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An Analysis of the Structure of the North Korean Economy under Kim Jong Un: Socialist System of Responsible Business Operation vs. Socialism*

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Abstract

Since Kim Jong Un took over as North Korean leader, the country has called for establishing the Our-Style Economic Management Methods. This method is to be realized through the Socialist System of Responsible Business Operation. This article analyses the North Korean economy's structure after the system's introduction. Based on Marxist theory, the economic structure is understood as the mode of production. The mode of production in North Korea is traced through the stages of Making a Plan, Advance Funding, Purchasing Means of Production and Securing Labor-Power, Production, Sale of Products, and Income Distribution. Then three features of the North Korean economy after the implementation of the Socialist System of Responsible Business Operation are described in the reduction of planning and expansion of markets, the increase in ability to respond to the 'vicious circle of money shortage,' and the strengthening of the 'non-neutrality' of money. In conclusion, it is stressed that the 'degree of socialization' in North Korean society is much weaker than in the past.

Keywords Our-Style Economic Management Methods, Socialist System of Responsible Business Operation, North Korean Economic Structure, Mode of Production in North Korea, North Korean Money, Monetary Economy.

I . Introduction

This article aims to analyze the structure of the North Korean economy after the implementation of the Socialist System of Responsible Business Operation (hereafter referred to as SSRBO). The problem consciousness is the same as that of Rachel Minyoung Lee and Robert Carlin (2022). They claimed: "Though we understand why the North Korean economy is usually discussed in the context of details such as trade, market price, and foreign exchange rate data, our view was that these issues would be better raised after a careful look at the larger frame in which the smaller data points make sense."

Marx (2014 [1859]) defined the economic structure of society as the totality of the relations of production, that is, the mode of production. The historical feature of the capitalist mode of production was the domination of industrial capital in the production process and the increase of industrial capital through the production of surplus value. Michael Heinrich (2015 [2004]), a Marxist, explained it in that way: "[In society before capitalism,] production was to serve desires. How our trade is conducted and especially our production, its overwhelmingly capitalistic execution – no longer aimed at desires but profit – can tell us much about capitalism." Following this approach, the capitalist mode of production can be described as

the circulation of industrial capital. Capitalists first advance money capital. They buy means of production (MP) and labor-power (LP) with the capital, and then join them for production. Products are sold. As such, products become commodities and are converted into money capital. Money capital (M) is turned into money capital (M'). But the size differs. The latter is bigger than the former by the surplus value (S), meaning $S = M' - M$. The capitalists take this surplus value. Marx formulated this formula in the following way:

$$M - C (MP, LP) \dots P \dots C' - M (M < M')$$

According to North Korean textbooks on political economy, socialism is a transitional period from capitalism to communism. The main reason is that in a socialist society, the forces of production are not developed enough to achieve the 'distribution according to demand' required for communism. Thereby capitalist and communist features coexist in a socialist society. The 'commodity-money relations and law of value' and 'rule of distribution according to labor' represent capitalist features. Especially the 'law of value' is applied along with the communist features 'rule of socialist basic economy' and 'rule of development of the people's economy balanced and according to plan' in all of North Korea's socialist economy. (Lee Ki Sung, 1992). The North Korean mode of production in form equals the capitalist mode of production. This fact can be found in the description of the North Korean mode of production by Kang Chang Nam et al. (2010):

In a socialist society, money movement accompanies enterprises' management process and creates several relations to money. Understanding the management process as money relationships, it becomes a repetition of enterprises having money funds according to the plan, purchasing raw materials and resources necessary for production, producing their products and receiving income by selling it, income compensating for expenses and a large part of the net social income going to the state, while the enterprise again uses a part of it.

But once again, this is not entirely the case. Only on the outside, this mode of production resembles the capitalist mode of production. First, production means can only be owned by the state and social, cooperative organizations. Individuals are forbidden from privately owning them. Accordingly, products traded between state enterprises are not commodities but only commodities in form. The law of value is also applied only in form. Secondly, the capitalist economy is regulated by a market mechanism (hereafter referred to as the 'market'). The steering mechanism of the socialist planned economy is a planning mechanism (hereafter referred to as 'planning').² Advanced funds are mainly created through the 'state-provision funds.' Enterprises cannot freely decide on purchasing means of production or selling their products. The state controls these behaviors. It also determines prices. In addition, the state retains the right to dispose of the residual property. Thirdly, labor power is not a commodity in North Korea. The expended labor-power is compensated by 'living expenses' [wages], but it is not traded on the market because the state forcibly assigns labor power.

After Kim Jong Un took power, North Korea made extensive changes to the classical mode of production established in the 1960s. In December 2011, he instructed the establishment of the Our-Style Economic Management Methods. Accordingly, the North Korean authorities set up a working group to improve the methods of economic management and prepared a reorganization plan in September 2012. Based on the research and activity of this working group, on May 30, 2014, Kim Jong Un published a talk titled *About*

1 This article is a revised and translated version of Kim Ki Hun (2021). The introduction and conclusion have been rewritten.

