Sometimes, farm production team heads will make agreements to obtain funds to finance planting in the spring, and repay in rice or corn (priced at the lowest offered market price). This is a direct transaction with a farm manager – a trustworthy



partner since a 100 percent repayment in the form of harvested crops is a likely possibility. Also because it is not an illegal form of transaction, it is not as profitable as high-interest credit, but is also much safer. If the harvest obtained is sold the following year around July or August, a return of around 200 percent on investment can be achieved. Of course, it has the disadvantage of a relatively long repayment period, but given continued inflation it is also a guaranteed source of profit, and is preferable to going to market every day.

### *Inter-enterprise finance*

In reality, inter-enterprise finance does not exist in North Korea. State banks such as the Korean Central Bank, the Korean Trade Bank are responsible for facilitating all inter-enterprise finance. Such institutional arrangements do not result from economic circumstances but from political aims. Broadly speaking, North Korean enterprises have two roles. The first is to provide funds for the rule of the Kim family. The second is to produce what the state directs. Of course, the first, known by the name “loyalty funds” in North Korean regime jargon, is the most important form of finance in North Korea. These funds are a criterion by which the state measures the loyalty of enterprise managers, in-house party cadres and workers at a particular enterprise, and because enterprises compete to show their loyalty to the leadership, cooperation between enterprises is not a variable. If enterprise managers and in-house party cadres were only evaluated on the basis of economic criteria, be it profitability or revenue, inter-firm cooperation would increase, and this would likely lead to more inter-enterprise financial transactions. However, this is not the case.

### *Borrowers*

The principal consumers of marketized financial services are individuals and enterprises. The latter includes a range of factories and collective farms. Regardless of whether it is individuals or enterprises doing the borrowing, funds are borrowed either to meet operational expenses or finance investments in facilities. All borrowing is for the purposes of production.

The emergence of the North Korean General Market system changed the way market actors thought and behaved. Both borrowers and lenders came to believe that money was better when circulating than when lying dormant. Thus, those with relatively little capital invested what they had in

collaborative joint ventures with others. Securing a larger volume of capital is the key to competitiveness. Capital is concentrated amongst people selling goods popular at market to gain a competitive advantage. As the number of wholesale transactions increased, the demand for loans rose rapidly.

### *Rich entrepreneurs (Donju)*

Rich entrepreneurs are, along with General Markets and *servi-cha* one of three keywords that epitomize the private economy post-2000. Since Kim Jong Un's rise to power, the scale, scope, and power of markets has increased continuously, and with that, the role of rich entrepreneurs has grown. As the name suggests, however, this is a very mixed and varied group, with no clear conceptual definition of the term "money master." The word has come to be used to describe anyone with substantially greater liquid assets than the average person.

These rich entrepreneurs are thus people who principally make money from money; it would be fair simply to call them "capitalists." That said, their involvement in production and service sectors is a comparatively recent development. Under Kim Jong Il, their major source of income was from trade.

The Kim Jong Un era was marked, from the beginning, by the decline of state power over all three of these sectors (production, services and trade), and this exerted considerable influence over entrepreneurial behavior. Declining control resulted in the following: first, from the latter half of 2012, control over General Markets have been visibly relaxed by the state, and this has acted as a stimulus for retail and service sectors; second, the near disappearance of inter-provincial restrictions on the movement of goods has also greatly reduced regional price differentials; and third, controls on the import of Chinese goods have relaxed and goods within different price ranges have begun entering the country.

The first change is the result of conscious economic policies put in place by Kim Jong Un, while the latter two are the result of efforts by North Koreans to survive and the culture of bribery existing amongst cadres. From the point of view of North Korea's emergent capitalist class, such developments are both positive and negative. The rising number of people with money means that there is more competition for lucrative investment opportunities. At the same time, there are new opportunities that

come with these social changes.

Of late, a particularly interesting development is the rise of investment by rich entrepreneurs in production and services, both in existing sectors, enterprises and outlets, and also in the creation of new kinds of services. The growing size of funds at their disposal and overall improvements in the state of the North Korean economy have made this possible.

Investment in production takes the form of direct involvement in areas of state economic policy. The actors behind many apartment construction projects and improvements in the supply of foodstuffs like fish are rich entrepreneurs. Entrepreneurs provide the necessary materials for construction and are given a share of the apartments constructed, with profits made from such arrangements ranging from 5,000 to 30,000 USD per apartment. There are cases of investors receiving up to 10 apartments under such arrangements. In the same vein, an investor often provides a fishing enterprise with fuel, equipment and pay for workers in exchange for a share of the catch which they then can sell on the North Korean or Chinese market. Services are also being developed through similar arrangements, with an increasing number of cases reported in which private entrepreneurs invest in state-run retailers, bathing facilities, barbers, and accommodation. Although still relatively unusual, there are cases of entrepreneurs engaging in processing contract work with textile workers to produce goods. It is no coincidence that the title “boss” (in the business sense of the title) is gradually becoming more natural as a term of address.

