Doing Business in North Korea:
Business and Finance in the DPRK

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경남대 극동문제연구소 정산홀

Wednesday, June 10, 2015
1:00 p.m. ~ 6:00 p.m.
Jungsan Hall, IFES/UNKS,
Seoul, Korea
최초의 글

윤대규
경남대 국제문제연구소 소장
Dae-Kyu Yoon
Director, IFES

리스 안드레 리히터
프리드리히 나우만 재단 한국사무소 대표
Lars-André Richter
Resident Representative, FNF

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북한의 건설, 제조업, 서비스업 활성화의 배경에는 이런 돈주들의 역할이 자리잡고 있습니다. 실제로 국유기업과 돈주들의 연합 파트너십은 자본주의의 그것을 대체로 닮았습니다. 지난 3년간 김정은 정권에 의한 지정 "우리식 경제개발기반조직"은 사용금을 더욱 확장시켰고, 돈주들은 경제발전의 원동력으로 성장하게 됐습니다. 물론, 이런 변화들이 쉽게 이해되지 않기 때문에 더욱 궁금해집니다. 북한에서 정말 어떤 일이 일어나고 있는 걸까요? 국제사회는 이 새로운 현실을 어떻게 이해하고 어떤 새로운 관계 설정이 필요할 것일까요?

제기된 금융증을 해소하고, 질문들에 답하기 위해 경남대 국제문제연구소(IFES)와 독일 프리드리히 나우만 재단(FNF)은 "한반도의 비즈니스와 금융"이라는 주제로 국제학술회의를 개최합니다. 경남대 국제문제연구소가 연속시리즈로 추진하고 있는 "한반도의 비즈니스"의 두 번째로서 국내외의 최고 수준의 전문가들과 관련 현장 실무자들을 모셨습니다. 북한의 금융 현실은 어떻게, 돈주들은 과연 누구일까요? 북한에서는 어떤 기업활동과 민간 파트너십이 행해지고 있음까요? 북한 당국의 최근 경제정책들은 새로운 현실에 적용하는 모습을 반영하는 것일까요? 북한 농민들에게 주택담보대출 등의 금융 서비스를 제공하고, UN의 국제전문기구를 통해 북한 은행관계자들에게 금융관리 기술지원을 한 국제사회의 최근 사례는 무엇이 있었지, 그 영향이 현재까지 이어지고 있는지도 살펴볼 것입니다. 나아가 남한을 비롯한 국제사회가 어떻게 북한 주민들 삶의 질 함양과 긍정적인 변화를 이끌어낼 수 있을지 고민할 것입니다. 금융부문에서의 협력과 관련해 우리가 고려해야할 국제사회의 제재와 제약들에 대해서도 살펴볼 것입니다.

아무쪼록 많은 분들에게 회의에 참석하시어 유익한 정보와 자료를 공유하면서 고민을 나누는 시간이 되기를 기대합니다.
INVITATION

Today in the Democratic People’s Republic of Korea, a grassroots capitalism is visible. For well over a decade, the state has not been able to meet demands for capital to make economic and quality of life improvements. In a situation characterized by a chronic absence of state inputs, dysfunctional banking system, and people’s lack of trust in state institutions—including the domestic currency itself—private commerce, smuggling, and trading at jangmadang (illegal marketplaces) grew. As these expanded, so did the accumulation of currency in private hands, leading to subsequent private lending and foreign currency exchange. Hence, North Korea is noticeably different from what it was in the past. Trading at informal markets is widespread and entrenched. Semi-private businesses have popped up, including in iniciency bus travel, book rentals, beverage sales, and the operation of restaurants and billiard halls. More North Koreans are involved in trade with China than ever before. Financial services are conducted by individuals, trading companies, state organizations, and even cooperative farms. A nascent class of nouveau riche (donju) has also emerged in society. As a result, trade, business, and investment in infrastructure projects of varying scales are being backed by private moneylenders, revealing a form of public-private partnership—and indeed, commercialization and privatization of even state-run enterprises—in a landscape of inchoate quasi-capitalism. Over the last three years, the economic improvement measures taken by the successor regime in Pyongyang may even be causing private finance to expand, making the nouveau riche a driving force of the country’s economic development. Of course, the picture of this transformation is still opaque, thus pressuring us to ask, “What is really going on inside North Korea?” and “How might the international community understand this new reality to better engage the DPRK?”

With this in mind, the Institute for Far Eastern Studies (IFES) of Kyungnam University and the Friedrich Naumann Foundation for Freedom Korea Office (FNF) are holding an international conference on Doing Business in North Korea: Business and Finance in the DPRK. This half-day conference—the second in a series focusing on the theme of business—brings together scholars and experts to talk about these less well-known aspects of North Korea. What is the reality of ‘finance’ in today’s DPRK? Who are the ‘donju’ and what types of entrepreneurial activities and public-private partnerships are they engaged in? Are the government’s recent economic policy measures a sign of the regime adjusting and bending to this new reality? Reflecting on the not-to-distant past, what was the international community’s experience with providing financial services such as household credit to North Korean farmers and technical assistance in financial management to banking officials through the UN’s international agencies? Is the impact of this still visible today? Likewise, what can we learn from this past interaction, and the new situation, so that South Korea and other actors might engage North Korea in a meaningful way to improve the lives of the people and facilitate positive change? Should we be contemplating a private-led strategy of engagement with the DPRK? If so, what do we need to be cognizant and cautious of with regard to international sanctions and the country itself, among other obstacles and concerns? These are some of the topics we wish to explore.

We welcome your presence to what we hope will be an agenda filled with informative sessions and lively discussions. We look forward to seeing you there.
프로그램

13:00-13:30 등록

13:30-13:50 개회사
개회사 윤대규 경남대 극동문제연구소 소장
환영사 라스 안드레 리허터 프리드리히 나우만 재단 한국사무소 대표
축사 홍밍표 통일부 장관

13:50-14:00 기념촬영

14:00-15:45 제1회의: 변화하는 북한 비즈니스와 금융
사회 김주현 현대경제연구원 과문
발표 1 북한 사금융의 실체
안드레이 랄코프 국방대 교수
발표 2 소규모 사기업 육성과 금융의 역할
미무라 마쓰히로 ERINA 조사연구부장
발표 3 북한 비즈니스와 사금융
임은철 경남대 극동문제연구소 연구실장
토론 제임스 피어슨 로이터통신 특파원
윤인주 한국해양수산개발원 전문연구원
정은이 경성대 교수

15:45-16:00 커피브레이크

16:00-17:45 제2회의: 북한 금융 개혁에 대한 전망과 국제사회 관여
사회 남성우 전 KDI 국제정책대학원 원장
발표 1 최근 북한의 경제·금융 개혁: 향후과제
최문 연변대 교수
발표 2 북한 내 금융서비스와 기계대출: 국제농업개발기금(IFAD)의 사례
가네시 타카시 전 국제농업개발기금 아시아태평양본부 영문마스토
발표 3 이행기 경제의 사금융과 국제재해: 북한에 주는 교훈
윌리엄 뉴컴 존슨글린스터 SAS 방문학자
토론
하현철 한국산업은행 동일사업부장
랜디 마틴 버시로 동아시아 대외협력이사
윤덕용 대외경제정책연구원 선임연구위원
PROGRAM

13:00–13:30  Registration

13:30–13:50  Opening Session
Opening Remarks  Dae-Kyu Yoon  Director, IFES
Welcoming Remarks  Lars-André Richter  Resident Representative, FNF
Congratulatory Remarks  Yong-Pyo Hong  Minister of Unification

13:50–14:00  Photo session

14:00–15:45  Session I: Business and Finance in Today’s Changing North Korea
Moderator  Joo-Hyun Kim  Senior Advisor, Hyundai Research Institute
Presentation 1  The Reality of “Private Finance” in North Korea  Andrei Lankov  Professor, Kookmin University
Presentation 2  Making Engagement with North Korea Work: Finance and Small-scale Businesses?  Mitsuhiro Mimura  Director and Senior Research Fellow, ERINA
Presentation 3  Business and Finance in North Korea: A Korean Perspective  Eul-chul Lim  Director of Research, IFES
Discussants  James Pearson  Correspondent, Reuters  InJoo Yoon  Senior Researcher, Korea Maritime Institute  Eunlee Joung  Professor, Gyeongsang University

15:45–16:00  Coffee break

16:00–17:45  Session II: Perspectives on Finance, Reform, and Engagement with North Korea
Moderator  Sang-Woo Nam  Former Dean, KDI School
Presentation 1  Recent Economic and Financial Reform in North Korea: Implications and Tasks  Wen Cui  Professor, Yanbian University
Presentation 2  The International Fund for Agricultural Development’s Experience with Financial Services/Household Credit in North Korea  Ganesh Thapa  Former Regional Economist, Asia and the Pacific Division, IFAD
Discussants  Hyunchul Ha  Head of Reunification Business Department, KDB  Randy Martin  Director for Partnerships in East Asia, Mercy Corps  Deok Ryong Yoon  Senior Research Fellow, KIEP
OPENING CEREMONY

Dae-Kyu Yoon is Director of the Institute for Far Eastern Studies and Vice President of Kyungnam University, Seoul Campus. Over the past decades, he has taught law as a professor at Kyungnam University and overseen countless projects in various capacities for the institute. He has also lectured at Harvard University and the University of Washington as a guest professor. Director Yoon has also served as a member of different advisory committees of various governmental agencies such as the Korean Board of Audit and Inspection, the Ministry of Justice, the Ministry of Legislation, and the National Assembly. As a scholar, he has written numerous articles and several books in both Korean and English on the legal systems of the two Koreas, including *Law and Political Authority in South Korea* (Westview Press, 1990) — a seminal work in the field; *Law and Democracy in South Korea: Democratic Development Since 1987* (IFES, 2010); and *Inconvenient Truth on North Korea* (Hanul, 2013). He holds a B.A. from Seoul National University College of Law, and LL.M. and Ph.D. from the University of Washington’s School of Law.

Lars-André Richter is the Resident Representative of the Friedrich Naumann Foundation for Freedom (FNF) in Korea. He studied humanities in Tübingen, Leipzig, Paris and in Berlin, where he earned his doctorate at Humboldt University. After working for the German Academic Exchange Service (DAAD) and the newspapers Welt online and Welt am Sonntag he joined FNF in 2008. He was press officer and deputy press secretary of the foundation before taking over its Seoul office in 2012.

Yong-Pyo Hong is Minister of Unification of the Republic of Korea. Before his ministerial appointment in 2015, he held the position of Secretary to the President for Unification at the office of the president. He was a member of the Standing Committee of the National Unification Advisory Council. His professional career spans over a decade in academic research and teaching as Professor at Hanyang University, and Research Director at the Korean Association of International Studies. He also served as a working-level member of the subcommittee on Foreign Affairs, National Defense and Unification of the 18th
Presidential Transition Committee, Chairman at the steering committee of the Korean Reunification Society of the Citizen’s Coalition for Economic Justice. Dr. Hong received his B.A. and M.A. in Political Science from Yonsei University in 1987 and 1989, respectively. He later completed his Ph.D. in International Relations at the University of Oxford in 1996.

PRESENTERS

Session 1


Mitsuhiro Mimura is a Senior Research Fellow of Research Division at ERINA (Economic Research Institute for Northeast Asia) in Niigata, Japan. He received Ph.D. in Jurisprudence from Graduate School of Law, Osaka University, Japan in 2001. Upon graduation he has been conducting research at ERINA. His area of study includes North Korean economy, North Korean law, and Inter-Korean relations and Northeast Asian economic integration.
Since 1996, he has visited North Korea more than thirty times. He often visits various cities in Northeast Asia including Pyongyang for academic exchange. He is one of the rare Japanese scholars who are able to exchange thoughts directly with North Korean scholars in Pyongyang. Supported by colleagues in both Koreas, China, Russia, the U.S., the E.U. and Japan, his research has deep insight into Northeast Asia and is widely accepted in Northeast Asian countries including North Korea. Based on his unique experience, he advocates a new perspective of integrated North East Asian economy.

Eul-chul Lim is currently a professor and research director at the Institute for Far Eastern Studies (IFES), Kyungnam University. His research focuses on North Korea’s economy, inter-Korean economic cooperation and development-related issues including capacity building. Dr. Lim is widely published in the above mentioned areas which include *The New Paradigm for Economic Reform: Theory and Practice of Development for North Korea* (in Korean, 2007), *Kaesong Industrial Complex: History, Pending Issues, and Outlook* (in English, 2005) among many others. Prior to joining IFES, Dr. Lim worked as a specialist in the Department of North Korea in the Korea Trade Investment Promotion Agency (KOTRA). He was also a visiting scholar at Georgetown University.

**Session 2**

Wen Cui has received his Bachelor’s degree in Economics at Jilin University in China and Ph.D in Economics at Chungnam National University of South Korea. He is currently associate professor in the College of Economics and Management and head of the Northeast Asia Economics Research Institute at Yanbian University. At present, he is actively participating in the joint research projects concerning economic development of the Korean Peninsula with various universities at North and South Korea.

Ganesh Thapa worked for the International Fund for Agricultural Development (IFAD) from March 1998 to April 2014 as the Regional Economist for Asia and the Pacific
Region and as the Country Programme Manager for North Korea from 2008 to 2011. He is currently a Visiting Scientist at the International Centre for Integrated Mountain Development (ICIMOD). He is also a Board Member of the Mountain Institute (TMI), Washington D.C. and the Asia-Pacific Agricultural Policy Forum (APAP). He has a Ph.D. in Agricultural Economics from Cornell University, USA. He also has university degrees from the University of the Philippines and G.B. Pant University of Agriculture and Technology, India.

As Regional Economist, he led IFAD’s work on policy analysis and strategy formulation for agricultural development and rural poverty reduction in Asia and the Pacific Region. Prior to joining IFAD, he worked as Country Director for Winrock International in Nepal and led a project on policy analysis in agriculture and natural resource management. He has also worked as a Senior Economist for the Ministry of Agriculture, Nepal. He has undertaken research and published books and articles on such topics as risks, vulnerability and poverty reduction; sustainability of microfinance; indigenous peoples and poverty reduction; effects of new agricultural technologies on income distribution; constraints on agricultural marketing; food security and environmental policies.

William J. Newcomb is a visiting scholar at the U.S.-Korea Institute, Johns Hopkins School of Advanced International Studies. In 2011 he was appointed by UN Secretary General Ban Ki-moon to serve on the Panel of Experts established pursuant to resolution 1874 (2009). He subsequently was reappointed to the DPRK sanctions panel for successive mandates, most recently in April 2014, and served as the expert on finance through June 2014, when he resigned. A former US government economist, Mr. Newcomb in 2008 retired from the Treasury Department where he was Senior Economic Advisor to the Assistant Secretary for Intelligence and Analysis. During 2003-2005, Mr. Newcomb was Deputy Coordinator of the State Department’s North Korea Working Group and alternate co-chair of the North Korean Policy Coordinating Committee. From 1984 to 2005, he served as the Senior Economist for Asia, Bureau of Intelligence and Research, US Department of State, and wrote extensively on developments in China, the DPRK and Vietnam for US policymakers.
MODERATORS

**Joo-Hyun Kim** is a Senior Advisor of the Hyundai Research Institute where he had been the President and CEO for the last 11 years. Currently he is also serving as a chairman of the Economic Subcommittee of Presidential Committee of Unification Preparation. He got his Ph.D. from the Department of Finance at the College of Business of Arizona State University, U.S.A., in August 1989. Doctor Kim specializes in financial market and macroeconomics. He has extensive experiences and researches in the private sector of the Korean economy. His current research interests are about the development of North Korean economy and the unified economy of the Korean Peninsula.

**Sang-Woo Nam** is former Dean of the KDI School of Public Policy and Management and former Executive Secretary of the OECD-Korea Policy Centre. He also served as Vice President of KDI, professor at KDI School and a Senior Research Fellow at the ADB Institute in Tokyo. He was invited as a visiting professor at the University of California, San Diego, Sophia University and GRIPS (Japan). Dr. Nam was also an Economist at the World Bank and the Counselor for the Deputy Prime Minister in Korea. Dr. Nam received his Ph.D. in Management from Massachusetts Institute of Technology’s Sloan School of Management.

DISCUSSANTS

**Session 1**

**James Pearson** is co-author of North Korea Confidential, and currently serves as a foreign correspondent for Reuters in Seoul, where he covers North Korea. He holds a BA in Chinese and Korean from the School of Oriental and African Studies (SOAS) and a Master’s of Philosophy in Oriental Studies from the University of Cambridge.

Eunlee Joung is research professor of the Institute for Social Sciences, Gyeongsang National University (GUU). Previously she served as Visiting Scholar of International Centre for Study of the Cold War History, East China Normal University (ECNU). She is currently serving as a member of the policy advisory committee at the Ministry of Unification, and as Visiting Scholar of Korean Peninsula Research Center, Beijing University (PKU). She obtained her M.A. and Ph.D. from the University of Tohoku. Her thesis include “Analysis on Development of North Korean Real Estate Market: Focusing on Illegal Trade of Right to Used House” (The Korea Journal of Unification Affairs, 2015), “A Study on the China’s trade with North Korea: Centered on the dynamics according to changing trend of the trade practice and manner, and transactors” (The Korea Journal of Unification Affairs, 2014), and “A Survey on the Actual Status of Housing Market In North Korea” (The Journal of Northeast Asia Economic Study, 2013)

Session 2

Hyunchul Ha is head of Reunification Business Department, Korea Development Bank (KDB). Previously he served as head of the Research Center, Korea Finance Corporation (KoFC); senior fellow and head of Economy Team, Youido Institute, the think tank of
Saenuri party (ruling party in Korea); and researcher of Korea Rural Economic Institute (KREI). He is currently a member of Unification Business Committee, Korea Academic Society of Business Adminstration (KSABA); and consultant for Unification Finance Forum of the Yonhap (News & TV) Infomax. He obtained his B.A. and M.A. from Korea University and Ph.D. course completed at Sunkyunkwan University. His publications include “Preparation for Unification Era and Korean Marshall Plan” (KoFC, co-authored); “Sources of Growth and Development Model of Korean Agriculture” (KREI), among others.

Randy Martin is Mercy Corps’ Director for Partnership Development in East Asia, based in Tokyo. Mercy Corps is a non-sectarian, international NGO based in the US and Britain and working in over 45 countries around the world. Mercy Corps works extensively on economic development, including leadership in establishment of eight microfinance institutions with total assets over $1 billion. In DPRK over the last 15 years, Mercy Corps and its partner NGOs have delivered well over $100,000 million in assistance, including food, clothing, medicines, medical equipment and agricultural inputs. Mr. Martin participated on a monitoring mission related to Mercy Corps 2013 flood relief program. Mr. Martin has been engaged in international work for 30 years, serving in senior management positions in the field and at headquarters. He has lived and worked in Egypt, Sudan, Pakistan, Afghanistan and the Pacific and has traveled widely, providing oversight to relief and recovery programs globally. Upon joining Mercy Corps in 2003, Mr. Martin served as Director of Global Emergency Operations, coordinating the agency’s response to over 35 natural disasters and complex emergencies. Mr. Martin arrived in Japan shortly after the March 11 earthquake and has coordinated Mercy Corps’ response entirely through partnerships with Japanese NGOs. His work currently focuses on developing working partnerships in East Asia. He has initiated partnership programs with Japanese, Chinese and Taiwanese NGOs in Niger, Kenya, South Sudan, Myanmar and Syria — and is keen to identify Korean partners.
Deok Ryong Yoon is a senior research fellow at KIEP (Korea Institute for International Economic Policy). Currently he serves as a member of the advisory committee of the Ministry of Foreign Affairs and Trade and Ministry of Unification. He worked as a member of the steering committee of KIC (Korea Investment Corporation), Korea’s sovereign fund. He was also previously a member of the National Economic Advisory Council for the President. He served also as Senior Advisor to the Minister of Finance and as a head of the evaluation team for public companies at the Ministry of Strategy and Finance. He continues to serve as a member of experts groups or advisory committees in diverse ministries and presidential offices in Korea. He was a visiting professor at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University. He is also a visiting professor at the Institute for Korean Unification Studies at Yonsei University. He received his B.A., M.A. and Ph.D. in economics from Kiel University in Germany. He was the executive director of PECC Korea and director general of the APEC Education Foundation. In addition to numerous papers and books, he is the author of “Asian Monetary Cooperation: A Search for Regional Monetary Stability in the Post-Euro and the Post-Asian Crisis Era” in Economic Papers (Bank of Korea, 2000), “Searching for a Better Regional Surveillance Mechanism in East Asia” (HWWA, 2002). “The Role of Regional Development Banks: Financing for Development and Solidarity in East Asia” (Edward Elgar, London, 2003), “The Structure of North Korea’s Political Economy: Changes and Effects” (KEI, Washington DC, 2004), “How to Finance North Korea’s Capital Requirements for Economic Recovery,” (East Asian Review, Vol. 16, No. 2, 2004), “National Financial Revenue and Expenditure of North Korea” (KIEP 2005), “A Roadmap for East Asian Monetary Integration” (KIEP 2007), and “The Korean Economic Adjustment to the World Financial Crisis” (Asian Economic Papers, 2010).
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Session 1

Business and Finance in Today’s Changing North Korea
The Reality of “Private Finance” in North Korea

Andrei Lankov
Professor, Kookmin University
국문초록

북한 사금융의 실체

변화의 범위와 정도에 대한 의견차이는 있지만, ‘아래로부터의 시장경제화’ 또는 ‘자발적인 시장경제화’라고 불리는 변화의 바람이 북한에 불고 있다는 것은 자명한 사실이다. 대외무역 거래를 하려면, 외환거래는 물론 저축, 이체, 지불 등이 수반되어야 하고, 이런 은행 시스템이 없으면, 시장은 불가능하다. 그러나 북한의 ‘공식적’ 이 은행시스템이 새로운 경제시스템에 적응하지 못하면서, 정부금융과 규제제도의 영향권 밖에 있는 사적인 작은 규모의 금융이 번성하고 있다. 이 발표문은 현재 북한 사금융 시장을 전체적으로 개관하고자 한다. 이는 중국과 한국에 있는 대수의 탈북자의 인터뷰 내용을 그 근거로 현상에 대한 기술하고 있으며, 앞으로 이 주제에 대한 보다 깊고 이론적인 연구가 이어질지 대한다.

북한 금융시스템의 현 상황

오늘날 북한 공적인 금융시스템은 시장으로 외면 받고 있는 실정이다. 극단적 스탈린주의의 중앙 집중적 경제시스템을 기반으로 만들어진 북한 금융시스템은 처음부터 시장경제와는 다른 방식으로 움직이고 있었다. 북한의 스탈린주의 모델은 금융 규모가 작을 때 효과적인 시스템이다. 처음부터 북한 은행은 규제 때문에 개개인에 제대로 대응할 수가 없었다. 북한 은행은 소비자 대출에 신용을 부여하지 못하고, 특별 허가가 없이는 외화를 거래할 수도 없다. 기본적으로 북한의 은행은 돈을 저장하는 곳이다. 하지만 1980년대 계획경제가 붕괴되면서, 은행에 돈을 저축하는 것은 바보 같은 일이 되었다고 탈북자들은 말한다. 돈을 한번 입금하면 인출하기가 불가능하기 때문이다.

사금융 시장: 외화거래

60~70년대 소련과 다른 동유럽국가들은 외화거래를 중죄로 간주하여 처벌까지 한 것에 비해, 북한은 외환거래에 관해 판타지한 편으로, 발uxtap되어도 형을 사는 선에서 처벌했다. 이는 60~90년대에 10만 재임동포가 보내는 외화가 북한의 주요 수입원이었기 때문이기도 하다. 다시 말하면, 외화거래는 북한의 계획경제가 작동할 때도 있었던 것이다. 1980년대 후반, 북한 시장에서 중국의 역할이 강화되며 외화거래는 기하급수적으로 늘어났
다. 탈북자 인터뷰에 따르면, 북한 사람들이 사업자금을 얻을 수 있었던 방법은 크게 (1) 관리자와 관료들이 정부 자원을 기업가들에게 제공하는 경우, (2) 해외, 주로 중국의 착취적
을 통해 자금을 마련하는 경우라고 한다.
중국은 지리적 접근성이 좋을 뿐 아니라, 북한과 비슷한 체제에 있어서 북한의 수요와
문제점에 대한 파악이 빠르다. 90년대 중반에는 중국 외화거래가 엄청나게 유입되었고,
미 달러와 유로화 역시 유동되었다. 지난 10년간 극장지역에서는 외화가 유동되었고,
평양 등의 북한 남쪽 지역은 달러화와 외화와 함께 유동되었다. 이런 경향은 2009년
통화개혁이 실패하면서 더욱 심해졌는데, 지난 5년간 100달러 가치 이상의 거래는 대부분
달러화와 외화로 이루어지고 있고, 북한 화폐는 작은 거래에서만 사용되고 있다.
이러한 외화거래는 사실상 불법이지만 북한 당국은 크게 신경 쓰고 있지 않다. 2002-3년대
에 평양 소형센터에 시장 환율로 외화거래(돈장사)를 하는 창구가 생겼고, 대부분 당국의
경찰과 관료들에게 돈을 주며 크게 단속을 맡지지는 않는다.
몇몇 대금업자들은 수입이 좋아, 극장지역에 중국 고급 건축자재로 지은 넓은 주택에서 거주하며, 컴퓨터, TV, 에어컨 등을 갖추고 살고 있으며, 정전을 대비해서 개인 발전기를 구비해 두기도 한다. 전력선은 정전 시에도 전력을 공급받을 수 있도록 경찰서에 연결해 두기도 하는데, 돈을 주기 때문에 가능한 일이다.
자금 대부
고리대로금에 대해서는 탈북자 증언이 엇갈리고 있다. 북한 속담에 ‘돈을 빌리는 사람은
둘째가는 바보이고, 돈을 빌려주는 사람은 첫째가는 바보다’ 말이 있는데, 북한에서는 대
부업이 없다고 말하는 사람도 있다. 반면, 짧은 기간 빌려주는 대부업의 사례들도 있다.
한국에 연간 이자율이 150%를 기록 했던 90년대 중반 지은 과소금이 지급받으며 지금은 연
이자율이 50-60%로 떨어졌지만, 여전히 높은 수준이다. 납부율은 오토바이, 냉장고, 집
등이다. 채무 불이행의 경우 경찰과 정부관료가 동원되기기도 하는데 흔한 일은 아니다.
자금 이체
사적 경제의 성장으로 인해 국내외의 자금이체는 중요한 문제가 되었다. 북한당국 차원의
금융서비스를 제공하고 있기기는 하지만 북한 주민과 기업가들은 이를 신뢰하지 않는다. 최근
이체는 북한 삼인들에게 잘 알려져 있는 대부업자들이 도발하고 있다. 예를 들어 원
越し로 현금화된 돈을 보내고 싶으면, 대부업자들이 현금의 동료에게 연락을 하여 일정금
액을 서비스금액으로 떼고 현장에서 돈을 받아야 하는 수령인에게 전달해 준다. 10여개 이

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상의 대부업자들이 전국적으로 조직망을 갖추고 있다.
해외로의 송금은 더 어렵지만, 가능하다. 친인척들을 통하기도 하지만, 최근은 탈북 및 일정을 듣는 브로커들의 조직망을 활용해 송금하는데, 실제로 이들 덕에 국경지역의 송금과 우편배달이 촉진되고 있다.
한국 또는 다른 국가에서 중국으로 돈을 보내는 경우, 돈을 받는 수령인이 접경지역에 살고 있으며, 브로커가 개입할 필요가 없다. 하지만 수령인이 중국 내륙에 있으며, 먼저 접경지역에 살고 있는 화교의 통장으로 돈을 입금한 후, 브로커가 수령인에게 전달해 준다. 약 일주일이 걸리며, 운이 좋으면 하루 만에 도착하는 경우도 있다. 브로커 조직이 믿을 만하지만 수수료는 30%이다. 역으로 부유한 북한인이 한국 정착에 어려움을 겪고 있는 친척에게 돈을 보내는 경우도 있다고 한다.