2 The 'market' refers to the system in which resources are allocated by the autonomous selections of economic agents such as households and firms. On the other hand, 'planning' is the centralized and authoritarian method in which the government body makes resource allocation like Gosplan of the former Soviet Union.

the Establishment of the Our-Style Economic Management Methods. This is the so-called May the 30th Talk. In this Talk, the establishment of Our-Style Economic Management Methods was concretized through the realization of the SSRBO. In December 2015, Kim Jong Un officially announced the implementation of the SSRBO and the separation of the central bank and the commercial banks, i.e., the re-establishment of the commercial banks, in a letter to the participants of the nationwide conference of financial and banking employees. Following this, on May 6-7, 2016, Kim Jong Un made the SSRBO public at home and abroad in his *Report of the Central Committee to the 7th Party Congress of the Workers' Party of Korea*. "We need to realize the SSRBO properly. The factories, enterprises, and cooperatives must, by the demands of the SSRBO, establish a good management strategy, actively and creatively organize entrepreneurial activities and thus normalize, expand and develop production. On the part of the state, all conditions must be fully guaranteed so that enterprises can smoothly exercise the management rights imposed on them." (Kim Jong Un, 2016)

To legally support the SSRBO, the North Korean authorities, beginning at the end of 2014, set out to adopt and revise laws related to the economy, such as the Law on Agriculture, Companies Act, Foreign Trade Act, Law on the National Economic Plan, Law on Management of Materials, Finance Act, Central Bank Act, and Commercial Bank Act. In April 2014, even the Constitution was revised. Article 33 of the Constitution deleted the Taaen Management System and the Agricultural Management System under Which Agriculture Is to Be Managed by Enterprise Methods. Instead, the SSRBO was stipulated as follows. "The state, based on the collective wisdom and power of the producing masses, manages and directs the economy according to scientific and rational principles and decisively increases the role of the cabinet. In managing the economy, the state correctly realizes the SSRBO and applies economic levers such as costs, prices, and profitability."

Below, the different stages of the mode of production in North Korea after the introduction of the SSRBO will be analyzed, and based on that, the features of the North Korean economy will be pointed out in the next part.

II. The North Korean Mode of Production after the Introduction of the SSRBO

1. Making a Plan

In the course of introducing the SSRBO, the authorities in North Korea transferred the planning right, i.e., part of the rights to draw up the plan, to the People's Committees in the Provinces and enterprises. This means that after the division of the 'planning indicators' into 'state indicators' (hereafter referred to as SIs), 'local indicators' (hereafter referred to as LIs), and 'enterprise Indicators' (hereafter referred to as EIs), the planning right over the LIs and the EIs was transferred to the People's Committees in the Provinces and the enterprises respectively. The subject of the LIs is the industry in the provinces. The LIs are set up directly by the People's Committees of regions, cities, and counties. According to Kang Sung Nam (2016), "The State Planning Commission creates general indices on things like industrial production by province and basic construction investment as well as other indices if necessary, also [including in] planning equipment and resources that the state can provide, while planning of divisions for cities, counties and enterprises, as well as detailed indices [, is done] by provinces, cities, and counties according to their actual situation." However, the LIs are included with the SIs in the 'current plan' for the Development of the National Economy (hereinafter referred to as the 'current plan'), which is the unified state plan, focused on commodity production in one-year units.

The enterprises work out the EIs independently. The enterprises draw up a management strategy and, based on this, carry out the planning work for the EIs. As long as the fulfillment of the Sis is not affected, there are no special restrictions on the selection and definition of the EIs. The EIs are not included in the 'current plan.' In connection with the production of the EIs, the enterprises themselves decide on the advance funding and the purchasing of material and other means of production, as well as on the sale of the products and the setting of prices. Political economy in North Korea calls this the 'actual transfer' of the management right to the companies. However, according to the law, the owner of all enterprises is the state. The state also allocates labor power. For this reason, the autonomy of enterprises can still be nothing more than relative independence in terms of operating. In fulfilling the plan, the Sis and (in the case of industry in the provinces) the Lis must still take precedence. If the Sis or the Lis are not 100% fulfilled, the EIs may not be implemented first. Raw materials, fuels, etc., must also be used primarily for production to meet the Sis and the Lis. Furthermore, these indicators' results must be prioritized when assessing the status of a company's plan implementation.

The Sis indicators are determined by the State Planning Commission (hereafter referred to as SPC). The Sis include "the indicators related to the development of the military industry, of the priority sectors of the national economy, the basic industries, high-tech industry, and of the [consumer goods] indicators that are particularly important for raising the living standards of the people." (Yoon Jin Ah, 2018) And among them, those indicators that can ensure that "the production plan for the individual commodity indicators and the plan for securing and providing the material is realistically and accurately interlinked." (Kang Sung Nam, 2016) The method of planning the Sis is the same as before the realization of the SSRBO. It follows the classical method based on the monistic system. Enterprises set 'temporary numbers' and submit them to the SPC. The Commission creates 'control numbers' based on these 'temporary numbers,' and after the party [Worker's Party of Kores] and cabinet approve them, they are handed to enterprises. Under the principle of achieving these 'control numbers,' enterprises then write 'plan drafts.' The SPC gathers and organizes them and asks the Supreme People's Assembly to ratify them. The eventual plan approved by the North Korean assembly has the same authority as national law. Not a single number can be corrected and has to be achieved under any circumstances. Furthermore, the SPC also plans all general macroeconomic indicators, which are, e.g., "gross social product and national income, accumulation and consumption, the total revenue and expenditure of the state budget, income and expenditure in foreign currency, the total amount of money in circulation, the total amount of net income, the pace of economic growth, the social productivity of labor, the commodity price index and foreign exchange rates." (Do Sung Cheol, 2018)

After the introduction of the SSRBO, the state drafts an economic strategy, unlike in the past. And based on that, he draws up a 'perspective plan.' "[The economic strategy is] not a strategy that [aims] at general economic development based on a quantitative increase in production, but asks into which direction the country's economy is developing, what its structural features will be, and what aim it wants to achieve." (Yoon Jin Ah, 2018) The short-term economic strategy is three years, for the medium-term 5 - 10 years, and for the long-term over ten years. Establishing an economic strategy is the first step in managing the economy. In the past, North Korea only drew up a 'perspective plan' and the 'current plan.' An economic strategy had not been established. Also, among the plans, the 'current plan' was considered particularly important. But now, the economic strategy is most important. This means a shift from planned management of the economy to strategic management. In this context, Song Jung Nam (2015) points out the following. "In the past, the state's economic management method was to start by drawing up an economic plan ['current plan']. The question of the perspective development of the country's economy

was also solved not by the method of drawing up a strategy but by adopting a 'perspective plan.' The strategic method of economic management consists of drawing up an economic strategy based on the party policy and scientific calculations and drawing up and implementing [step-by-step] perspective plans for realizing this strategy."