Economies of scale are also a factor in investor interest in production and services. No matter how profitable a trade might be, it is counted in single transactions, so it is difficult to make profits in excess of the tens of thousands of USD. There is also a great deal of risk related to trade. By comparison, investment in production and services is scalable to some extent, and thus is relatively reliable as a source of increasing profit. That said, because the North Korean system does not legally protect private property, it is problematic to think of these investors as being capitalists. Given the struggle amongst cadres to demonstrate loyalty and for economic power, entrepreneurs face the constant threat of losing investments.

While cadres have far more opportunities to save up substantial sums than the average North Korean,

the large investors did not emerge from the cadre class. Of course, cadres have become so fragmented as a group as a result of economic crisis and marketization that it is difficult to pinpoint a common set of features that defines them. Thus, just because someone is a cadre, it does not mean that they are necessarily rich and powerful. That said, cadres still do not engage in trade. And although cadres are, from the position of the average person, the country's rulers, they are also subject to more control and monitoring than the general public. Indeed, while the latter, because most do not receive a living wage or food distribution, have a justification for absenteeism, but cadres do not. Under Kim Jong Il, in particular, the state took a dim view of trade activities in general, thus cadres found it difficult to openly engage in commercial activities. Rich entrepreneurs have to continue to make money in order to accumulate wealth and gain proximity to power, whereas cadres have to maintain their status as officials of state power in order to acquire some measure of wealth (bribes). Hence, officials chose to either take bribes directly, or take their share of what was produced under the plan or rendered to the central state in the form of loyalty funds. There are occasional instances of rich investors leveraging their wealth to become low-to-mid-ranking officials, but it is difficult to find cases of cadres using their position to become rich private investors. Indeed, the further you go up the pyramid of officialdom, the rarer such cases become.

Just because one is an official working in foreign trade, this does not mean one is a private investor. Cadres working in foreign trade actually face more pressure to fulfil their obligations under the plan, and being successful in such a capacity does not mean that all the profits generated go to the officials concerned. Cadres working in the state foreign trade sector have to secure capital and/or resources in order to earn foreign currency. The state offers administrative assistance in the form of legal permits to visit China for such officials, nothing more. The foreign trade system does not have a legal framework to facilitate cooperation between state foreign trade companies. Thus, officials working at the Ministry of Defense's foreign trade company have no reason to cooperate with officials working at the Presidium of the Supreme People's Assembly's foreign trade company. This is because loyalty is determined according to the relative performance of each company. Given such circumstances, cadres working in the foreign trade sector have gotten used to working with richer business people they deem trustworthy. Foreign trade officials use their administrative prerogatives with respect to import quotas and share the profits generated from such partnerships.

There are cases of family and spouses of cadres becoming rich investors. To make money from trade in North Korea, the following conditions are essential: (1) the power and means to escape the control of the state; (2) information that helps understanding the state of demand in the market; (3) connections that span the Sino-North Korean border. Given such requirements, it is not surprising that those connected to cadres by blood or marriage are in an advantageous position – being able to enjoy the protection and privileges by proxy of North Korea’s official class.

It is Chinese residents in North Korea who are the standout group amongst the investor class in North Korea. When Korean Chinese are included, 300,000 Chinese people are estimated to have settled in North Korea during the Cultural Revolution. There are also Chinese soldiers who participated in fighting during the Korean War who then settled in North Korea after the war, though admittedly they are a minority. Their access to entering the North Korean army, universities, and the Workers’ Party is restricted. But from the economic crisis of the 1990s, social position became an advantage. They were permitted, except under special circumstances, to visit their relatives in China two to three times per year. Thus, many were able to receive help from relatives in the form of money or goods, or use their time in China to otherwise make money at a time when the average North Korean faced the real threat of starving to death.

The status of Chinese residents of North Korea also holds significant sway in the country. The privileges that they were afforded proved useful in competitive market conditions as well. First, they were permitted to call their relatives in China and postal exchanges were also allowed. Second, obviously being allowed to visit China legally meant that they had freer access to Pyongyang and border cities – far more freedom of movement than the average North Korean. Third, while they could not become a part of mainstream North Korean society, or officialdom, they had a degree of freedom when it came to their choice of work. Obligations to attend workplaces were especially relaxed compared to the average North Korean. It was their intentional exclusion from and the disinterest of North Korean society in them that would give them freedom over their economic lives. Hence, in obtaining essential assets, information and connections, and importing Chinese goods, Chinese residents of North Korea found themselves in an unparalleled position of strength.

The first to notice the competitiveness of Chinese residents in the new market economy were low-to-mid-ranking officials. High-ranking officials could use their position and the information at their disposal to create networks in China and further their knowledge of the situation across the border. But lower level cadres had little choice but to rely, all but exclusively, on Chinese residents in North Korea. Indeed, with a state looking to encourage foreign trade, investment, joint-ventures and generally raise funds, the demand for the connections that Chinese residents had grew rapidly. The special, privileged position they were in contrasted sharply with returnees from Japan. The latter were not permitted to visit their homes, and were subject to more intense monitoring than the average North Korean. The issue of Japanese citizens kidnapped by the North Korean state had led to a further souring of North Korean-Japanese relations, and this made the position of returnees still worse.