결론
북한에서는 지난 20년간 자본주의뿐만 아니라 사금융이 번성했다. 북한 당국이 이를 공식적으로 보고 제도적으로 접근하게 된다면 어떻게 될지 예측할 수 없지만, 한동안 이러한 구조가 북한경제의 기본적인 니즈를 감당하면서, 태동기인 사적 경제를 수면 위로 떠오르게 하고, 북한 경제상황의 개선에 기여할 것으로 보인다.
It has become more or less common place to say that North Korea has transformed dramatically over the last decade or so. The transformation is often termed ‘marketization from below’ or ‘spontaneous marketization’. Such epithets were coined independently by different students of North Korea developments. While the scale and depth of the transformation is debated, the fact that it exists is not contested any more.

Businesses need to be able to save, transfer and pay out funds, as well as make use of foreign exchange when dealing with external trade partners. Without banking system, markets are hamstrung. Banks are crucial intermediaries, providing all of the aforementioned core services. As yet, though, the North Korean ‘official’ banking system has not adapted to new economic realities, and hence, a private, small-scale financial system has sprung up, largely outside the scope of government financial and regulatory institutions. Making a somewhat loose comparison, it is somewhat reminiscent of the emergence of early lending and saving institutions in late medieval and early modern Europe, as well as finance in the Ming and Qing dynasties in China.

The present paper provides the general outline of the private financial services, currently available in North Korea. It is based on the numerous interviews with the North Korean refugees in South Korea and China. The presentation is of descriptive nature, and hopefully will be followed by deeper and more theoretical (and/or comparative) studies of the topic.
The sorry state of the state financial system

The official banking system is basically ignored by markets today. On paper, North Korea has a banking system, but this system was created to service as a part of a hyper-stalinist, central, command economy. Thus, its functions, from the very beginning, were very different to the functions of banks in market economies. One should also add that the North Korean Stalinist model was remarkable in the extent to which finance and money were minimized. This makes banks even less relevant.

From the very beginning, regulations have made it impossible for North Korean banks to deal with individuals. They could not usually provide credit to consumer borrowers – such credit would make little sense anyway in an economy where almost everything was distributed. They also did not usually exchange foreign currency or its equivalent without special prior permission – the last caveat is largely related to Japanese returnees, who were allowed some access to money transfers in the 1970s and 1980s.

Theoretically, the North Korean banking system was a place where money was stored. It did actually play this role when the old system was functional, but with the disintegration of the planned economy starting back in the 1980s, very few North Koreans deposited their savings in banks. It is almost universally believed by North Koreans I have interviewed that making a deposit in a state bank is a foolish deed: money once deposited cannot be withdrawn.

All this means that banks are essentially irrelevant to our topic. State banks have played virtually no role in the emergence of the new financial system inside North Korea.
Private money services: Currency Exchange

It seems that the first private financial service to emerge in North Korea was money exchange.

Compared to other communist countries, North Korea has always had remarkably permissive foreign currency regulations. In the Soviet Union and many other Eastern European countries (the latter generally copied the former), illicit trade in foreign currency was seen as a grave crime that could lead either to long term imprisonment or even death (executions of successful foreign currency dealers did happen in the 1960s and 1970s in an otherwise far more permissive country than North Korea of the same time). Conversely, illicit trade in foreign currency in North Korea was seen as a relatively minor crime that would most likely result in arrest followed by a short stint in prison.

Probably, such an unusually permissive attitude resulted from the return of some 100,000 Koreans from Japan who received foreign currency transfers from relatives who remained there. In the 1960s-90s, such money remittances constituted a major source of income for the North Korean state and hence it made perfect sense to turn a blind eye to the operations involving foreign exchange.

Private foreign exchange services began, so far as the author is aware, back in the early 1980s, when planned economy still functioned.

In the late 1980s, the use of foreign currency North Korea began to grow exponentially. The major reason was the substantial role played by China in emergent North Korean markets. On the basis of interviews with North Korean refugees it is possible to generalize in explaining how North Koreans acquired start-up capital for business: (1) close connections to state managers and
bureaucrats allowing aspiring entrepreneurs to use state resources, machines et al. to start producing and building up capital; (2) connection to relatives overseas, especially in China. Actually, it seems that the first option was more typical for larger businesses, while the second option was the normal way to start operations for small-scale business women and men.

Relatives overseas, in most cases China, could provide relations in North Korea with loans and also help in finding trade partners over the border. The prominence of China was a result of a number of factors. First, China is the country which has the largest number of people who have relatives in North Korea. Second, the geographic proximity, and the porous nature of the border made contacts easier. Third, the Chinese experiences are rather similar to that of North Korea, hence it was easier for the Chinese and North Koreans to understand one another’s demands and problems.

China has loomed large from the very beginning of North Korea’s marketization, and very soon, country was flooded with Chinese yuan. The amount of Chinese yuan was remarkably large by the mid-1990s and has been growing ever since. Other foreign currencies like the US dollar and the Euro are also in circulation. As time passed, quasi-dollar and quasi-yuan zones emerged. In the last decade or so, the borderlands have become completely dominated by the Chinese yuan, while in the southern parts of the country, especially in Pyongyang, the dollar is widely used together with the yuan. This trend was greatly strengthened by the unsuccessful 2009 currency reform that undermined what little was left trust that North Koreans had in the local currency. As a result, in the last half decade or so, all transactions over $100 are conducted in US dollars or more frequently Chinese yuan. While the North Korean currency is used only in smaller transactions.
This yuanization/dollarization has made private exchange services all the more necessary. By the early 1990s, currency traders were to be found in nearly all major markets in North Korea, usually near the entrance. They were ready to exchange North Korean currency to yuan.

These operations remained technically illegal, but the government paid little attention to currency dealers. As a matter of fact, from around 2002-3, some larger shopping centres in Pyongyang opened money exchange counters where it was possible to exchange money at market rates. This kind of operation is known in North Korean parlance is known as ‘trade in money’ (돈장사) and is quite profitable. It also has a downside: it is seen as a type of business with a high barrier to entry because one needs a high level of start-up capital to trade profitably.

While money dealers at market, like pretty much all market vendors, are expected to pay regular bribes to local police and other government officials, they are seldom harassed. Someone with Soviet experience should also note that North Korean currency operators are not threatened much by criminals – violent assault or worse appears to be quite rare. When talking to a former money dealer, I asked her what she saw as the major source of risk in her business. She did mention occasional extortion by police and the military, but she did not mention criminals at all.

Some money lenders have made significant sums. For example, in one of the major cities on the border, the most successful money dealer lives in a large house built from high-quality imported Chinese construction materials and equipped with all the gadgets that embody success in North Korea: computer, LCD TV, fridge and even Air conditioner. To avoid perennial blackouts that would probably ruin food stored in the fridge, the person had a private power
cable installed. The cable connects their house to the local political police. The latter are considered so important that they are supplied with power whatever the weather, even as other places struggle to get power. The aforementioned currency dealer never forgets to pay the necessary bribes, however.

Money lending operations

No business would be possible without access to credit, and North Korean business is not an exception. However, credit cannot be obtained in regular banks meaning that North Korean business people have to rely on private loans. Much of the time, foreign currency traders are also the principle people who lend money. Hence, both activities usually come under the umbrella, aforementioned term: 'money trade' (돈장사).

Refugee testimony differs as to the prevalence of usury in the North. Some interviewees categorically stated that they would never either borrow or lend money. Indeed, there is said to be a common proverb in North Korea: “a person who borrows money is a second-rate fool, while someone who lends it is a first-rate fool”. That said, one frequently comes across instances in which short-term loans are issued and utilized with great success.

Interest rates, as one would expect given such an insecure environment, are exorbitantly high. Back in the late 1990s, an annualized interest rate of 150% was considered modest. However, these days are gone, now the average annualized interest rate for private loans is around the 50-60% mark. This is still high by any standard, but it seems that over the last 20 years, the business environment has become more stable and secure, and the average interest rate
has declined.

The major issues are these: collateral and bad debt. Often expensive possessions including motor bikes, fridges and even houses. Delinquent borrowers remain a major issue though. Money lenders sometimes call upon local police and government officials to harass those who are in default. However, such an approach appears to be far from universal. At the same time, it seems that physical violence is rarely, if ever, used to extract payment from unfortunate borrowers.

**Money Transfers**

The growth of private business has also made quick and reliable money transfers an important issue. Another important, if somewhat different business, is that of money transfers in and out of the country. While the North Korean state financial institutions offer both wholesale and retail money transfer services, as stated above, the banking system is not trusted by North Korean entrepreneurs or by the average person.

Of late, the task has become dominated by private clearing houses and the contact details of people who run such operations are well known to North Korean merchants. If an individual needs to send a sum from say Wonsan to Hamhung, a money lender contacts a colleague in Hamhung who instructs the latter pay a certain sum minus service fees to a designated person in Hamhung. There are dozens of money operators who participate in a set of such networks across the country, so the fees largely cancel each other out.

Money transfers in and out of the country are a more different task. Nonetheless,
it has been possible to wire money in and out of the country. It was possible to use people with relatives outside/inside the country. However, most money transfers are now related to smuggling and other illegal/semi-legal activities. A large network of brokers now exists, brokers are well known for handling border crossing and escape from the country. Brokers also facilitate money transfers and the movement of postage over the border.

The money transaction typically begins when a person in South Korea or another country sends money to China. The money arrives in a Chinese bank account, whereupon it can follow a number of paths. If the recipient lives near the border, in a town or village that can be easily reached from China, it is not unusual for the broker to deliver the cash directly. But when the movement of currency becomes more difficult due to distance, money transfers are often handled by Hwagyo (Chinese residents of North Korea). Most Hwagyo are involved in cross-border trade and have bank accounts in China. Thus, money is first transferred to the Hwagyo bank account and then pays the recipient through brokers, of which the Hwagyo is the end. In one case I witnessed myself, it took less than an hour for money to be transferred between South Korea and North Korea, even though the recipient lived in the rather distant city of Haeju, far away from the Sino-North Korean border. In this particular case, it was a chain of lucky coincidences that shortened the chain. Normally, during such transaction it takes about a week for money to make it to the recipient.

Brokers’ networks are remarkably reliable and cases of deception are rare. Fees are, however, high. The current rate is 30%. The recipient will receive only $700 for every $1000 sent from Seoul. Nevertheless, there is no alternative, so the system is used widely and plays a major role in providing North Koreans with foreign currency. Reputedly, there were even (very rare) cases when money
moved in the opposite direction: the affluent North Koreans send money illegally to assist their relatives who had moved to South Korea and had problems with adjusting.

**Conclusion**

The last twenty years have been a time when not North Korean capitalism, but also private financial institutions have sprung up and flourished. It is difficult to forecast what will happen to these institutions when/if the North Korean economy gets a measure of official recognition and becomes more institutionalized. Nonetheless, for the time being at least, these structures serve the basic needs of clients quite well, ensuring that the nascent North Korean private economy remains afloat, even making a significant contribution to the general improvement of North Korea’s general economic situation.
Making Engagement with North Korea Work: Finance and Small-scale Businesses?

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Abstract

Making Engagement with North Korea Work: Finance and Small-scale Businesses?

1. Introduction

The Democratic People's Republic of Korea (hereinafter referred to as North Korea) lost the support of the socialist countries after the collapse of the Soviet Union and East European socialist states. To respond to the new conditions, North Korea implemented the July 1 Measures from 2002, also known as the "Economic Management and Improvement Measures". In the process, non-state-owned economic entities increased and North Korean economy cannot be discussed without mentioning the economic activities of non-state actors.

The currency revaluation in 2009 was enforced in attempts to control private economic activities but it failed miserably as the state could not provide food and basic necessities to its population. Since the end of 2011, a new economic management method was implemented under the new leadership of Kim Jong Un.

In this paper, the role of finance for the sound economic development in North Korea will be explored as the economic policy coordination conducted under the Kim Jong Un regime may accelerate the “product economization” or “various activities of economic entities” in the future.

2. The Changes in North Korean Economy and Increase in Economic Agents with Market Character

North Korea amended the Constitution in 1998, and created the foundation for series of economic reform measures such as restructuring government organizations and increased the number of provisions to encourage foreign direct investment (FDI). The Economic Management and Improvement Measures (July 1st Measures) in 2002 and authorization of general markets in 2003 acted as a non-institutional space that expanded the non-state economic entities. Then in November 2009, currency redenomination took place with a purpose to recover cash assets back to the state. Through this action, food and basic necessities was to be sufficiently provided to the people but this did not occur. From the end
of 2011, under the new leadership of Kim Jong Un, economic management system began to be improved and introduced a new economic management methods. Thus, North Korea has entered into a period of economic policy adjustment or economic reform from 2011.

3. The Legal Status of Small Private Enterprise

It should be noted that there is no legal protection for the self-employed or "small private enterprise" under the provisions of the current North Korean civil law. However, in the current phase of North Korea's economic policy adjustment, there is a premise that "small private enterprises" and the larger scale "de facto industry capital," are indeed in existence, which demonstrate severe gap between current laws and reality. Under this situation, the key to resolve this legal dilemma surrounding private companies is to explore ways to recognize private properties without contradicting the existing state-owned or cooperative organizations properties.

4. Policy Tasks Necessary for Market Economy Transition

Some policy tasks required in the implementation process are as follows: (1) privatization of state-owned enterprises, (2) liberalization of domestic and international transactions, introduce currency convertibility, and establish free competition, (3) establishment of a financial sector comprised of central bank and a commercial bank, (4) establishment of stock markets, (5) establishment of state finance and tax system based on the market economy, and (6) improve legal system necessary for market economy to function including bankruptcy, corporate and other laws.

Ensuring these institutional changes may be invisible in the current North Korea policy direction. Thus, the only possible way to develop “small private enterprise" is through indirect measures based on the current ownership system.

5. The Role of Finance to Foster "Small Private Enterprises" and Recent Changes in North Korea

To recognize the de facto “private companies” in the regime through finance may only be possible through the establishment and operation of commercial banks. While North Korea enacted the "Commercial Banking Act" in 2006, commercial banks are not established yet. In recent years, North Korea is promoting turnover of funds through finance sector.
Currently, North Korea has introduced electronic payment system to simplify foreign currency spending through "Narae" (Foreign Trade Bank) and "Koryo" (Koryo Bank) debit cards. These cards used at shops, restaurants, and other convenient facilities are paid to the vendors through bank account transfer. There are no interest fees but one cannot deny the possibilities in the future where once trust is built toward the financial institution through frequent card usage, this may lead to the establishment of commercial banks, to make deposits and even loans.

6. Conclusion

The economic reform measure carried out in 2002 increased the connection between the state-owned and the non-state sectors. That relationship can be seen to have continued through 2009. The new economic policy under Kim Jong Un is characterized by the foundation of various changes experienced since the 1990s. The current changes started from the financial sector should begin with finishing what was left uncompleted during the Kim Jong Il era. This should begin with establishing commercial banks and turn personal deposits into loans and create circulation of funds to promote investment activities of individuals through state-owned enterprises and social cooperative organizations with relative autonomy. When such possibilities are examined, it is essential to understand North Korea's official position and institutions, but even considering its limitations can provide various possibilities.
1. 서론


본고에서는 북한의 김정은 정권하에서 시행되어 있는 경제정책 조정이 향후 북한사회에서 진행되고 있는 "상품경제화4)"나 "다양한 경제주체의 활동"을 가속화 할 수 있다는 시점에서 건전한 경제발전을 위한 금융의 역할에 대하여 시론할 것을 목적으로 한다.

1) 북한은 1998 년에 헌법을 개정하였다.
2) 비국영 경제주체의 내화는 다양하다. 소유해 측면에서 보면 사적 소유를 기본으로 하면서도 국영기업소이나 단체 기관의 명의를 편의상 차용하는 경우도 있고, 개인 및 가족단위로 활동하는 사적기업 형제, 자영업자가 다른 사람을 도움으로 형식으로 고용하는 형태 등 여러 가지다. 다만, 북한에서는 사적 서유에 범위는 엄격히 제한되어 있어, 법적 보호를 받을 수 없는 경우도 많아 어디까지나 "묵인" 상태를 벗어나기가 힘들기도 한다.
3) 「기업실적 올리고 원활한 자금순환/사회주의경제, 활성화를 위한 전략」 조선신보, 2015년2월22일부
는 사회과학원 리기성 교수의 발언을 인용, "2011년말 김정일장군님의 서거후에 김정은원수님께서 제시하신 정책과제의 하나가 제시해의 요구에 맞는 경제관리방법의 확립이었다. 지난해 5월에는 원수님께서 ≪우리식 경제관리방법확립에 관한 원칙적인 문제들을 다 밝혀주시였다.≫고 한다"고 보도했다. [http://chosonsinbo.com/2015/02/p1_150222/]
4) 북한경제는 아직도 시장경제를 정식으로 도입하고 있지 않으나 이미수요와 공급에 관계로 결정되는 시장 가치를 통한 소비자 및 생산자의 동등이 이루어지고 있는 것이 관찰되어 있다. 이 상황을 시장경제와 구별하기 위하여 "상품경제"라고 부른다.
2. 북한 경제에 변화와 시장적 성격을 딴 경제주체 증가


2009년 11월의 화폐교환은 한편에서는 현금 자산의 국가로의 회수를 목적으로 하고 있었다. 그것은 국가가 비국영 경제주의 원리 빼앗는 것을 목적으로 한 조치라고 해석할 수 있다. 다만, 이 조치를 통하여 국영부문이 주민에게 식량과 생필품을 원활하게 공급하는 것으로 예정되어 있었지만, 과연 그렇게는 안 되었다. 2011년 말부터는 김정은 제1위원장 지도 밑에 2002년의 조치에 비하여 본격적인 경

5) 그 요점은 국가 주석 및 중앙 인민위원회 제도의 폐지에 따른 국가기구의 대폭적인 개편, 경제에서 내각제의 제도에 따른 중앙 관리의 강화, 경제와 외교에 관한 규정에 지난 6 연간 성과의 반영이다. 헌법 33조 제2항에는 "국가는 경제관리에서 대안의 사업체계의 요구에 맞게 독립체계체를 실시하며 원가, 가격, 수익성 등을 경제적공간을 올게 리용하도록 한다."이란 조항이 신설되었다.

6) 일본의 북한경제 전문가인 나카가와 마사히코(中川雅彦)에 의하면 1998년 당시의 개혁은 1999년초부터 2001년에 걸쳐 진행된 국영기업의 구조 조정이 대표적이고 그 조정은 움직이고 있는 기업을 유지하고자 하는 것으로 보일 수 있다. 중앙의 많은 기업을 선택하여 그들을 운전하는 것에 중점을 둘 것으로 보이기 때문이다. 중

7) 현재는 지역시장이라 부름.


3. “소규모 사기업”의 법적 지위

김정은 시대에 들어 경제의 현황은 조선로동당의 지도와 정부의 정책에 따라 변화를 보이고 있다. 다만, 북한이 정책으로 실시하고 있는 경제 정책 조정은 2002년의 개혁 조치 이후 북한 사회에서 확대한 사적 소유를 기초로 하는 비국영 경제주체의 존재를 압축의 전제로 하고 있지만 아직도 사회주의 계획경제와 집단적 소유를 기초로 하고 있다11). 그럼, 현행 범규에서 이른바 “소규모 사기업”의 법적 지위는 어떻게 되었을 것인가?

북한 헌법은 소유권을 국가소유권, 사회협동단체소유권 및 개인소유권으로 나누어 규정하고 있다12). 민법 규정에 의하면 국가소유권에 제한이 없다13). 

9) 각주 3을 참조.
10) 그 담화 내용을 보면 그 담화로 특별히 새로운 조치가 시작된 것이 아니라, 2011년말부터 시행되어 왔던 각종 조치만 인정하고 공식화한 것이 중심이 두어 있다고 판단한다.
12) 조선민주주의인민공화국 사회주의헌법 제37조는 “조선민주주의인민공화국에서 재산에 대한 소유권은 그 소유형태에 따라 국가소유권, 사회협동단체소유권, 개인소유권으로 나누어진다.”고 규정한다.
13) 미법 제14조는 “국가소유는 전체 인민의 소유이다. 국가소유는 국유화한 재산, 국가 투자로 마련한 재산, 국가기업소의 생산물, 국가 기관, 기업소가 산 재산, 국가의 결정에 따라 국가 기관, 기업소에 넘어온 재산, 사회협동 단체나 공단이 국가에 바친 재산, 그밖에 국고에 넣어진 재산으로 이루어진다. 국가소유권의 대상에는 재산이 없다.” 고 규정한다.
속하는 대상으로 천연자원, 사회기반시설, 학교 등(14)을 규정한다. 사회협동단체소유(15)의 전형적인 대상은 협동농장의 생산수단이며 토지와 농기계, 배, 중소 공장, 기업소 그밖에 경영활동에 필요한 대상들(민법54조)이 포함된다. 개인소유(16)의 대상은 “설립잠과 가정생활에 필요한 여러 가지 가정용품, 문화용품”이며 “그밖에 생활용품과 승용차같은 기계를 소유할 수 있다”고 규정되어 있다 (민법59조).

이상에서 본 바와 같이 현행 북한 민법의 규정에 의하면 개인이 소유하는 자영업 또는 “소규모 사기업”에 대한 법적인 보장이 없는 것에 주의해야 한다(17). 다만, 현단계의 북한의 경제정책 조정은 이러한 “소규모 사기업”과 그보다 규모가 큰 “사실상의 산업자본”의 존재를 암묵적 전제로 하고 있어 법규정과 현실의 겹침이 심하다. 각주11에 있는 북한의 공식문헌의 표현을 보면, 그 과정을 법적으로 정리하여 생산수단에 대한 사적 소유를 인정할 가능성을 당분간 거의 없다고 볼 수 있다. 그 상황을 기초로하면 국가소유나 협동단체소유와 모순되지 않은 범위로 어떤 사적 소유를 인정해 나가는가 사기업을 둘러싼 법적 문제 해결의 핵심이라고 할 수 있다(18).

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14) 민법 제45조는 “다음의 재산은 국가만이 소유할 수 있다.
1. 지하자원, 삼림자원, 수산자원을 비롯한 나라의 모든 자연자원
2. 철도, 항공 운수, 체신 기관과 중요 공장, 기업소, 항만, 은행
3. 각급 학교 및 중요문화보건시설”고 규정한다.

15) 민법 제53조는 “사회협동단체소유는 사회협동단체에 들어있는 근로자들의 집단적 소유이다. 사회협동단체소유는 사회협동단체 성원들이 들여놓은 재산, 사회협동단체의 자제 투자로 마련한 재산, 사회협동단체의 생산, 사회협동단체가 산 재산, 국가에서 사회협동단체에 소유권을 넘겨준 재산으로 이루어진다.”고 규정한다.

16) 민법 제58조는 “개인소유는 근로자들의 개인적이며 소비적인 목적으로 소유한다. 개인소유는 로동에 의한 사회주의분배, 국가 및 사회의 추가적 혜택, 토지경리를 비롯한 개인부업 경력에서 나오는 생산물, 공민이 산거나 상속, 증여받은 재산 그밖에의 법적근거에 의하여 생겨난 재산으로 이루어진다.”고 규정한다.

17) 그래서 개인의 투자로 생긴 사실상의 사기업은 정의상 국영기업이나 협동단체가 자체적으로 자금을 마련한 정장·생산 센터(공장)으로 등록하게 되는 것이다. 그 외 당사자간의 관계가 좋으면 별 문제가 없지만, 분쟁이 생겼을 때에는 개인이 불리하다. 그 권리를 보장을 위해서는 법외의 “힘”의 존재가 중요해지고 여기에서 권력 기관이나 특수 기관들과의 결탁, 조직폭력과의 관계에 대한 유인이 생긴다.

18) 개인이 소유하는 재산, 특히 현금(내화 및 외화)이나 재권에 대한 보호부터 시작해 나갈 필요가 있을 것이다.
4. 시장경제 이행과정에 필요한 정책과제

현재 북한은 공식적으로는 어디까지나 사회주의 틀 안에서의 개혁을 주장한다. 그러나 북한 경제에 시장적 요소가 완전히 없는 것도 아니다. 그 것은 북한 정권 자체가 잘 아는 것이다. 북한은 아직 공식적으로 시장경제 이행을 표명하고 있지 않으나 현재 북한 정권의 상태를 시장경제의 이행과정에 있다고 가정하면 다음과 같은 문제를 해결해야 할 것이다.

 어느 정체가 시장경제화 되고 있다고 할 때, (1) 사회적 분권이 발달되어 있어야 하며, (2) 경제 주체에 의한 분권적 의사결정이 보장되어 있어야 하고, (3) 자료 경쟁이 필요하며, 참여의 자유가 보장되어야 하고, (4) 시장 경제의 원활한 작동을 보장하기 위해 정부가 필요하다. 이행 과정에 있어서 필요로 되는 정책과제는 다음과 같다.

(1) 국영 기업의 사유화, (2) 국내외 거래의 자유화, 통화 교환성 도입, 자유 경쟁의 확립, (3) 중앙 은행과 상업 은행을 함유 금융부문의 확립, (4) 증권 이행법과 기타 시장 경제가 가능하기 위한 여러 제도의 정비.

 이러한 변화를 제도적으로 보장하는 것은 현재 북한의 정책 방향에서는 보이지 않는다는. 그래서 북한에서 “소규모 사기업”을 육성하려면 현 소유제를 기초로 하면서 사회적인 방법을 취할 밖에 없을 것이다.

19) 물론 북한 경제에 시장적 요소가 증가되고 있는 것은 사실이지만, 다음과 같은 조건이 충족되지 않는다면 북한 경제를 시장 경제라고 부를 수없는 것이며 그러한 노력이 북한 정권에 의하여 진행되지 않은 한, 북한 경제가 시장화되고 있는가 할 수도 없는 것이다.
20) 여기서 말하는 시장 경제화는 사회주의 계획 경제에서 시장 경제로의 전환을 의미하며, 시장 경제는 시장이 생산과 소비 또는 수요와 공급의 주요 조정 메커니즘으로 기능하는 경제에 다름 없다. 가격 메커니즘과 자유로운 자본 이동의 메커니즘이 그 핵심을 이룬다.
21) 그러한 개별 경제 주체의 자유로운 의사 결정을 보장하기 위해서는 기본적으로는 사적 소유권의 확립이 필수적이다.
22) 西村 可明, 「市場経済への移行における経済政策－総論－」、「ロシア経済改革を題材とした移行国向け研修資料」, 内閣府経済社会総合研究所, 2001年, pp. 2-3.
23) 같은 글, p. 3
5. “소규모 사기업”의 육성을 위한 금융의 역할과 최근 북한의 변화

생산수단의 개인적 소유가 허용되고 있지 않는 북한에서 비국영 경제주체의 활동을 규범화하고 육성하기 위한 방도의 하나는 그들이 소유하는 금전자산을 보장해 줄 것이다. 즉, 자금 출처에 관계없이 그 예금을 보호해주는 상업은행을 설립하여, 개인과 개인이 운영하는 비국영 경제주체도 상업은행을 이용하게 만들 것이 선차적으로 필요하다.