2. Advance Funding

Production is a combined process of means of production and labor. To carry out the production process, means of production and labor power must be prepared beforehand. As emphasized above, the means of production are supplied through the commercial form, that is, the trading process using money, under the principle of 'equivalent compensation.' Labor power is not a commodity, but the payment of wages compensates for its expenditure. The wages are paid in cash. With these wages, the workers buy food and consumer goods in the state or cooperative shops or on the market and thus leads their life. Accordingly, in North Korea, too, advanced funds must be prepared in the form of money before starting production. Even in North Korea, advanced funds are a prerequisite for production.

In North Korea, there are four different methods of advance funding. First, the 'state-provision funds.' The state provides the enterprise with advanced funds from its finances. This money does not need to be paid back. Secondly, reserves accumulated in the enterprise itself. In North Korea, enterprises hold back part of their revenues internally and use them as advanced funds for the next period. Thirdly, loans from commercial banks. With the introduction of SSRBO, the North Korean authorities separated the branches of the central bank from the central bank and turned them into commercial banks. This means that the central bank branches in the provinces, cities, and counties became commercial banks. These banks completely took over the function of the former branches of the central bank. These banks are now responsible for granting loans. "[The] commercial banks loan to enterprises using their secured capital as the general source." (Ko Keum Hyuk, 2016) Commercial banks are state institutions like the branches of the central bank. Still, they differ in one crucial point: they have relative fiscal autonomy and operate, and independent accounting system labeled *Geumyunggigwanchaesanje*. (Kim Jung Un, 2015). With the introduction of these banks, the North Korean central bank now only fulfills its original function: the bank of issue, the bank of commercial banks, and the government bank. Fourth, borrowing directly from the citizens. With the introduction of the SSRBO, the North Korean authorities have legalized the use of private financing, which previously existed only in secret. According to art. 38 of the Enterprise Law, enterprises can (as decided on) mobilize 'idle currency capital' of citizens if their management activities funds are insufficient.

The political economy of North Korea divides advanced funds into fixed funds, current funds, and wage funds. The fixed funds are used to acquire the fixed assets, i.e., the means of labor, among the means of production. The means of labor transfer only a portion of its value to the product in one production cycle. New and vital enterprises build their fixed capital through the 'funds provided by the state.' Now all other enterprises have to raise their fixed funds through their reserves, commercial bank loans, and private financing. Current funds are used to acquire existing assets such as raw materials, fuels, materials, and other objects of labor. The state provides the current funds necessary for the production of the SIs and the initial current funds for the new enterprises. The enterprise itself must raise the current funds for the EIs. But even in the former case, if the 'state-provision funds' do not go as planned, and there is a shortage of current funds, the enterprise must also provide the shortfall. The turnover of the wage funds is similar to that of the current funds. If the fixed funds rotate once, the wage funds rotate several times, and while it goes through all stages smoothly in one production cycle, it completes a one-time turnover. Based on this,

in the following explanations, the current and wage funds are no longer distinguished separately. I will continue my discussion by including the share for wage funds in the current funds. For reference, Marx classifies the objects of labor and the labor-power under current capital.

3. Purchasing of Means of Production and Securing Labor-Power

(1) Purchasing of Means of Production

The acquisition of the means of production and the method of setting the price varies depending on the indicators. In the case of SIs and LIs, the 'current plan' specifies the type and quality, quantity, and place of delivery of the means of production necessary for the plan's fulfillment. The receiving enterprise concludes a supply contract for the goods with the specified supplying company. The political economy in North Korea calls this a 'plan agreement.' Before the realization of the SSRBO, the prices of all products in North Korea were categorized as 'plan prices,' and among them, the prices of means of production were classified as 'wholesale prices, and were set uniformly by the SPC. Even today, the 'wholesale price' for the SIs and the LIs is set this way.

On the other hand, the means of production necessary for the EIs are acquired according to 'order contracts.' "Receiving and supplying enterprises enter into a contract by negotiating directly with each other." (Choi Yong Nam, 2018) But the 'plan agreement' always takes precedence everywhere. "In the contracting of enterprises, the principle is: Priority is given to contracting the objects subject to production and supply control of the central [state] planning figures, and then the contract is concluded on the enterprise planning figures." (Choi Yong Nam, 2018) In the case of an 'order contract' on means of production, the price is a matter of negotiation between the two parties. In this case, the price is a 'negotiated price.' However, even this 'negotiated price' must adhere to the state's principles and methods of price setting. On the other hand, the North Korean enterprises can also obtain their means of production by using the Socialist Exchange Markets (hereinafter referred to as SGEMs) in their respective cities and counties. Choe Yong Nam (2016) defined them as a "place of transaction for production products where items needed are directly exchanged commercially by factories and companies outside the national plan based on free trade." Consumer goods are not traded on those markets, and transactions are limited to the following items: 1) equipment and materials that are no longer needed, 2) production goods that were produced in an amount exceeding requirements set in the plan, 3) items required to normalize production. The latter is explained by Jo Gil Hyun (2018) as follows: "In the [current] situation where the state cannot secure goods necessary for the execution of production plans, enterprises [are allowed to] use items among their products as exchange items for normalizing production to solve shortages in goods." In these SGEMs, the price is based on the 'plan price.' The settlement has to be made in cash by commercial banks or in 'non-cash settlement' [account transfer]. But the SGEM is, in a certain way, only an auxiliary device. In addition, means of production related to the fulfillment of the SIs may not be traded on the SGEMs. The SSRBO has granted the North Korean enterprises the 'foreign trade right.' North Korean enterprises can now solve shortcomings in purchasing means of production through foreign trade. According to art. 37 of the Enterprise Law, enterprises have the right to trade and joint venture. By actively engaging in foreign economic activities within their bounds of capability, they are supposed to solve questions of required raw materials, resources, and equipment themselves, while actively realizing modernization of equipment and production technologies. This means they can export some of their products and import raw materials, fuels, materials, equipment, etc., for the earnings.