### *Loan sharks*

There are not many people whose job is lending money for profit in North Korea, and almost no one who makes a living exclusively from loan sharking. Money lenders are people who usually make their living from other activities, and lend on demand as an additional source of income. There are those who have made large sums and are in a position to lend substantial amounts, but they do not work as lenders alone. Hence, loan sharks are either foreign currency dealers or the wives of cadres. Thus the number of loan sharks remains limited. Admittedly, compared to the past, the number of people borrowing money from merchants has also seemingly risen. Making money from money lending activities alone is a dangerous idea in North Korea. It appears that since Kim Jong Un took power, the number of loan sharks has declined, the major reason being rich investors. With the rise in the funds available from rich investors, loan-sharking (politically problematic and punishable any time under the law) is losing popularity. Consequently, those who made money from loan shark activities have switched to investment. The wives of officials who have substantial funds at their disposal have also come to prefer safe “investments.”

## **Mechanisms of Finance**

### **The relationship between creditors and debtors**

The standout feature of North Korea’s private financial market is chronic excess demand. Generally,

states place some public funds in financial markets – like the Chinese state for instance. However, not only does the North Korean state not invest funds in financial markets, it does not legally recognize the function of private sector finance. Under such circumstances, contracts for debtors are highly unfavorable. However, once funds are actually lent, the situation is reversed, with creditors not being repaid on time being one such consequence. In extreme circumstances, debtors sometimes even denounce creditors to the North Korean authorities – earning interest is a serious crime under North Korean law. While such cases are outliers, they do exist.

### **How money is lent and under what conditions**

#### *The currencies involved*

Private finance in North Korea is not just transacted in KPW. The growing Dollarization and Yuanization of the North Korean economy means that the number of transactions that use foreign currency is on the rise with higher-value transactions being more likely to be settled in foreign currency.

Money is lent in both domestic and foreign currency, but since the currency reform of 2009, most borrowers want loans issued in foreign currency – loans are also repaid in foreign currency.

#### *Interest and loan periods*

The rate of interest and the period of a loan varies with the borrower, the region and when the loan was made. However, since Kim Jong Un took power, a market rate has, to some extent, emerged. This represents the fact that a private finance sector has now expanded across the country. The going rate of interest is in the 25-40 percent range – huge by world standards. Interviews with North Korean refugees indicate that annualized interest rates fall within this range, and interest levied on single transactions can too – with interest usually levied per transaction, not by period. Long-term loans are not common in North Korea. Even when the two parties are personally close and the credit of the borrower is good, loan periods do not extend beyond a year.

#### *Collateral*

The typical form of collateral offered is the borrower's house and/or household items. When housing

is used as collateral, lenders may be given the house usage permit (the North Korean equivalent of a property deed) or a written memorandum indicating that the owner has given up residency rights with respect to the housing in question. There are also cases of investments becoming collateral in financing involving individuals and enterprises. For example, a new retail outlet and its furnishings can become the collateral for the loan financing their purchase – i.e. the rights pertaining to the retail outlet are ceded to the creditor.

### *Contracts*

There are cases of documents that approximate contracts being prepared and signed by individuals engaging in financial transactions. Of course, such documents carry no legal force. At the same time, when loans are made by individuals to enterprises, contracts are usually prepared.

### *Creditworthiness*

The creditworthiness of borrowers is of central importance in North Korea's private financial markets. In the 2000s, good connections were often sufficient to secure a loan, but as the number of unpaid loans increased, a growing number of lenders began to try and verify the ability of borrowers to repay before making loans.

Creditworthiness can be subdivided into creditworthiness prior to money being lent and transaction-contingent creditworthiness. The former is decided by a number of factors including the assets of the would-be borrower, their job and their social background. Where would-be borrowers are involved in trading activities, the type of trade in which they engage is also important.

The most creditworthy borrowers are traders with stalls in General Markets because there is little fear that they will abscond or that their business will go bankrupt. Next are those with relatives in China who frequently cross the border, and those with relatives who have fled to South Korea and hence frequently receive remittances.

Transaction-contingent creditworthiness is decided by the borrower's past borrowing behavior. It decisively affects the ability of a borrower to borrow again. Limited though such developments remain, North Korea is gradually becoming a credit society. Lenders evaluate the creditworthiness of



borrowers, and this information is shared through interregional networks. Of course, it remains unclear how substantial the cash holdings of merchants – including richer investors – are, as talking about such matters would be dangerous. But merchants spend money on markets, and their spending becomes public knowledge.

## **Influence and Government Response**

### **Economic spillover effects**

As unofficial financial markets have developed, the interaction between producer, consumer, labor and service markets has deepened marketization. The investment of private capital in enterprises and collective farms in particular has raised the productivity of the latter. Indeed, it is not just output that has been raised; such investment activities have also exerted significant influence on overall productivity, consumption and distribution. At the same time, such developments served to make people more optimistic about economic prospects. Investors have made steady investments and have become optimistic about continued growth prospects. Such optimism promotes competition, and serves to re-educate market actors in how market forces work.