다음 단계에서는 “소규모 사기업”들의 자금 수요를 충족시키기 위한 은행 대부가 이뤄질 것이 중요하다. 다만, 생산수단의 개인소유가 허용되어 있지 않은 조건에서 대부를 받을 수 있는 대상과 자금 사용 목적은 한정될 뿐이다. 현행법상 가능한 것은 국영기업이나 사회협동단체에 대한 대부를 통해 사실상의 사기업 자금수요 확보다.

이러한 금융을 통한 정권의 사실상의 “사기업” 인정은 상업은행 설립과 운영을 통해서만 가능하다. 북한은 2006년에 “상업은행법”을 제정하였으나 지금까지 상업은행은 설립되어 있지 않았다.

최근 금융을 통한 자금 흐름을 추진하는 움직임이 주목되고 있다. 『조선신보』는 중앙은행 김천균총재 인터뷰 기사를 게재하였다. 이 기사에 의하면 현재 북한의 금융 정책 중 “경제부흥을 위한 자금수요를 국내자금을 원활하게 순환시키는 방법으로 해결”하는 것이 있다는 것이다. 북한에서는 외화 소비를 간편화하기 위한 전자 결제 카드인 “나래”(무역은행)와 “고려”(고려은행)가 사용되고 있다. 상점, 식당, 편의시설 등에서 사용된 금액은 각각의 은행 계좌에 이체되어야 한다. 카드가 널리 사용되는 것을 보면 개인이 소유하던 상당액의 외화가 전자결제카드 결제를 통하여 국가 관리하에 들어간 것이다. 현재는 결제용 카드라 이자는 없지만, 향후 이러한 카드 사용을 통해 조성된 금융 기관에 대한 신뢰감이 상업 은행의 설립과 예금, 대출로 이어질 가능성을 부정할 수 없다.

24) 《기업실적 올리고 원활한 자금순환／사회주의경제, 활성화를 위한 전략》, 『조선신보』 2015년 3월 22일부 [http://chosonsinbo.com/2015/03/py_150322/]
25) 같은 카드는 은행에서 외화를 입금하여 입금시의 공식환율로 변환된 “외화환”(외화에 전환할 수 있는 조선원)으로 지정된다.
6. 결론


현재 금융분야에서 시작된 변화는 김정일 정권하에서는 실현할 수 없었던 상업은행 설립과 개인의 예금을 대부로 돌리는 것에서 출발하여 상대적인 자율성을 가진 국영 기업 및 사회협동단체 그리고 그들을 통하여 사상상의 투자활동을 하는 개인에 대하여 자금을 공급하는 자금 순환을 실현하게 만들 수 있다. 그 가능성을 검토할 때에는 북한의 공식적 입장과 제도에 대한 인식과 이해가 필수적이지만, 그 제한성을 고려하더라도 다양한 가능성이 있는 것을 지적할 수 있다.

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Business and Finance in North Korea: A Korean Perspective

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북한 비즈니스와 사금융

이 글은 북한 사금융의 형성과 발전 과정에 대한 다양한 양태를 탐구하고, 이를 토대로 사금융 환산의 영향과 함의를 고찰한 뒤 북한이 적합한 금융정책적 과제를 살펴보는 데 목적이 있다. 자본주의 시장경제국가들과는 다른 북한에서의 사금융과 관련된 개념과 법제도 등도 함께 검토하였다. 사금융의 다양한 양태를 보여주기 위해 많은 사례들을 제시하였고, 이를 통해 다양한 사금융 주체들의 생존전략을 규명하면서 더불어 사금융의 양면성에 대한 북한 당국의 이중적 대응과 향후 전망에 대해서도 살펴보았다.

오늘날 사금융의 실태는 북한에서 확산되고 있는 시장경제의 소비 분야에서 시작해 점차 생산, 금융 분야로까지 확대되고 있음을 의미한다. 사금융은 여러 가지 원인에 의해 활성화되고 있는 것으로 분석되었다. 시장 활동을 사실상 제도적으로 보장하는 경제관리 개선 조치와 더불어 사적인 경제활동을 통해 자본 축적 가능한 환경 조성, 사적 투자 이익의 추구 경향의 신화 등을 연관하여 보다 근본적으로는 재정의 파탄과 공적 금융이 기능을 상실한 것이 사금융 활성화의 직접적 원인으로 볼 수 있다.

특히 김정은 체제가 내건 새로운 경제관리조치에 힘입어 돈주들의 사회적 지위와 역할은 더욱 강화되었다. 김정은 정권은 공장 기업소마다 독립체제에 기초한 경영자율권을 부여하고, 공장 자체로 원료의 조달과 생산물 제조와 판매, 심지어 대외 무역권한까지 부여하였다. 이에 따라 북한 내부에서는 돈 있는 사람들이 기업소 공장의 경영권을 담당하면서 사실상 경제를 이끄는 주인이 되었다. 김정은 정권의 경제 분야에 대한 자율권을 부여하면서 북한 경제는 자금을 갖춘 돈주들에 의해 좌지우지 되고 있다고 해도 지나친 표현은 아닌 것으로 판단된다.

사금융은 사경제의 발달과 이에 따른 사적인 자본 축적이 가능한 환경이 만들어지면서 더욱 활성화되었다. 시장이 확산되는 과정에서 축적된 사적 자본은 재투자되어 부를 확대재생산하는 구조가 정착되는 것이다. 농구 사적 자본의 축적은 사적 소유 현상이 가속화되면서 어느 정도 법적으로 허용되기 때문에 가능한 측면을 주목할 필요가 있다. 사적 경제활동이 확산되면서 사적 자본을 투자해 이익을 극대화하려는 경향은 자연스레 심화된다. 고위험고수익(high risk high return)의 원리가 적용되면서 사적 자본을 축적한 사람들의 투자성향은 과감해지고 있는 것으로 파악된다. 주민들은 북한이 겪은 발발한 사회주의적, 내부
에는 시장권리가 정착되어 ‘돈을 돈을 낳는’ 사금융 시장이 형성됐다고 지적한다. 북한 돈이 시장에서 여전히 사용되고 있기는 하지만 외화가 은행 저축 대신하여 화폐가치를 보존하는 금융자산으로 평가받고, 나아가 교환수단으로도 활용되는 달러화(dollarization) 현상이 심화되는 것도 사금융의 발전을 촉진하는 배경으로 분석된다. 북한에서 사금융의 가장 일반적인 형태는 사채업자(돈주)에 의해 이뤄지는 고리대금업이다. 사금융은 개인과 개인 사이뿐 아니라, 개인과 무역회사, 협동기관, 국가기관들 사이에 다양한 방식으로 이뤄지고 있고, 갈수록 거래 양대가 자본주의 경제사회의 투자 방식과 거의 구별하기 힘들 정도로 흡사하게 달아가고 있다.

은행의 가장 기본적인 업무인 대출, 송금, 환전 업무 등을 대행하는 돈주를 중심으로 하는 사금융의 다양한 주체들이 등장하고 있다. 특히 한자어 전주(錢主)의 북한식 용어로 북한의 신용 부유층을 가리키는 돈주들은 오늘날 북한의 사금융을 발전시키는 핵심 주역이라고 할 수 있다. 이들은 고리대금업을 비롯해, 전당포 운영, 나아가 아파트 건설 등 다양한 이권사업에 투자하며 부를 축적하고 있다.

사금융의 발달은 출신성분을 비롯한 획득적 지위를 중요시하던 북한 사회를 바꿔놓고 있다. 시장의 발달은 ‘돈주’라 불리는 신용 부유층과 이를 비호하는 부유한 기득권층이 형성하였고 이는 북한의 중산층과 출신 성분에 기반한 계층 구조에 변화를 가져오고 있다. 또한 사금융의 발달은 신용의 몫받침 없이는 불가능하다. 북한에서도 사금융 시장이 성장하면서 신용이 갤수록 중요화되고 있다. 신용을 중시하고 능력에 따라 보상을 받는 시장경제의 논리가 확산되고 있는 것이다. 사금융의 형성과 발전 과정에서 필수적으로 요구되는 것은 양질의 비공식 인적 네트워크 확보이다. 돈주들은 사금융 거래에 따른 법적 보호와 몫받침을 받지 못하고, 정부의 단속과 통제로부터 자유롭지 못하기 때문에 이 같은 공식 제도의 공백을 극복하기 위해 비공식적 네트워크를 적극적으로 활용하고 있다. 그러나 사금융의 확산은 북한 사회내 빈부 격차를 더욱 벌어놓고 있다. 시장 적응 능력과 더불어 사금융 활용 능력의 보유 여부가 잘사는 주민과 그렇지 않는 주민 간 소득 격차를 확대시키는 구조가 고착화되어 있는 것이다.

사금융은 체제전환 초기나 경제개발 초기 과정에 있는 나라들에서 생기는 패러다임의 전환으로도 볼 수 있다. 통상 금융 개혁은 대부분 체제 전환국들이 시장경제체제로 경제개혁을 추진하는 첫 단계이기 때문에 북한이 본격 금융 개혁을 추진한다면 경제 개혁을 알리는 상당히 의미 있는 신호가 될 것이다. 북한의 사금융 확산은 사회주의 금융시스템을 근본적으로 바꾸는 시발점이 될 수 있다는 점에서 큰 의미가 있는 것이다.
I. Introduction

In this paper, I consider the unofficial market and the spread of private financial activity of North Korean society, and attempt to predict some of the changes in future North Korean society by analyzing the appearance, development, and implications of the phenomenon. The paper is based on a research team’s qualitative study of North Korean defectors regarding related topics. The study was based on a theoretical framework and research on the unofficial market observed under the socialist system as well as private financial activities. Specifically, related variables and keywords (e.g., ‘money transactions,’ ‘interest,’ ‘bank,’ ‘foreign currency,’ ‘exchange rate,’ ‘(illicit) trade,’ ‘private capital,’ ‘credit,’ ‘housing transactions,’ ‘pawnshops,’ ‘money laundering,’ ‘customs,’ ‘crackdown’ and ‘cellphone’) were extracted through a preliminary literature survey and pilot study. A structured questionnaire was created based on the defectors’ former socio-economic status and in-depth interviews were conducted. In addition, the research team studied their everyday lives, with the primary goal to understand North Korea today, as well as to predict the possibility of change from below and future direction.

When the market expands, credit, as well as the need for finance, has no choice but to grow. Of course, today in North Korea the financial market does not officially exist. The unofficial market transactions are a form of private finance. In North Korea, ‘loansharking,’ the practice of lending money privately at a very high interest rate, is also illegal; but as the private economy came to life this type of private finance also grew significantly. The spread of private finance is also a product of the dysfunctional state of North Korea’s banks, which are administered and controlled by the state. Because of this, it is widely
felt that banks are not a safe place for an individual to entrust one’s wealth, and thus significant amounts of private capital escaped to the underground economy. Understanding the emergence and development of private finance in North Korea will also be helpful in predicting the influence private finance will have on not just the private economy, but economic growth, as well as future changes in the economic system.

This paper explains various characteristics of North Korea’s private finance and considers the various implications and effects of such finance on the security of the North Korean regime. Some elements such as the legal system and concepts related to private finance are also examined. Aspects of North Korea’s private finance are illustrated by case study. Through these case examples, I investigate the various survival strategies of the main agents of North Korean private finance. I also examine the outlook of private finance as well as the North Korean officials’ two-sided response to this double-edged sword, and aim to provide an understanding of the economic management mechanisms being employed in the Kim Jong Un era.

The composition of this paper is as follows. Section II introduces the main concepts and definitions of finance in North Korea and its financial system. Section III, citing interviews with North Korean defectors, analyzes the causes of the emergence of private finance in the country, examines the main agents of private financial transactions, and explores the actual state of private transactions between these financial agents. The final two sections consider the implications and effects of the spread of private finance and forecast how the North Korean system will change.
II. The Concept of Private Finance and its Application in North Korea

1. North Korea’s Concept of Finance and its Financial System

The dictionary defines ‘finance’ as “lending money and receiving interest.” It is the practice of transferring capital to another party for a set period of time, trusting that the other party will repay the principal and interest in the future. In North Korea’s socialist definition of finance is “the planned process of lending currency centrally through the state bank.” This differs from the “lending of capital between economic agents” definition of capitalist societies. Because North Korea only allows for “the lending of capital centrally through the state bank” in its concept of finance, it has institutionally banned direct financial transactions between individuals, companies, institutions, and cooperative farms. The lending of capital is also only executed as part of the state’s economic plan.

In North Korea the purpose of finance can be divided into four categories: 1) guiding and controlling the People’s Economy; 2) guaranteeing capital for the implementation of the People’s Economic Plan (capital supply and credit function); 3) strengthening and stabilizing the circulation of money (money circulation function); and 4) conducting reasonable foreign currency transactions and guaranteeing foreign capital (international finance function). The control function of finance is emphasized most heavily. This function is to inspect things such as the validity of a company’s or institution’s management activity and the suitability of their financial plans as the state bank receives revenue from or supplies capital to them. In this regard, North Korea’s financial institutions are state institutions that financially regulate a company’s or institution’s management activity. Here, since regulation is performed by way of currency,
it is differentiated from legal and administrative regulation, and is called ‘regulation by the (North Korean) won’ or ‘regulation by capital.’

In other words, as in other socialist countries, North Korea engages in the planned lending of currency through the state bank, satisfying capital demands for the purposes of economic development and improving the people’s quality of life. Thus, it implements financial controls in all sectors of the People’s Economy. However, as the financial system has collapsed after the mid-1990s, North Korea has drastically reduced or completely halted the lending of capital through the state bank. As soon as it became difficult for the central bank to fulfill its financial management role of disbursing and receiving all financial revenue, it switched from offering capital to businesses to offering credit from the budget.

In particular, self-supporting institutions utilized loans from the bank to procure the capital they needed. As a result, the responsibility of securing capital for businesses switched from the state to businesses and banks. However, these institutions were not able to perform this function, so each agent of production, including businesses, started to seek ways to survive independently in the unofficial market. In this process currency came to function as a means of transacting and storing value, and the amount of currency in the private sector increased rapidly. As it accumulated private finance came alive. In the period in which the North Korean economy was based on the public rationing system, the role of the bank was to support the plan of the state, and production and distribution were achieved without any major issues. But as the bank ceased to perform this function, the private financial market (primarily through the rise of private moneylenders) came to partly assume the role carried out by public financial institutions.
2. The Concept of Private Finance and its Application in North Korea

‘Private finance’ refers to the arrangement, intermediation, and lending of money primarily through entities such as private moneylenders (including loan sharks) without circulating through financial institutions like official banks. In a wide interpretation, private finance also includes things such as personal credit and traditional Korean credit groups called *gye*, where capital is lent between individuals. But defined more narrowly, it refers to the supplying and repayment of capital lent primarily by professional private moneylenders.

In North Korea monetary transactions directly between organizations and businesses or between individuals were systematically prohibited. But when the state financial system collapsed, banks could not fulfill their function, so legal actions were taken that permitted the lending and borrowing of money between citizens. On March 20, 2007, by way of government ordinance by the Standing Committee of the Supreme People’s Assembly (SPA), the act of borrowing and loaning money or goods between citizens was legalized through the ‘Borrowing (hereafter ‘Lending’) Agreement’ (Article 221 of the revised Civil Code). However, citizens were not allowed to enter into any contract that gives or receives any form of interest. Borrowers were merely obligated to pay back their creditors in the same amount of money or goods they had borrowed (Article 222). Borrowed money or items must be repaid within a set period of time. In situations where the borrower cannot repay in exact kind of item, he or she can consult with the lender and repay the loan with a different item (Article 224 of the Civil Code).

In addition, while interest was not allowed to be paid between individuals, it was allowed between institutions, businesses, and other organizations. However, in spite of these regulations, high-interest loans between individuals
became rampant. This fact is confirmed by the establishment of the *koridaejoe* (‘high-interest capital offense’) in Article 118 of North Korea’s revised Criminal Code. This was enacted on October 16, 2007 by way of ordinance of the Standing Committee of the SPA. The article states that individuals who charge high interest and accumulate large profits will be sentenced to up to two years of hard labor, and, depending on the size of the profit, they can receive between two and five years of hard labor.

At any rate, in North Korea neither the capital market nor the financial market officially exist. In the field of market activity, what exists are only the private financial market as previously defined (that is, the market for the arrangement, intermediation, and lending of money primarily through entities such as private moneylenders without circulating through official financial institutions). Originally, not only North Korean authorities but also self-supporting institutions utilized loans from the bank to procure necessary capital. But as the bank became dysfunctional, each agent of production, including businesses, began to rely on the private financial market.

### III. The Appearance and Development of Private Finance in North Korea


Several casual factors have led to the growth of private finance in North Korea. The strengthening of the economic management measures (which actually institutionally guarantee market activity), the creation of an environment where capital accumulation is possible through private economic activity, and the pursuit of profits from private investment all contributed to the growth of
private finance. More fundamentally, the collapse of the financial system and the loss of public finance’s ability to fulfill its function have directly caused the growth of private finance.

**a. The Collapse of the Financial System**

In essence, the reason private finance has developed and is thriving is because the public financial system, through which the state circulates capital, lost the ability to fulfill its function. The reason why even businesses and cooperative farms are borrowing money from rich individuals is because it is not just the government but banks and state-run enterprises that have no money, whereas individuals do. Specifically, due to the economic difficulties between 1995 and 2002, North Korea virtually halted its financial support of businesses. As a result the financial situation at factories and companies got worse, and they came to rely on private finance.

Before the private economy came alive, the general people lived off the public rationing system. They did not have enough of their own money to merit depositing at a bank. Average citizens did not commonly use the banks. In addition, depositing money at a bank could also arouse the attention of the authorities, who may determine that an individual has an excessive amount of money compared to his/her income and expenditures. Fear of interrogated, therefore, also dissuaded the average citizen from using the banks. However, among the North Korean defectors interviewed, a number of them testified that “In President Kim Il Sung’s ‘era of survival’ you could put money in the bank and also withdraw it.” Interviewees said that at that time there were options such as regular savings and preparatory savings, and one could even receive interest payments. There was also testimony that whenever it became difficult
to draw one’s savings from the bank, “bank employees or managers deducted the 30% to 70% service charge and withdrew the available savings.”

Interviewees also said that in the early years of the Kim Jong Il era, the general population rarely engaged in banking transactions. After the mid-1990s, as North Korea went through the ‘Arduous March’ period, banks gradually lost the ability to perform their function. People began to realize that “although you put money in the bank, it can’t be withdrawn.” Inevitably people came to store money in their own homes, and in spite of frequent currency reform, they came to prefer foreign currency, which was safer and more valuable than North Korea’s domestic currency. After president Kim Il Sung’s death in 1994, hardly any North Korean citizen testifies to having used the banks. Since then state actions such as the abrupt currency reform in 2009 have resulted in the people losing all trust in the banking system. The private financial market has thrived as a result.

b. Proposal of the “Urisik Economic Management Method” in the Kim Jong Un Era

Among the many North Korean defectors interviewed, there was widespread agreement that private finance appeared in North Korea in the mid-1990s, or, to be more specific, around 1995. In the mid-1990s, as the public rationing system fell apart, the private economic sector started to come to life, and there were numerous cases of North Korean citizens lending and borrowing money for the purpose of doing business or purchasing food. During the ‘Arduous March,’ participation in private commerce, smuggling, and the marketplace (jangmadang) grew, and as it expanded so did the people’s participation in private financial activities such as private lending and foreign exchange. Then in 2002 North Korean authorities enacted the ‘July 1 Economic Improvement Measures,’
which many view as an act of economic reform. With this act, the scope of the market grew. As private business activities increased, the range of activity by private capitalists also increased. After 2003, billiard halls and noraebang (karaoke rooms) started to emerge all over the country. These businesses were mostly started by individuals with money, such as ethnic Chinese, who, after receiving permission from the authorities, went on to establish all sorts of privately-managed businesses. In return for the permission to start these businesses, business owners offered the authorities a fixed amount of their earnings regardless of their actual profits. In this way private businesses spread after 2003.

It appears that the Economic Improvement Measures of 2012, enacted right after Kim Jong Un officially came into power, were an opportunity for private finance to grow even further. These measures, the societal status and role of North Korea’s donju (a North Korean word meaning ‘money masters’) were further strengthened. At the start of the Kim Jong Un regime, North Korea invested every factory with the right to autonomous management based on self-sufficiency. Factories were empowered to procure raw materials, produce and sell goods, and even engage in foreign trade by themselves. Accordingly, as individuals with money took charge of incorporating businesses countrywide, they in fact became the main driving force of the economy. Thus, with this move toward unprecedented autonomy for enterprises, the greater part of the economy has become controlled by these powerful donju.

In 2013 the Choson Sinbo, which tends to announce North Korea’s economic policies, reported, “A measure has been passed stating that all production units will be managed autonomously starting in March 2013.” This autonomous management system enables factories to “shed the state plan and organize
production and sell goods according to their own discretion, as well as implement welfare and benefits programs for employees that are well-suited to their situations.” This change of policy has had a considerable effect on the spread and development of private finance, since private finance exists as a means of financially supporting the autonomous management of each economic agent.

c. Increased Possibility of Accumulating Private Capital through Private Economic Activity

As the accumulation of private capital became possible, private financial activities became increasingly widespread. And as markets spread and accumulated private capital was reinvested, a structure where ‘wealth multiplies’ took root. Moreover, as the private ownership phenomenon accelerated, the accumulation of private capital was legally permitted to a degree. The ways in which this was permitted are worth noting.

By amending the constitution, the North Korean authorities to a certain extent institutionalized the changes of the private economic activity. Although the scope was limited, principles of the planned socialist economy were shed. A system permitting private economic activity grounded on the principles of a market economy was gradually introduced. For example, representative changes include the spread of kitchen gardens, the expansion of the scope of private ownership by strengthening the *bunjo* management system and the invigoration of free trade at farmers’ markets. Through the 1998 revised constitution, North Korea allowed private ownership of livestock, housing, and even general buildings.

The right to private ownership was further expanded through a provision of
the revised civil law on March 20, 2007, by way of a government ordinance by the Standing Committee of SPA. According to Article 58, private ownership consists of all property obtained through the socialist distribution system by labor; additional benefits conferred by the state or society; agricultural products that come from work in individual side jobs, including the kitchen gardens; assets citizens bought, inherited or were given; as well as other property obtained by legal means. On top of that, various household goods, cultural supplies, and other daily goods necessary for domestic life, as well as items such as cars were included in the scope of private ownership rights (Article 59). Moreover, according to Article 63 of the civil code, the state guarantees the right to inherit privately owned property. Experts believe that the government will continue to expand the range of officially recognized private property.

Legally, the privatization of production is only allowed on this limited basis. Nevertheless, the advance of marketization has spurred the substantive privatization of production widely. The testimonies of North Korean defectors interviewed confirm the true state of privatization, which is spreading extensively not just in the service sector but others such as manufacturing, agriculture, fishing and mining.

As revealed in prior research, three different phases of privatization by type are primarily evident. In the first phase, North Koreans engage in private commerce and private agriculture, such as sotoji (private plots) and private handicraft industries, including cottage industries. In the second, private companies borrow the title from state-owned enterprises and lease assets, invest capital, and hire employees. Thus, under their leadership they carry out all management activities. In the third phase, private companies invest in state-run enterprises and later collect the profits from the portion that they
invested. The so-called commercialization of the private sector and privatization of state-run enterprises continue to expand.

According to in-depth interviews with North Korean defectors, after the July 1 Economic Improvement Measures, which are not stipulated in civil law, private business grew significantly. It is understood that private businesses started becoming prevalent around 2004. At the beginning wealthy individuals operated businesses after having received direct permission from the authorities. However, as private finance was gradually activated, the roles of investing in and carry out private business began to diverge. As commercial transactions gradually became systematized and grew in scale, the accumulation of private capital grew proportionately. This phenomenon intensified with the expansion of the market and the growth of institutionally self-sustaining and quasi-self-sustaining systems, as well as the growth of institutions and companies influenced by the recent autonomous management systems. As cash transactions grew overall and private finance became active, an environment was created in which economic agents had no choice but to compete with each other in order to obtain greater profits.

\[d. \text{Increasing Tendency to Pursue Profits from Investment}\]

When economic activity spreads, economic agents invest private capital, and the tendency to try and maximize profits naturally intensifies. These days the investment tendency of North Koreans who have accumulated private capital is becoming increasingly riskier. This trend is quite pronounced. So on the outside North Korea appears to be maintaining a socialist society, but on the inside market principles are settling in. Thus the private finance market, in which ‘money begets money,’ has developed. Even people who take out private loans
are reinvesting that money and pursuing short-term profits. The results of a recent survey of North Korean defectors clearly show the strength of the ‘money business.’ According to the survey, approximately 50% of the interviewees said that on average they earned more than 500,000 won each month through ‘money business.’ This percentage exceeded that of interviewees who said they engaged in foreign exchange earnings (40.6%) as well as those who said they worked in the brokerage business (30.6%).

If one looks at the present situation as well as the existing research, the way in which the donju (also known as the nouveau riche) initially raised their capital differs; but the features of the expanded reproduction of wealth as they invested their capital are pretty much the same. For example, after the July 1, 2002 Economic Improvement Measures, the donju borrowed the titles of foreign currency earning bases and invested their capital, or they borrowed the title of an institution or company and invested their capital in a construction site. In this way they diversified the investment sector as they pursued profits.

In North Korea today, the principles of ‘high-risk, high-return’ are being applied most clearly in the foreign currency-earning sector. Because illicit ways of increasing assets such as smuggling are predominant, the lives of North Koreans engaged in these activities are constantly in danger, but their profits are correspondingly large. Under the cover of an official organization, a significant number do receive protection. However, in the event of rapid political or social change, at any time they could become the subject of a crackdown and be punished. Despite this risk, the lure of making big profits has persuaded many individuals to participate in the foreign currency-earning sector — where many are engaged in profitmaking aside from those engaged in ‘money business.’ And donju prefer foreign currency-earning activities for a
reason: there is a limit as to how much one can increase his/her wealth doing business at the general market, but that limit disappears when one engages in foreign currency activities.

In North Korea, individuals who lack funds and companies and organizations where finances are weak or non-existent have no choice but to mobilize private capital as they seek to earn more foreign currency. In this process the donju are able to make huge profits. Instead of bribing higher-level organizations with a fixed amount of money, the donju mobilize funds and hire manpower, demonstrating their management skills as they operate the bases for foreign currency-earning. In this way, if one has money, wealth accumulation through foreign currency-earning activities is possible.

*e. Intensification of the Dollar-Accumulation Phenomenon*

Although North Korean currency is still used in the market, foreign currency substitutes for bank savings and is viewed as financial capital that preserves monetary value and serves as a means of exchange. Thus, the intensification of the dollarization phenomenon has expedited the development of private finance. North Koreans also perform cash transactions routinely, to the extent that they can buy goods with foreign currency at the jangmadang. Accordingly, the circulation and accumulation of foreign currency are also contributing to the development of the private finance market. Today, not just at Pyongyang’s foreign currency shops, but in the jangmadang of North Korea’s border cities as well, products are being purchased with Chinese yuan. Especially since Kim Jong Un came into power, the number of people who use foreign currency has increased remarkably. Ten years ago the perception was that only people who had relatives overseas or were able to go abroad were capable of holding
foreign currency. But now, even people who live in essentially farming villages have renminbi for emergency purposes.

In the early days of the jangmadang, the primary mode of transaction was bartering. After the July 1, 2002 Economic Improvement Measures, even when they conducted transactions under the table or gave and received bribes, North Koreans preferred receiving material goods instead of cash because they feared the drop in value of the North Korean won. The won’s function as a measure of commodity exchanges weakened. As a result, the dollar or yuan are primarily used in today’s market transactions. Especially after the currency reform of 2009, as the level of confidence in the North Korean won plummeted, the inclination to own foreign currency as a financial asset in order to guarantee value increased significantly. Since then foreign currency is also increasingly preferred as a means of payment. After the currency reform, all the transaction standards at the general markets and street stall markets were evaluated in foreign currency. In addition, individuals who paid in North Korean won paid a 5 to 10% higher price than those who paid in dollars or yuan.