(2) Securing Labor-Power

As emphasized several times above, labor power is not a commodity in a socialist society. According to Han Duk Bo (1992), "Under socialism, property of individual persons is limited to consumer goods, while labor-power as a concept of individual property cannot, in the study of socialist political economy, become scientifically and realistically established. (...) Under socialism, workers are the bearers of labor power but not private owners of it. (...) Socialist society has unified its [labor power and the person] into one. (...) Persons are thereby carriers of labor-power while labor-power is the workers that are the protagonists of production and labor. (...) a labor-power of a social character under the control of society and groups [...] planned mobilization and use of labor-power resources by social functions." As shown in this statement, a socialist society seeks a direct combination of means of production and labor power.

Therefore in North Korea, the state deploys the labor power in a planned manner in the various sectors of the economy. Full employment is the obligation of the state. The freedom to sell labor-power to an individual is not allowed. In the same way, enterprises do not have the freedom to buy labor. Individuals and enterprises can only use the labor power. This has not changed even after the introduction of the SSRBO. The enterprises use the advanced current funds, or more precisely, the share it contains for the wage, to pay this to the workers appointed by the state and put them into the production process together with the means of production.

On the other hand, specific changes can be observed with the introduction of the SSRBO in connection with the enterprises' labor management. First, they have been granted the right to self-regulate their management departments and staff. Now, "[The enterprises] can actively organize and structure their management departments within the framework of standard management facilities and staff numbers set by the state, and increase or decrease the number of staff in management facilities according to need, upon the enterprise's decision." (Kim Myung Guk, 2016) Secondly, it has been ensured that their own decision can also increase the share of the labor-power working in the production sector. Thirdly, the companies have also been given the right to independently assess, select and deploy talented employees in necessary positions. Fourth, the companies also exercise the right to send away, receive or exchange workers with the authorities' permission.

4. Production

In North Korea, too, the basic production unit is the enterprise. In North Korea, socialism is understood as a transitional period. For this reason, enterprises in North Korea have a relative autonomy and are managed according to the independent profit system. The SSRBO has further strengthened the independence of the enterprises. In the same context, the North Korean authorities have handed over some of the rights related to production to the enterprises. First, the right to set the 'standard amount of work' was transferred to the enterprises. "As the standard quantity of labor required for the production of a certain product or the performance of a certain operation, the 'standard amount of work' is expressed in terms of a standard quantity of products (or work operation) per unit of time or in terms of a unit of time per unit of product (or work operation)." (Yang Eun Deok, 2018) In North Korea, under the principle of distribution according to work, the labor spent is remunerated according to the quality and quantity of the work. The amount of work is calculated and evaluated according to working time and the 'standard amount of work.' Before the SSRBO was implemented, the state set the 'standard amount of work.' But now, the enterprise does that. According to Yang Eun Deok (2018), "Based on the uniform standards and measures established by the state, the enterprise flexibly and scientifically sets the standard amount of

work (...) constantly updates it according to the real situation in their units." Secondly, the right to develop products has been transferred to the company. Not only that, in the past, in North Korea, you needed authorization from the state to create products anyway, but also to produce them. But that has changed now. The range of products whose production requires the state's approval has shrunk considerably. This means that the state's right of approval about the production has been shortened. Quality management is now also the enterprise's responsibility. Additionally, enterprises can task scientific research institutions, universities and individual scientists and experts that hold patent and invention rights with developing new technology independently. Thirdly, the enterprises carry out quality management in the production process and quality control of the finished products. The question of whether or not to apply for quality certification is also decided by the company itself. Also, the company must faithfully fulfill the after-sales service obligation.

In addition, the North Korean authorities introduced *Tamtangch'aekimche*, the responsibility system. This system can also be described in one word as a 'piece-rate system,' plus alpha (α). The 'piece-rate system' is a system in which workers, based on the 'standard amount of work,' are given a quantity of work to do and are paid wages according to completion. *Tamtangch'aekimche* goes one step further. Under this system, all assets within a factory, such as a machinery and land, equipment, etc., are divided according to a certain standard, and then a person in charge is appointed to manage them. The basic principle of the system is the unity of rights and responsibilities. It is about the precise transfer of rights and taking responsibility for the consequences. This includes political, administrative, and legal responsibility and economic responsibility, i.e., distribution.