### **Government response**

The government continues to take a hard line on loan sharks, but has not made any particular effort to control the activities of investors and foreign exchange dealers. The fact that rich merchants and cadres are working together to create “achievements for Kim Jong Un” has significantly influenced the attitude of the North Korean authorities, giving the leadership no reason to look upon the private finance industry in a negative way insofar as it contributes to a positive perception of Kim Jong Un. So long as North Korea’s economic system does not revert to a state distribution-based system, the North Korean government is liable to continue turning a blind eye to private finance.

## **LABOR MARKET**

The North Korean labor market remains under the strict control of the state. As a matter of basic principle with respect to the operation of the state, the labor of all citizens is within the purview of the government. Control of labor gives the government general control over the North Korean people. However, in order to control the labor of people, the state must also pay them for their work - this was the purpose of the distribution system in the first place. The collapse of the distribution system impacted the state's control over the North Korean work force. North Korea now has a labor market, and like the rest of the market system, the labor market is increasingly characterized by the rise of the individual and the profit motive.

The labor market, like the capital market, was at its most tightly controlled under Kim Il Sung. Job placements and control over the work force remains one of the major powers of the party, with the placement of workers at particular workplaces remaining an unchallenged right of the party even now.

That said, the economic crisis of the 1990s affected labor in big ways. With most state enterprises at best partially functional, workers were no longer guaranteed the income and distribution they once had been. This has become a reason why much of the state workforce has sought to leave their workplaces and sell their labor to those who pay.

State-owned enterprises (SOEs) also now seek to cut their workforce, where they once sought to have as many workers on the books as possible. Since the 1st July Measures of 2002, there has been a growing sense that individual enterprises, not the state, must take responsibility for their workers, and enterprises have thus sought to rationalize their payrolls.

As labor market supply has risen, so has demand. Demand takes many forms, including: hired hands helping smugglers; workers for construction sites; construction and renovation of housing stock; mining workers for private (export) mines; temporary demand for workers at SOEs to fill shortage; and workers involved in private production.

The actual unemployed part of the population is very high in North Korea, with those seeking employment rapidly rising since the emergence of the General Market system, and the private labor market thus expanding rapidly. It was for this reason that Kim Jong Il ordered the prohibition of private employment in 2006, but state attempts to curtail marketization trends have proved ineffective, and the state has also not been able to stop the rise of private employment.

However, private labor relations have, amidst the lack of even minimal institutional apparatus, expanded in a distorted way. Male employment in the private sector has taken the form of temporary employment, with low levels of continuity. With married women, however, the lack of a formal obligation to work for a state enterprise/institution has meant that many are able to find stable work in cooperatives or street-side labor groups. It is also common for women to be employed as household workers as cooks, cleaners etc. The biggest limitation that the North Korean private labor market faces today is the temporary nature of labor contracts, which mean that North Korean laborers subsist in a condition of de facto unemployment.

## **Facts about the Labor Market**

### **Supply and demand for labor**

#### *Demand for labor*

Demand for labor exists in all sectors of the market economy. As the market economy has expanded, naturally circumstances have frequently arisen in which personal and familiar labor is often no longer sufficient when undertaking commercial activities, and there is a growing need to hire labor privately. The area where private labor is most readily observed is foreign trade. Workers are needed to move goods across the border during smuggling activities. The most common case is that of individuals exporting minerals. Individual exporters obtain the right to export from organizations like military units with export quotas, and acquire the necessary resources and labor to then take minerals over the border. Workers are also hired in the fishing industry for similar purposes.

Beyond foreign trade, an area with relatively high and constant demand for labor is manufacturing. Manufacturers can hire dozens of workers and the employment relationship is quite constant.

Increases in scale have generated demand amongst retailers, restaurants and other businesses for wage labor. Moreover, there is also considerable demand in housing construction, where individuals or organizations – when building new housing or renovating existing housing stock – require labor, and obtain it chiefly from the private labor market.

State-owned enterprises have also taken to using private labor contracts. Rich investors do not merely supply capital, but even directly engage in production within SOEs, and under these circumstances, some workers are hired as private wage laborers.

### *Supply of labor*

Work is an obligation to the state in North Korea. Those who refuse a state-assigned workplace and/or refuse to work without reasonable grounds are punishable under criminal law. One must reach the age of 60 to become exempt from such mandatory requirements. Therefore, excluding students and married women who are also exempt, most of the working age population is formally attached to state factories, farms, other workplaces and/or institutions. However, from the 1990s, employment conditions rapidly deteriorated. The number of state factories in operation went through the floor, so many workers found themselves de facto unemployed without any work to do at their assigned state jobs. They went largely unpaid and food rations were no longer provided. Factories were not shuttered, but they were also largely non-functional, and workers were left in workplaces that were for all intents and purposes closed for business.

Even in SOEs that were still productive, the PDS did not function smoothly. Wages of 3,000 KPW were not sufficient to maintain a family, so workers were forced to sell their labor on the side to make additional income. Workers who were de facto unemployed or underemployed either engaged in trade or sold their labor in the market.