In North Korea dollars and yuan are used not just in everyday transactions, but also in bribes paid to Labor Party officials and the money paid in the smuggling trade with China. Bartering is less often used in the smuggling trade. For example, if a North Korean gives 50 kg of North Korean medicinal herbs to a Chinese smuggler, the North Korean receives 2 tons of Chinese corn directly. The fact that foreign currency is being used more and more in transactions at North Korean markets is very disconcerting to the North Korean government, as the widespread use of foreign currency makes it impossible for the government to know the current situation of the black market and to control it. The fact that the government tried to ban foreign currency use at the time of the 2009
currency reform is seen as evidence of this situation.

More than simply storing it, North Koreans who own foreign currency have come to lend it to other individuals, factories, or cooperative organizations as much as possible, or concentrate more on using it as a way to invest. In particular, within North Korea there are differences in the exchange rate by region, so there are many cases of people making a profit by exploiting those price differences. For example, North Korean defectors testified that people purchase dollars cheaply in Pyongyang and then sell it at a high price in Rajin-Sonbong. According to the foreign currency exchange rate announced on September 2014 by Rason Special Economic Zone’s Golden Triangle Bank, the state exchange rate of North Korean won was 100 – 200 won per dollar. However, it announced that the actual transaction exchange rate in the corresponding region was 7,992 won per dollar.

Today, the biggest concern of North Korea’s donju is not how to create new profits, but how to manage the private capital they have already accumulated. Interviewees said that the donju still convert the majority of their accumulated assets into dollars or yuan and hide them in a secret location in their home or split them up and store them with close family members. However, they also testified that some members of the upper class open overseas accounts and conceal their wealth in those accounts. Interviewees said that sometimes the wealthy also make up fake relatives in China and cross the border frequently, depositing their wealth in Chinese banks under borrowed names.

2. Forms of Private Financial Transactions

As explained earlier, private finance is carried out through a variety of means between individuals, trading companies, cooperative farms and state organizations.
As time goes by, aspects of transactions in North Korea are closely resembling the investment style of capitalist societies to the point where it is almost difficult to distinguish between them.

\textit{a. Individual to Individual: Usury}

The most generic form of private finance in North Korea is usury by private moneylenders (\textit{donju}). Usury is most commonly carried out between individuals, though it is also carried out between individuals and trading companies, cooperative farms, and even state organizations. The true state of usury and related forms of illegal moneylending is revealed through interviews with North Korean defectors, as well as through coverage by media outlets specializing in North Korean issues. Looking at these cases, usury can be seen as an almost accepted phenomenon. Elements such as the interest rate or lending period show slightly different characteristics by time period.

The prevalence of usury can be seen in November 2014. Around that time a common monthly interest rate for private loans was said to be 5%, making the annual interest rate as high as 60%. This is actually lower than previous interest rates. In 2011 there was a confirmed instance where the monthly interest rate shot up to 20%. When the \textit{donju} lend money to individuals, they consider how much wealth the individual owns and lend it on the basis of the individual’s ability to pay it back. They typically set the principal repayment period from 3 to 6 months. As an example, if a moneylender loans 100,000 won out for a period of 6 months at an interest rate of 20%, the lender ends up getting 120,000 won back in interest on top of the principal. Before the currency reform, there was one case in which North Korea’s usurers lent money at an interest rate of 15% per month, and every day they charged 1% in interest. In this way, the
majority of North Korea’s private finance interest rates are quite high. This is because there is a risk premium due to the fact that financial transactions between citizens are illegal.

**b. Financial Transactions Between Individuals and Companies, Cooperative Farms, and State Organizations**

Donju do not just lend money to individuals. A number of usurers lend money to cooperative farms or state organizations and receive large amounts of interest. Companies procure cash through selling their products in the market or through investment or loans by the donju. In some cases they are also provided raw materials by the donju, who commission a contract manufacturer or purchase raw materials through the industrial market or another company. In addition, companies sometimes also deliver their manufactured products to donju, who then commission a contract manufacturer or sell the products through the general market.

In this way, there are also many cases of individuals with money lending to factories, companies, and cooperative farms. As it has been between individuals, the private finance interest rate between individuals and cooperative agencies has also reached 20 to 30%. In such times there is a tendency for donju to not lend to factories or companies that have become insolvent and are not operating, and for the most part lend to cooperative farms that have the ability to pay in stocks. In general, financial transactions between individuals and companies take place in the form of loans, investment, or the commissioning of contract manufacturing. Also, the companies borrowing money may be factories, stores, or trading companies, and the borrowed capital is used as investment funds or operating funds. The connection between state-owned enterprise management
and private capital takes place through various means.

In fact, the close relationship between donju and state institutions is not restricted to simple loans and investment. In some cases donju essentially act as a state agency. For example, in the construction of an apartment complex, donju are directly involved in every step of the construction, from the construction permit and design phase to the time an apartment occupancy permit is issued. Thus, they assist in procuring building materials from lobbies, hiring employees, paying wages, and more. In North Korea it was a principle that state agencies constructed apartments and provided housing to citizens for free. But as the state financial system declined, the bunyang system (in which apartments are sold by lots) was introduced. A structure has now settled in which state institutions build apartments with capital obtained from the donju, and after allotting some of the newly built apartments to the donju, the donju resell them to obtain a profit.

There are many cases in which these financial transactions are performed not by a single donju, but by several donju jointly investing. For example, representative activities in which donju invest jointly and share the profits include the following: the supplying of goods on the market stands, the establishment of foreign currency-earning companies, the purchase and management of sso-bi-cha-na buses, the supplying of factories with raw materials, the cottage industry wholesale market, the establishment of transport companies and foreign currency-earning companies, the procuring of raw materials for companies, the supplying of cottage industry goods, and the supplying of import products at shops and department stores. There are especially many instances of donju with little capital gathering capital jointly and investing in businesses.
3. The Main Agents of Private Finance: Donju and Private Financial Institutions

As in the official economy, currency also has to circulate in the unofficial economy. Thus, when the state bank was unable to fulfill its function and lost the trust of the people, economic agents performing the roles of banks started to appear. Various agents of private finance appeared primarily through the donju, who took on the tasks of loans, remittances, and currency exchange. The donju have been the driving force in the development of North Korea’s current private finance. They are accumulating wealth as they invest or engage in various enterprises such as usury, pawnshop management, and even apartment construction.

a. Donju: Their Range and Background of their Emergence

Donju are taking the lead in the vitalization of private finance. It is not easy to precisely define the range of the donju. In a narrow sense, the important criterion is whether they spread and reproduce capital through hiring and the investment of capital. This is because in North Korea the extent of an individual’s assets is hidden, so defining the donju based on the extent of their assets is rather ambiguous.

The people who fall under the category of donju are a truly diverse group. They include Japanese citizens of Korean descent, overseas Chinese, traders and foreign currency-earning workers, drug dealers, smugglers, and wives of party officials. On the basis of cash’s powerful mobilization capabilities, they are effectively leading the growth of North Korea’s private economy. Called the modern-day jiju (landowners), North Korea’s wealthy businessmen and usurers lend large sums of money in the financial markets. Primary examples
of these individuals, who circulate the most cash in the economy, include moneychangers as well as managers of foreign currency-earning shops. In the existing research, the donju are sometimes divided into foreign currency-earning donju, general market donju, and construction industry donju. However, today, as a result of the rapid growth of the market’s range and donju’s activity, the existing classification system is insufficient.

Recently, a common practice is to formally rent a restaurant from a North Korean official. After operating these restaurants for normally around three years, the people in charge of the restaurant are commonly recognized as donju. In addition, merchants who lease department store stands (which are similar to South Korea’s department shops) are also called donju. The activities of the donju have had a big impact not just on individuals, but on the state’s cooperative organizations and factories as well. After borrowing the title from an institution, donju are able to operate a small-sized service companies or shops. They invest capital and operate the state-run stores, and of the revenue generated from this endeavor, part is paid to the state, and the remainder is taken as their own. As the number participating in the market has grown, the donju have engaged in large-scale wholesale trade and earned more profits. Thus, through the state-run enterprises, their opportunities to make profits by using their capital have expanded.

b. Pawnshops

North Korea’s pawnshops, unlike the unofficial private finance sector, can be thought of as an official usury business. In China, as the private economy developed, pawnshops quickly grew as an unofficial financial institution. These pawnshops primarily fulfilled the role of providing small-sized, short-term
funds to private businessmen. But in North Korea, there are reportedly many instances in which pawnshops do not just provide short-term funds, but also provide the donju with funds that the donju then use to make interest-bearing loans after presenting the pawnshops with some kind of pawn.

In North Korea’s past, market mechanisms such as the jangmadang, pawnshops, and usury were totally prohibited as they were considered vestiges of capitalism. But now they serve as a window for the procurement of official private loans. On March 17, 2004 (after the July 1, 2002 Economic Improvement Measures), North Korean leader Kim Jong II created regulations regarding the management and operation of pawnshops. “Open many pawnshops and enrich the lives of the people,” he said as he issued guidelines for the management of pawnshops. According to interviews with some of the North Korean defectors, between 1998 and 2000 the operation of pawnshops was sanctioned by Kim Jong II’s policies. The administration of pawnshops was done in the Cabinet of Commerce, while the shops were operated by individuals as in foreign currency stores. North Korean defectors testified that signs that say “Pawnshop” would be hung outside the stores, and individuals were only given loans amounting up to 50% of the value of their collateral. Furthermore, the repayment period, at one month, was extremely short. There are also many instances of donju handing over pawns to pawnshops in order to obtain money to loan out. The items that are chiefly traded at pawnshops include TVs, refrigerators, watches, etc. North Korean defectors testified that because pawnshops are not well-run, they do not just deal in used products and seized property, but new products are also put on display and bought and sold.
c. Remittance Agents: Taekwanjip, Foreign Currency-Earning Companies and Money Changers

The non-socialist elements that spread widely after the mid-1990s—that is, the growth of the *jangmadang* economy—would have been impossible if the development of private finance had not been supported. When the state bank could not fulfill its function, the *jangmadang* economy had no choice but to create a system that replaced the state bank with its own. *Taekwanjip*, which have taken on part of the role of banks, are now all over the country. Thanks to the *taekwanjip*, people do not have to go through the state bank to remit or exchange money. As North Korea’s state banks became weak, individuals also started carrying out currency exchange services and even executing remittances. There are also cases of foreign currency-earning companies with financial resources earning money by taking on the bank’s tasks. In particular, the foreign currency-earning companies stationed in the border region have developed a network with the *donju* all over the country and are performing banking functions. Some individuals are also executing remittances, but North Korean defectors say that the North Korean people trust the remittance services of the foreign currency-earning companies more than individuals, so they prefer to remit money through those companies. Thus, the foreign currency-earning trade companies stationed in the major cities are developing a monetary transaction network all across the country and are making sizeable profits.
IV. The Spread of Private Finance: Effects, Implications and Outlook

1. Various Effects of the Spread of Private Finance

a. The Appearance of a New Group and Social Stratification

The development of private finance has transformed North Korean society, which emphasized the status one acquired based on one’s *songbun*. The development of the market has created the newly rich class known as the *donju* as well as the wealthy powerful class which protects the *donju*. This is bringing about a change in North Korea’s hierarchy based on *songbun* and loyalty.

According to a recent study of North Korean defectors, North Korea’s hierarchy based on political order of rank is still significantly fixed, and suggests that even though there is a merchant class which has accumulated wealth through market activity, the powerful, high-level party and administration officials are still viewed as the wealthiest class in North Korea. In other former socialist countries, because the officials of the regime’s institutions (i.e. political bureaucrats) held exclusive administrative power, they enjoyed all of the special privileges and economic benefits after the private property system was abolished. In North Korea the officials of the regime’s institutions are still enjoying such privileges and benefits. Not only is the powerful class likely

1) The system of ascribed status of a person based on political, social, and economic background of direct ancestors as well as behavior by relatives, and is used by the North Korean regime to determine whether an individual is loyal and can be trusted with responsibility, given opportunities, how much rations he/she is to receive, etc.
2) In August 2014, the Institute for Peace and Unification Studies at Seoul National University presented the results of a survey of 149 North Korean defectors in which researchers asked defectors what they felt the best job is in North Korea. Interestingly, the number one choice was a Central Party official (73.5%), while the number two choice was an official at a judicial agency (18.4%).
seizing all kinds of business interests, but it is also accepting bribes as payment for backing up the merchant class. In this way, it has naturally accumulated wealth. North Korean defectors testify almost unanimously to this close relationship.

Defectors also claim that more than an individual’s personality or level of effort or education, the individual’s status, political ideology, and relationships with the power class are the biggest factors in the stratification of the economic hierarchy. Thus being close with the powerful is important in order to make use of resources such as politically important people, political networks, or bribes. This relationship is supported by the wealth accumulated through private economic activity.

Today in North Korea, it appears that society is starting to place greater importance on status achieved through capital power and market adaptability. The appearance and growth of the so-called donju is resulting in the differentiation of status and class. Status increases in accordance with an individual’s market adaptability and social capital. That is, it increases based on the individual’s network with political powers such as Party and State Security officials, the individual’s ability to share information and his or her ability to navigate the market. The majority of the donju have risen from the lower class of the political hierarchy to the economic high class by demonstrating skills such as their market adaptability and their ability to make use of private finance. Today, with the emphasis on economic power in North Korean society, the status of groups leading private finance (such as the donju) is increasing proportionately.

The donju are using their connections to gradually strengthen their collusive relationship with the upper class of officials and executives. As they cultivate
power through this relationship, they are also utilizing the workforce of the lower class of laborers. In this way, they are multiplying capital. In other words, while the gap between the donju with economic power and the class of the establishment is gradually narrowing and turning into a close relationship, the gap between the donju and the class of laborers, which had formed the middle class, is gradually expanding. Due to the expansion of this gap between classes, the possibility that it will lead to class conflict and result in societal instability cannot be completely ruled out.

b. Changes in the Circulation of Information and the Growth of the Financial Economy

The development of private finance has also brought about changes in the circulation of information. In North Korea, information is both money and capital, as well as a way of guaranteeing one’s security. These days, as cellphones spread, the circulation of information is also spreading rapidly. Accordingly, the information gap between economic agents is growing in the same way the gap between rich and poor is. A number of North Korean defectors testified to the fact that there is a very close relationship between information and the growth of capital. According to their testimonies, the ability of the successful donju to respond quickly to the changing political, economic, and market situation emerges directly from their information capabilities. Furthermore, they said that the difference in information capabilities determines the success or failure of the donju. The information that North Korea regulates is extremely varied, and it includes regional market information, changes in the exchange rate, information regarding regulations, changes in market demand, and information related to personal connections.
Meanwhile, cellphones are used in North Korea as a means of transferring capital to realize foreign exchange profits. Thus, cellphones are contributing to the ability of North Koreans to conduct private financial transactions more quickly and smoothly between individuals and companies. Also noteworthy is the use of cellphones by North Korean defectors to remit money to family members still in North Korea.3)

c. Budding Growth of Social Capital (Credit and Relationships)

The development of private finance is impossible without the support of credit. In North Korea, as the private finance market has grown, credit has become increasingly important. According to previous studies that interviewed a number of donju, credit is a core value in all relationships, such as the relationship with the opposite party in monetary transactions, the relationship with workers hired directly, and the relationship with power. In North Korea, where public institutions that can guarantee credit do not actually exist, it is difficult for people without credit to expand their businesses and earn money.

Furthermore, credit is necessary in promoting survival and maintaining relationships with top-level officials. A 3-year study (2012 – 2014) of North Korean defectors found that 19% of interviewees felt that having acquaintances 3) In June 2014, Egypt’s Orascom Telecom, which provides mobile communications services to North Korea along with North Korea’s Ministry of Post & Telecommunications, revealed that the number of mobile phone subscribers in North Korea exceeded 2.4 million. 3G services were started in December 2008, and one year after that, the number of subscribers reached 100,000. By February 2012 that number rose to 1 million. By 2013 approximately 1 million more subscribers were added. In the majority of regions in North Korea, citizens can make domestic phone calls, send and receive text messages and photos, and even use the domestic Intranet. In order to avoid wiretapping and surveillance, people who do large scale business transactions sometimes borrow another person’s name and use open cellphones (that is ‘daepo phones’).
in the powerful class was the primary factor influencing the economic class differentiation. Although there are only a few cases of this, interviewees said that there are even individuals without any existing assets who, by utilizing their information, connections and credit, received investments from wealthy people and became donju. In other words, the market economy logic of putting importance on credit and receiving compensation according to one’s ability is spreading. The procurement of credit is also necessary to continuously expand one’s business. Furthermore, credit does not just play an essential role in maintaining amicable relationships with the officials who support the donju, but it helps them maintain good relationships with fellow colleagues, employed workers, etc. It also plays a vital role in maintaining survival. These days it seems there are many examples where the donju are completely at home with the values of capitalism, emphasizing credit and compensating workers according to their abilities.

d. Appearance and Spread of Unofficial Networks

In the formation and development of private finance, procuring high-quality, unofficial human networks is essential. A number of donju cannot receive legal protection or support for their private financial transactions. Thus, they are not immune from the government’s crackdowns and regulations and must actively utilize unofficial networks to overcome the issues and gaps of the official system. These networks are formed centrally around the main agents of private finance, the officials of the powerful class and general laborers, as well as around the relationship between businessmen in the same line of work. Because the political status of donju who accumulated capital through the market was typically low, they had no choice but to network with the existing
powerful class. As a result of those networks, they have been able to secure the stability of their businesses, obtain personal protection and seize opportunities to grow capital. In this context, the ‘powerful class’ mainly refers to the workforce in charge of North Korea’s judicial, prosecution, and defense fields.

The formation and development of relationships with the power class is mainly achieved through bribery, though later on it can develop into a business partner relationship. Sometimes donju even offer bribes preemptively. This bribe is a sort of up-front investment, targeting stability and profits not just for today, but in the future as well. For example, it was said that in 2009, when North Korean authorities rapidly implemented the North Korean currency reform, the upper class, which had maintained favorable relationships with the ruling Korean Workers’ Party, prosecution and ministry of security officials, did not suffer major losses.

The relationship between the main agents of private finance and the powerful class is sometimes explained as a tradeoff, where the donju are able to supplement their deficient political power, and the powerful class secures some of the donju’s economic power. Interestingly, after the politically powerful class accumulates a certain amount of wealth from the donju, it then seeks to multiply that capital through the donju. Thus a symbiotic relationship between the main agents of private finance and the politically powerful is growing. This is the true state of North Korea today, where capital growth is continually needed for the politically powerful to maintain and expand their power and livelihoods.
e. Expansion of the Income and Standard of Living Gap Caused by the Development of Private Finance

Meanwhile, the spread of private finance is further widening the gap between rich and poor in North Korea. A structure has solidified that is expanding the income gap between those who are well-off and those who are not. That status is determined by whether an individual possesses the ability to adapt in the market and utilize private finance. As a result of North Korea’s marketization, wealth has become concentrated centrally in the hands of the *donju*, and a monopoly is starting to form. Due to this situation, there is a tendency for the rich to get richer while the poor get poorer. The expansion of the market offered individuals who had capital and social resources, such as personal connections and market skills, an opportunity to increase their assets. However, due to market concentration issues such as the monopolization and cornering of the market, the market expansion is also leaving behind certain harmful effects as a small number of people obtain a disproportionate amount of the profits.

As the collusion between money and power continues, this tendency is becoming increasingly severe. Accordingly, the common people are unable to bear the tax burden or the increase in bribes that must be paid during crackdowns. They are stuck in a vicious cycle where they constantly experience failure in market activity. Because North Korea’s markets are not that institutionalized, the wealthy powerful class cooperate with powerful officials in the legally ambiguous market. There, they are advancing market economic activity without any restriction, freely determining market prices.

The marketization is also creating a big gap in lifestyle and consumption level between the capitalist class, which makes its money through private finance, and the other classes, which do not. This gap is creating disharmony
between the classes and is pointed out as a major cause of conflict in North Korean society today. In the case of the donju, who seek capital growth with relative ease through financial and non-financial investment, their living expenses are not just high, but they demonstrate a consumption preference for luxury, living in high-end residential areas, purchasing foreign-made daily necessities and paying for private tutoring for their children. Thus, they exhibit a lifestyle that is starkly in contrast with that of the common people. Also, because it is relatively easy for donju to go to China and the North Korea-China border region, they have many opportunities to come in contact with products from other cultures, and this shows in their lifestyles.

The existing research also contends that the spread of private finance centrally through the donju has had a very negative effect on North Korean society, spreading an inequality structure based on economic power and structuralizing corruption and a close relationship between government and business. According to these studies, as economic wealth is concentrated among some of the main agents of private finance, and as this concentration of wealth manifests itself in their standard of living, citizens who are unable to acquire that kind of wealth come to experience feelings of relative loss and alienation. Thus, the probability that this phenomenon will develop into social conflict is growing. It is possible that this structure, in which the rich get richer and the poor get poorer, could intensify the instability of the North Korean regime.

f. Close Relationship Between Capital and Power

The development of private finance in North Korea has inevitably strengthened the close relationship between capital and power. However, while party and regime officials receive bribes from the donju, they do not directly enter into
commerce. This is because no matter how good money is, it does not guarantee safety in North Korea like power does.

In this way, the corruption and the close relationship between politics and business of the political establishment appears to be intensifying. This could possibly deprive the new establishment of legitimacy. In particular, as the donju grow through secret activities and illegal collusion with the political community, the possibility of running into conflict with the common people is also gradually expanding.

After Kim Jong Un took office, the close connection between power and those involved in private finance nearly developed into an official relationship. For example, when North Korean authorities entrust the task of construction projects idolizing Kim Jong Un to Pyongyang’s central institutions, Cabinet or military, the people in charge of these institutions call upon the individuals with money (the donju) and entrust them with the construction work. In exchange, the officials promise them special favors. The donju enter into agreements such that after construction is finished they collect their investment by taking over the building’s right of use. They also acquire social honors, such as being designated ‘Hero of Labor,’ or receiving awards like the ‘Order of Kim Jong Il’ or the ‘Order of Kim Jong Un.’ Thus, the North Korean people have come to realize the power of money as the donju acquire not just social wealth but social honors as well.

2. Limitations in the Development of Private Finance and Its Outlook

The growth of private finance in North Korea clearly shows the double-sidedness of North Korean society, in which socialism wears the face of capitalism. Characteristics of capitalism, such as high-risk, high-return driven investment,
and the generalization of private capital accumulation, appear in a variety of forms. However, a significant portion of these aspects take place officially within the institutional framework of the socialist system.

This corporatization of private finance is considered similar to the types of private finance and property right changes found in other transitioning countries. While North Korean authorities continue to crackdown on private finance, they also appear to be permitting it in reality. Thus, as the so-called anti-socialism phenomenon spreads in modern day North Korea, it is creating a number of institutional contradictions in areas such as production, distribution, capital and the labor market.

The growth of private finance has increased financial income, advanced socioeconomic developments that were impossible under the planned economy, replaced the state rationing system and improved the people’s food situation, and created jobs. Thus, from the standpoint of the North Korean authorities, private finance cannot always be restricted. The development of the private finance market cannot help but induce the expansion and development of the labor market. This is because a new labor force is required as private capitalists continuously pursue the expansion of wealth. In other words, private capitalists are taking on the role that the state is unable to perform. For this reason, North Korean authorities have been reasonably tolerant of private financial activity and have not taken issue with it as long as it contributed to the state financial system or took place in a way that could help in the development of the people’s economy. However, this policy is only permitted insofar as the financial activity does not severely damage the North Korean system.

Because private finance makes a number of contributions as it acts as a lubricant in the growth of the economy, North Korean authorities are using it to
supplement the financial system and to maintain the building of the economy. Factories, companies, cooperative organizations, various institutions, as well as private merchants have no choice but to rely completely on private finance in order to survive on their own in the self-supporting management system. And the establishment class (e.g., party officials) establishes various partnerships with the donju in order to obtain private profits.

Since the launch of the Kim Jong Un regime, the status and influence of donju have solidified as the reliance on private financial activity intensifies. North Korean citizens have testified that without the donju, they “cannot even imagine how the state could carry out the task of building the nation.” For example, they said that Changjon Apartments, which were built intensively over the last three years all around Pyongyang to idolize Kim Jong Un, as well as Munsu Water Park, were built by the donju. These construction projects are ultimately packaged as achievements by Kim Jong Un. Thus, the North Korean authorities employ a dual strategy of officially cracking down on private financial activity while at the same time unofficially using it to exhaustively pursue profits.

Meanwhile, because private economic activity in North Korea does not receive the support of the legal system (e.g., protection of the right to own private property, freedom of economic activity, the fulfillment of contracts, etc.), it faces significant limitations. In a similar vein, because private finance is to a large extent not institutionalized and still performed unofficially, it seems unlikely that it will be able to achieve sustainable development. However, at least until the Kim Jong Un regime becomes economically stable, North Korea’s current economic system and the importance of the donju will likely continue.

Even if private financial activity is temporarily permitted because the
authorities need it, any form of private finance in which the right to own private property, freedom of economic activity and the fulfillment of contracts are not legally guaranteed is inherently unstable. Because economic activity is based on non-socialistic ways, it is plausible the authorities would dispose of the *donju* if the need for economic activity ever disappeared, or if it grew more than necessary. North Korea’s practical right to private ownership is a right that is not sufficiently guaranteed by the legal system. This means a North Korean official could seize the property of the *donju* at any time. Thus, while the *donju* possess great economic power, they have no choice but to adapt to the system.

In addition, because private finance is dominated by short-term, speculative activity, in one fell swoop it could suffer a major economic blow and collapse. Based on the testimonies of a number of North Korean defectors, when the position of a high-ranking official suddenly becomes threatened, or when the official sheds his or her involvement in some enterprise, the official denies any existing ties with the *donju*. Due to such structural limitations, there appear certain limits on the *donju*’s growth. Because their economic status rises as a result of their economic skills rather than on the basis of their position in the existing hierarchy, their status is naturally unstable compared to that of the political upper class. Furthermore, since they acquired their wealth through all manner of secret and non-socialist, commercial activities, they have to rely on high-ranking authorities. However, they can become powerless when they enter the domain of such authorities or high-ranking state powers. This means that even if one of the *donju*, based on his or her economic ability, was able to go from the lower or middle class to the upper class, he or she would inevitably be in an unstable position. This shows how the main agents of private finance in North Korea are completely subordinate to the powerful class.
V. Conclusion

Private finance is an inevitable phenomenon that appears in countries during the early stages of system transformation or economic development. The actual state of private finance in North Korea clearly shows that the market mechanisms spreading in North Korea are now starting to spread gradually from the field of consumption to the fields of production and finance. The expansion of private finance, as a phenomenon that could trigger fundamental changes in North Korea’s socialist financial system, is worthy of attention.

Various aspects of North Korean private finance show that not only is the economy already operating to a significant degree by market economy mechanisms, but it is following the trajectory that other socialist countries experienced in the early days of their transitions. The causes of private finance’s development and the expanded reproduction of capital as it is invested in the market are common phenomena experienced by former socialist countries. As the market spreads, due to gradual growth in the space, skill, and opportunities to accumulate capital, the means of reproducing capital are also gradually becoming more diverse. This suggests that in order to achieve sustainable economic development, North Korea will inevitably push forward financial reform as other socialist countries have.