According to the *Taeon* Management System, the classical North Korean enterprise management system, the chief engineer has the overall supervision of production in a North Korean enterprise. Under the collective guidance of the company party committee, the chief engineer supervises the plan and production and the technical departments. He unitarily directs all production-related tasks, such as advancing the planning work and the production process, as well as the technical management. It looks like even after the realization of the SSRBO, this production management system is being kept unchanged. At least official North Korean documents did not include any hints on changes. The collective guidance by the enterprise party committee appears to be still adhered to. Kim Jin Hyuang (2016) asserted, "To reject the party guidance in economic affairs means rejecting the leadership of the party over socialist economic construction and thereby doing away with the revolutionary principle. (...) This can by no means be accepted."

5. Sale of Products

Products are divided into means of production and consumption or consumer goods. Since I have already examined the purchase of means of production above, I would like to limit the discussions hereafter to consumer goods. Even before the introduction of the SSRBO, the North Korean authorities defined consumer goods as commodities, applied the 'law of value' substantively, and transacted them using commercial methods based on an 'equivalent exchange.' Money, even cash, was used as a means of mediating transactions. However, the 'planning' strictly controlled the distribution of consumer goods. The state controlled the population's consumption according to the plan, i.e., its scope and process.

Even after realizing the SSRBO, consumer goods are defined as commodities in North Korea. But the planned management methods regarding consumption became more flexible and diverse. First of all, the sale of the products that meet the EIs among the consumer goods is carried out by the enterprise itself. It

is no longer subordinated to the constraints of the 'planning.' Generally, consumer goods in North Korea are sold to the people by the production enterprises through trading enterprises. For the SIs and the LIs among consumer goods, the 'planning' still controls the sale process, as in the past. The production enterprises enter into a 'plan agreement' with the specified trading enterprise and deliver the product, and the price follows the 'plan price' set by the SPC. Trading enterprises add to this price a commercial surcharge with the size of this margin also regulated by the state. But in the case of EIs, the production enterprise can independently select the trading company to which it wants to sell its products. The contract is concluded in the form of an 'order contract.' The terms of the contract are determined by mutual agreement. The 'negotiated price' is applied as the price. The trading enterprise itself determines the sales price and commercial surcharge.

Secondly, citizens used to only use cash when buying consumer goods. But now card payment is also possible. This began in 2010 with the issuance of the Narae Card by the Foreign Trade Bank of the DPRK. The Narae Card is a card about foreign exchange. In 2015, the Foreign Trade Bank issued a card for domestic currency, the Jeonseong Card. The Narae Card and the Jeonseong Card are both prepaid recharge cards. The North Korean authorities are preparing to introduce a mobile phone clearing service.

Thirdly, electronic commerce is being expanded. Since the opening in 2015 with Ongryu, new online shopping malls have been launched every year, such as Manmulsang (2016), Unphasan (2017), and Amnal (2018). Yun Kwang Hyok described electronic commerce in 2015 as follows: "[It] allows for a new close relationship of suppliers, customers and companies which was not possible before without special technology and [it] solves various issues in commercial activities like the separation in time and place, exchange of opinions, transactions, and preferences."

Table 1: Online shopping malls currently operating in North Korea

Shopping Mall	Special characteristics
Ongryu (2015)	<ul style="list-style-type: none"> Operated directly by the DPRK cabinet's People's General Service Bureau. Provides information on approx. 30,000 goods in approx. 600 types. Only deals with 'domestic products' produced in factories and plants in North Korea. Deals mainly in food, cosmetics, pharmaceuticals, fashion, haberdashery, even delivers products, and food from well-known shops and restaurants. Order also possible by mobile phone. Delivery by motorbike or car by a transport company operated by the shopping mall itself.
Manmulsang (2016)	<ul style="list-style-type: none"> Open market type online shopping mall, operated by Yeonpung IT Trading Company. As of May 2019, 400 participating companies, i.e. Botongmun Rakwon Shop, Ongryu Electronic Shop, selling 60,000 goods of 450 types. As of May 2019, 40,000 members, daily average of 50,000 visits to the homepage. Through contractual links with transport companies delivery nationwide. By setting up an English-language and Chinese-language homepage, sales abroad are also promoted. As of the end of October 2019, access is also possible from the ROK. (http://www.manmulsang.com.kp)
Unphasan (2017)	<ul style="list-style-type: none"> Operated by Unphasan IT Exchange Company. (http://unphasan.com.kp) Provides functions such as searching for goods, filling shopping cart, reservation service, electronic billing, payment after purchase. Between members, commercial transactions and IT exchange are possible.

*Source: Lee Jong Seok and Choi Eun Ju (2019).

6. Income distribution

If the value of products is represented in terms of corresponding proportional parts of the products, it is as follows: $c+v+m$. c is the value of the constant capital, v is the value of the variable capital, and m is the surplus value. If we assume that a product's price and value are the same, then the sales revenue is $p \cdot q = \sum(c+v+m)$. Of this, $\sum(v+m)$ forms the income. $\sum c$ is divided into compensation for the objects of labor consumed, and depreciation, which is the value of the means of labor that have gone into the products. In North Korea, income is divided into levies to the state, enterprise share, and funds for labor wages. Therefore, the state, the enterprise and the workers are the recipients. If you look at the distribution order, the state gets its share first. After that, the enterprise receives its share. The enterprise pays interest, penalties, etc., from its share and accumulates the rest as its reserves. The last remaining income is used to pay wages to the workers.