Labor supply comes in many forms. The most universal form is that of 8.3 Workers. These are laborers employed by state factories who pay a fee to the factory to be exempted from the obligation to come to their workplace. This exists in almost all factories in North Korea. 8.3 Workers can be further subdivided into two categories. First are workers who pay a set sum every month so as to be exempt from work, and then engage in money making activities. The second are workers who usually go to

their official state workplaces, but when they have an opportunity to make money on the side, pay their workplace for the right to opt out temporarily.

As a result of these developments, there has emerged a difference between the “actual job” and the “job on paper” of North Korean workers. For many workers, the “job on paper” now is merely to engage in the activities of so-called “organizational life,” i.e. demonstrating support for the Korean Workers’ Party, reporting on and evaluating colleagues et al. Because the system has not been completely liberalized, such obligations remain, but earning a living is now at the discretion of the individual worker. Male workers are more often employed by strangers outside the workplace, so the 8.3 Worker is predominantly a male phenomenon. Conversely, married women, being exempt from the obligation to attend a state workplace, are freer to engage in moneymaking activities. Men are prohibited from trading at stalls in General Markets, so women seemingly have more opportunities in matters of trade.

Changing one’s place of work is also another way for male workers to enter the private labor market. To work at a private business like a retailer or restaurant registered with a stage agency, one can change one’s workplace, and also maintain a stable employment relationship. Unless one has particular skills or connections, one will have to pay bribes to get such jobs, however.

Next are workers who have de facto lost their jobs because their state workplaces are non-functional. Many without jobs thus engage in unofficial moneymaking activities. Given that they have no real job at a state workplace, they are free of state and legal control.

Finally, there are small firms that engage groups of workers. This form is unusual. For instance, some private construction companies use state construction workers. It appears that workers are engaged as a group rather than as individual laborers in this form. Miners are also hired in such a way. Workers with no existing connection to the mining industry may also be engaged, but developing a particular mine, extracting ore and exporting it often involves hiring a group of workers from an existing state mining company.

#### *Variation in the labor market*

There is a private labor market in every area of market activity. Where the labor of individual entrepreneurs and their families are not sufficient for particular profit-making activities, private labor, individually or collectively, is sought, and is engaged in a wide variety of areas in many different forms.

The most widespread is temporary employment to resolve shortage – workers employed when private individuals need additional labor. For instance, it is easy for those in the construction business to find workers without particular skills at the market when looking to undertake a short-term renovation project. Such pieceworkers are also sought on collective farms by farmers during harvest on their private plots. Rich merchants and cadres also hire cooks, cleaners and servers for special parties (the first birthday of their child and the like), weddings etc. This kind of employment can avoid social censure or legal sanction under the guise of “providing someone a living, in lieu of the state.”

However, there are few instances of relatively large-scale, long-term, and high wage employment. Long-term employment is available mainly in fishing and mining, but is not all that well-paid. Going to sea or going down into the mines are not popular activities, and are widely thought of as being at the bottom end of the employment ladder.

It is thought that the largest scale private employer is cottage industry production. A feature of this is long-term, continuous employment relations, since labor skill is vitally important in these kinds of industries. Footwear, garments and daily necessities are produced privately in North Korea. Private merchants organize production, obtain necessary raw materials, process and then sell the produce. In the process, workers are engaged.

Rich merchants also often employ workers and run production within state factories. This is because in such cases, both potential economic and political frictions are absent, and funds provided by merchants can be styled as “loyalty funds given for the good of the people and the state,” i.e. a set of arrangements that is considered to be highly politically beneficial within the logic of the system – investment presented as donation. Private investment in such a context is welcomed because it facilitates workers getting paid and production being increased. The factory on paper is owned by the state, and thus is under the control of the party where such ownership and control rights are not challenged. At the same time, capital is invested, production proceeds and workers receive wages.

North Korean officials have no reason to object.

When rich merchants invest in state factories, they usually either provide capital or raw materials, taking a share of the resulting profits or produce. However, sometimes merchants manage the actual operation of the factory concerned. In such cases, workers employed in that factory do not get paid by the state, but by the merchant themselves. In such circumstances, state factories also engage workers on a temporary basis.

The development of the service market has led to increasing employment in the service sector as well. Retailers and restaurants cited above are de facto managed by private individuals, and the larger the scale of the business becomes, the more need there is to hire workers. When workers are hired, they formally become workers for the state organization/enterprise where the business is registered, and are paid by the entrepreneur who runs the business.

## **Impact and Government Response**

### **Economic spillover effects**

Since Kim Jong Un took power, the practice of employing workers privately and paying them in cash has proliferated. Furthermore, such transactions are becoming, along with private trade and services, a highly significant means by which to survive. With a monthly wage of 3,000 KPW – the average in state enterprises and not enough to buy even a kilo of rice – and the PDS largely inoperative, the private labor market is increasingly providing the minimum means of subsistence for a growing number of workers. Over the last decade, one of the dramatic changes that has occurred in the minds of North Koreans is the rise of materialism, and in order for money reign supreme, there must be many moneymaking opportunities. With the rise of Kim Jong Un, moneymaking possibilities have never been in such ample supply. This has also resulted in an improvement in the image of Kim Jong Un and the Korean Workers' Party amongst the average North Korean.