As in the majority of other transitioning countries, one of North Korea’s core tasks will eventually be luring capital away from the private financial market toward the bank. In order to do this, the bank’s function as a capital broker must be activated and normalized. In reality, the spread of private finance represents a significant source of distress for the North Korean authorities. Thus, we predict that future key tasks will place an emphasis on the field of finance. In
order for the North Korean authorities to convert the idle currency held by the agents of private finance into official funds, they need to create an environment in which citizens voluntarily deposit their funds at the bank. As part of such a measure, financial reforms such as the establishment of commercial financial institutions are also needed. In order to do this the authorities will first need to raise the citizens’ confidence in the banking system.

Going forward, North Korean officials will likely not be able to provide a reliable institutional device to convert private finances into official finances, and the phenomenon in which each economic agent depends on private finance because banks lack the ability to function as a capital broker will further intensify. If North Korea’s socioeconomic inequality deepens due to the widening income gap and the further permeation of capitalist elements into its society, this issue could threaten the incumbent regime.
Session II

Perspectives on Finance, Reform, and Engagement with North Korea
Recent Economic and Financial Reform in North Korea: Implications and Tasks

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Abstract

Recent Economic and Financial Reform in North Korea: Implications and Tasks

Since March 2013, Kim Jong Un began to implement the “woorisik” or “our-style” economic management methods across the country. In May 2014, North Korea released an elaborate report concerning “economic management method of our style” and identified key principles. In regards to foreign trade, North Korea is increasingly promoting diversification and has established 19 Economic Development Zones (EDZs). In the financial sector, North Korea established the legal foundation to introduce dual banking system by enacting the Central Banking Act in 2004 and Commercial Banking Act in 2006. Also in December 2010, the foreign currency electronic payment card called “Narae” was introduced that allowed for cashless monetary transactions that enhanced the turnover of capital and speed of commodity flow. Then in early 2015, e-commerce system “Okryu” was launched. This is evidence to North Korea’s active engagement in economic and financial reforms on its own. These efforts are leading to some achievements, but there are greater challenges that need addressing which include: expansion of the range of economic reforms, development of export-led industries, creation of a successful model of EDZs, establishment of commercial banks, debit card launch that uses North Korean currency, and subscription to various international financial institutions.

1. Tasks for North Korean Economic Reform

Expansion of the Scope of Economic Reform

The “economic management method of our style” may increase the initial production rate, workers' wages and the market supply capacity, but overall effectiveness will inevitably be limited if these changes are not accompanied by reforms in price and distribution, finance, tax revenues, and the entire financial sector. North Korea needs to bridge over many difficulties in the future that include: establishment of reasonable national planning and allocation, reform of the pricing system (issue of setting reasonable state, market, and wholesale prices), reconstruction of commercial distribution network and other related issues.
Foster Export-led Industry

Export industry can only survive when it efficiently respond to the demands of the international market. Thus, North Korea must master the working mechanisms of international markets, in order to enhance the marketability of its economic management, and to better understand the market economy and gradually expand the workforce that understands the market. In particular, growth of labor-intensive export industries based on the processing trade will make industrial relocation possible as it ties in with the transitional period of growth for South Korean and Chinese economy.

Create a Successful Model of Special Economic Zones and Economic Development Zones

With regards to North Korea’s current foreign economic development, North Korea has established 4 Special Economic Zones (SEZs), which were followed by 19 Economic Development Zones (EDZs). What it needs most right now is to achieve real, tangible results in these zones and to create a successful model, as well as to regain confidence regarding its economic development projects. In the present situation in which international cooperation is lacking, North Korea has struggled to significantly advance the development of its EDZs. Thus, North Korea needs to select a few EDZs that have a high probability of success and link the local government’s active development efforts with the support that is needed at the central government level. While doing so, it needs to offer sufficient development opportunities and profits to foreign investors and to actively create success stories that guarantee a vision for the future.

2. Tasks of North Korean Financial Reform

Establish Commercial Banks

In passing the Commercial Banking Act and Central Banking Act, North Korea organized the legal framework for the establishment of commercial banks and recognized their necessity. The only matters left to decide are the timing and specific implementation details, such as when, how, and by what method the banks will be established. Regarding the establishment of commercial banks, the most important thing is minimizing the economic side effects that may follow. Therefore, North Korea first needs to select a few of the central bank’s branches to invest with the autonomy to manage funds and conduct commercial banking work on a trial
basis. Based on the success of this trial, it needs to gradually push forward the establishment of commercial banks in stages.

*Introduce Debit Cards that Use North Korean Currency rather than Foreign Currency*

Currently, due to the appearance of payment cards like the “Narae” card and “Koryo” card, North Koreans are able to purchase a variety of products with payment cards. Also, with regards to the spending of companies and institutions, the distribution of goods could become much smoother if they raise the proportion of electronic payments, drastically reducing the time liquid funds remain in the payment process and increasing the turnover speed of funds through electronic payments. Going forward, North Korea needs to make use of its successful experience using foreign currency cards like the “Narae” card and introduce a domestic cash card that utilizes North Korean currency. Furthermore, it needs to ensure that such a card is used universally at every domestic shop and restaurant in each region, not just in Pyongyang.

*Join International Financial Organizations*

As the development of the North Korean economy is based on significant demand for resources and investment, it is desirable that North Korea quickly join an international financial organization and acquire status as a target country for aid. Joining an international financial organization would have the benefit of enabling North Korea to receive low-interest, long-term loans. But it would also enable North Korea to bring in international private capital, as it could signify the restoration of North Korea’s economic relations with the international community. North Korea attempted to join international financial organizations in the late 1990s, when it forged friendly foreign relations with the US through the 1994 Agreed Framework. For example, on two occasions, one in April 1997 and the other in August 2000, it applied for membership in the Asian Development Bank (ADB), but it was rejected due to the opposition of the United States and Japan. In other words, North Korea’s attempt to join international financial organizations is ultimately dependent on the U.S.-North Korea relations. In addition, North Korea has to satisfy several requirements for joining such as introducing a market economy and submitting national economic statistics. However, given the present situation, it is predicted that it will be very difficult for North Korea to solve these problems in a short period of time.
Ⅰ. 서론

2012년을 시작으로 북한은 김정은시대로 공식 진입하였으며, 2013년 3월 조선로동당 중앙위원회 전원회의에서 김정은은 《우리식의 경제관리방법》의 연구완성을 중요한 과업으로 제시하고, 전국적 범위로 그 실천조치들을 확산하였다. 결과, 북한공장에서는 경영관리를 지배인이 본격적으로 책임지고 운영하며, 지배인이 “일반만큼 분배”하는 제도를 실시하게 되었고, 농장에서는 분조관리제안에서 포전담당제 즉 20명 이었던 분조를 다시 3-5명으로 세분화해서 여기에 일정한 규모의 포전을 고착시키는 제도를 실시하게 되었다.

대외경제에 있어서, 김정은은 2013년 신년사에서 대외무역의 다각화·다양화를 제시하고, 5월에 『경제개발구법』을 채택하였으며, 이어서 『경제개발구 창설규정』, 『경제개발구 관리기관운영규정』 등 일련의 세부 법규들을 채택하고, 11월에는 13개의 경제개발구를 창설하였으며, 2014년 7월에 추가로 6개의 경제개발구를 창설하였다. 이로써 북한의 대외개발은 점에서 선으로 확산하는 새로운 단계에 진입하였다.

나아가 2014년 5월 김정은은 노작 ‘현실발전의 요구에 맞게 우리식 경제관리방법을 확립할 때 대하여’를 발표하여 “우리식 경제관리방법”의 확립에 관한 원칙적 문제들을 밝혀하였다. “밝혀진 원칙”은 3가지였는데, 즉 경제에 대한 국가의 통일적지도와 전략적 관리의 올바른 실현, 공장과 기업소·협동단체들에서 사회주의기업책임관리제의 올바른 실현, 그리고 경제사업에 대한 당의 력도를 보장하며 정치사업을 확고히 앞세워나가는 것이었다.


또한 조선무역은행은 2010년 12월 말부터 전자결제카드인 “나래”를 발행하여, 북한내 외화봉사단위들에서 상품 및 봉사(서비스) 대금을 지불할 때 사용하도록 하였으며, 현재 “나래”카드는 『익명성』과 “합인성” 및 “용이성” 등 특성으로 그 활용범위가 지속
적으로 확대되고 있으며, 많은 북한주민들이 적극 이용하는 것으로 파악되고 있다.
그리고 조선인민봉사총국에서는 2015년 정초부터 북한 국가컴퓨터망과 전자결제체계를 기반으로 하는 전자상업봉사체계 “옥류”를 운영하고 있으며, 현재 손전화기로도 옥류 전자상업봉사체계에 가입하여 상품들을 검색, 선정하고 구입할 수 있게 하고 있다. 나아가 주문받은 상품의 신속한 송달을 보장하기 위하여 인민봉사총국산하의 여러 운수사업소에서는 주문된 상품들을 주민구역에 운송하는 사업도 적극 진행하고 있다.
향후 북한의 금융정책은 자기 나라의 잠재력을 최대한 발휘하는 방향으로 진행될 것이며, 특히 국내자금을 원활하게 순환시키는 방법으로 진행될 것이다. 이를 위하여 새로운 금융상품의 보급에 의한 자금순환의 진전과 인민생활계층에서의 카드, 전자화폐의 적극적인 활용 등을 도모할 것으로 보인다.
본 연구는 북한이 김정은체제로 전환한 후, 실시한 경제 및 금융 개혁의 함의를 살펴보고, 향후의 추진과제를 제시하고자 한다.

이. 북한의 경제 및 금융개혁의 함의

1. 북한 경제개혁의 함의

가. 우리식 경제관리방법의 실행

2013년 신년사에서 김정은은 “우리식 사회주의 경제제도를 확고히 고수하고 근대로 민대중이 생산활동에서 주인으로서의 책임과 역할을 다하도록 하는 원칙에서 경제관리방법을 끊임없이 개선하고 완성해나가며 여러 단위에서 창조된 좋은 경험들을 널리 일반화할 것이다” 것을 강조하였다.

나. 2013년 3월 조선로동당 중앙위원회 전원회의에서 “우리식 경제관리방법”의 연구완성을 중요한 과업으로 언급하였으며, 이로부터 “주체사상 구현”하키 우리식 경제관리방법의 실천조차들이 북한 전역에서 실시되기 시작하였다.

“우리식 경제관리방법”이란 생산수단에 대한 사회주의적 소유를 확고히 고수하여서 국가의 통일적 지도밑에 모든 기업체들이 경영활동을 독자적으로, 창발적으로 해나 1)

감으로써 생산자대중이 생산과 관리에서 주인으로서의 책임과 역할을 다하도록 하는 사회주의 기업관리방법"이므로 2) 그 핵심은 바로 "경영권리를 현장에 부여"하는 것 즉 "생산자대중이 생산과 관리의 실제적인 주인으로서의 책임과 역할을 다해 나가도록 하는것"과 "일한만큼 분배"하는 두 가지에 있다.

그리고 기업의 자율성을 강화하고 대규모 기업소들을 중심으로 독립채산제 전환에 박차를 가하고 있다. 북한경제에서 큰 비중을 차지하는 대형 광산이나 제철소 등에 독립채산제 도입을 실시하고 자체적인 수출입 권한과 투자 유치를 비롯한 대외업무 권한도 부여하고 있다. 특히 북한 최대 광산인 무산광산과 최대 제철소인 김책제철소, 황해제철소, 성진제강, 은광광산 등도 모두 자체 수출입과 투자 유치 등 대외 활동 권한을 부여받았으며 3) 이로 하여 북한경제의 주도적 부문을 이루고 물질적 부를 직접 창조하는 독립채산제기업소들이 생산과 경영활동에서 창발성을 최대한 높이 발휘하도록 하며, 경쟁을 독려해 생산성을 높이도록 하고 있다.

나아가 최근에는 지난 시기 국가가 규정한 특정한 기관, 기업소, 단체들이 몇개 나라들에 편중하여 대외경제활동을 벌리던 것과 달리 인민경제 여러 부문, 여러 단위들이 세계 여러 나라들과 대외경제관계를 맺고 발전시키도록 하고 있다. 즉 특정한 단위들만이 대외경제사업을 전담하지 않고 그 능력과 의사가 있는 단위들은 모두 대외경제 사업에 참여할 수 있다.

북한경제개발협회 김천일처장에 의하면 북한은 이미 이룩해놓은 대외경제관계에 토대로 유럽동맹(EU)과 브릭스(BRICs)를 비롯한 국제 및 지역경제기구들과 협력하고 유럽, 동남아시아, 라틴아메리카, 중동, 아프리카 등 세계 각국과의 경제교류, 협조 사업을 벌리나가고 있다. 또한 외국인투자관계법들도 수정, 보충하였으며, 28개 나라들과 농무적 투자장려 및 보호에 관한 협정을, 13개 나라들과 이중과세방지협정을 체결하고 국제적으로 통용되는 BOT방식(build-operate-transfer) 등 여러 투자방식을 받아들이기 위한 규정, 제적들도 완비해나가고 있다. 4)  

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농업부문에서는 분조관리제안에서 포전담당제를 실시하고 있다. 협동농장에서 분조
는 대략 20명정도로 구성되며 담당하는 토지의 규모는 평균 50정보 정도이다. 포전담
당제안 분조를 다시 세분화해서 3〜5명으로 구성하여 여기에 일정한 규모의 포전을
고착시켜 농사를 짓게 하는 방법이다. 포전마다 영농차비로부터 수확, 탈곡에 이르기
까지 모든 농사과정을 책임지고 진행하며, 그 결과에 따라 분조단위 공동로동도 함께
고려하면서 농민들에게 분배를 한다. 5)

농민들은 나라에서 분여받은 토지, 보장받은 관개, 영농물자, 비료 등의 대금에 상응
하는 못만 바치면 그의 남은 농작물들을 현물로 분배받을 수 있게 되었다. 만일 영농
물자를 농장이 자제로 해결하면 국가에 바치는 몫은 그만큼 적어지고 농민들에게 분
배하는 몫은 많아지게 된다. 비료도 마찬가지이므로 비료를 적게 써서라도 생산계획을
달성하면 그만큼 분배물이 많아지게 된다. 따라서 비료가 모자랐다고 우를 쳐다보는
현상이 사라지고 자제로 거름을 비롯한 대용비료를 마련하기 위해 온갖 수단을 쓰고
있으며, 발의 농용률을 전보다 200%까지 올리는 현상도 있다. 국가지표는 밀, 보리와
감자의 2모작인데 여기에 콩, 남새를 추가하여 3모작, 4모작도 하는 것이다.

나. 김정은의 5월 로작: ‘현실발전의 요구에 맞게 우리식 경제관리방법을 확립함에
대하여’

2014년 5월 30일 김정은은 “현실발전의 요구에 맞게 우리식경제관리방법을 확립함
에 대하여”라는 로작을 발표하여 조선의 “우리식 경제관리방법”의 확립에 관한 원칙
적 문제들을 밝혀하였다. “밝혀진 원칙”은 3가지인바, 즉 경제에 대한 국가의 통일적지
도와 전략적관리의 올바른 실현, 공장과 기업소·협동단체들에서 사회주의기업책임관
리제의 올바른 실현, 그리고 경제사업에 대한 당의 령도를 보장하며 정치사업을 확고
히 앞세워나가는 것이다6).

첫째, 우리식 경제관리방법은 주체사상의 원리와 사회주의제도의 본성에 맞게 근로

5) 주체사상을 구현한 “우리식의 경제관리방법”, 조선신보(인터넷판), 2013년 12월 23일: http://choson
sinbo.com/2013/12/py_131223-4/, 검색일: 2014년 10월 16일.
6) 병진로선에 기초한 경제건설, 사회과학원 연구사가 말하는 《현장의 변화》, 조선신보 2015년 1월 26일,
http://chosonsinbo.com/2015/01/sk126-2/.
자대중이 실제로 주인이 되어 생산과 관리에서 주인으로써의 책임과 역할을 다하도 록 하여야 한다. 경제를 지도관리하는데서 생산수단에 대한 사회주의적소유를 옹호고 수하고 집단주의원칙을 철저히 구현해나가야 한다. 경제에 대한 지도와 관리를 객관적 경제법칙과 과학적리치에 맞게 하여 최대한의 경제적실리를 보장하게 하여야 한다. 또한 과학기술과 생산경영관리를 결합하고 과학기술의 힘으로 경제를 발전시키려가는 혁신적인 관리방법으로 되어야 한다.

둘째, 사회주의기업책임관리제는 공장, 기업소, 협동단체들이 생산수단에 대한 사회주 의적소유에 기초하여 실제적인 경영권을 가지고 기업활동을 창발적으로 하여 당과 국가 앞에 자임 임무를 수행하며 근로자들이 생산과 관리에서 주인으로서의 책임과 역할을 다하게 하는 기업관리방법이다. 기업체들은 또한 제품개발권과 품질관리권, 인제관리권을 행사하여 지식경제시대의 요구에 맞게 새기술, 새제품을 적극 개발하고 제품의 질을 개선하여 기업체의 경쟁력을 높이며, 과학자, 기술자들과 근로자들을 최첨단 돌파전의 주인으로 내세워 기업체가 새기술의 적극적인 수요자, 창조자가 되도록 하여야 한다.

다음으로 경제관리사업에 대한 당의 영도를 보장하여 정치사업을 확고히 앞세워 나 가야 한다. 경제사업에서 당위원회의 집체적지도를 철저히 실현하도록 하여야 하며, 일군들은 하루빨리 경제를 추켜세우고 인민생활문제를 풀기 위한 당의 구상과 의도를 사상적으로 받아들이고 신념으로 체득하여야 하며 경제문제를 풀때 경제관리법을 혁신하여야 한다는 올바른 관점을 가져야 한다. 당조직들은 경제부문의 모든 일군들이 혁명임무수행에 전심전력하고 경제관리를 개선하는데서 자기에게 맡겨 진 책임을 다하도록 당생활동지도를 짜고 들어야 한다.

다. 대외무역의 다각화와 다양화 및 19개 경제개발구의 설립

대외경제부문에 있어서 김정은은 2013년 3월 조선로동당 중앙위원회 전원회의에서 “대외무역을 다각화, 다양화하여 적대세력들의 제재와 봉쇄책동을 갖부시고 경제강국 건설에 유리한 국면을 열어놓고, 원산지구와 칠보산지구를 비롯한 나라의 여러 곳에 관광지구를 잘 꾸리고 관광을 활발히 벌리며, 각 도들에 자체의 실정에 맞는 경제개발구들

을 내오고 특색 있게 발전시켜야 할8) 것을 제시하였다. 이에 따라 북한의 각 도(道)들은 자체의 실정에 맞는 경제개발구를 설정하고 이를 발전시킬 창설신청서를 제정하기 시작하였으며, 북한정부도 경제개발구의 건설과 관련된 법제도의 정비로 착수하였다.


이로써 북한은 2014년 6월 최고인민회의 상임위원회 정령 제70호로 무역상에 항영투자위원회·국가경제개발위원회를 통합하고 무역성을 대외경제성으로 재편하였으며, 2014년 7월에 추가로 6개 경제개발구 즉 온정첨단기술개발구, 강령국제녹색시범구, 청남공업개발구, 송진농업개발구, 청수관광개발구, 진도수출가공구 등을 창설하였다.

이로써 북한은 총 19개 경제개발구를 창설하였는데, 지역별로는 중국 접경지역에 6개, 동해지역에 5개, 서해지역에 4개, 내륙지역에 4개를 창설하였으며, 기능별로는 단

일기능(공업·농업·관광·수출) 경제개발구를 12개 창설하고, 복합기능의 경제개발구를 4개(압록강·만포·청진·혜산) 창설하였다.

2. 북한 금융개혁의 함의

가. 새로운 금융관련 법제도의 제정


### <표 1> 북한의 금융관련 조사연구 동향

<table>
<thead>
<tr>
<th>시기</th>
<th>북한기관</th>
<th>장소/해외기관</th>
<th>내용</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.2</td>
<td>조선중앙은행 등 5명</td>
<td>워싱턴/워싱턴대학</td>
<td>경제, 금융관련 연수</td>
</tr>
<tr>
<td>01.4</td>
<td>사회과학원 등 10명</td>
<td>상해/아시아재단</td>
<td>조세, 회계, 금융 연수</td>
</tr>
<tr>
<td>02.8</td>
<td>조선중앙은행 10명</td>
<td>북경/중국국영은행 등</td>
<td>중국 은행제도 조사</td>
</tr>
<tr>
<td>04.3</td>
<td>북한 연구소, 학자 등</td>
<td>평양/독일나우만재단</td>
<td>시장경제 회계제도 세미나</td>
</tr>
<tr>
<td>04.6</td>
<td>조선중앙은행 등</td>
<td>평양/독일한스자이델재단</td>
<td>국제금융 세미나</td>
</tr>
<tr>
<td>04.9</td>
<td>조선중앙, 무역은행 등</td>
<td>이탈리아 개발협력처</td>
<td>금융분야 연수</td>
</tr>
<tr>
<td>04.10</td>
<td>조선무역은행 등</td>
<td>평양/독일나우만재단</td>
<td>시장경제 금융제도 세미나</td>
</tr>
<tr>
<td>05.9</td>
<td>경제, 재정전문가 10명</td>
<td>독일/독일나우만재단</td>
<td>시장경제 재정, 금융 연수</td>
</tr>
<tr>
<td>06.3</td>
<td>재정성 등</td>
<td>독일</td>
<td>정부회계와 은행 기능 등</td>
</tr>
</tbody>
</table>


나아가 이러한 시장경제 및 금융제도와 중국 등의 금융개혁 사례에 대한 조사·연구를 바탕으로 재정·금융관련 법제도 정비를 시각하였다. 북한은 2004년에 “중앙은행법”을, 2006년에는 “상업은행법”을 제정하여 은행시장화의 법률적 근거를 마련하였다. “중앙은행법”에서는 화폐관리업무는 존속시키면서 중앙은행의 주요기능이었던 기업에 대한 예금 및 대출업무를 상업은행법에 의한 상업은행의 업무로 규정하였다. 그 대신 중앙은행은 금융기관을 대상으로 여·수신을 담당하도록 규정하여 종전의 중앙은행에 의한 직접 금융제공 대신 상업은행을 통한 자금을 공급하는 방식으로 변화를 예고하고 있다.

중앙은행은 이전과 마찬가지로 매년 화폐발행규모와 화폐유통계획을 국가승인을 받아 통화량을 관리하고 내각에 대해 책임을 지되, 통화량은 ①금융기관의 지급준비금 적립, ②금융기관에 대한 대부, ③금융기관과의 귀금속, 증권 등의 매매를 통해 조절하는 방식으로 바뀌었다. 이자율도 중앙은행이 기준이자율과 변동폭을 정하고, 그 범위 내에서 상업은행이 여·수신 이자율을 정하도록 규정하게 하여 상업은행에 제한적이나 마저 자유성을 부여하였다. 아울러 중전 단일은행제도에서 필요가 없었던 금융감독 기능이 상업은행법도 도입으로 중앙은행법에 새로이 규정되었다. 중앙은행은 금융기관 설립 승인, 금융사업에 대한 감독·통제, 금융정보 교환 등의 업무를 신규로 수행하게 되었다. 이로 하여 북한은 중앙은행과 상업은행이 분리되는 이원적 은행체제(two-tier banking system)를 도입할 수 있는 기반을 마련하였다. 그러나 현재까지도 이 법에 따른 상업은행이 설립되었다는 사실은 확인되지 않고 있다. 실물경제가 여전히 어렵고, 고객기반이 될 수 있는 우량 기업 등 민간 경제의 활동이 미미한 상황에서 상업은행의 출현이 용이하지 않은 것으로 보인다.
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자료: 유승호(2007), "북한의 금융개혁동향", 「KDI 북한경제리뷰」11/12월호 P.22

나. 전자결제카드의 활용

조선무역은행은 2010년 12월 말부터 외화 전자결제카드인 “나래”를 발행하고, 북한 내외화봉사단위들에서 상품 및 봉사(서비스) 대금을 지불할 때 사용하는 전자지불수단으로 널리 활용하고 있다. “나래”카드는 모든 대금지불을 무현금결제의 방법으로 신속 정확히 진행할 수 있으며, 봉사단위들에서 잔돈처리를 깨끗이 할 수 있고, 환전의 불편함이 없어진다. 나래가 전자결제의 보편적 사용으로 유동자금이 결정과정에 머무르는 시간을 대폭 줄일 수 있으며, 자금 회전수도 높이하여 상품유통도 원활하게 하고 있다.

“나래”카드 사용설명서에는 전자결제카드 “나래”는 지정된 외화봉사단위(조선무역은행 봉사지점)들에서 발행하며, 발행된 카드는 전국의 모든 외화봉사단위들에서 제한 없이 카드잔고 범위안에서 상품 및 봉사대금결제에 이용할 수 있고, 카드-카드사이 송금과 핸드폰에 의한 대금결제를 진행할 수 있다”고 적혀있다.
카드송금은 “나래”카드 소지자가 카드와 잔고범위안에서 다른 “나래”카드 소지자에게 자금을 넘겨주거나 받을 수 있게 하며, 손전화기에 의한 대금결제는 임의의 장소에서 손전화기를 이용하여 손전화 요금이나 봉사대금결제를 진행할 수 있도록 하는 봉사를 가리킨다.

또한 카드발행단위들에서는 카드를 발행받으러는 손님(외국인과 내국인)으로부터 외화현금을 받고 당일 외화교환시세에 따라 환산된 외화원을 카드에 입금한다. 카드앞면에 있는 4자리 숫자들의 세 번째와 네 번째 묶음은 개별적인 카드소지자의 카드번호 이기에 반드시 기억하여야 한다.

카드보안을 위하여 손님들은 카드를 발급받을 때 교환원의 안내에 따라 카드에 본인의 암호를 설정하며, 카드소지자는 카드로 대금을 지불할 때 암호를 사용하여 지불을 승인하여야 한다. 카드의 잔고보충은 임의의 지정된 외화봉사단위들에서 할 수 있으며, 카드잔고를 외화현금으로 전액 또는 일부를 반환받으려는 카드 소지자는 카드발행은행에서 해당한 봉사를 받을 수 있다.

“나래”카드는 이외에도 아래와 같은 몇 가지 장점이 존재한다.


둘째, “할인성”이다. “나래”카드로 상품과 봉사(서비스) 대금을 결제할 경우, 매번 결제대금의 2%비율의 거래대금이 전자결제에서 할인되는 것을 확인할 수 있다. 이로 하여 장기적으로 “나래”카드를 사용하는 고객의 경우, 적지 않은 경제적 실익을 얻을 수 있는 것이다.

셋째, 환율공시의 “용이성”이다. 나래카드에 입금되는 금액은 외화이기 때문에 조선 무역은행은 국제시장의 환율시세를 참조하여, 또한 조선내부의 외화수요와 외화유통량에 근거하여, 매일 달러와 유로 및 위안화의 환율시세를 용이하게 고시할 수 있다. 또한 상기 환율고시에서 조선원화의 환율은 나타나지 않으므로 외계의 지나친 눈길을 피할 수 있는 것이다.
“나래”카드의 “익명성”과 “활용성” 및 “용이성”으로 인하여 현재 평양의 많은 외화봉사단위들에서는 “나래”카드를 널리 활용하고 있으며, 그 범위가 갈수록 확산되어 외화봉사단위가 아닌 기타 일반식당과 일반상점 등 봉사단위들에서도 적극 도입하고 있어 봉사단위의 수자가 엄청날 것으로 보인다.