The state revenues consist of levies to the state such as 'revenues from transactions,' 'profits from state-owned enterprises,' 'provincial support tax,' and 'real estate user fees.' 'Revenues from transaction' are a certain percentage that, when consumer goods are sold, is added to the price. You could also call it a kind of consumption tax. Profits from state-owned enterprises are calculated according to income. The enterprises have to pay a certain percentage of their income as 'profits from state-owned enterprises.' Before the realization of the SSRBO, the 'profits from state-owned enterprises' were imposed according to the enterprise's profit. The profit of the enterprise is the net social income remaining after the transfer of the revenues from transactions, i.e., the surplus value. At that time, the profits from state-owned enterprises were similar to the corporate tax. But now, they also bear the character of a salary income tax. The 'profits from state-owned enterprises' remittance is made before the wage payment. And in the income that is the subject of the levy, not only the profit of the enterprise is included, but also the wage. The result is that part of the wage is deducted in advance and paid to the state, and the worker is paid an amount reduced by this sum. In this sense, this deduction can *de facto* be called earned income tax. Heavy industry enterprises must also pay the provincial support tax to the People's Committees of the towns and counties where they have their factories. This tax is also imposed on income as with profits from state-owned enterprises.

Apart from the levies to the state, the enterprises also pay real estate user fees. The real estate user fee is a user fee paid to the state in compensation for the company's use of the real estate, such as land, buildings, etc., owned by the state. The amount is calculated based on the price of the real estate set by the state. From this point of view, the real estate user fee is similar to a property tax. Currently, the state made it a significant policy to expand the collection of those fees (Kim Kum Hae, 2017).

Following the part of the levies to the state, the enterprise deducts the enterprise share. From this, it pays the interest on the commercial bank loans and penalties. The remaining amount is accumulated internally as the company's reserves. The reserves are divided into the 'enterprise funds' and separate 'funds for scientific and technical development.' The 'enterprise funds' are used for extended reproduction and the workers' collective consumption. "The funds for scientific and technical development are actively used for operating industrial testing facilities, technical workshops, analysis rooms, technical design departments, and laboratories. These are scientific-technical service units specifically assigned to solve scientific-technical problems related to production enhancement." (Choi Jin Ah, 2018)

The enterprise subtracts the share for the state budget and the enterprise's share and pays the wage with the remaining amount. The enterprise distributes the wage according to the quantity and quality of the

work done and earned.³ Quantity and quality of work, i.e., as much as one has worked, is the yardstick for distribution. As much as one has earned, that is the principle of distribution. "That means, according to how much has been earned through work (according to the result of work) is distributed." (Ryang Eun Deok, 2018). Accordingly, in the event that the workers have fully met their work standard, but due to management mistakes, the enterprise's revenue could not match this, the wage will be paid less than planned. Furthermore, wage presupposes that "[regardless of gender, age and nationality] the same wage is paid for the same work and different wages are paid for other work." (Lee Ki Sung, 1992), i.e., it presupposes equality and inequality.

This principle is expressed in concrete terms in the 'wage grading system.' This system consists of the criteria for skill levels according to industry and skill level assessment standards, as well as the wage chart. Han Tuk Bo explained in 1992: "The criteria for skill levels according to industry and skill level assessment standards separate all workers and officials in all areas in the people's economy according to the quality of their labor power. The skill level assessment standards give the name of the occupation, the classes of work divided by the degree of difficulty, the tasks of the occupation as well as what knowledge and technological expertise a worker in every level of the occupation has to possess." The wage chart gives the wage by day and month that workers receive in every industry and the respective class of work and skill level. Even after the introduction of the SSRBO, enterprises cannot determine all these standards for themselves as it remains a prerogative of the state to a certain degree. However, now the enterprise has fully taken over the task of assessing the skill level of workers and setting the standard amount of wage. This means that the enterprise has been given a certain degree of autonomy in connection with determining the wage.

Apart from the wage, workers are also paid additional remuneration such as bonuses and incentives. In addition, the state offers state and social welfare, i.e., welfare service, from the state finances. One could also call this a redistribution of income directed at the workers.

III. The Features of the North Korean Economy Structure under Kim Jong Un

Above I analyzed the North Korean mode of production after the introduction of the SSRBO. Based on this, I want to contrast it with the classical mode of production and describe some of its significant features.

1. Shortening the 'planning' and expanding the 'market'

While a single system, the 'planning' and the 'market' is possible to coexist. However, both are in a zero-sum relationship. If the share of one increases, the percentage of the other decreases. Before the introduction of the SSRBO, the 'planning' had absolute superiority over the 'market' in the mode of production of the official North Korean economy. The 'market' was nothing more than a supporting device of the 'planning.' But now, the state is working to change the relationship between the 'planning' and the 'market.' The 'planning' shrinks, and as a result, the 'market' expands. The shrinking of the 'planning,' i.e. the weakening of the planned control of the state over the economy, can be proved by two facts.

³ The description might contradict what was said before. But 'pre-payment' might be interpreted as 'advanced payment', while 'post-payment' could be understood as 'fixed payment'. That way the contradiction would be resolved. Before the begin of the production process, workers receive their wages and once profits are distributed this fixed payment is deducted from them. But this is only the author's own interpretation to resolve this contradiction.

North Korean authorities have changed the state's method of interference and control over the economy from planned guidance to strategic management. Before the implementation of the SSRBO, they guided the economy through a 'perspective plan' and a 'current plan.' Nowadays, they manage it strategically. The North Korean authorities design an economic strategy before drawing up a 'perspective plan.' This is a process step that did not exist before. The 'perspective plan' has changed its position and function towards a road map for achieving the economic strategy, i.e., towards a real medium- and long-term plan. In the past, the center of the 'planning' in North Korea was solely the 'current plan.' The North Korean authorities considered the 'current plan' the most important. The current plan was the only state plan in one-year units focused on commodities prepared per the guideline to diversify the 'planning.' But now, the state powers are concentrated on realizing the economic strategy. The economic significance of the shift from planned guidance to strategic management, the consequent emphasis on economic strategy, and the decline in the priority of the 'current plan' are clear. The state's planned control over the economy has been weakened.