The formation and development of North Korea's labor market has further promoted the development of markets for consumer goods and services. Except for trading at market, almost all

economic activities require that one hires outside one's immediate kinship network. The formation and development of the labor market has created the necessary conditions for this. The labor market has not merely become a means for North Korean people to survive; it has also helped aid the growth of the economy by increasing the supply of labor and raising efficiency. This subsector is vital to raising potential economic growth going forward, providing possibilities for workers to engage in more productive activities than in existing, inefficient SOEs, and this is raising labor productivity.

### **Government response**

Although marketization is occurring in a diverse array of areas, private employment remains entirely illegal. Moreover, without sufficient grounds, workers who do not attend their state-assigned workplaces are subject to legal sanction. However, there are very few people now punished under such laws.

Following the famine of the 1990s, where survival clashed with existing law, it was the law that was increasingly ignored. If it does not cause political problems, activities are generally ignored. Of course, pervasive bribery and cadres closing their eyes to such activities is also an important element in this. Private employment does not cause political problems. Of course, because it is not protected under the existing system, bribery is essential. However, many North Koreans think of bribes as a cost of doing business.

Kim Jong Un's approach to the labor market is different to Kim Jong Il's in one vital respect: while labor markets remain outside the official system, state resources and institutions are no longer being mobilized to curtail the emergence of private labor markets. Kim Jong Un appears to have adopted a wait-and-see approach, managing the situation in order to forestall demands for fundamental reform to the labor market or open expression of opposition to Kim and the Korean Workers' Party. Kim's policy is thus to tacitly accept the current situation just so long as it causes no political problems.



## Provincial Breakdown of General Markets and Stalls

### 1. North Korean General Markets and Stalls

Region	Markets	Stalls
Pyongyang	41	110,260
South Pyongan Province	65	118,778
North Pyongan Province	47	71,826
Chagang Province	24	22,108
Ryongyang Province	19	17,442
North Hamgyong Province	35	58,633
South Hamgyong Province	49	74,076
Kangwon Province	30	30,144
South Hwanghae Province	34	42,810
North Hwanghae Province	33	43,262
Kaesong City	1	1,845
Nampo City	6	16,159
Rason City	3	5,318
<b>Total</b>	<b>387</b>	<b>612,661</b>

### 2. Pyongyang

Region	Market	No. of stalls
Kangnam District	Kangnam Market	1,970
	Kangdong Market	3,208
Kangdong District	Namgang Market	1,685
	Yongnam Market	1,420
Taedong River District	Munsu Market	3,241
	Puksu Market	2,540
Taesong District	Ryonghong Market	2,740
	Taesong Market	1,814
Tongdaewon District	Saesallim	2,198
	Tongdaewon Market	2,940
Rakrang District	Rakrang Market	3,987
	Kwanmun Market	3,812

	Tongil Kori Market	3,480
Ryokpo District	Ryokpo Market	2,245
	Changjin Market	1,680
	Ryongsong Market	3,148
Ryongsong District	Chonggye Market	3,005
	Ryongchu Market	2,312
	Chilgol Market	3,842
Mangyongdae District	Tangsang Market	2,420
	Changhun Market	2,984
	Inhung Market	2,212
Moranbong District	Moran Market	3,624
	Potong River Market	2,984
Potong River District	Saegori Market	1,894
	Songshin Market	3,854
Sadong District	Mirim Market	2,450
	Samsok Market	2,220
Samsok District	Sosan Market	2,874
	West Pyongyang Market	3,691
Sosong District	Sanop Market	2,842
	Songyo Market	3,451
Songyo District	Sunan Market	2,681
	Namsan Market	1,284
Sunan District	Paesan Market	1,954
	Rungra Market	2,084
Unjong District	Junggu Market	2,814
	Ponghak Market	2,381
Pyongchon District	Pyongchon Market	3,865
	Hadang Market	2,980
Hyongjaesan District	Sangdang Market	1,450
	<b>Total: 110,260</b>	

### 3. South Pyongan Province

Region	Market	No. of stalls
Pyongsong City	Toksan Farmers Market	8,658
	Munhwa Market	2,602
	Tumu Market	2,685
	Hacha Market	1,584
	Chongtok Market	2,013

Kaecheon City	Kaecheon Market	3,581
	Pukwon Market	1,685
	Ryongjin Market	982
Tokchon City	Tokchon Market	2,658
	Namtok Market	1,403
	Hyongbong Market	1,254
Sunchon City	Sunchon Market	6,854
	Kangpo Market	3,580
	Ryonpo Market	2,365
	Ungbong Market	982
Anju City	Namhung Market	3,582
	Anju Market	4,685
	Misang Market	1,140
Changnam District	Changnam Market	1,783
Ungokji District	Chonsan Market	854
Other Rural Counties	Kangso Market	2,240
	Tokhung Market	2,983
	Namsan Market	1,102
	Ryongwon Market	982
	Taedung Market	3,852
	Sijong Market	1,258
	Taeon Market	1,852
	Kilyang Market	458
	Taehung Market	685
	Maengsan Market	1,258
	Mundok Market	2,698
	Soho Market	1,168
	Pukchang Market	2,103
	Inpo Market	985
	Punggok Market	574
	Songnam Market	605
	Songchon Market	2,856
	Changrim Market	985
	Ungok Market	758
	Kunja Market	658
Sukchon Market	2,651	
Namyang Market	1,365	
Shinyang Market	1,436	
Inpyong Market	628	