다. 전자결제체계를 기반으로 하는 전자상업봉사체계의 운영

현재 북한 평양에서는 또한 손전화기로 옥류관의 국수도 주문할 수 있는 전자상담봉사체계 “옥류”가 운영되고 있다. 《인민들의 편의 최우선시》, 《국산최우수상품봉사》라는 원칙에서 조선인민봉사총국에서 2014년말부터 시험운영을 실시하고, 2015년 정초부터 정식으로 운영을 시작한 “옥류”는 북한 국가컴퓨터망과 전자결제체계를 기반으로 하고 있으며, 2월부터 손전화기로도 《옥류》전자상업봉사체계에 가입하여 상품들을 검색, 선정하고 구입할 수 있다.

봉사체계에는 창전해맞이식당, 해당화관, 금성식료공장을 비롯한 각지의 이름있는 상점, 식당, 상업봉사단위들의 인기상품들이 올라와 있으며, 주민들은 각종 료리와 식료품, 화장품과 의약품, 신발류와 가방류를 비롯하여 북한 국내에서 생산한 각종 제품들을 홈페이지에서 검색하고 열람할 수 있다. 상품을 구입할 때에는 전자카드로 금액을 지불하며, 상품을 구입하기 전에 해당 상업단위와 전화대화를 하여 상품의 속성들에 대하여 문의할 수 있다.

나아가 주문받은 상품의 송달도 신속성과 정확성을 보장하기 위하여 인민봉사총국산화의 여러 운수사업소들이 전자상업봉사체계에서 주문된 상품들을 주민구역에 운송하는 사업을 맡아하고 있다.11)

Ⅲ. 북한의 경제 및 금융개혁 과제

1. 북한의 경제개혁 과제

가. 경제개혁 범위의 확대

중국의 경우, 1980년대에 국유기업을 활성화하기 위하여 현재 북한의 “우리식 경제관리방법”과 유사한 “방권양리-권리를 현장에 이양하고 이윤을 기업에 양보하는”개혁을 실시하였다. 즉 국유기업에 독립적인 지위와 경영자주권을 부여하고, 이윤유보도 허락하였다. “방권양리” 실시 이후, 국유기업들은 높은 생산적극성을 보이었으나 생산 효율은 크게 제고되지 않았으며, 오히려 경제질서의 혼란과 재정적자의 급증 등 문제를 유발하였다.

“방권양리”조치로 경영관리자와 노동자들의 생산적극성은 훨씬 제고되었으며, 특히 일부 경영관리자들이 내재한 기업가재능을 충분히 발휘시키였고, 기업들의 경영판단이 시장변화에 따라 신속히 변화하여 정확한 대책을 실시함으로써, 우수한 기업과 기업가들을 산출시키었다. 그러나 “방권양리” 개혁은 국가로 하여금 기업관리자에 대한 유효적인 통제를 상실하게 하였다. “방권양리”가 심화됨에 따라 국유기업관리자가 사리사욕으로 자기가 장악한 국유자산을 자신의 소유로 이전하고, 나아가 막대한 국유재산의 유실을 초래하였다.

따라서 “우리식의 경제관리방법”로는 초기의 생산적극성의 제고와 노동자의 임금향상 및 시장공급능력의 제고를 유발할 수 있지만 종합적인 가격과 유통 그리고 재정과 세수 및 금융 전반에 걸친 개혁이 동반되지 않으면 그 효과는 한계적일 수밖에 없다. 중국의 “방권양리”의 개혁은 그 효과가 제한적이었으며, 오늘의 기업의 민영화 시실과 더불어 국유기업, 민영기업, 외자기업이 시장에서 공정한 경쟁을 하여야만 사회전반에 대한 상품공급 능력이 진정으로 제고될 수 있었다. 그러나 상기의 개혁은 북한에서 아직 전면적으로 개시되지 않았으므로 “우리식의 경제관리방법”의 효과는 좀 더 지켜보아야 할 것이다.

북한은 향후 국가계획의 합리적인 재정과 배분문제(생산계획을 완성한 후에야 자주적인 경영을 하게 되므로 생산계획의 많고 적음이 결국 지배인과 노동자의 수입에 큰 영향을 미치게 됨), 가격체제의 개혁문제(국정가격과 시장가격 및 도매가격의 합리적

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인 설정 문제, 상업판매망의 재건문제(계획내 상품과 계획외상품의 판매문제, 전국으로의 확산문제 등) 등 여러 가지 난관을 돌파하여야 할 것이다.

나. 수출주도형 산업의 육성

일반적으로 경제발전 위해서는 자본, 노동, 기술과 같은 생산요소가 원활하게 공급되어야 하며, 생산된 제품을 판매할 시장이 존재하여야 한다. 현재 북한경제의 상황은 자본과 기술이 매우 부족하나 우수하고 저렴한 노동력을 보유하고 있고, 시장은 구매력 미달로 협소한 상황이다. 자본과 기술을 적극 도입하면서 시장을 확대할 수 유효적인 방안은 대외 수출산업을 적극 육성하는 것이다. 이는 한국이나 중국 등 아세아국가들의 급성장의 지름길이었고, 역시 북한에게도 유효할 것이다.

북한경제를 견인하는 수출산업의 육성은 북한의 개혁개방의 촉진과 점진적인 시장경제체제의 전환, 나아가 동북아 주변국과의 긴밀한 경제·정치·사회관계의 형성, 세계시장으로의 본격적인 진출기반 마련 등 여러 가지 측면에서 매우 중요한 의의를 지니고 있다. 수출산업은 국제시장의 요구에 효율적으로 대응해야만 생존할 수 있으므로 국제시장의 작동원리를 적극 터득하게 할 것이며, 이로 하여 북한의 경제운용의 시장성을 재고할 것이며, 시장경제를 이해하고 활용할 수 있는 인력도 점차 확대될 것이다. 특히 노동절약적 가공무역을 기반으로 하는 수출산업의 육성은 한국과 중국경제의 성장방식 전환기와 맞물려 유용한 것이다.

다. 경제특구 혹은 경제개발구의 성공모델 창출

현재 북한은 대외경제 발전에 있어서, 4개의 경제특구에 이어 19개의 경제개발구를 창설하였으며, "점"에서 "선"으로 확산하는 개방시대에 진입하였다. 현재 북한에 가장 필요한 것은 가시적인 성과의 취득과 성공모델의 창출 및 경제발전에 대한 자신감의 회복이다. 국제적인 공조가 부족한 현 상황에서 북한 경제개발구의 본격적인 가동은 어려운 측면이 많은 것이다. 따라서 북한은 발전전망과 성공가능성이 높은 소수의 경제개발구를 선정하여 지방정부의 적극적인 추진에 중앙정부차원의 필요한 지원도 결부하여, 해외투자자들에게 발전기회와 수익을 충분히 제공하는 동시에 미래비전을 충분히 보장해주는 성공사례를 적극 창출하여야 할 것이다. 또한 이러한 경제개발구와
해외투자기업의 성공사례를 디딤돌로 기타 경제개발구로의 영향 확산과 외국투자자들의 자신감 향상을 도모하여 대한한 투자성공의 새 시대를 개척해 나가야 할 것이다.

2. 북한의 금융개혁 과제

가. 상업은행의 설립

상업은행법과 중앙은행법의 공포로 북한은 상업은행 설립에 대한 법제도를 정비하였으며, 상업은행 설립의 필요성을 충분히 인식하고 있으며, 언제 어떤 방식으로 어떻게 설립하는가 하는 구체적 실시방안과 시기만 남겨두고 있다. 상업은행의 설립에 있어서 무엇보다 중요한 것은 그에 따르는 경제적 부작용을 최소화하는 것이다. 따라서 북한은 우선 중앙은행의 일부 지점을 분리하여 자금운용에 대한 자유권을 부여하고 상업은행업무를 시범적으로 운영하도록 하고, 그 성공여부와 추진실적에 따라 차분히 단계적으로 상업은행 설립을 추진해볼 필요가 있다.

또한 주민들의 북한 통화 및 금융기관에 대한 신뢰회복을 위하여, 이자율을 보다 높이 설정함으로써 주민들의 저축자금을 적극 인입하고, 우량기업에 대한 대출을 통하여 이익창출을 도모하도록 하여야 할 것이다. 나아가 자금운용결과에 대한 책임도 부과하여 무분별한 대출을 줄이고, 기업에 대한 신용파악을 강화하도록 하여야 할 것이다. 나아가 외국 금융기관과 적극적인 업무교류를 통해 상업은행의 구체적 운영과 다양한 금융상품의 개발 등을 교류하고 조선에 알맞는 금융상품을 보다 많이 개발하여야 할 것이다.

나. 외화직불카드에서 북한화폐를 이용하는 현금카드의 출시

조선 중앙은행 김재균총재에 의하면, 미국이 주도하는 경제제재가 계속되는 가운데 조선의 금융정책은 《자기 나라의 잠재력이 최대로 발휘되도록 하는 방향으로 진행》하여야 하며, 구체적으로는 《경제부흥을 위한 자금수요를 국내자금을 원활하게 순환시키는 방법으로 해결》하여야 한다. 이를 위해 《새로운 금융상품의 보급에 의한 자금순환》, 《인민생활영역에서의 카드, 전자화폐의 활용》등이 필요하다고 지적되었다. 현재 “나래”카드와 “고려”카드 등의 등장으로 북한 주민들은 물건을 살 때 카드를
전자결제단말기에 대고 긁으면 정보가 전송되고 금융기관이 사용 내역을 승인하면 돈이 결제되므로 굳이 지갑에 현금을 많이 넣고 다니지 않아도 된다. 또한 기업과 기관의 자금사용에 있어서도 전자결제비용을 높여, 유동자금이 결제과정에 머무르는 시간을 대폭적으로 줄이고, 전자결제로 자금 회전 속도를 높이면 상품유통도 보다 원활해질 수 있다.

또한 이는 ‘전자카드’가 일반화된 세계적 추세를 받아들이는 동시에, 민간에 잠재되어 있는 외화를 흡수하고 기업과 기관의 자금사용에서 투명성도 높일 수 있다. 향후 북한은 “나래”카드와 같은 외화카드의 성공적인 활용경험을 살려 북한화폐로 적금하고 활용하는 국내현금 카드를 적극 도입하고, 국내의 각 상점과 식당에서 또한 평양외의 각 지역에서도 보편적으로 사용하도록 추진할 필요가 있다.

다. 국제금융기구에의 가입

북한 경제의 발전은 막대한 자원수요와 자금투입에 기반하는바, 북한은 신속히 국제금융기구에 가입하여 국제자금의 지원대상국지위를 획득하는 것이 바람직하다. 국제금융기구의 가입은 지리적 장기 대출을 받을 수 있는 이점도 있지만, 국제사회와의 대외경제관계가 복원되었다는 의미를 지니게 되므로 국제민간자본도 본격적으로 유입될 수 있는 이점도 존재한다. 그러나 국제금융기구에 가입하려면 국제통화기금과 세계은행 등의 주요 지분을 소유하고 있는 미국과의 협의와 동의가 있어야 한다.


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Presentation 2

The International Fund for Agricultural Development’s Experience with Financial Services/Household Credit in North Korea

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북한 내 금융서비스와 가계대출:
국제농업개발기금(IFAD)의 사례

I. 서론

II. IFAD의 대북한 전략

IFAD가 국가를 전략적으로 지원한 것은 북한이 처음이다. 프로젝트는 주로 작물 회전력 및 다양성을 개선해 고지대와 협동농장 농가의 수입과 지속가능성을 향상시키는 것에 중점을 두었다. IFAD는 다자간, 양자간, NGO와의 외부협력을 증진하여 북한 당국을 대화에 참여시키고, 여타의 국제금융기구로부터 추가적인 자금지원을 받는 것을 목적으로 프로젝트를 수행했다.

III. IFAD의 대북한 지원투자

Ⅳ. IFAD 지원투자 프로젝트의 가계 및 협동농장 대출

북한 가계 및 협동농장 대출 계획은 곡물 및 가축 재건프로젝트(CLRP)을 통해 도입되었고, 고지대 식량 안전성 프로젝트(UFSP)를 통해 확대되었다. IFAD는 농가의 수입과 생활 수준, 영양상태를 향상시킬 수 있도록, 수입이 발생하는 생산활동 특히, 가축 사육 활동 등에는 추가적인 대출을 해줬다.

실행 내용
프로젝트 실행 전에 중앙은행은 IFAD와 논의하여, 대출 용어 및 조건, 회계 요건, 실행 절차, 감독 및 감사, 직원의 책임 등을 담은 대출 실행 매뉴얼을 만들어 전국 지점에 배포하였다. 전국 지점은 분기별로 각 가구의 대출요청에 근거한 지출계획을 세우고, 중앙은행은 신용한도에 따라 회전자금계좌로 자금을 분배한다. 이자율은 고정 5%이다.

UFSP 프로젝트 HH 대출과 일반적 지역대출과의 차이
CLRP와 UFSP의 경우, 은행지점이 아니라 협동농장이 가계에 대출 승인과 가계의 상환절차를 관리한다는 점에서 일반 지역대출과는 차이가 있다. 이렇게 협동농장을 통해 개별 대출자를 관리하는 사회적 통제를 통해 신용 위험도가 제로에 가까워질 수 있었다.

CLRP and UFSP 대출 실행
CLRP: 가계대출계획은 이 프로젝트의 가장 성공적인 요인이었다. 2002년 7월 물가상승 전, 가계대출은 평균 430원(200달러), 이후에는 2,500원(17달러)로 약 49,700건의 대출이 협동농장 통해 이루어졌다. 가축사육을 지원한 가계대출을 통해 식량안정성과 가계수입이 크게 향상했다. 수입증대로 TV, 재봉틀, 자전거 등의 제품들도 소유하게 됐다. 여성의 대출비율은 25%에서 87%로 높아졌는데, 이는 당초 목표 50%를 뛰어넘은 수치다. 작은 규모의 가축사육 및 대출 운영에 관한 여성 역량을 보여주는 결과라고 할 수 있다.

UFSP: 이 프로젝트를 통해 협동농장에 3년 단위로 대출을 실행했고, 사회적 자금 및 관련 이익 강화는 물론 농업생산성과 식량안정성 면에서도 뛰어난 성과를 거뒀다. 이 프로젝트가 종료 될 때, 가계수입은 평균 2배가 늘었고, 여성의 대출비율은 목표치 50%을 넘어 90%를 달성했다. 성공적인 결과 덕에 프로젝트 말기에, 230만 달러의 추가자금이 지원되었는데, 이는 프로젝트 예산의 20%에 해당하는 금액이다.
V. IFAD 지원 대출 프로젝트의 혁신적 요소
가축 사육 활동을 통해 가계와 협동농장의 생산 활동을 강화했다는 점, 현지를 잘 아는 협동농장을 활용하여 대출을 계획하고 실행했다는 점, 중간점검을 성과에 따라 대출계획을 재수립하며 성과를 높였다는 점, 동종 가축의 사육계획을 수립하여 협동농장이 대출승인을 할 때 시간을 허비하지 않도록 했다는 점, 협동농장에 속한 가계만을 대출 대상으로 하여 효율적이고도 확실한 상환을 가능케 했다는 점을 IFAD대출계획의 혁신적 요소로 꼽을 수 있다.

VI. 과제 및 교훈
북한은 현재 지속가능한 농경이 어려운 실정이며, 협동농장과 가계의 자원 사정도 어려운 상황이다. WFP, UNICEF, FAO, 국제NGO 등에서 단기적 지원은 이루어지고 있지만, 중장기적으로 농업생산성을 높이면서, 인프라와 역량을 강화할 수 있는 외부의 개발 파트너는 없는 상황이다. 현재 북한당국의 정책은 가구 단위의 경제활동을 제한하고 있다. 가계 대출, 가구당 사유지 면적(가구당 100제곱미터), 사육할 수 있는 가축의 종류도 제한하는 등 북한 당국의 기관들의 시장 능력 부족으로 인해 가계대출이 확대될 수 없는 것도 문제이다. 중앙은행 역시 프로젝트 파트너들에게 제출할 보고서를 작성할 수 있는 능력이 부족하다.
특히, 2002년 7월의 물가변동과 같은 당국의 정책변화로 인해 회전기금대출이나 개인의 저축이 보호받기 어렵다는 것이다. 2002년 7월 이후, 달러 평가절하로 인해 UFSP 대출 금액 중 130만 달러를 잃어서, 중간점검 후, 추가적으로 200만 달러를 공급받아 초기 목표를 맞춤 수 있었다. 가계 및 협동농장의 프로젝트가 성공적이기 위해서는 정부의 기술적, 경영적 시장 역량이 먼저 강화되어야 할 것이다.
I. Introduction

In 1986, the Democratic People’s Republic of Korea (DPRK) became a member of the International Fund for Agricultural Development (IFAD), an international financial institution (IFI) and a specialized agency of the United Nations with a mandate of reducing rural poverty through agricultural and rural development. So far, IFAD is the only IFI, which has financed development projects in the country. IFAD’s 1990 reconnaissance mission identified three potential investment projects: a sericulture development project, a livestock project for the hilly areas, and a project for small-scale fishing and sea-farming (IFAD 2004). Since the beginning of its operations in 1996, which coincided with the devastating natural disaster and a huge food crisis, IFAD has financed three projects in DPRK for a total amount of US$ 69 million (IFAD 2009). The Sericulture Development Project was implemented from 1996 to 2002, the Crop and Livestock Rehabilitation Project from 1997 to 2003, and the Upland Food Security Project from 2001 to 2008.

It is important to note that prior to IFAD’s assistance to DPRK, the country had gone through a period since the early 1990s when support from neighbouring socialist states declined sharply and availability of external inputs became scarce. As a result, the national strategy and overriding philosophy of self-reliance (Juche) was revived with respect to agricultural policies. This led to greater emphasis on matching crops to soil characteristics, season and climatic conditions across the country. The government’s focus shifted to improved seeds, crop intensification with double cropping, use of organic and bio-fertilizers, and bio-pesticides which could be produced in the country. Mechanization was considered an important priority as was the expansion of irrigated areas.
and reduced reliance on power for irrigation (IFAD 2009).

When IFAD-supported projects were being implemented, the government made an important policy shift in July 2002 which affected project implementation and impact. The cooperative farms (CFs) were given more autonomy in production planning, which facilitated the introduction of new crop rotations included in the project design. However, the national currency (KPW) was devalued about 70 times against the US dollar and administered prices and wages were adjusted by a factor ranging from thirty to eighty. CF household cash reserves and bank accounts were not adjusted, nearly canceling household debts and savings.

The main purpose of this paper is to review IFAD’s experience in promoting household and cooperative credit scheme, which was introduced in the CRLP and continued and expanded in the UFSP, and to draw lessons for possible replication and scaling up. Before this review, a brief description of IFAD’s strategy for DPRK is presented in the following paragraphs.

II. IFAD’s Strategy for North Korea

IFAD prepared its first country strategy for DPRK in 2000, which emphasized reviving agricultural production in disadvantaged uplands with a focus on specific geographic areas, CFs and households within the cooperatives (IFAD 2000). It emphasized support for household level income generating activities and promoted sustainable agriculture by encouraging crop rotation and crop diversification. The country strategy advocated for partnership with other external development partners including multilateral, bilateral and non-governmental
organizations (NGOs). It also emphasized the importance of IFAD to engage in policy dialogue with the government beyond the scope of individual projects. A key ambition of the country strategy was to set an example of successful international lending to DPRK, and to encourage other IFIs to consider future funding to the country.

In earlier projects supported by IFAD, the focus was on sectors that were neglected in comparison to the main staple crop rice, such as sericulture and livestock but which had potential for productivity enhancement, income increases for farmers, and export. Foodgrain production was not a priority area for IFAD assistance. Likewise, poverty targeting, either by location or by household was not much emphasized, as during the planning stage of these projects (sericulture, livestock), absolute or relative poverty was not considered to be widespread. It was later realized that both these forms of poverty may continue to exist and even worsen. Therefore, IFAD’s third project gave emphasis to food production and food security as well as to poverty targeting.

IFAD’s country strategy also emphasized the improvement of rural women’s incomes and quality of life as food producers and managers. It promoted a farming systems approach to improving agricultural production and productivity by exploiting all available complementarities and synergies between the types of production on the farm unit. Low-cost, appropriate technology combined with improved husbandry was emphasized in the interest of affordability and sustainability.
Ⅲ. IFAD-supported Investment Projects in North Korea

Project completion and evaluation reports show that all three projects financed by IFAD achieved their development objectives. These projects also had excellent disbursement record, timely procurement and delivery of project inputs, motivated project management, increases in intended project outputs, with benefits reaching the target population (IFAD 2000b). The first IFAD-supported project, the Sericulture Development Project was implemented between 1996 and 2001 with a total project cost of US$ 24.3 million of which IFAD loan was US$ 15.7 million (IFAD 1995). The project supported sericulture farmers in 35 cooperative farms of North Pyongan, South Pyongan and Chagang provinces. The project completion report shows that project outputs exceeded appraisal and midterm expectations (IFAD 2004). At the end of the project, the participating cooperatives produced 2,170 tons of wet cocoons, almost six times their production before the project. Average incomes of sericulture farmers increased by 550% and the participating cooperatives increased silkworm rearing capacity by building new silkworm rearing houses, equipping existing rearing houses, and setting up locally made cocoon dryers. A total of 5,000 women and 3,000 men received technical training in mulberry cultivation and silkworm rearing. The project also met its social objective as women’s participation in cooperative management increased. Project activities were scaled up in seven additional cooperatives.

The Crop and Livestock Rehabilitation Project was implemented from 1997 to 2003 and covered North and South Hwanghae, North and South Pyongan provinces and cities of Kaesong and Pyongyang (IFAD 1997). It had a total project cost of US$ 32.8 million of which IFAD loan was US$ 28.9
million. This project was successful in restoring the depleted livestock population, with goat numbers doubling relative to the 1994 level. Incremental rice production per year was 213,000 metric tons, which was sufficient to feed about 0.8 million people at optimum ration level. A total of 16,500 hectares of pasture was established in the project area and livestock services and management skills also improved (IFAD 2004). Credit to cooperative farms was disbursed as planned and was fully repaid. Household loans were highly successful, with 80% of households receiving loans and women’s share in total loan increasing to 87%. The performance of credit component will be analyzed in greater detail in the next section.

The Upland Food Security Project was implemented from 2001 to 2008 and 46 cooperative farms and their farmers in Ryanggang and North Hwangae provinces. The total project cost was US$ 40.7 million of which IFAD loan was US$ 27.1 million. An evaluation conducted by IFAD’s Independent Office of Evaluation in 2008 showed that the project had a significant impact on agricultural productivity, food security and poverty reduction (IFAD 2009). The average yields of rice, potato and soybean increased by 45% whereas those of wheat, maize and barley by 40%. Household incomes and assets increased significantly due to the availability of household credit. The performance of credit component will be reviewed in greater detail in the next section.
IV. Household and Cooperative Credit in IFAD-supported Investment Projects

The household and cooperative credit scheme was introduced in DPRK by the Crop and Livestock Rehabilitation Project (CLRP) and was continued and expanded by the Upland Food Security Project (UFSP). IFAD project design reports have indicated a large unfilled gap between supply and demand for institutional credit in DPRK, which suppresses investments by both households and cooperative farms and reduces income in project area (IFAD 2000c). To address this gap and with the objectives of raising farmers’ incomes and improving their living standards and nutritional condition, both CLRP and UFSP projects included a component for household and cooperative credit lines to provide additional institutional credit to finance investment in income-generating production activities, mainly livestock. Implementation modality of the household and CFs was similar in the two project with one major difference—in the UFSP, households to become eligible for borrowing had to make a deposit to the Central Bank (CB) of KPW 50 (this could be reduced to KPW 30 for the poorest households), whereas there was no such requirement in the CLRP.

Implementation modality

The CB managed the household and CF credit component. Its country branches were the focal points for lending activity and they developed close relationships with CFs. Prior to the start of the project’s credit operations, the CB prepared, in consultation with IFAD a credit operation manual and distributed to participating county branches and cooperatives. This manual
contained a detailed set of credit policies and operational procedures. It included the terms and conditions of loans, accounting requirements, operational procedures, supervision and auditing, recording and reporting norms and staff members’ responsibilities. County branches prepared quarterly disbursement plans based on household loan requests received via CFs. The CB then released credit funds into separate credit line revolving fund accounts. All households within selected CFs constituted the target group. Both household and CF credit lines were intended to fund small livestock activities, i.e. the purchase and raising of young stock by the CFs and rearing and/or fattening by the households. The interest rate for both types of borrowers was set at 5% and remained unchanged over project life. The flow of household and CF credit is shown in Figure 1.

Figure 1: Flow of Household and Cooperative Farm Credit in IFAD-supported Projects

Source: IFAD

Comparison between UFSP project HH loan and typical rural credit scheme

The household credit scheme of CLRP and UFSP differs from a standard rural credit scheme, as it does not clearly distinguish between the lender and
the borrower (IFAD 2009). The CF is both a borrower of its own credit from
the CB and is also a guarantor of household credit. It administers the loan
approval and recovery process of household credit. The county branches of
CB do not assess the household loan applicants and have no loan contract
copies on file. CFs collect loan repayments from borrowing households and
repay the loan to the CB. The zero default rates are an indication of social
control by CFs over individual borrowers. In such a case, the credit risk is
close to zero from the lender’s point of view. Appendix 1 shows the main
differences between the household credit scheme in IFAD-supported projects
in DPRK and a typical rural credit scheme.

Performance of credit component in CLRP and UFSP

CLRP: The household credit scheme was one of the most successful
components of this project. At the end of the project, the total disbursement of
household loans was US$ 1.51 million, which is 142% of the appraisal target
of US$ 1.07 million (Appendix 2). The household credit revolving fund
disbursed 49,700 loans to farmers through the cooperatives, which administered
the retail loans and guaranteed their repayment to the CB (IFAD 2004). The
average loan size was KPW 430 (US$ 200) before the price increase of July
2002, and about KPW 2,500 (US$ 17) afterwards. Although the value of loan
in US$ equivalent declined sharply, it was estimated that the purchasing
power of average loan was a quarter to half of what it was before the price
adjustment. The repayment period of all household loans was one year. With
a typical loan, households were able to buy two piglets, 7 chicks, 11 rabbit
ducklings and some feed before the price increase. Following the price
increase, they could only buy a piglet, a goat kid and a few chicks.
The disbursement of cooperative credit was US$ 4.98 million, which is 122% of the appraisal target of US$ 4.09 million (Appendix 2). The repayment of loans by the cooperatives to the CB was 100%, although the cooperatives experienced delayed payments by the household for about 7% of loans. There was a marked improvement in the monitoring and data management by the CB and CFs after the review of IFAD’s supervision mission in 1999, although the IFAD Credit Review in 2001 still found some deficiencies. The reporting formats were found to be too complicated by the CB and the cooperatives handled a lot of administrative work for which they had to employ additional accountants.

The cooperative farm credit revolving fund made 174 loans to 117 cooperatives, with an average loan amount of KPW 37,000 repayable in three annual installments of 30%, 40% and 30%, respectively with an annual interest rate of 5%. Most loans were used for chicken rearing (26% of total loans) and goat rearing (25%). Other enterprises for which the cooperatives borrowed included pig, geese, rabbit and other livestock-related activities. The repayment rate was reported by the CB to be 100%. The possibility of default did not arise as payments for farm produce to the CFs were settled through the county branches of the CB. In addition, the County Cooperative Farm Management Committees (CCFMCs) guaranteed the loans.

