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FOREIGN EXCHANGE AND SMUGGLING AGAIN PREVALENT IN NORTH KOREA

Foreign currency swaps and illegal trade are again prevalent in North Korea, despite recent currency reforms and bans on money exchanges.

Following last November's currency reform, there has been a significant crackdown on the use of foreign currency and cross-border trade by individuals. However, reports indicate that North Korean traders continue to conduct business with outside entities, despite new regulations requiring them to remit profits through the Korean 'Kwangson' Bank. There has been a crackdown on unauthorized transactions, but it appears to have been ineffective.

The Korean Central Bank and Chinese People's Bank established the Kwangson Bank in 2004 in Dandong as part of the North's efforts to earn foreign capital. Even today, North Korean authorities rely on the Kwangson Bank to handle trade accounts, but most North Korean traders despise using the bank, and conduct most of their transactions privately, avoiding authorities. This is because the bank has a reputation for seizing the profits of private traders. The official decision to funnel foreign funds through the Kwangson Bank was part of the effort to crack down on smuggling, and was in conjunction with other currency reform efforts.

Economic reform attempts included crackdowns on illegal activity for a short time, but black market currency trade and smuggling has again become commonplace. Reform efforts were aimed at reducing unregulated and illegal trade by requiring transactions to be carried out



through a government bank, but the costs associated with such a transaction further encouraged black market activity.

It also appears that currency exchange, banned as part of last year's currency reform, is now again being allowed in order to ease rising prices and other detrimental side effects of the measures.

In North Korea, not only traders, but also average citizens are earning foreign capital through smuggling and other means. The latest reversal of policy to again allow currency exchange is seen as an attempt by authorities to sooth rising discontent within the masses.

In November of last year, North Korea implemented currency reforms and issued new notes, devaluing the currency by 100:1 and banning private holdings of foreign currency. This led North Koreans to lose faith in the value of their currency and sparked a drive on foreign monies. Now, the government appears to be implementing measures to underscore the value of the Won and to stave off inflation. Foreign visitors are allowed to again spend foreign currency and it appears that other restrictions are slowly being lifted.