Yangdok Market	1,358
Onchon Market	2,102
Mayong Market	986
Porim Market	1,065
Chungak Market	985
Unsan Market	2,054
Kubong Market	658
Songsan Market	456
Chaedong Market	1,358
Chonsong Market	985
HaksanMarket	732
Chungsan Market	1,834
Pungchong Market	569
Kangson Market	2,680
Taebosan Market	710
Pyongwon Market	2,406
Hanchon Market	760
Opa Market	842
Hwaechang Market	1,943
Paekryong Market	982
Sokhwang Market	674

**Total: 117,209**

#### 4. North Pyongan Province

Region	Market	No. of stalls
Kusong City	Kusong Market	2,350
	Panghyon Market	634
	Chahung Market	721
Sinuiju City	Chaeha Market	5,685
	Chinson Market	1,432
	Rakwon Market	1,684
	Yonha Market	854
	South Sinuiju Market	1,652
	Tongsang Market	685
	Namha Market	684
Chongju City	Chongju Market	3,256
	Osan Market	1,254
	Ryongpo Market	725

	Kwaksan Market	2,010
	Kujang Market	2,413
	Ryongmun Market	1,430
	Tungrip Market	854
	Nyongbyon Market	2,350
	Taegwan Market	1,685
	Songpyong Market	754
	Tongrip Market	2,654
	Tongchang Market	980
	Ryongchon Market	2,731
	Ryongampo Market	1,963
	Pukjung Market	865
	Pakchon Market	2,541
	Maengjung Market	1,036
	Pyokdong Market	1,102
	Sakju Market	2,432
	Chongsong Market	984
	Sapyong Market	842
	Supung Market	465
	Sonchon Market	1,982
	Yomju Market	2,300
	Tasa Market	974
	Yunsan Market	1,982
	Pukjin Market	631
	Unjon Market	1,420
	Uiju Market	2,430
	Tokryong Market	980
	Changsong Market	768
	Chonma Market	854
	Cholsan Market	1,988
	Changsong Market	843
	Taechon Market	1,035
	Paljon Market	656
	Pihyon Market	1,142
	Paekma Market	468
	Hyangsan Market	1,035

Other Rural Counties

**Total: 73,195**

## 5. Chagang Province

Region	Market	No. of stalls
Kanggye City	Kanggye Market	1,652
	Nammun Market	981
	Koyong Market	732
Manpo City	Manpo Market	1,830
	Songhak Market	458
Huichon City	Huichon Market	2,840
	Chupyong Market	985
Other Rural Counties	Kopong Market	684
	Tongsin Market	1,240
	Rangrim Market	1,032
	Ryongrim Market	762
	Songgan Market	1,162
	Changpyong Market	520
	Songwon Market	724
	Sijung Market	658
	Usi Market	556
	Wiwon Market	652
	Chasong Market	583
	Changgang Market	984
	Chonchon Market	986
	Koin Market	468
	Chunggang Market	658
Chosan Market	465	
Hwapyong Market	496	
<b>Total: 22,108</b>		

## 6. Ryanggang Province

Region	Market	No. of stalls
Hyesan City	Hyesan Farmers Market	4,092
	Wiyon Market	1,680
	Yonbong Market	1,206
	Yonpung Market	846
	Masan Market	640
Other Rural Counties	Kapsan Market	1,124
	Samil Market	420

Sinpa Market	658
Pungsan Market	710
Huchang Market	854
Namsa Market	370
Taehongdan Market	824
Paekam Market	812
Yupyong Market	420
Pochon Market	592
Samsu Market	358
Samjiyon Market	410
Uhung Market	862
Pungso Market	564

**Total: 17,442**

## 7. North Hamgyong Province

Region	Market	No. of stalls
Kimchaek City	Kimchaek Market	2,684
	Chaegang Market	1,685
	Wonpyong Market	985
Chongjin City	Ranam Market	1,352
	Songpyong Market	1,685
	Sunam Market	12,098
	Sinam Market	2,685
	Chongam Market	4,582
	Pohang Market	1,286
	Puyun Market	1,652
Hoeryong City	Hoeryong Market	2,854
	Nammun Market	624
Other Rural Counties	Kyongsong Market	1,632
	Sungam Market	983
	Kilju Market	1,402
	Ilsan Market	865
	Ryongdam Market	326
	Myonggan Market	1,932
	Ryongban Market	1,402
	Myongchon Market	1,135
	Musan Market	1,832
	Puryong Market	842

Saebyol Market	1,865
Kogonwon Market	465
Undok Market	1,572
Haksong Market	584
Orang Market	1,320
Odaejin Market	658
Yonsa Market	869
Onsong Market	1,403
Namyang Market	1,102
Jongsong Market	468
Sambong Market	420
Chuwon Market	540
Hwadae Market	844