The household loans contributed significantly to food security and incomes of participating households through small part-time livestock enterprises. A rapid farm survey conducted by IFAD’s 2001 supervision mission showed that the average number of animals owned per household before obtaining the loan was less that one pig and 1.5 chickens (IFAD 2004). The livestock numbers increased, on average, to 1.8 pigs, 4 piglets, 14 chickens, 1 goat, 2
ducks and 4 rabbits after repaying the loans. Increased incomes allowed households to buy consumer durables such as TVs (67% of households), electric fans (33%), sewing machines (67%), tape recorders (16%) and bicycles (16%) whereas they reported not having any of these before accessing the loans. The IFAD Credit Review in 2001 also confirmed that all household livestock enterprises were profitable and also sufficiently sound to sustain occasional animal casualties. It must be added that part of the profitability of livestock enterprises is based on the purchase of subsidized inputs from the cooperatives and the sale of produce on the higher priced farmers’ markets.

Another important achievement was that women’s share in total loans increased from 25% to 87% following the 1999 Mid-term Review, which far exceeded the appraisal target of 50%. Women demonstrated their capacity to manage small-scale livestock enterprises and the loans.

**UFSP:** An evaluation conducted by IFAD in 2008 showed that the household and CF credit component was implemented effectively by the CB and CFs, with zero default rates and benefitted the anticipated number of beneficiaries (IFAD 2009). The main objective of the household credit sub-component was to provide loans to 17,915 households with a loan portfolio of KPW 2.34 million, corresponding to US$ 1.08 million (IFAD 2000a). At the end of 2007, the revolving fund had 17,443 loans outstanding with a total loan of KPW 173 million or US$ 1.15 million at the exchange rate of KPW 150 to US$ 1 (IFAD 2009). Household loans were renewed on an annual basis and had been through seven cycles with a total of 47,671 loans underwritten by the end of 2007. At the end of the project in 2008, the disbursement of household credit was US$ 3.32 million, which is 306% of the appraisal target of US$ 1.08 million (Appendix 2).
The CF credit sub-component had an original allocation of US$ 216,000 or KPW 466,560 in 2000. At the end of 2007 and based on the decision of the mid-term review to increase the loan portfolio, the revolving fund had an outstanding CF loan of US$ 860,000 or KPW 129 million. The loans to CFs were provided on a three-year cycle. The disbursement of cooperative credit was US$ 2.23 million at the end of the project, which is 1033% of the appraisal target of US$ 0.22 million (Appendix 2).

The project had a significant impact on household assets and income, social capital and empowerment as well as on agricultural productivity and food security in which the credit component played a pivotal role (IFAD 2009). At the end of the project, household incomes doubled, on average, whereas livestock income, a direct consequence of the credit component more than doubled. Women received about 90% of the loans, which far exceeded the appraisal target of 50%. Food security and nutrition improved as a result of milk and meat produced at the household level. Loan repayment was 100% in both types of loans.

Because of the success of household loans, after the mid-term review, the allocation to this sub-component was increased from 5.4% to 12.5% of the total project base costs. Towards the end of the project, additional US$ 2.3 million was further re-allocated to this sub-component raising its share to about 20% of total project costs.

The capacity of the Central Bank and the cooperatives’ financial units has been strengthened and the successful recycling of the revolving funds and the consistent repayment rates of 100% have demonstrated the potential capacity for the sustained provision of household livestock credit.
V. Innovative Features of Credit Schemes in IFAD-supported Projects

The household credit scheme promoted by the CLRP and UFSP projects demonstrated some innovative features. A notable innovation in the credit component was the promotion of household level livestock breeding and fattening activities by exploiting individual initiatives and in complement with collective farming activities. Another innovation was the efficient implementation of the credit component by outsourcing most transaction costs to the CFs, which was well adapted to the cooperative system in the country.

Yet another innovative feature of the credit component was to introduce changes based past experience, i.e. to promote “learning by doing”. For example, the allocation of credit to CFs was raised from 20% of total credit to 50% after the mid-term review. Likewise, based on the success of the household credit sub-component, its allocation was increased from US$ 1.3 million to US$ 2.3 million after the mid-term review and to US$ 4.53 million towards the end of the project (IFAD 2008).

An additional innovative feature of the household credit sub-component was the high level of homogeneity among livestock enterprises, which allowed the cooperatives to approve loans without time-consuming appraisal procedures. Also, limiting the eligible borrowers to cooperative members enabled the credit scheme to establish effective repayment and guarantee mechanisms.
VI. Challenges

DPRK faces several challenges to sustain and expand the gains it made through IFAD-supported investment projects, particularly their household credit schemes. At a broader level, the country has suffered massive damage to its natural resource base in recent years due to unsustainable practices such as cultivation on sloping lands (IFAD 2014). The productive resource base of the cooperative farms and households remains fragile. External development partners such as WFP, UNICEF, FAO, some international NGOs and bilateral donors are providing assistance to DPRK to meet short-term needs. However, there are no external development partners who are providing support to meet medium-term needs such as agricultural inputs to rehabilitate and expand agricultural production and productivity as well as to meet long-terms needs of building infrastructure and other capacities. One of the strategic objectives of IFAD’s assistance to DPRK was to set an example of successful international lending to DPRK in order to encourage other international financial institutions (IFIs) such as the World Bank, Asian Development Bank to consider future operations in the country. However, despite successful implementation of three IFAD-supported investment projects, other IFIs did not provide any support to DPRK. In the current international political situation, such support is unlikely to materialize at least in the short-run.

The implementation of IFAD-supported CLRP and UFSP has identified several challenges specific to the household credit scheme, which need to be addressed if such a scheme needs to be replicated and expanded. Current government policies restrict opportunities for households to develop individual economic activities, which constrain further increase of benefits from household
credit. These include ceilings on individual loans, and permitted area of private land per household, which currently is 100 square meters per household. There are also restrictions with respect to the number and type of animals that households can breed. The limited technical, managerial and marketing capacity of government agencies is another constraint, which can limit the expansion of household credit activities. There are also weaknesses in the reporting system of the CB to the project management unit and project partners, and the bookkeeping system at the farm level is not standardized.

An important challenge is to protect the value of credit revolving funds and individual savings from sudden change in government policies such as the administered price changes of July 2002. It was estimated that US$ 1.3 million of credit was lost from UFSP following the July 2002 KPW-US$ devaluation. Because the household credit ceiling had to be adjusted from KPW 116 to KPW 10,000, while, however, the revolving fund was not revalued (i.e. increased by a similar factor as the inflation rate), the potential number of beneficiaries was dramatically reduced. After the mid-term review, it was decided to transfer an additional US$ 2 million to the credit lines (approximately US$ 1 million each to household credit and CF credit). In this way, the number of beneficiaries as originally intended could be reached.

VII. Lessons and Possible Future Directions

The implementation of IFAD-supported investment projects, particularly their household and cooperative farm credit components offer several important
lessons, which can guide us in designing, implementing and monitoring projects to increase agricultural productivity, farmer incomes and food security through increased availability of household credit.

IFAD’s experience in the country clearly shows that there is good project implementation capacity in DPRK. The Central Bank, some of its county branches and selected cooperatives have gained valuable expertise in running credit programmes. This provides a good basis for replicating and expanding similar household credit programmes in other areas of the country.

Another important lesson is the importance of instituting a robust mechanism of independent monitoring and supervising project implementation on a periodic basis. Annual supervision, project mid-term review, and independent evaluation missions fielded by IFAD have not only identified areas of weaknesses but also have provided useful recommendations to resolve technical, financial and managerial issues. These missions have led to course corrections and important changes in project implementation modalities, which have contributed to project success.

The CLRP and UFSP have shown that in the context of DPRK, household credit can be a powerful tool to increase household assets and incomes, food security, and nutrition. They have also shown that loans can be used to promote innovation and diversification of household level activities.

However, IFAD-supported projects have also demonstrated that expansion of household credit programmes need greater opportunities for individual economic activities. There would be a need for changes in the DPRK government’s policies to create such opportunities. First issue is the need to raise the ceiling on individual loans in such programmes. In the UFSP, the loan ceiling on household credit was KPW 10,000 (approximately US$70).
In IFAD’s experience, this ceiling needs to be raised in order to allow expansion of household economic activities including livestock enterprises. Second policy issue is the size of private plots given to individual household in CFs. Currently, each household is given 100 square meters of private plot to undertake economic activities such as livestock breeding and fattening. Clearly, the size of such plots needs to be increased if these households have to expand their enterprises. There should also be flexibility on the part of households to determine the number and types of animals to be bred and fattened and to set up small-scale agro-processing units. IFAD’s project experience also shows that credit to households and cooperative farms needs to be accompanied by strengthening of technical, managerial and marketing capacity of government agencies so that these households’ enterprises can be successfully implemented.

References


IFAD. 2000b. Report and Recommendation of the President to the Executive Board on a Proposed Loan to the Democratic People’s Republic of Korea for the Upland Food Security Project, 6-7 December 2000, Rome.


Appendix 1

Comparison Between the Upland Food Security Project Household Credit Component and Typical Rural Household Credit Schemes

<table>
<thead>
<tr>
<th>UFSP Household Credit Component</th>
<th>Typical Rural Household Credit Schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrowers</strong></td>
<td></td>
</tr>
<tr>
<td>&gt;80 percent women</td>
<td>&lt;50 percent women</td>
</tr>
<tr>
<td>All in one address, easily accessible</td>
<td>Remote areas, difficult to access</td>
</tr>
<tr>
<td>Bank savings&gt;50% of loan</td>
<td>Bank savings&lt;20% of loan</td>
</tr>
<tr>
<td>Income generating activities are limited</td>
<td>Income generating activities are not limited</td>
</tr>
<tr>
<td>Freedom for entrepreneurial decisions is limited</td>
<td>Freedom for entrepreneurial decisions is not limited</td>
</tr>
<tr>
<td>Central Bank</td>
<td>Micro-finance institution (MFI)</td>
</tr>
<tr>
<td>Subsidized credit scheme</td>
<td>Not subsidized</td>
</tr>
<tr>
<td>Loan transfer to guarantor (Cooperative Farm)'s account</td>
<td>Transfer on borrower’s account or disbursed in cash to borrower</td>
</tr>
<tr>
<td>Recovers loan repayments from guarantor’s account</td>
<td>Recovers loan repayments from borrower</td>
</tr>
<tr>
<td>Does not assess individual borrower, neither knows him/her</td>
<td>MFI assesses each borrower intensively</td>
</tr>
<tr>
<td>Does not manage the application process</td>
<td>Manages the application process</td>
</tr>
<tr>
<td>Does not file loan contract, kept with guarantor</td>
<td>Keeps the loan contract on file</td>
</tr>
<tr>
<td><strong>Loan</strong></td>
<td></td>
</tr>
<tr>
<td>Amount &lt;US$ 70</td>
<td>Amount &gt;US$ 100</td>
</tr>
<tr>
<td>Loan period fixed for 1 year</td>
<td>Loan period varies by cash flow projections</td>
</tr>
<tr>
<td>Interest does not cover costs</td>
<td>Interest covers costs</td>
</tr>
<tr>
<td>Low transaction costs by outsourcing main portfolio work to guarantor</td>
<td>High transaction costs</td>
</tr>
<tr>
<td><strong>Loan approval</strong></td>
<td></td>
</tr>
<tr>
<td>Application form is simple</td>
<td>Application for is detailed</td>
</tr>
<tr>
<td>Limited information is required</td>
<td>Extensive information is required</td>
</tr>
<tr>
<td>Guarantor is not assessed, known</td>
<td>Guarantor is assessed</td>
</tr>
<tr>
<td><strong>Loan recovery</strong></td>
<td></td>
</tr>
<tr>
<td>No individual receipt for repayment</td>
<td>Individual receipt is compulsory</td>
</tr>
<tr>
<td>Paid back by guarantor</td>
<td>Paid back by borrower</td>
</tr>
<tr>
<td>Recovered by guarantor</td>
<td>Recovered by MFI</td>
</tr>
<tr>
<td>No loan default</td>
<td>Default rate &gt;5%</td>
</tr>
</tbody>
</table>

Source: IFAD 2009, Appendix 5
## Appendix 2

Planned Allocations and Actual Disbursements of Household and Cooperative Credit in Crop and Livestock Rehabilitation Project (CLRP) and Upland Food Security Project (UFSP)

In US$ million

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Appraisal target</th>
<th>Actual disbursement</th>
<th>% increase over target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CLRP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household credit</td>
<td>1.07</td>
<td>1.51</td>
<td>142</td>
</tr>
<tr>
<td>Cooperative credit</td>
<td>4.09</td>
<td>4.98</td>
<td>122</td>
</tr>
<tr>
<td>Institutional support</td>
<td>0.55</td>
<td>0.32</td>
<td>59</td>
</tr>
<tr>
<td>Total</td>
<td>5.71</td>
<td>6.81</td>
<td>119</td>
</tr>
<tr>
<td><strong>UFSP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household credit</td>
<td>1.08</td>
<td>3.32</td>
<td>306</td>
</tr>
<tr>
<td>Cooperative credit</td>
<td>0.22</td>
<td>2.23</td>
<td>1033</td>
</tr>
<tr>
<td>Support to Central Bank</td>
<td>0.13</td>
<td>0.26</td>
<td>190</td>
</tr>
<tr>
<td>Total</td>
<td>1.43</td>
<td>5.81</td>
<td>405</td>
</tr>
</tbody>
</table>

Source: IFAD 2009, IFAD 2004
Private Financing and Sanctions in Transition Economies: Lessons for North Korea

William Newcomb
Visiting Scholar, SAIS, John Hopkins University
이행기 경제의 사금융과 국제제재: 북한에 주는 교훈

이 발표문은 북한에 주는 교훈보다는 북한에서의 사업을 고려하는 사람들에게 필요한 조언과 제안에 관한 내용을 담고 있다. 제재에 대해서는 다양한 의견이 있는데, 오늘날의 제재는 위낙 복잡한 양상을 띠어, 그 적용과 결과를 확실히 이해하기가 어렵다. 현재는 제재가 광범위하게 금지하는 형태에서 전환하여 보다 예리하게 목표를 달성하는 수단이 되고 있는데, 이해 대의 논의는 부족한 상황이다. 북한의 금융제재에 관한 대부분의 논의에서 자금세탁방지기구(Financial Action Task Force, FATF)의 역할을 간과하고 있고, FATF의 권고 준수와 제재의 결과를 구별하지 못하는 경향이 있다.

대북 제재 개관

다자 제재: UN 제재의 법적 근거는 UN헌장에 있다. 특히 제7장 41조는 “안전보장이사회가 결정의 실효성을 위해 비군사적 강제조치를 취할 수 있으며, 비군사적 강제조치에는 경제관계 및 철도, 항해, 항공, 우편, 전신, 무선통신 및 다른 교통통신수단의 전부 또는 일부의 중단과 외교관계 단절 등이 포함된다.”고 명시하고 있다. (외 다수의 제재 근거 조항 있음)

UN 회원국들은 안전보장이사회 결정을 받아들이고 실행해야 하지만(제5장 25조), 제재 실행방법에 있어서 전원 합의에 이르는 것은 어려운 일이며, 북한의 도발행위에 대응하기 위한 제재의 경우 특히 더 어렵다. 올해 초, UN 회원국 약 절반 정도가 대북결의안 실행을 위한 단계를 밟고 있다고 밝혔다. UN회원국의 북한은 제재를 위반할 뿐만 아니라, 전쟁위협 발언을 하며 안보리의 권위를 무시하고 있다. 하지만 제재조치를 위반하고 있는 북한이 다양한 UN 프로그램의 혜택을 누리지 못하도록 막지는 않고 있다.

또한 제재 결의안 자체가 실행에 있어서 예외를 규정하고 있다. 1874호(2009년) 전문조항에는 “이 결의안은 북한 시민의 인권에 반하기 위한 것이 아님”을, 실행조항 19에서는 “인도주의 개발 목적을 위한 보조, 지원, 차관의 경우를 제외하고 금융제재를 가한다”고 명시하고 있다.
북한에서 활동하는 UN 기구와 NGO 등은 차후 북한의 도발행위로 인해 어떤 추가 제재가 생길지 알 수 없는 불확실한 상황에서 이러한 복잡한 결의안을 따르는 이중고를 겪어야 한다. 금지 프로그램에 유용될 가능성이 있는 제재 품목은 확대되고 있으며, 정기적으로 업데이트되는데, 기술적으로도 복잡한 실정이다.

실행조항 20은 사업 수행을 더욱 복잡하게 만든다(실행조항 20: 모든 회원국들이 조선민주주의인민공화국의 핵, 탄도미사일, 여타 대량살상무기와 관련된 프로그램 및 활동에 가여 할 가능성이 있는 무역에 공적 금융 지원(자국 국민 또는 이러한 무역과 연관된 단체에 대한 수출신용, 보증 또는 보험 포함)을 제공하지 않도록 촉구한다). 대북 제재는 선제적인 것이 아닌, 도발에 대응하는 방식이기 때문에 문제를 해결하기 보다는 진행속도를 늦추는 것이다. 채택된 결의안들은 주로 무역과 금융 영역에서 광범위하고 엄격한 제재를 가하고 있다.

UN의 대북 제재는 자산동결, 운행금지, 수출입 및 운송 수단과 금융의 제재 대상이 될 수 있는 품목, 단체, 개인에 포괄적으로 가해진다.

자율 제재: 다수의 UN회원국들이 다자 재제를 확대하기 위해 추가 제재를 채택한다. (한국은 5.24대북조치를 채택한 바 있고, 일본은 북한 무역 및 선박 운항을 금지하고, 송금액수를 제한한 바 있으며, 캐나다는 2011년, 예외 조항을 두고 모든 대북 수출입 및 송금을 금지했다.)

금융 규제 강화: FATF는 수년 전부터 북한을 관리국가로 지정하고, 강화된 고객확인의무(EDD) 및 북한 관련 보고 의무를 적용해 왔으며, FATF 회원국에는 북한 금융기관 설립을 제한하는 등의 대응조치를 취하고 있다. 일반적으로 운행은 합법적 송금을 위해 고객확인의무(CDD)를 지키고 있고, 이들간 송금은 신속히 처리된다. 강화된 고객확인의무(EDD)는 송금 시 연관되는 모든 운행이 고객확인을 해야 하고, 감독관으로부터 거래 위험 정도를 검토 받아야 하므로, 운행으로서는 비용과 시간 부담이 크게 때문에 오늘날 북한 기관과 거래하는 은행은 매우 적다. 내년에 미국은행권에 도입되는 한층 강화된 고객확인절차가 실효되면 북한기관과의 은행거래는 더욱 위축될 것으로 보인다.

2013년 3월 미 재무부의 외국자산통제국(OFAC)이 조선무역은행(FTB)을 제재대상 리스트(SDN list)에 올리면서, 북한 내 외교기관과 비정부기관들의 금융활동은 더욱 어려워졌다. 북한에 있는 유럽 NGO들은 북한당국의 금융규제에 따라 FTB에 계좌를 유지해야 문제가 있다고 하지만, 미국이 규제를 완화할 것으로 보이지는 않는다. 다른 방법은 이들 기관이 북한에 외국계 은행 및 북한과 공동 관리하는 은행을 세우는 것이다. 하지만 휴대폰
기업인 오라스콤이 북한에 세운 오라은행을 통해서 오라스콤 이윤을 본국으로 송금하는 것이 불가능하다는 것으로 보아, 이 방법도 확실하지는 않다. 한때 해외 연계성이 좋았던 대동신용은행(DCB)도 제재대상 리스트에 오르면서, 더 이상 대안이 아니다.

대북 제재수단 준수

5장 25조에 따라, UN 회원국은 적절한 규제와 법을 만들어야 할 뿐만 아니라, 기업, 기구, 시민이 이를 숙지하고, 준수하도록 해야 한다. EU의 경우 제재의 범위를 UN 사명 웹사이트에 분명히 밝히고 있으며, EU와 회원국들은 규제를 준수하는 기업, 기구, 개인을 위한 종합 기관을 설립해 이들을 지원하고 있다.
결의안을 이행하지 않는 EU 회원국의 기업, 기구, 개인은 모호한 법률과, 사업방향을 잡아 줄 수 있는 정부 가이드의 부족으로 인해 활동에 발목을 잡하게 된다. 북한은 금지활동을 하기 위해 이런 법률상 취약성을 이용할 기회를 잡보고 있다.

위험경감

북한 및 접경지역에서 사업을 하는 기업, 기구 및 개인은 일반적인 위험뿐만 아니라 제재로 인해 발생할 수 있는 위험에도 신체적으로 대응하는 자세가 필요하다. 은행과 로펌도 관련된 경험 및 자원이 어느 정도 있는지에 따라 사업자를 보호해 줄 수 있다. 사업자들은 고객확인을 적극적으로 해야 하며, 제재로 발생할 수 있는 위험에 대한 정보를 수집해 숙지해야 할 것이다. 국제범죄연구소는 일반적이고도 현실적인 주제와 이와 관련된 정보에 접근할 수 있는 링크를 모아, 제재 이행 매뉴얼을 펴냈다. 북한의 군수사업은 시민과 밀접하게 연계되어 있고 이 활동을 교묘하게 숨기고 있다. UN전문가그룹은 올해 초 군수잡비를 생산하는 조선련합공업계협회가 어떻게 다른 회사를 통해 중국과 러시아에서 운영되고 있는지 보고서를 펴낸 바 있다.

OECD 역시 분쟁 및 위험지역에서 고객확인을 충실히 하고 있다. OFAC는 “구호 분야의 위험 메트릭스”를 펴냈고, FATF는 2012년, 비영리 활동이 테러자금 지원으로 유용되는 것을 방지할 수 있도록, 각국이 관련 규제의 적정성을 검토하기를 촉구했다. FATF는 같은 해 후 비영리기구에 대한 전략을 세워, 비영리기구의 활동이 테러자금 지원으로 유용되는 것을 방지할 수 있도록 규제를 강화하기를 상의했다. 또한, FATF는 비영리기구가 테러자금 지원을 방지하기 위해 적절한 조치를 취할 것을 권고했다. 북한은 금지활동을 하기 위해 이런 법률상 취약성을 이용할 기회를 잡보고 있다.
The title of this presentation needs a slight revision; the topic I will discuss is not "lessons for North Korea" but awareness raising and suggestions for those who are or contemplate doing business in the DPRK, either as a commercial venture or a not-for-profit.

Those already engaged or planning to engage with North Korea do so in a sanctions environment. Sanctions add significantly to business risk, and a prudent manager should be proactive in managing this additional risk. This task is particularly challenging in the context of micro-finance where resources available for compliance are limited. While it is a relatively new consideration for the DPRK, those who are involved with some African countries, I have learned, already have begun considering this topic.

Sanctions are controversial. It is a bit curious that micro-finance institutions themselves typically view the presence of sanctions (specifically social sanctions) positively since their existence serves as an incentive for high-risk borrowers, who have little if any collateral, to make timely repayment of loans. At a macro level, the idea of sanctions often is criticized for various presumed negative effects on commerce, trade, investment and development and for suppressing people’s health, livelihood and life-chances. It takes little effort, for example, to find a range of allegations about the damaging effects of sanctions on North Korea. Simply the title of a recent item in the East Asia Forum provides a good illustration “North Korea sanctions punish the whole population”.¹

Many have strong opinions about sanctions; I suspect from casual observation a fewer number have actually read them; and, probable fewer still have an understanding of their application. (Because of technical complexity, those organizations that deal frequently with sanctions as part of their duties like customs authorities, banks, large corporations and law firms provide assigned employees with specialized training.) Often missing in “opinionated” discussion is an appreciation of how sanctions have evolved from broad prohibitions to more sophisticated, targeted measures. In the particular case of financial sanctions on the DPRK, most discussion fails to recognize the existence of another key actor, the Financial Action Task Force (FATF)², and draw distinctions between effects of compliance with FATF recommendations and consequences of sanctions.

**Overview of DPRK sanctions**

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¹ EastAsiaForum, 10 October 2013 by Emma Campbell, ANU

² The FATF is a 36-member intergovernmental policy making body that establishes international standards to combat money laundering and counter the financing of terrorism and proliferation of weapons of mass destruction.
Multilateral sanctions. The legal foundation for United Nations sanctions is contained in the UN Charter. Three of the four resolutions adopted by the Security Council since the DPRK’s first nuclear test invoke Chapter VII, Article 41.³ This is the most powerful non-kinetic action at the disposal of the Security Council to maintain and restore international peace and security. Article 41 authorizes the Security Council to “decide what measures not involving the use of armed forces are to be employed to give effect to its decisions...These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio and other means of communication, and the severance of diplomatic relations.”

Other Chapters and Articles of the UN Charter also are key parts of the foundation for sanctions and are sometimes overlooked or purposefully ignored. Consider

- Ch. I, Article 1—the very purpose of the UN is to “...take effective collective measures for the prevention and removal of threats to the peace...”

- Ch. I, Article 2—upon joining UN Members agree to “...fulfill in good faith obligations assumed by them in accordance with the present Charter... give the United Nations every assistance in any actions it takes in accordance with the present Charter... refrain from giving assistance to any state against which the United Nations is taking preventive or enforcement action.”

- Ch. V, Article 24—“Members confer on the Security Council primary responsibility for the maintenance of international peace and security...”

- Ch. V, Article 25—“The Members of the United Nations agree to accept and carry out the decisions of the Security Council in accordance with the present Charter.”

- Ch. VII, Article 39—gives the Security Council the authority to determine “the existence of any threat to the peace...”

- Ch. VII, Article 48—“The action required to carry out the decisions of the Security Council for the Maintenance of international peace and security shall be taken by all the Members of the United Nations or by some of them, as the Security Council may determine. Such decisions shall be carried out by the Members of the United Nations directly and through their action in the appropriate international agencies of which they are members”

³Resolution 1718 (2006), resolution 1874 (2009) and resolution 2094 (2013); a fourth resolution, 2087 (2013) invokes the language but does not cite Ch. VII authority. Nonetheless, some of the measures in resolution 2087 (2013) clarify measures in the earlier resolutions and thus have the standing/authority of Ch. VII.
• Ch. VII, Article 49—"...Members...shall join in affording mutual assistance in carrying out the measures decided upon by the Security Council."

• Ch. VII, Article 50—"If preventive or enforcement measures against any state are taken by the Security Council, any other state...which finds itself confronted with special economic problems arising from the carrying out of those measures shall have the right to consult the Security Council with regard to a solution of those problems."

States voluntarily assume all of the above obligations upon joining the United Nations. Despite the binding international legal obligation of Article 25, full compliance sadly is often lacking, particularly in the case of sanctions measures adopted to deal with the threat to international peace and security posed by the DPRK. Only slightly more than half of UN Member States have submitted reports that they have taken steps to implement the resolutions, and, not all of the reporting states have done so correctly and completely. As of earlier this year, compliance in Europe, 43 out of 44, and Asia, 33 out of 46, is fairly good; it is less so elsewhere. In the Americas, only 14 of 35 states have complied; in Africa, 6 out of 54; in Oceania, 2 out of 13. Failure to implement the resolutions does not relieve the Member State of its obligation to enforce them. Without correct implementation, however, steps taken would be arbitrary and likely subject to successful judicial challenge.

North Korea itself not only continues to violate the sanctions measures, on numerous occasions it also officially (and loudly) rejected the authority of the Security Council to impose them in statements that often included threats of war. This failure to comply with basic UN obligations the DPRK assumed has not prevented it from seeking benefits of various UN programs.

The DPRK’s ability to “pick and choose” is not enshrined in the UN Charter. The Security Council, however, has not responded officially to threatening statements and direct challenges to its authority, although it has tools to do so, and in present circumstances I suspect it is unlikely to react.