Furthermore, the North Korean authorities have removed the EIs from the 'current plan.' The 'current plan' subject matter has been limited to the SIs and the LIs indicators. The enterprise independently prepares the indicators for the enterprise plan. The enterprise builds up the advanced funds necessary for the EIs, purchases the means of production, negotiates the price, and sells the products (by 'order contract'), all independently. The enterprises even directly exercise foreign trade rights, i.e., the right to import and export. This leads to the situation that one cannot help but say that the EIs have left the 'planning' and entered the 'market.'

Nevertheless, curtailing the 'planning' and expansion of the 'market' does not mean expanding the market as a marketplace. The North Korean authorities' policy stance on markets as marketplaces is unmistakable. In a nutshell, it can be called the gradual downsizing through competition with state trading. During his on-site instruction at the Kwangbok Street Shopping Centre on November 15, 2011, Kim Jong Il said, "We must gradually abolish the marketplaces. Through such retail sites as the Kwangbok Street Shopping Centre, we must put pressure on the marketplaces and keep them small. (...) If we let such shopping centers appear in every district, the marketplaces will automatically decline. If we sell goods in the shopping centers at a slightly lower price than in the marketplace, our people will no longer want to use these marketplaces." (Kim Jong Il, 2011) This attitude is also expressed in the Worker's Party of Korea Central Committee's report to the 8th Party Congress, which took place from 5-7 January 2021. There, Kim Jong Un emphasized the following: "Strengthening the state retail sector and revitalizing the socialist character of the supply of food and services is an extremely urgent task. (...) At present, an important task that our retail trade has to solve is to restore the leading role, the regulating control power of the state in the entire retail and service activities and thus to fill the original character of socialist retail trade, namely to serve the people, with life again." (Kim Jong Un, 2021)

2. Increasing Response Capability to the 'Vicious Cycle of Money Shortage'

In the past, the state was responsible for most advanced funds. Based on a principle of balanced finance, the state allocated financial income to enterprises. It was the so-called Unitary Funds System. However, this method proved to be very weak in an economic crisis. When production encounters a crisis, a shortage of advanced funds sets in, and, as a result, production becomes even more difficult. In concrete terms, the crisis in production follows the pattern of 'decline in financial revenues → reduction in the 'state-provision funds' → lack of advanced funds,' so production becomes even worse. It creates a 'vicious circle of money shortage.' The collapse of production and the so-called Arduous March that North Korea

went through in the middle and second half of the 1990s is a vivid examples of this. As shown in Table 2, from 1995 onwards, North Korea's financial revenues fell to almost half the level compared to the years before. The collapse of production and the half-collapsed financial revenues are running in parallel.

Table 2: Revenue and expenditure of the state budget of North Korea 1990 – 2002

(unit: 1 million 'North Korean Won')

Year	Revenue	Expenditure	Balance
1990	35,690.41	35,513.48	176.93
1991	37,194.84	36,909.24	285.60
1992	39,540.42	39,303.42	237.00
1993	40,571.20	40,242.97	328.23
1994	41,620.00	41,442.15	177.85
1995	24,000.00	24,200.00	-200.00
1996	20,300.00	20,600.00	-300.00
1997	19,712.00	Not published	
1998	19,790.80	20,015.21	-224.41
1999	19,801.00	20,018.21	-207.21
2000	20,903.43	20,955.03	-51.60
2001	21,639.94	21,678.65	-38.71
2002	22,284.66	22,129.44	152.22

*Sources: *Chosonchungangnyongam* (1991-2002) and *Minjuchoson* (March 27, 2002 and March 27, 2003). North Korea did not release official data for 1996 and 1997. Data for those two years was taken from the International Monetary Fund, which stated it received the numbers from North Korea.

With the introduction of the SSRBO, the North Korean authorities have expanded commercial bank loans. Here is a quotation from Ko Keum Hyuk (2016) "In order to perfect the operating system as a commercial bank, the credit business must be expanded. (...) At present, along with the cashless loans, cash lending must be encouraged for a certain period, and thus the provision of funds for enterprises must be sufficiently guaranteed." In the past, loans were only made minimally. Loans belonged to the exceptional cases (Lee Won Kyung, 1986). In addition, *Geumyunggigwanhaesanje* gives commercial banks a solid incentive to lend money. The reason is that the higher the loan amounts, the more the interest income increases. Sooner or later, we will probably also see a commercial bank in North Korea actively engaged in the credit business. If any of the links in the 'vicious cycle of money shortages' are broken or weakened, the economy may not fall there. Also, even if it should crash, it can recover relatively within a short period. In connection with the formation of advanced capital, there are increasing signs that the focus is shifting from public financing to credit financing. Under these conditions, it will be possible to control - if not the revival of production - at least to some extent, the 'vicious circle of monetary shortage', where the production crisis causes the lack of advanced funds and further deteriorates production. As a result, the stability of the reproduction process will further increase.

3. Strengthening the 'Non-Neutrality' of Money

The North Korean mode of production, like the capitalist mode of production, shares the same trajectory as a monetary circuit. As visible in the 'vicious circle of money shortage,' if the money circuit does not run smoothly, production also is delayed. In North Korea, money is closely connected to production and is one of the significant factors influencing it. North Korean money is thereby 'non-neutral.' But monetary circuit still is limited in North Korea and controlled by 'planning'. Accordingly, money has only a restrained effect on production, and the North Korean economy can be classified as a 'restrained' monetary economy.