**Total: 58,633**

## 8. South Hamgyong Province

Region	Market	No. of stalls
Tanchon City	Tanchon Market	3,668
	Taehung Market	984
	Kumgol Market	787
	Kwangchon Market	668
	Haean Market	475
Simpo City	Simpo Market	2,680
	Tongho Market	985
Hamhung City	Sapo Market	8,692
	Haean Market	1,980
	Hwaesang Market	1,650
	Tonghungsan Market	1,420
	Pyongsu Market	1,520
	Samil Market	2,015
	Hungnam Market	2,322
	Chongi Market	1,251
	Hungdok Market	922
	Other Rural Counties	Kangsang Market
Sudong Market		1,866
Kowon Market		1,258
Puraesan Market		568
Kumya Market		1,986



Inhung Market	1,104
Toksong Market	1,869
Cholsan Market	658
Rakwon Market	1,144
Samho Market	468
Riwon Market	1,766
Rahung Market	1,258
Chaho Market	677
Pujon Market	768
Pukchong Market	2,788
Sinpukchang Market	986
Sinchang Market	1,368
Sinhung Market	2,013
Paljon Market	586
Puhung Market	854
Yonggwang Market	1,964
Sujon Market	866
Yodok Market	468
Changjin Market	982
Chongpyong Market	1,897
Yonghung Market	1,025
Hamju Market	2,406
Hochon Market	2,156
Songsan Market	1,146
Manhung Market	868
Hongwon Market	1,877
Unpo Market	984
Kyongpo Market	568

**Total: 74,076**

## 9. Kangwon Province

Region	Market	No. of stalls
Munchon City	Munchon Market	2,706
	Okpyong Market	468
	Koam Market	488
Wonsan City	Kalma Market	4,860
	Tongmyong Market	1,268
	Chokchon Market	1,868

	Haebang Market	2,100
	Kosan Market	1,208
	Solbong Market	458
	Kosong Market	1,105
	Kumgang Market	986
	Kimhwa Market	867
	Hakbang Market	421
	Popdong Market	568
	Saepo Market	1,104
	Anbyon Market	1,204
	Ryongdae Market	566
Other Rural Counties	Apgang Market	778
	Yichon Market	928
	Changdo Market	468
	Chonnae Market	988
	Ryongdam Market	406
	Sinsan Market	324
	Hwara Market	368
	Cholwon Market	622
	Tongchon Market	736
	Pangyo Market	553
	Pyonggang Market	844
	Changchon Market	482
	Hwaeyang Market	402
	<b>Total: 30,144</b>	

## 10. South Hwanghae Province

Region	Market	No. of stalls
Haeju City	Kyonggijang Market	2,106
	Haeju Market	2,406
	Sansong Market	982
	Tonghaeju Market	4,230
Other Rural Counties	Kangryong Market	1,702
	Pupo Market	1,104
	Kwail Market	1208
	Sansu Market	362
	Ryongyon Market	1,408
	Paechon Market	1,802

Pongryang Market	866
Pyoksong Market	1,688
Pongchon Market	1,490
Samchon Market	1,342
Songhwa Market	884
Shinwon Market	1,208
Hasong Market	646
Shinchon Market	1,830
Anak Market	1,040
Yonan Market	1,860
Yomjon Market	854
Ongjin Market	1,588
Namhae Market	842
Kugok Market	632
Unryul Market	1,322
Kumsanpo Market	784
Onchon Market	986
Changyon Market	1,302
Rakyon Market	588
Chaeryong Market	1,340
Kumsan Market	543
Chongdam Market	1,865
Sinhung Market	566
Taetan Market	1,134
<b>Total: 42,810</b>	

## 11. North Hwanghae Province

Region	Market	No. of stalls
Sariwon	Kuchon Market	4,860
	Taesong Market	1,685
	East Market	1,820
	North Market	1,020
Songrim	Songrim Market	2,684
	Sinhung Market	1,320
Other Rural Counties	Sungho Market	1,880
	Kaepung Market	686
	Koksan Market	2,010
	Kumchon Market	1,402

Rinsan Market	1,120
Pongsan Market	1,840
Songjong Market	682
Sangwon Market	1,308
Myongdang Market	820
Sohung Market	1,763
Suan Market	1,274
Namjong Market	624
Singye Market	1,633
Sinpyong Market	1,138
Mannyon Market	588
Myokmi Market	342
Yonsan Market	986
Holdong Market	426
Yontan Market	1,323
Unpa Market	1,650
Kwangmyong Market	608
Changpung Market	960
Chunghwa Market	977
Tosan Market	846
Pyongsan Market	862
Chonghak Market	475
Hwangju Market	1,650

**Total: 43,262**

**12. Rason, Nampo, Kaesong**

Region	Market	No. of stalls
Kaesong City	Kaesong Market	1,845
	Waudu Market	2,498
Nampo City	Kapmun Market	2,135
	Nampo Market	4,685
	Kalchon Market	3,012
	Komsan Market	2,471
	Ryonggang Market	1,358
Rason City	Rajin Market	3,240
	Sonbong Market	1,246
	Hongui Market	652

**Total: 23,142**

