



Localization of North Korean Products: Connecting “Self-Rehabilitation” and Import Substitution

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Executive Summary

Since Kim Jong Un visited Chonji Lubricant Factory and mentioned “localization” in 2014, the localization policy has been in progress in North Korea. As the international sanction on North Korea intensified, its government has pursued the localization policy that makes the best use of domestic resources, reduces commodity imports and foreign currency demands, and expands domestic productions. North Korea’s localization policy is operated under the frame of the “self-sufficient national economy,” in which production, consumption, and reproduction are autonomously linked to each other. While the phrases such as “self-rehabilitation,” “self-reliance (juche-hwa),” and “self-strengthening first” describe nothing different from the existing closed “self-sufficient economy” policy line, the “self-rehabilitation” that North Korean media has recently advocated is the foundation of localization and the new economic development strategy under the “market-style management,” which enhances autonomy of companies and collective farms.

Localization of products in North Korea is mainly focused on the light industry. Most of the companies that have succeeded in localization are concentrated in major cities, such as Pyongyang, Nampo, Hamhung, and Wonsan, where electric power and high-quality workforce are available. What should be highlighted in North Korea’s localization is the fact that some of these companies are not only receiving an intensive

support from the government but also allowed to attract capitals from the “donju” (new rich or private entrepreneurs). So far, North Korea’s localization policy has been partially successful in activating its stagnated production. But as can be observed from other countries’ cases of economic development, if import substitution production is not accompanied by export and if the localization is forcibly driven by political logic, the benefits of division of labor in international trade will be lost and the North Korean products will lose their competitiveness. South Korea’s case teaches a lesson for North Korea’s localization policy: when the South’s initial domestic-oriented economic policy was only achieving a poor result, it turned toward an export-oriented policy and eventually worked an economic miracle. Because in foreign markets South Korean products were put in competition with each other, such international competition reduced the economic rents from production and sales, and this became an opportunity for the country to overcome its many inherent irrationalities such as corruption and graft. If North Korea can shift toward an export-led production method based on its accumulated experience and management skills, and attract foreign capitals to enhance the export goods’ competitiveness while localizing their productions, the effect will be evident in increase in employment, technological development, and secure foreign currency reserves.

At present, the North Korean industry is mainly based on arms industry and heavy industry, and its nuclear and missile program is severely distorting the distribution of resources. North Korea’s economic growth is only possible by, in addition to attracting money capital, simultaneously investing in its social overhead capital and human capital that will improve capital efficiency. Despite its partial success, North Korea’s localization policy that pursues both import substitution and product exportation has not taken off yet. It is because the policy has been limited by various political and economic restrictions and institutional rigidity, including the strong dictatorship, ideological contradiction, inflexible labor system, and lack of capital. Therefore, North Korea’s localization will prove its real power when the government embraces more market-friendly policy. ♣

※ Translator’s note: This is a summarized unofficial translation of the original paper which was written in Korean. All references should be made to the original paper.

※ This article is written based on the author’s personal opinions and does not reflect the views of the Sejong Institute.