With the introduction of the SSRBO, control over the monetary circuit has been relatively weakened. First, the share of the 'state-provision funds' in advanced funds has declined. Instead, the percentage of its own

reserves, over which the company has the management and usage rights and commercial bank loans, has increased. Secondly, in the case of the EIs, the enterprise carries out the acquisition of the means of labor and labor objects to be invested in the production process and the sale of the products. Thirdly, the enterprise itself decides the price of the EIs products. Fourth, from its income, the enterprise pays the levies and the real estate user fee to the state and uses the remaining income to accumulate its reserves and to pay the wage. The levies to the state and the real estate user fee are a kind of fixed rate tax. The enterprise first decides on the number of its reserves before the wage is paid out. Finally, it can be said that the 'right to dispose of residual property' has been broadly extended. In conclusion, the North Korean economy is still a 'restrained' monetary economy. However, this 'restrained' character has much decreased compared to the past. It means, in a word, that the 'neutrality of money' is being strengthened.

IV. Conclusion: SSRBO vs. Socialism

Currently, the SSRBO is concentrating on improving the mode of production. Property relations and employment methods, which are the core difference between capitalist and socialist economies are, beyond their interest, so much that they are not even referenced. North Korea is still firmly insisting on the social ownership of means of production and the non-commodification of labor power. Naturally, several questions arise about the SSRBO. Can it be judged a socialist reform? Can it overcome the inefficiency of the North Korean economy? Can it develop productivity? But answers to those questions are not yet possible. The SSRBO was implemented not too long ago, and the relevant materials are still too insufficient. However, one thing that can point out is that North Korean society's 'degree of socialization' has decreased significantly compared to the past. In light of North Korea's past perception of socialism, that is, by that standard, the current state of affairs can be said to be a very 'worrisome' right-wing situation.

First of all, the autonomy of enterprises has been increased. The North Korean authorities previously equated socialism with a planned economy. The development of socialism meant an increase in the influence of the 'planning' over the economy. The centralized planned economic system, such as the *Taean* Management System, Unification and Subdivision of the Plan and Unitary Funds Management System, etc., was regarded as a means of realizing the socialist ideal or even more. Before the SSRBO, the state strongly controlled through the 'planning' the production process, advanced funds creation, and transactions. Prices were also set by the state, while disposal of net social income was also a monopoly of the state. Even in North Korea, enterprises are production agents. But they could barely make independent choices in the strongly controlled planned economy. It would not even be an exaggeration to say they have been excluded from the selection. However, it is different now. At each stage of the mode of production, there is a separate area of selection for the enterprise, which does not belong to the 'planning'. Enterprises exercise, if not wholly, a great deal of autonomy there. Previously, if the relative independence of an enterprise's management was nothing more than its independence within the 'planning', after the implementation of the SSRBO, the independence outside the 'planning' is also allowed to a certain extent.

In addition, monetary relations were expanded. In a classical socialist society, money was a 'necessary evil.' North Korea shared the same understanding. Lee Won Kyung (2009) points out. "We must not allow the tendency to over-assert the money space and consider it a basic means of improving economic management. To regard money space as a basic means of economic management to break through difficult economic conditions easily is a false bias resulting from overestimating the status and role of

'value space' in socialist society. It has to be stipulated that it is a serious rightist opinion to argue that the money or money transaction is the basis of social reproduction and that the socialist state can control the reproduction process through the regulation of the money transaction under its initiative." In the past North Korea, not surprisingly, money was subject to strict regulation. Although money was tolerated as an inevitable transitional measure, its status and role were severely limited. First, the distinction was made between 'cash distribution' and 'non-cash distribution,' and the transactions between enterprises were carried out only through 'non-cash settlement.' It is because, unlike 'cash distribution,' 'non-cash distribution' is capable of constant monitoring and supervision. Second, all 'non-cash' was supplied by the state, and its use was predetermined in advance. Under the 'current plan,' it could only be used as a means of payment for the performance of specific demand-supply contracts ['plan contracts'] between each other. 'Non-cash' that had fulfilled its role was recovered directly back to the state through the 'payments to the state,' such as 'revenues from transactions,' 'profits from state-owned enterprises,' etc. From this, the velocity of 'non-cash' was defined as 1 (one). Third, 'non-cash' was neither recognized as 'true' money nor included in the monetary policy targets. (Lee Won Kyung, 1986).

However, with the introduction of the SSRBO, the North Korean authorities' perception of money has changed. Money is now seen as an essential means of efficiently allocating resources. Monetary policy has also changed significantly. Although it still divides the realm of 'cash distribution' and 'non-cash distribution,' its moorings have become much thinner than before, such as allowing some 'cash distribution' in business-to-business transactions. In addition, the creation channels of 'non-cash' have become pluralized, circulating several times to destruction like cash. The velocity of 'non-cash' is no longer defined as one. Non-cash was also seen as a 'true' currency and included in the monetary policy targets. This fact is more clearly understood by the recently concluded debate on so-called 'monetary indicators.' The discussion began with the provocative question posed by budding scholars of the time, such as Lee Chang Hyuk (2005) and Oh Sun Hee (2005), that 'cash distribution' and 'non-cash distribution' should be considered in a unified manner. It was briefly reeling from the counterattack of elders of North Korea's political and economic circles, such as Lee Won Kyung (2006, 2009), but it ended up accepting the arguments of these budding scholars.⁴

⁴ This debate raises various issues regarding North Korea's money and monetary system. We can look behind the new monetary system that has been transformed since the SSRBO, as well as a section of the debate that has taken place in the North Korean political and economic community over the SSRBO. However, dealing with this debate is beyond the scope of this article. We'll look at this at the next opportunity.

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