

DUPLICITY IN THE NORTH KOREAN FOREIGN CURRENCY MANAGEMENT SYSTEM

It appears that moves to strengthen the so-called 'Royal Economy', done in order to fortify Kim Jong Il's reign over North Korea, have led to the dismantlement of the North's uniform foreign currency management system, and now two systems are in place.

According to an MA thesis submitted to the University of North Korean Studies (formerly Kyungnam University Graduate School of North Korean Studies) titled, "Research on the Changing of the DPRK Foreign Currency Management System", North Korean authorities are attempting to reestablish one foreign currency management system centered on the Cabinet, but the existence of the 'Royal Economy' is blocking these moves. The thesis was written by North Korean defector and Senior Researcher at the Institute for Foreign Affairs and National Security Kwang-jin Kim. Before coming to South Korea, Kim worked for an overseas branch of the North Korean Overseas Insurance Department.

North Korea's 'Royal Economy' first emerged after ruling authority was passed down from Kim Il Sung to Kim Jong Il. The thesis asserts that, unable to completely control political authority, Kim Jong Il established large-scale 'gift politics' in order to firm up his base of power, giving rise to the 'Royal Economy'.

Even aside from 'gift politics', the North's economy had begun to fail, the shortage of goods had begun to become more serious, the Party's control over and intervention in the economy had begun to grow, and policies had begun to center on the defense industry since the 1970's, all

playing a part in the eventual emergence of a 'Royal Economy' under the direct control of the ruler.

The 'Royal Economy' operates for the Workers' Party and the military economy, and works to bring in foreign currency through the establishment of unique foreign currency financial organizations in order to break free from the management and authority of the Cabinet and develop as a unique conglomerate with its own planning, budgeting, distribution, trade, and financing. Room 39's control over the Daesung Bank, Room 38's Koryeo Bank, the Bureau of Military Industrial Affairs' Changgwang Credit Bank, and the Organization and Guidance Department's Northeast Asia Bank are prime examples.

This way, according to the thesis, "with departmental banks outside the national system and connected by funds under the direct control of Kim Jong Il, the foreign currency management system was destroyed," and due to this, "two systems were created, with foreign currency management for the people's economy occurring through the trade bank and management of the Royal Economy's foreign reserves through each departmental bank."

The thesis goes on to point out, "North Korea's trade bank has lost its authority and is now reliant on the technically bankrupt Cabinet's trade organization," while on the other hand, "the 'Royal Economy', which has absorbed every economic activity worth foreign currency, and many departmental banks connected to Kim Jong Il through his direct control of funds continue to grow fatter, eating away at the people's economy."

Additionally, "through supplementing North Korea's legal system, there is an attempt in

progress to reestablish a single foreign currency management system centered around the trade bank and Cabinet, but the military economy and entities such as Room 38 and Room 39 oppose it, so it is as-of-yet not possible. North Korea tries to strengthen its role in and control over public finances through government foreign currency management, but is hampered by the fetters of the ‘Royal Economy’.”