Sanctions resolutions themselves limit room to maneuver unless the Council decides to reopen/revise existing resolutions; a perambulatory clause in resolution 1874

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4 The case of DPRK sanctions is not unique in showing a serious problem with lagging implementation. Similar high rates of non-reporting also prevail for Iran sanctions and some terrorism measures. Problems of compliance are generally attributed to lack of capacity and/or lack of political will. Implementation of resolution 1540 (2004) has been much better, in part due to extensive outreach by its Group of Experts. It is important to note however that the 1540 Committee is not a sanctions committee and it does not investigate or prosecute alleged violations of non-proliferation obligations.

5 Nor has the General Assembly seen fit to act in a way to censure the DPRK.
(2009) underlines "that the measures imposed by this resolution are not intended
to have adverse humanitarian consequences for the civilian population of the
DPRK." Operative clause 19 in that resolution tightened restrictions on finance but
exempted grants, assistance and concessional loans for humanitarian and
developmental purposes. China’s representative commented at the time "that the
sovereignty, territorial integrity and legitimate security concerns and development
interests of the Democratic People’s Republic of Korea should be respected."6 While
UN agencies are expected to comply with sanctions measures, given the nature of
their missions they thus are permitted to continue operations in the DPRK
notwithstanding its defiance of the resolutions and horrific human rights record.

Even so, UN agencies and, similarly, NGOs and those who would operate there face
first a difficult compliance task and, second, uncertainty about what sanctions might
be imposed in future should the DPRK conduct new nuclear tests and ballistic
missile launches. And, to be sure, responding with additional sanctions would be the
international community’s almost sole option.7 Lists of restricted items that have
potential use in prohibited programs are extensive, regularly updated and
technically complex. To illustrate, see an extract from the Nuclear Suppliers Group
List provided in the Appendix.

A further complication for those seeking to do business is Operative Clause 20 in
resolution 1874 (2009) that "Calls upon all Member States not to provide public
financial support for trade with the DPRK (including the granting of export credits,
guarantees or insurance to their nationals or entities involved in such trade) where
such financial support could contribute to the DPRK’s nuclear-related or ballistic
missile-related or other WMD-related programs or activities."

Without going deeply into specifics, sanctions imposed on the DPRK are in reaction
to provocations, not preemptive, and are designed to slow progress on prohibited
programs. Sanctions, however, are not viewed as the solution to the problem, which
is to be found in diplomacy. The resolutions in fact have as an objective the DPRK’s
return to Six Party Talks.

The trajectory traced by successive resolutions shows a hardening, tightening and
broadening of sanctions measures, particularly in the areas of transportation and
finance:

- Resolution 1718 (2006) authorized asset freezes and travel bans for entities
  and individuals but no designations were made until after the second nuclear
test when resolution 1874 (2009) was adopted.

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Strongest Terms Democratic People’s Republic of Korea Nuclear Test, Toughens

7 See, for example, Matthew Cottee: North Korea - Are more sanctions the answer?
Shangri-La Voices, IISS; 27 May 2015.
• Resolution 1874 (2009) expanded upon resolution 1718 (2006)'s defined list of military equipment (battle tanks, armoured combat vehicles, etc.) prohibited for import and export to include all arms and related materiel as well as financial transactions, technical training, advice, services or assistance related to the provision, manufacture, maintenance or use of such arms.

• Financial sanctions, other than the assets freeze, make their first appearance in resolution 1874 (2009) and are further expanded in resolutions 2087 (2013) and 2094 (2013) to deal better with bulk cash transfers, banking relations, and strengthen vigilance.

• Lists of banned items, materials, equipment, goods and technologies related to nuclear, ballistic missile and other WMD programs are regularly updated, and resolution 2094 (2013) added a "catch all" provision Member States can use to block shipments of dual use goods as well as those which fall outside the parameters specified in various lists but nonetheless could be utilized in WMD programs.

• Resolution 2094 (2013) expanded the asset freeze provision to include those who assist in "evasion" of sanctions or violating provisions of the resolutions. This resolution also delegated some designation authority to Member States.

In brief summary, the range of DPRK sanctions imposed by the United Nations encompasses lists of restricted items, designated entities and individuals subject to assets freeze and travel bans, export and import related measures, transport and shipping related measures, and the financial sanctions regime.

Autonomous sanctions. A number of UN Member States have adopted additional sanctions that augment and expand upon multilateral sanctions. It is an exercise of sovereign authority that is not without its detractors.

• The ROK has imposed the May 24 measures, which do not require elaboration for this venue.

• Japan essentially has banned trade and ship calls and sharply limited the permitted amount of financial remittances to the DPRK. It also maintains a lengthy blacklist of DPRK entities.

• Australia has adopted a strict "permitting" regime. For example, provision of bunkering service to a DPRK vessel is prohibited without a permit.

• Canada since 2011 has banned all exports to and imports from the DPRK, new investment, provision of financial services to the DPRK and persons in
the DPRK, provision of technical data, and docking, landing, and transit by DPRK aircraft and ships. (Exemptions and permits are available.)

- The US has an expansive and complex set of restrictions on dealings with North Korea. These include those maintained by the Treasury Department’s Office of Foreign Assets Control (SDN List), the State Department’s Directorate of Defense Trade Controls, and the Commerce Department’s Bureau of Industry and Security (licensing authority). Most recently, the issuance of Executive Order 13687 (2 January 2015) vastly expanded the list of potential targets for designation (asset blocking) by naming both the Government and the Workers’ Party of the DPRK and those who assist, sponsor or operate on their behalf.

- The EU, like the US, has designated entities and individuals in addition to those placed on the UN Consolidated List. It has taken measures to prevent certain specialized teaching and training. The EU adopted a strict interpretation of UN restrictions on banking and opening of correspondent accounts, prohibiting the establishment of DPRK branch banks, joint ventures with European financial institutions, and opening of new European financial institutions or subsidiaries in the DPRK. It noted that restricted types of financial services would include related insurance and reinsurance. The EU stopped delivery of new DPRK denominated banknotes and coinage to the Central Bank and prohibited trade in new DPRK public bonds. It requires enhanced monitoring of dealings of EU financial institutions with banks in the DPRK and their subsidiaries, branches and other financial entities abroad. Additionally, the EU bans the sale, purchase, transportation or brokering of gold, precious metals and diamonds to, from or for the Government of North Korea.\(^8\)

Financial regulatory constraints. For several years the FATF has named the DPRK in its Public Statement as a jurisdiction "subject to a FATF call on its members and other jurisdictions to apply countermeasures to protect the international financial

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\(^8\) This last prohibition is worth citing completely. “It shall be prohibited to purchase, import or transport, directly or indirectly, gold, precious metals and diamonds, as listed in Annex VII, whether or not originating in North Korea, from the Government of North Korea, its public bodies, corporations and agencies, the Central Bank of North Korea and any person, entity or body acting on their behalf or at their direction, or any entity or body owned or controlled by them;” diamonds are also on the UN list of luxury goods that the DPRK is forbidden to import. See Official Journal of the European Union 23.4.2013.
system from the on-going and substantial money laundering and terrorist financing (ML/FT) risks emanating from the jurisdictions.9 Countermeasures may include:

- enhanced customer due diligence (EDD) requirements;
- enhanced reporting requirements;
- limits on the DPRK establishing financial institutions in FATF countries;
- requiring financial institutions to give special attention to business relationships and transactions with the DPRK, its firms, and financial institutions;
- ensuring that correspondent relationships are not used to evade or bypass countermeasures; and,
- provision of warnings to non-financial sector business about risks inherent in financial transactions with the DPRK.

EDD, not sanctions, is a major reason for complaints by foreign entities over excessive difficulty moving funds to and from the DPRK in a timely manner. Banks normally exercise Customer Due Diligence (CDD) to assure themselves of the legitimacy of a transaction. As transactions are processed through the international financial system, banks in the chain typically rely on CDD investigations of the originating and terminal bank and transfers are handled expeditiously. An EDD requirement is more stringent, well beyond the standard Know Your Customer (KYC) procedure. For risk mitigation, each bank in the chain of the transaction must take steps to assure itself of the legitimacy of the transfer and cannot rely simply on the investigation of the originating bank. The process and findings are subject to review by bank regulators who evaluate steps taken in the context of the degree of exposure to risk.

EDD is costly in terms of time and bank resources. Moreover, unless the profit incentive is compelling, because banks are exposed to additional risk banks tend to shun such clients. Consequently, few banks today maintain correspondent relations with DPRK-based or –linked financial institutions. Those that maintain links or host correspondent accounts generally take great care in examining transactions (although there are, as always, exceptions). Funds transfers under the best of circumstances could take weeks. New rules for US banks that are slated to go into effect next year will require them to perform even more thorough due diligence on their correspondents. Once in force, this rule would likely further shrink the number of non-US banks willing to do business with DPRK-linked clients.

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9 FATF: High-risk and non-cooperative jurisdictions; FATF Public Statement – 27 February 2015 (www.fatf-gafi.org)
Financial operations of diplomatic and non-governmental organizations (NGOs) were further complicated in March 2013 when the US placed the DPRK Foreign Trade Bank (FTB) on the OFAC SDN list for assisting proliferation finance transactions. The US specifically charged the FTB for operating on behalf of three UN-designated entities—KOMID, Hyoksin Trading Company and Tanchon Bank. Two months later China joined the US in sanctioning the FTB.

NGOs countered US efforts to have like-minded countries in the EU join in designating FTB with vigorous lobbying of governments. According to some press accounts the case was strongly argued. For example, "European NGOs in North Korea said they had told EU diplomats the Foreign Trade Bank was vital to their work."10 They are not in error, since DPRK financial regulations require diplomatic missions and NGOs to maintain bank accounts only at the FTB. While this may no longer be the case, I am not aware of any change in the regulation or of any NGO lobbying of the DPRK to do so. Prospects of the US easing up on FTB are dim because it was engaged in proliferation finance. And, while it is not common knowledge, the FTB publicly admitted to engaging in money laundering about a decade ago by using UNDP accounts to clandestinely move funds.

NGOs and diplomatic missions reportedly attempt to cope by carrying in cash. Those seeking to do business there have another option. DPRK financial regulations permit foreign-invested and joint-venture businesses to hold accounts at foreign-owned and joint venture banks in the DPRK. There is risk in this too. Those who do so may experience difficulty in transferring funds. Orascom reportedly has been unable to repatriate profits from its mobile phone venture via Ora Bank, the bank it established in the DPRK to handle the financial side of its affairs.

Establishing an account at Daedong Credit Bank (DCB), which once had perhaps the most extensive foreign ties among these banks, is not an option. DCB was designated two years ago for facilitating the financing of proliferation. Specifically the US charged DCB and its subsidiary, DCB Finance Company—a Dalian, China-based front company, with using deceptive practices on behalf of KOMID and Tanchon Bank.11

**Compliance with DPRK sanctions measures**

Small ventures with limited resources face a particularly high barrier to being compliant with multilateral and autonomous sanctions. It is an obligation of the

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10 Megha Raiagopalan, "Aid groups to suffer if EU sanctions North Korean bank"; Reuters, 9 April 2013.
11 Daedong Credit Bank was organized as a joint-venture partner of Daesong Bank, which held a 30 percent stake. Daesong Bank is part of the Daesong Economic Group and is overseen by Office 39. Curiously, the EU has yet to add DCB to its list of designated entities, even though it does list Daesong Bank, Daesong General Trading Company, and Office 39 of the KWP.
Member States to not only establish the appropriate laws and regulations, as noted above, but also to be sure that business, organizations and citizens are aware and comply, per Chapter V, Article 25 of the UN Charter.

The EU, for example, makes its coverage clear on the website of its mission to the UN.¹²

"Where do EU sanctions apply?"

By there very nature sanctions are designed to have political effects in third countries.

Nevertheless, EU restrictive measures only apply within the jurisdiction of the EU, that is:

- within EU territory, including its airspace;
- to EU nationals, whether or not they are in the EU;
- to companies and organisations incorporated under the law of a member state, whether or not they are in the EU. This also includes branches of EU companies in third countries;
- to any business done in whole or in part within the European Union; on board of aircrafts or vessels under the jurisdiction of a member state."

The EU and its members similarly set up an extensive apparatus to assist firms, organizations, and individuals in good-faith compliance.

Firms, organizations and individuals operating or resident in the many Member States that have not implemented the resolutions are not only handicapped by a lack of clarity and legal ambiguity but also by a paucity of government resources that could be of help in guiding decisions. Moreover, the DPRK seeks out and tries to utilize such jurisdictions as weak links in the chains that seek to limit their prohibited activities.

Risk Mitigation

Organizations, firms and individuals seeking to operate in the high risk environment of the DPRK or to engage cross border with DPRK organizations, firms, and individuals need to adopt a proactive stance to manage sanctions risk in addition to other more and less common ones that could be encountered.¹³

¹² Sanctions: Factsheet on EU restrictive Measures, European Union Delegation to the United Nations – New York (EU@UN)eu-un.europa.eu
¹³ Expropriation without due process or compensation comes to mind as well as exposure to arbitrary arrest and detention.
Services provided by banks and law firms might offer some degree of protection depending on the experience and resources of all involved. Banks are able to check with each other about existence of derogatory information in carefully limited ways.

Proactive managers should be aggressive in performing their own due diligence. Start by gaining a general familiarity of sanctions to form a notion of the type and degree of possible exposure to risk. The International Peace Institute has published an excellent resource for UN sanctions. The sanctions implementation manual covers general as well as technical topics and provides a number of useful links.

Proactive managers could emulate banks by adopting rigorous KYC practices. In the DPRK, military industry is entwined with civilian and makes practiced use of aliases to conceal its activities. The UN Panel of Experts Report released earlier this year contains an examination of how a designated entity that produces machine tools used in WMD programs, Korea Ryonha Machinery Joint Venture Corporation, operates abroad through front companies in China and Russia.

The DPRK is one of a number of high-risk areas. Managers could draw upon work done in other areas to establish best practice norms and improve due diligence. The OECD publishes guidelines for Multinationals and helpfully defines what it means by due diligence. "Due diligence is understood as the process through which enterprises can identify, prevent, mitigate and account for how they address their actual and potential adverse impacts as an integral part of business decision-making and risk management systems."

The OECD also has worked on supply chain due diligence in conflict-affected and high-risk areas. An annex provides a framework for adopting risk-based due diligence which might be usefully adapted to the case of dealings with the DPRK.

Guidance also could be sought in recommendations to charities on handing finances. OFAC has published a "Risk Matrix for the Charitable Sector" as an aid. The Somalia NGO Consortium has published a study "Risk management and accountability practices among NGOs working in Somalia" that was designed in part to assess gaps

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15 Official UN documents on DPRK sanctions, including reports prepared by the Panel of Experts, can be found on the web page of the 1718 Committee. The Consolidated List found on the same site provides a list of confirmed aliases for Ryonha as well as of designated entities. An unofficial list also provides the names of persons and entities in Korean. See www.un.org/sc/committee/1718/.
and identify areas that need improvement. The susceptibility of non-profits to misuse as conduits for terrorist financing led the FATF in 2012 to issue recommendation 8 (previously implemented as special recommendation VIII) that called upon countries to review the adequacy of their laws and regulations. FATF published a year later a best practices paper which is worth reading to learn what FATF expects its members to do in regulating NPOs. Some of the measures suggested to guard against terrorist financing could be useful check marks for operating in high-risk environment.

Finally, micro-finance tends to be under-regulated and is an area ripe for fraud. Hucksters continuously target weak and corrupt regimes, and the DPRK is no exception. Due diligence and KYC are your only protections.
Appendix

Extract from INFCIRC/254/Rev.9/Part2 13 November 2013

Pursuant to paragraph 5 (b) of resolution 2087 (2013), the items contained in this document are subject to the provisions of paragraph 8 (a), 8 (b) and 8 (c) of resolution 1718 (2006)

Supersedes INFCIRC/254/Rev.8/Part2

ANNEX
LIST OF NUCLEAR-RELATED DUAL-USE EQUIPMENT, MATERIALS, SOFTWARE, AND RELATED TECHNOLOGY

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1.B. TEST AND PRODUCTION EQUIPMENT
1.B.1. Flow-forming machines, spin-forming machines capable of flow-forming functions, and mandrels, as follows:

   1. Machines having both of the following characteristics:
      1. Three or more rollers (active or guiding); and
      2. Which, according to the manufacturer’s technical specification, can be equipped with "numerical control" units or a computer control;

   2. Rotor-forming mandrels designed to form cylindrical rotors of inside diameter between 75 and 400 mm.

Note: Item 1.B.1.a. includes machines which have only a single roller designed to deform metal plus two auxiliary rollers which support the mandrel, but do not participate directly in the deformation process.

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1.B.2. Machine tools, as follows, and any combination thereof, for removing or cutting metals, ceramics, or composites, which, according to the manufacturer’s technical specifications, can be equipped with electronic devices for simultaneous "contouring control" in two or more axes:

N.B.: For "numerical control" units controlled by their associated "software", see Item 1.D.3.

a. Machine tools for turning, that have "positioning accuracies" with all compensations available better (less) than 6 μm according to ISO 230/2 (1988) along any linear axis (overall positioning) for machines capable of machining diameters greater than 35 mm;

Note: Item 1.B.2.a. does not control bar machines (Swissturn), limited to machining only bar feed thru, if maximum bar diameter is equal to or less than 42 mm and
there is no capability of mounting chucks. Machines may have drilling and/or milling capabilities for machining parts with diameters less than 42 mm.

b. Machine tools for milling, having any of the following characteristics:
   1. "Positioning accuracies" with all compensations available better (less) than 6 μm according to ISO 230/2 (1988) along any linear axis (overall positioning);
   2. Two or more contouring rotary axes; or
   3. Five or more axes which can be coordinated simultaneously for "contouring control".

Note: Item 1.B.2.b. does not control milling machines having both of the following characteristics:
   1. X-axis travel greater than 2 m; and
   2. Overall "positioning accuracy" on the x-axis worse (more) than 30 μm according to ISO 230/2 (1988).

c. Machine tools for grinding, having any of the following characteristics:
   1. "Positioning accuracies" with all compensations available better (less) than 4 μm according to ISO 230/2 (1988) along any linear axis (overall positioning);
   2. Two or more contouring rotary axes; or
   3. Five or more axes which can be coordinated simultaneously for "contouring control". Note: Item 1.B.2.c. does not control grinding machines as follows:
   1. Cylindrical external, internal, and external-internal grinding machines having all the following characteristics:
      1. Limited to a maximum workpiece capacity of 150 mm outside diameter or length; and
      2. Axes limited to x, z and c.
   2. Jig grinders that do not have a z-axis or a w-axis with an overall positioning accuracy less (better) than 4 microns. Positioning accuracy is according to ISO 230/2 (1988).

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d. Non-wire type Electrical Discharge Machines (EDM) that have two or more contouring rotary axes and that can be coordinated simultaneously for "contouring control".

Notes: 1.
Stated "positioning accuracy" levels derived under the following procedures from measurements made according to ISO 230/2 (1988) or national equivalents may be used for each machine tool model if provided to, and accepted by, national authorities instead of individual machine tests.

Stated "positioning accuracy" are to be derived as follows:
   1. Select five machines of a model to be evaluated;
   2. Measure the linear axis accuracies according to ISO 230/2 (1988);
   3. Determine the accuracy values (Å) for each axis of each machine. The method of calculating the accuracy value is described in the ISO 230/2 (1988) standard;
   4. Determine the average accuracy value of each axis. This average value becomes the stated "positioning accuracy" of each axis for the model (Åx, Åy...);
5. Since Item 1.B.2 refers to each linear axis, there will be as many stated “positioning accuracy” values as there are linear axes;

6. If any axis of a machine tool not controlled by Items 1.B.2.a, 1.B.2.b, or 1.B.2.c. has a stated “positioning accuracy” of 6 µm or better (less) for grinding machines, and 8 µm or better (less) for milling and turning machines, both according to ISO 230/2 (1988), then the builder should be required to reaffirm the accuracy level once every eighteen months.

2. Item 1.B.2. does not control special purpose machine tools limited to the manufacture of any of the following parts:
   1. Gears
   2. Crankshafts or cam shafts
   3. Tools or cutters
   4. Extruder worms

Technical Notes:
1. Axis nomenclature shall be in accordance with International Standard ISO 841, “Numerical Control Machines - Axis and Motion Nomenclature”.
2. Not counted in the total number of contouring axes are secondary parallel contouring axes (e.g., the W-axis on horizontal boring mills or a secondary rotary axis the centerline of which is parallel to the primary rotary axis).
3. Rotary axes do not necessarily have to rotate over 360 degrees. A rotary axis can be driven by a linear device, e.g., a screw or a rack-and-pinion.
4. For the purposes of 1.B.2, the number of axes which can be coordinated simultaneously for “contouring control” is the number of axes along or around which, during processing of the workpiece, simultaneous and

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interrelated motions are performed between the workpiece and a tool. This does not include any additional axes along or around which other relative motions within the machine are performed, such as:
   a. Wheel-dressing systems in grinding machines;
   b. Parallel rotary axes designed for mounting of separate workpieces;
   c. Co-linear rotary axes designed for manipulating the same workpiece by holding it in a chuck from different ends.

5. A machine tool having at least 2 of the 3 turning, milling or grinding capabilities (e.g., a turning machine with milling capability) must be evaluated against each applicable entry, 1.B.2.a, 1.B.2.b. and 1.B.2.c.

6. Items 1.B.2.b.3 and 1.B.2.c.3 include machines based on a parallel linear kinematic design (e.g., hexapods) that have 5 or more axes none of which are rotary axes.

1.B.3. Dimensional inspection machines, instruments, or systems, as follows:
   a. Computer controlled or numerically controlled coordinate measuring machines (CMM) having either of the following characteristics:
      1.
      2.
   Having only two axes and having a maximum permissible error of length measurement along any axis (one dimensional), identified as any combination of
E0x MPE, E0y MPE or E0z MPE, equal to or less (better) than \( (1.25 + L/1000) \) μm (where \( L \) is the measured length in mm) at any point within the operating range of the machine (i.e., within the length of the axis), according to ISO 10360-2(2009); or Three or more axes and having a three dimensional (volumetric) maximum permissible error of length measurement (E0, MPE equal to or less (better) than \( (1.7 + L/800) \) μm (where \( L \) is the measured length in mm) at any point within the operating range of the machine (i.e., within the length of the axis), according to ISO 10360-2(2009).

Technical Note: The E0, MPE of the most accurate configuration of the CMM specified according to ISO 10360-2(2009) by the manufacturer (e.g., best of the following: probe, stylus length, motion parameters, environment) and with all compensations available shall be compared to the \( 1.7 + L/800 \) μm threshold.

b. Linear displacement measuring instruments, as follows:
   1. Non-contact type measuring systems with a "resolution" equal to or better (less) than 0.2 μm within a measuring range up to 0.2 mm;
   2. Linear variable differential transformer (LVDT) systems having both of the following characteristics:
      1. "Linearity" equal to or less (better) than 0.1% measured from 0 to the full operating range, for LVDTs with an operating range up to 5 mm; or
      2. "Linearity" equal to or less (better) than 0.1% measured from 0 to 5 mm for LVDTs with an operating range greater than 5 mm; and
   2. Drift equal to or better (less) than 0.1% per day at a standard ambient test room 1-6

3. Temperature ± 1 K;

Measuring systems having both of the following characteristics:
   a. Contain a laser; and
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   b. Maintain for at least 12 hours, over a temperature range of ± 1 K around a standard temperature and a standard pressure:
      1. A "resolution" over their full scale of 0.1 μm or better; and
      2. With a "measurement uncertainty" equal to or better (less) than \( (0.2 + L/2000) \) μm (L is the measured length in millimeters);

Note: Item 1.B.3.b.3. does not control measuring interferometer systems, without closed or open loop feedback, containing a laser to measure slide movement errors of machine tools, dimensional inspection machines, or similar equipment.

Technical Note: in Item 1.B.3.b. "linear displacement" means the change of distance between the measuring probe and the measured object.

c. d.

Angular displacement measuring instruments having an "angular position deviation" equal to or better (less) than 0.00025°;

Note: Item 1.B.3.c. does not control optical instruments, such as autocollimators, using collimated light (e.g., laser light) to detect angular displacement of a mirror.
Systems for simultaneous linear-angular inspection of hemisheels, having both of the following characteristics:

1. "Measurement uncertainty" along any linear axis equal to or better (less) than 3.5 μm per 5 mm; and
2. "Angular position deviation" equal to or less than 0.02°.

Notes: 1. Item B.3. includes machine tools that can be used as measuring machines if they meet or exceed the criteria specified for the measuring machine function.
2. Machines described in Item B.3. are controlled if they exceed the threshold specified anywhere within their operating range.

Technical Note: All parameters of measurement values in this item represent plus/minus, i.e., not total band.

1.B.4. Controlled atmosphere (vacuum or inert gas) induction furnaces, and power supplies therewith, as follows:

a. Furnaces having all of the following characteristics:
   1. Capable of operation at temperatures above 1123 K (850 °C);
   2. Induction coils 600 mm or less in diameter; and
   3. Designed for power inputs of 5 kW or more;

Note: Item 1.B.4.a does not control furnaces designed for the processing of semiconductor wafers.

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b. Power supplies, with a specified output power of 5 kW or more, specially designed for furnaces specified in Item 1.B.4.a.

1.B.5. "Isostatic presses", and related equipment, as follows:

1. "Isostatic presses" having both of the following characteristics:
   1. Capable of achieving a maximum working pressure of 69 MPa or greater; and
   2. A chamber cavity with an inside diameter in excess of 152 mm;

2. Dies, molds, and controls specially designed for the "isostatic presses" specified in Item 1.B.5.a.

Technical Notes: 1.

In Item 1.B.5. "Isostatic presses" means equipment capable of pressurizing a closed cavity through various media (gas, liquid, solid particles, etc.) to create equal pressure in all directions within the cavity upon a workpiece or material.

2. In Item 1.B.5. the inside chamber dimension is that of the chamber in which both the working temperature and the working pressure are achieved and does not include fixtures. That dimension will be the smaller of either the inside diameter of the pressure chamber or the inside diameter of the insulated furnace chamber, depending on which of the two chambers is located inside the other.

6. 1.B.6. Vibration test systems, equipment, and components as follows:

1. Electrodynamic vibration test systems, having all of the following characteristics:
   1. Employing feedback or closed loop control techniques and incorporating a digital control unit;
   2. Capable of vibrating at 10 g RMS or more between 20 and 2000 Hz; and
3. Capable of imparting forces of 50 kN or greater measured "bare table";
2. Digital control units, combined with "software" specially designed for vibration testing, with a real-time bandwidth greater than 5 kHz and being designed for a system specified in Item 1.B.6.a;
3. Vibration thrusters (shaker units), with or without associated amplifiers, capable of imparting a force of 50 kN or greater measured "bare table", which are usable for the systems specified in Item 1.B.6.a;
4. Test piece support structures and electronic units designed to combine multiple shaker units into a complete shaker system capable of providing an effective combined force of 50 kN or greater, measured "bare table", which are usable for the systems specified in Item 1.B.6.a.

Technical Note: In Item 1.B.6. "bare table" means a flat table, or surface, with no fixtures or fittings.

7. 1.B.7. Vacuum or other controlled atmosphere metallurgical melting and casting furnaces and related equipment, as follows:
   a. Arc remelt and casting furnaces having both of the following characteristics: 1-8
      1. Consumable electrode capacities between 1000 and 20000 cm3; and
      2. Capable of operating with melting temperatures above 1973 K (1700 °C);
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   2. Electron beam melting furnaces and plasma atomization and melting furnaces, having both of the following characteristics:
      1. A power of 50 kW or greater; and
      2. Capable of operating with melting temperatures above 1473 K (1200 °C);